

**WORLD
ECONOMIC REPORT
1950-51**



UNITED NATIONS

WORLD ECONOMIC REPORT, 1950-51

E/2193/Rev.1/Corr.1
ST/ECA/14/Corr.1
Sales No.: 1952.II.C.4

ERRATA (English only)

Page 35:

Substitute the following for the first three sentences of the first paragraph in the right-hand column:

Before the reform, about one-half of the land was owned by landlords who rented it to tenant farmers. However, many of these tenant farmers also owned small parcels of land in addition to the land which they rented; such tenant farmers are frequently classified as "part owners". According to 1935 estimates, part owners constituted 25 per cent of the total number of farmers; and tenants not owning land, 29 per cent. These two categories plus hired labourers represented about two-thirds of the rural population. As a result of land redistribution, a large proportion of the rural population have become independent peasants as distinct from part owners, or tenant farmers who own no land, or hired labourers.

Page 40:

Table 21, column 5: For Cuba, 1949, substitute 4.7 for 40.7.

**WORLD
ECONOMIC REPORT
1950-51**



UNITED NATIONS
Department of Economic Affairs
New York, April 1952

E/2193/Rev.1
ST/ECA/14

April 1952

UNITED NATIONS PUBLICATIONS

Sales No.: 1952.II.C.4

Price: \$1.50 (U.S.)
(or equivalent in other currencies)

FOREWORD

World Economic Report, 1950-51 is the fourth in a series of comprehensive reviews of world economic conditions published by the United Nations. These reports are issued in response to General Assembly resolution 118 (II) in which the Secretary-General was requested to prepare annual factual surveys and analyses of world economic conditions and trends. Like the earlier publications, the present 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. In its preliminary form, the report was made available in April 1952 for the fourteenth session of the Economic and Social Council and to Members of the United Nations.

The present report analyses major developments in domestic economic conditions and in international trade and payments during 1950 and 1951. Detailed analyses of trends in production are provided in a separate publication entitled "Recent Changes in Production". Comprehensive information concerning developments in Europe, Asia and the Far East, and Latin America is contained in the regional economic surveys prepared by the secretariats of the regional economic commissions concerned with these three areas. Additional brief surveys entitled "Summary of Recent Economic Developments in Africa" and "Summary of Recent Economic Developments in the Middle East" are being made available as supplements to the present report.

The introduction to this volume highlights world economic developments during 1950 and 1951 and sets out major problems calling for national and international action. Part I of the report analyses changes in the domestic economic situation in the three broad

groups of countries: economically developed private enterprise economies (chapter 1); centrally planned economies (chapter 2); and economically underdeveloped private enterprise economies (chapter 3). Part II is devoted to an analysis of changes in international trade and payments. Its four chapters deal with the general impact of the 1950 raw material boom on international trade and payments (chapter 4); and the specific changes during 1950 and 1951 in the trade and payments of countries which, for the most part, are exporters of manufactured products (chapter 5) or of primary commodities (chapter 6); and of countries with centrally planned economies (chapter 7).

It will be seen from the above that the classification of countries in part I is not precisely the same as that in part II. Each chapter of the report indicates clearly which countries—and, in some cases, parts of countries—are included in the scope of analysis of the chapter. The countries affected by differences in classification in various parts of the report are Australia, Canada, China, Germany, Japan and Yugoslavia. The grouping of countries and parts of countries in the various chapters is dictated solely by analytical requirements, and no political considerations are implied.

The report was prepared by the Division of Economic Stability and Development in the Department of Economic Affairs, with substantial assistance from the Statistical Office of the United Nations, which collected most of the basic statistical data and prepared many of the tables. The chronology was drawn up by the secretariat of the Economic and Social Council. Some of the statistical material was obtained from the specialized agencies, notably the International Monetary Fund, the International Bank for Reconstruction and Development, and the Food and Agriculture Organization of the United Nations.

EXPLANATION OF SYMBOLS

The following symbols have been used throughout the report:

Two dots (..) indicate that data are not available

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

A full stop (.) is used to indicate decimals

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

A slash (/) indicates a crop year or fiscal year, e.g., 1950/51

Use of a hyphen (-) between dates representing years, e.g., 1934-38, normally signifies an annual average for the calendar years involved, including the beginning and end years. "To" between the years indicates the full period, e.g., 1947 to 1949 means 1947 to 1949, inclusive.

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

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

TABLE OF CONTENTS

	<i>Page</i>
INTRODUCTION	3
<i>Part I</i>	
<i>Major National Economic Changes</i>	
1. ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES	
Economic activity in 1950:	
Changes in production, employment and unemployment.....	15
Changes in gross national product.....	17
Economic activity in 1951:	
Changes in production, employment and unemployment.....	20
Changes in gross national product.....	22
Prices, wages and profits in 1950 and 1951.....	25
2. CENTRALLY PLANNED ECONOMIES	
<i>A. Eastern Europe</i>	
Economic trends:	
Production and employment	28
The demand and supply position.....	29
Economic plans:	
Union of Soviet Socialist Republics.....	31
Fulfilment of the five-year plan.....	31
The new targets	32
Czechoslovakia, Hungary and Romania.....	33
Yugoslavia	34
<i>B. Centrally planned China</i>	
Economic policies	35
Economic trends	36
3. SELECTED COUNTRIES OF LATIN AMERICA AND THE FAR EAST	
<i>A. Selected Latin American countries</i>	
Economic activity in 1950:	
Changes in production	38
Changes in gross national product.....	39
Economic activity in 1951:	
Changes in production in first half of 1951.....	44
Changes in gross national product in first half of 1951.....	44
<i>B. Selected countries in the Far East</i>	
India	45
Japan	47
The Philippines	48
China: Taiwan	50

Part II
International Trade and Payments

	<i>Page</i>
4. GENERAL IMPACT ON WORLD TRADE OF THE RAW MATERIAL BOOM	
Factors responsible for increased demand for raw materials	55
Significance of United States demand	56
Demand from other industrialized countries	58
Subsiding of the raw material boom	59
Changes in the terms of trade	59
5. BALANCE OF PAYMENTS OF THE UNITED STATES, WESTERN EUROPE AND JAPAN	
The United States and the dollar problem	65
Easing of the dollar shortage in 1950	67
Reappearance of the dollar problem in 1951	68
Changing pattern of United States foreign aid	70
Significance of developments from 1949 to 1951	70
Developments in the balance of payments of western Europe and Japan	71
Volume of exports and imports	71
Effect of deterioration in terms of trade	73
Factors in changes in current balances	74
Structure of the external transactions of western Europe and Japan	77
The problem of intra-European payments	79
Special position of the United Kingdom	82
Over-all balance of the United Kingdom	83
Transactions with the dollar area and western Europe	84
Transactions with the rest of the sterling area	86
General character of balance of payments problems in 1950 and 1951	88
6. INTERNATIONAL TRADE AND PAYMENTS OF EXPORTERS OF PRIMARY COMMODITIES	
The uneven rise in export earnings	90
The expansion of imports:	
General level of imports	96
Composition of imports	98
Improvement in the balance of payments position of primary producing areas:	
Balance on merchandise trade	100
Changes in other current transactions and capital movements	102
Rise in gold and foreign exchange assets	104
Summary	107
7. TRADE OF THE CENTRALLY PLANNED ECONOMIES	
East-west trade	109
Imports by eastern Europe from the rest of the world	110
Exports by eastern Europe to the rest of the world	112
Trade between eastern and western Germany	113
Trade among the countries of eastern Europe	114
General level and composition of trade	114
Trade of the Union of Soviet Socialist Republics	114
Trade of other eastern European countries	116
Trade of the mainland of China	117
CHRONOLOGY	121
INDEX	133

List of Tables

	<i>Page</i>
1. ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES	
1. Indices of industrial production in western European countries, Canada and the United States, 1949 and 1950.....	15
2. Indices of agricultural production in western European countries, Australia, Canada and the United States, 1949/50 and 1950/51.....	16
3. Indices of real gross national product and employment, and percentage of unemployment in western European countries, Canada and the United States, 1950....	16
4. Components of gross national product in western European countries, Australia, Canada and the United States, 1949 and 1950.....	18
5. Indices of gross national product and consumption in 1950, at 1949 prices, in western European countries, Australia, Canada and the United States.....	19
6. Indices of agricultural production, industrial production and employment, and percentage of unemployment in western European countries, Canada and the United States, 1951.....	21
7. Indices of import prices, cost of living and wages in western European countries, Australia, Canada and the United States, 1950 and 1951.....	24
8. Indices of gross national product and net profits in real terms in Canada, France, the United Kingdom and the United States, 1950 or 1950/51.....	26
2. CENTRALLY PLANNED ECONOMIES	
9. Indices of industrial production, employment and output per man in eastern European countries, 1950 and 1951.....	28
10. Indices of national income and investment in eastern European countries, 1950 and 1951.....	29
11. Selected indices of planned and actual production under USSR five-year plan, 1950	31
12. Agricultural production in the Union of Soviet Socialist Republics, 1940 and 1950	32
13. Targets for USSR industrial production announced in 1946 for 1950 and 1960 and actual production in 1950.....	33
14. Targets for five-year plans of Czechoslovakia, Hungary and Romania.....	33
15. Percentage of farm land owned by government and co-operative farms in eastern European countries, 1949 and 1950.....	34
16. Proportion of industrial capacity in centrally planned China owned and operated by the Government, 1951.....	35
17. Selected indices of agricultural and industrial production in centrally planned China, 1949 to 1951.....	36
18. Retail price indices in selected cities of centrally planned China, 1949 to 1951..	37
3. SELECTED COUNTRIES OF LATIN AMERICA AND THE FAR EAST	
19. Indices of agricultural production in selected Latin American countries, 1950 and 1951.....	39
20. Indices of industrial production in selected Latin American countries, 1949 to 1951	39
21. Components of gross national product, at 1949 prices, in selected Latin American countries, 1949 and 1950.....	40
22. Quantum of merchandise trade of selected Latin American countries, 1949 to 1951	41
23. Indices of export and import unit values and of terms of trade of selected Latin American countries, 1950 and 1951.....	42
24. Indices of gross national product and consumption in 1950, at 1949 prices, in selected Latin American countries.....	43
25. Indices of cost of living in selected Latin American countries, 1949 to 1951.....	43

	<i>Page</i>
26. Selected indicators of economic activity in India, 1949 to 1951.....	46
27. Selected indicators of economic activity in Japan, 1949 to 1951.....	48
28. Selected indicators of economic activity in the Philippines, 1949 to 1951.....	49
29. Selected indicators of economic activity in China: Taiwan, 1950 and 1951.....	50

4. GENERAL IMPACT ON WORLD TRADE OF THE RAW MATERIAL BOOM

30. Indices of the volume of manufacturing output and raw material imports of industrialized countries, 1948 to 1951.....	56
31. Imports of certain raw materials by the United States, 1937, 1948, 1950 and 1951.....	57
32. Stockpile commitments and expenditures of the United States, 1947 to 1951.....	57
33. Indices of raw material consumption and manufacturing activity in the United States, 1950 and 1951.....	58
34. Indices of raw material prices in principal markets, 1948 to 1951.....	60
35. Indices of export unit values of raw materials, foodstuffs and manufactures in world trade, 1948, 1950 and 1951.....	61
36. Indices of terms of trade of certain countries, 1950 and 1951.....	62
37. Indices of total value, quantum and unit value of world exports of raw materials, foodstuffs and manufactures, 1948, 1950 and 1951.....	63
38. Trade of OEEC countries, Japan and the United States with one another and with rest of world, 1948 to 1951.....	64

5. BALANCE OF PAYMENTS OF THE UNITED STATES, WESTERN EUROPE AND JAPAN

39. Supply of dollars by the United States and their use by other countries, 1950 and 1951.....	66
40. Pattern of United States foreign aid, 1950 and 1951.....	69
41. United States funds available for economic aid to western Europe, 1950/51 and 1951/52.....	70
42. Indices of quantum of exports and imports of OEEC countries, Japan and the United States, 1950 and 1951.....	72
43. Indices of import equivalent of exports of OEEC countries, Japan and the United States, 1950 and 1951.....	73
44. Trade balances of OEEC countries, Japan and the United States, 1950 and 1951.....	74
45. Changes in merchandise trade balances of OEEC countries, Japan and the United States, between 1950 and 1951.....	76
46. Oversea balance of trade of OEEC countries, 1948, 1950 and 1951.....	78
47. Cumulative net positions in European Payments Union, 31 March 1951 and 31 December 1951.....	79
48. Financing of net accounting surplus or deficit of selected countries in European Payments Union, at end of December 1951.....	81
49. Balance of payments of the United Kingdom on current account, 1950 and 1951..	83
50. The net gold and dollar balance of the sterling area, 1948 to 1951.....	84
51. Financing of sterling area gold and dollar balance, 1949 to 1951.....	85
52. Liabilities of United Kingdom to rest of sterling area, 1948 to 1951.....	86

6. INTERNATIONAL TRADE AND PAYMENTS OF EXPORTERS OF PRIMARY COMMODITIES

53. Indices of total value, quantum and unit value of exports of countries producing primary commodities, 1948 to 1951.....	91
54. Export earnings of primary producing countries, 1948, 1950 and 1951.....	92
55. Indices of value, price and quantum of world exports of certain primary products, 1950 and 1951.....	93
56. Export earnings of major primary producing areas in western European, United States and other markets, 1950 and 1951.....	95
57. Indices of quantum of imports of primary producing areas, 1948, 1950 and 1951..	97
58. Value of imports of major primary producing areas and countries, 1948 to 1951..	97

	<i>Page</i>
59. Indices of quantum of exports of manufactures from western Europe, Japan and the United States to major primary producing countries, by commodity groups, 1950 and 1951	99
60. Trade balances of primary producing countries with other areas, 1950 and 1951 ..	101
61. Payments of primary producers for transport and other services, 1950 and 1951 ..	102
62. Public and private long-term and short-term capital movements to primary producing areas, 1950 and 1951.....	103
63. Foreign exchange assets of primary producing areas, 1949 to 1951.....	105
64. Official gold and foreign exchange reserves of primary producing areas, 1948, 1950 and 1951	106
65. Change in nominal and real value of official gold and foreign exchange reserves of primary producing areas between 30 June 1950 and 30 June 1951.....	107
66. Estimated balance of international payments of primary producing areas, 1950 and 1951	107

7. TRADE OF THE CENTRALLY PLANNED ECONOMIES

67. Indices of quantum of trade of eastern Europe with rest of world, 1949 to 1951 ..	109
68. Regional pattern of eastern European trade, 1948, 1950 and 1951.....	110
69. Western European commodity exports to eastern Europe, 1948 to 1950.....	111
70. Exports of Australian wool and Malayan rubber to eastern Europe, 1948 to 1951 ..	112
71. Exports of selected commodities from eastern Europe to ten western European countries, 1948 to 1950.....	112
72. Indices of total trade of five eastern European countries, 1947 to 1950.....	114
73. Eastern European production and imports of raw cotton, 1949/50 and 1950/51 ..	115
74. Indices of planned increases in trade between countries of eastern Europe, 1950 and 1951	116
75. Polish exports of coal and coke, 1948 to 1951.....	117
76. Direction of trade of mainland of China, 1950.....	118

Charts

1. Indices of industrial production in 1951.....	5
2. Indices of terms of trade of selected countries, 1950 and 1951.....	8

INTRODUCTION

INTRODUCTION

Highlights

During 1951, the first full year of widespread rearmament activity, the world produced more goods than in any previous year. The increase in aggregate production between 1950 and 1951 was greater than in the production of military goods alone. This made it possible for the total supply of civilian goods for the world as a whole to rise.

In the economically developed private enterprise economies, production increased considerably from mid-1950 to mid-1951. Owing to the influence of such factors as rising taxation and deterioration in terms of trade, consumption did not increase as fast as production. In fact, the demand for consumer goods fell short of existing productive facilities beginning early in 1951, so that consumer goods production declined and total output levelled off in the second half of 1951. Although sharp increases in raw material prices caused a general upsurge of prices in all these countries, money wages tended to keep pace with the cost of living.

In the centrally planned economies, also, output and consumption increased in 1950 and 1951, though consumption rose less than production. Developments in consumer prices varied, rising in countries where increases in supply did not suffice to meet the growing pressure of demand, and declining where the expansion of supply was more adequate.

In the under-developed countries, production generally rose less than the world average, but exports increased both in quantum and in price owing to expanded demand from the industrialized countries. Prices also rose considerably in the under-developed countries. In some cases this was a result of increased pressure of demand caused by expanded domestic incomes derived from larger exports or increased investment. In others, factors equally important or more important were the pressures exerted on supplies where shortages of food resulted from poor harvests, or the increases in the domestic cost of imported goods owing to changes in rates of exchange.

Major elements in developments in the balances of payments of developed private enterprise economies in 1951 were a deterioration in terms of trade, and a reversal of the earlier trend towards reduced deficits with the dollar area. While most of these countries nevertheless improved their over-all balance of payments position in 1951, difficulties encountered by a few of them

appeared likely, early in 1952, to have significant repercussions elsewhere.

The trade of almost all the centrally planned economies was increasingly affected in 1951 by the growing deterioration in their trade relations with a large part of the rest of the world. As output rose in these countries, the volume of their trade with one another increased, offsetting the decline in trade with the rest of the world as a whole.

Increases in exports and improvements in the terms of trade of under-developed countries enabled them to expand their imports of both capital goods and consumer goods in 1951. In the latter part of 1951, however, foreign exchange receipts declined because of a slackening of foreign demand; in a number of countries the resulting balance of payments difficulties led by the end of the year to the reimposition of import restrictions.

Background

To obtain perspective with respect to these events it is necessary to take a backward glance at the situation as it appeared around the middle of 1950. The first six months of 1950 were characterized by rising production levels in both private enterprise and centrally planned economies, though in some of the former countries there existed substantial unemployment and excess productive capacity. Domestic prices were rising to some extent in a number of countries; these increases, however, were generally in the nature of adjustments to changes in exchange rates brought about by the widespread devaluations of September 1949. The expansion of production was accompanied by a further growth in the volume of international trade and by a lessening of the dependence of several areas upon an abnormal level of imports from the United States. These developments had their counterpart in a reduction of the dollar deficits which had been the most conspicuous evidence of international economic disequilibrium since the end of the war.

The announcements by several governments of their intention to undertake extensive rearmament programmes following the outbreak of the conflict in Korea in the middle of 1950 immediately gave rise to a chain of events which had far-reaching effects both on national economic conditions and on the international economic situation. Anticipatory and speculative buying of all types of goods, especially raw materials,

in many countries even preceded the authorization by legislatures of increases in arms expenditures. Raw material prices rose sharply and, in some cases, several-fold within the space of a few months. The general economic climate was pervaded by expectations of impending shortages and inflation.

At the end of 1950 it was officially anticipated in the United States, where action towards rearmament had been taken more rapidly than elsewhere, that civilian construction and other forms of normal investment would be reduced in order to provide for the large-scale investments required for armament production. It was also expected that total civilian consumption would have to be cut. Several other industrialized countries expected not merely that civilian investment and consumption would have to be reduced, but that increased armament output would encroach upon their capacity to export, while the rising costs of imported raw materials would cause a deterioration in their terms of trade. These developments would, it was feared, tend to reverse the recent improvements achieved in their balance of payments positions.

The under-developed countries were concerned that, though their opportunities for exporting growing quantities of primary products at high prices would improve their foreign exchange position, they would encounter difficulties in increasing the imports of consumer goods and capital goods which they would require to meet rising domestic demand and to sustain their investment programmes; and that these difficulties would cause inflationary pressures and hamper their efforts towards economic development.

What did, in fact, take place during 1951 in all of these spheres?

Industrial production

The tempo of the world's industrial activity quickened considerably during the twelve months which followed the outbreak of hostilities in Korea. During the second half of 1951 the level of world output reached at the middle of the year was at least maintained. This increase reflects primarily an upward surge in production in the developed private enterprise economies and the centrally planned economies. The rate of increase in production in these two groups of countries depended largely upon the amount of unused productive capacity at mid-1950, or upon the additions to capacity resulting from investment or on the rate of increase in the productivity of labour. In the under-developed countries, as a group, the level of industrial production increased less than the world average.

In the economically developed private enterprise economies, industrial activity was stimulated between mid-1950 and mid-1951 not only by military expenditures but by several waves of hoarding by industry and

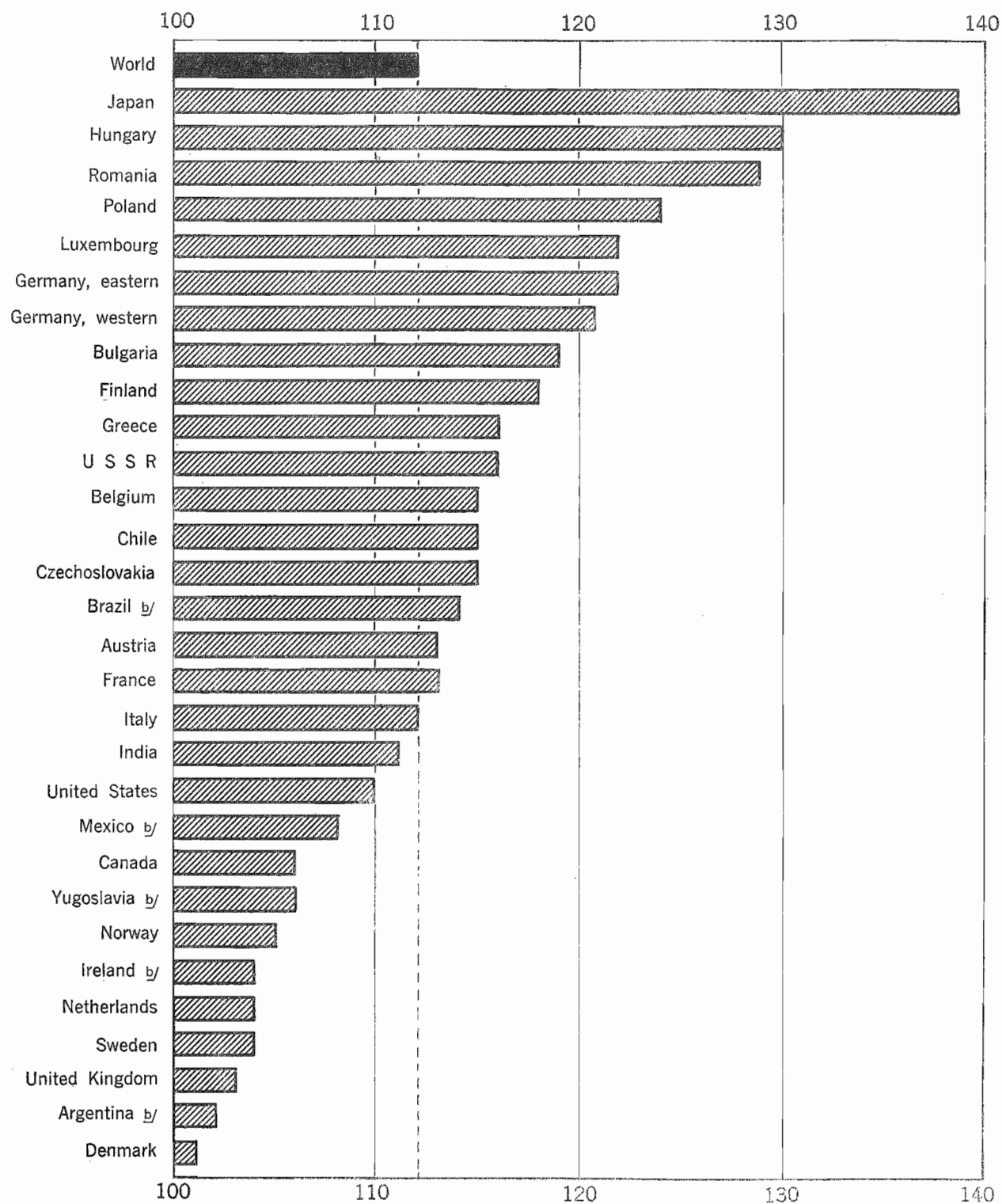
consumers. Manufacturers sought to lay in stocks of key raw materials on a scale which would permit them to continue operations during the period of anticipated stringency ahead—bearing in mind particularly the increased purchases of governments for strategic stock-piles. In addition, they raised their investment in fixed capital in anticipation of a growing demand generated by increased arms expenditures. Speculators hoarded goods of all types on the assumption of a later appreciation of their value. Consumers bought in excess of current requirements in the belief that there would be shortages of durable goods and that even non-durable goods were bound to rise in price. All of these factors contributed to the rise in production in these countries which occurred between 1950 and 1951 and in most cases the rise in over-all national output was greater than in the production of armaments alone.

The rate of growth in industrial production in these countries during the second half of 1951 and early in 1952 appears to have slowed down considerably. While the production of armaments and investment goods continued to rise, the output of consumer goods dropped. Several factors operated to limit the growth of consumption. There were increases in taxation or reductions in consumer subsidies; deterioration in terms of trade; relative shifts in the distribution of income in favour of profits, especially profits in export industries; and declines in the proportion of income net of taxes which consumers chose to spend on consumption goods. Most industrialized countries were affected by one or more of the above factors, with the result that the production of consumption goods fell below available productive capacity and pockets of unemployment made their appearance in consumer goods industries.

In the centrally planned economies, increases in industrial production in 1951 were generally in line with their economic plans. In view of the over-fulfilment of earlier economic objectives, and to accelerate the growth of their economic and military potentials, several of these countries raised their production targets. In a number of them the rapid pace of industrialization combined with relatively poor harvests to cause severe pressure on supplies of food, and to bring about the reintroduction of rationing for some commodities, while in others, particularly the Union of Soviet Socialist Republics, the rise in the supply of consumer goods made it possible for consumer prices to be reduced. Steps were also taken to adapt the structure of production in each of the countries to the import requirements and export possibilities of the other countries within the group so as to expand their trade with one another and reduce the effect of the growing deterioration in trade relations between them and a large part of the rest of the world.

The course of industrial production in the under-developed countries is perhaps best appraised when

Chart 1. Indices of Industrial Production^a in 1951
(1950 = 100)



UN PRESENTATION 2470.1

Source: Statistical Office of the United Nations and national statistics.

^a Mining and manufacturing only, where separate data are available.

^b Based on data for less than the full year 1951, compared with the corresponding period of 1950.

viewed against the background of developments over a somewhat longer period. During the Second World War, some of these countries—primarily those which already had some basis for the growth of diversified manufacturing capacity and which did not suffer war devastation—succeeded in expanding their industrial potential so as to replace from domestic production manufactures which were not available from the industrialized countries involved in the war. Since the war, however, while their imports of manufactures from industrialized countries have risen again, there has been little or no further industrial progress in many of these countries, and increases in industrial production in the under-developed countries between 1950 and 1951 were, with some exceptions, small by comparison with those achieved by the other countries during this period.

Raw material supply

The expectations of scarcity on which the raw material boom in the second half of 1950 had been based proved exaggerated. Undoubtedly the supply of raw materials in the second half of 1950 was not so elastic as to be able to absorb without substantial price increases all the short-term demands for the purposes of current consumption, inventory accumulation, strategic stockpiling and speculation. And the prices of several key raw materials soared. Within a period of a few months the prices in international markets of rubber, tin and wool rose at unprecedented rates, attaining a level two or three times higher than at the beginning of the climb. The prices of these commodities began to decline again during the early months of 1951, reaching a somewhat precarious stability later in the year at levels which were still above those of mid-1950. The prices of other commodities, less affected by the violent fluctuations of the second half of 1950 and early 1951, generally rose more steadily throughout the period.¹

While there was a substantial expansion in raw material output and supply in 1951, it is clear that such declines as took place in raw material prices resulted to a considerable extent from the subsiding of earlier speculation, from the fall in consumer demand and from direct measures taken to limit demand—such as the reduction of the rate of strategic stockpiling, the introduction of systems of allocation, the administrative limitations upon raw material end uses and various fiscal measures, including increases in taxation. It is impossible to say whether in the absence of the limitations placed on demand there would have developed scarcities on a scale which would have impeded production, or whether the boom would have receded in any case with the subsiding of earlier speculation—once

it was realized that the rate of rearmament was to be slower than expected. All that can usefully be said about these matters is that, within the framework of controls and fiscal measures established by the various governments, raw material supplies in 1951 were sufficient to allow generally of an even greater expansion of industrial output in 1951 than had taken place in 1950. In fact, at the end of 1951 and early in 1952 some of the restrictions on raw material end uses were being removed in certain industrialized countries, and allocations for civilian production were being increased.

Difficulties did, however, arise in particular countries or industries. Thus a shortage of coal developed in western Europe; but it did not result in any declines in over-all production because requirements were met by imports from the United States, though at considerable cost in terms of dollar resources. Bottle-necks in the steel industry in the United Kingdom were more serious, and contributed to an actual decline in industrial production in that country between the first and second halves of 1951; to relieve this situation in 1952, arrangements were made for imports of steel from the United States.

The crucial fact is that rearmament did not proceed at the rates originally announced. However, the phasing of rearmament programmes over longer periods than anticipated was due to considerations other than shortages of raw materials. They had to do with the time taken to secure the necessary budgetary appropriations, as well as to determine and install the types of plant and equipment required for the production of armaments; with the effects that the cost of armaments was having on the size of national budgets, as well as the tax measures required to meet these costs; and with questions of foreign exchange needs and their impact on balances of payments. Similar considerations bore heavily on the changes in policies pursued with respect to strategic stockpiling.

As to the immediate future, it does not appear likely that raw material supplies will prove to be the limiting factor in relation to further expansion of production. Should the current rates of increase in armament expenditure and production not be greatly exceeded, it may well be that the increase in supplies of primary products which materialized in 1951, together with the increases in 1952 which will result from investments in additional capacity in 1950 and 1951, will suffice to meet both civilian and military requirements.

Food supply

The world demand for food rose in 1950/51 owing primarily to widespread increases in economic activity. In Europe, moreover, a number of governments stockpiled food during this period. Many of the under-developed countries also used significant proportions of the increases in their foreign exchange resources to

¹ See chapter 4 of this report; see also United Nations, *Review of International Commodity Problems, 1951* (Sales No.: 1952.II.D.1).

raise their imports of food since it is characteristic of these countries that any increases in the money incomes of the general population are expended largely on food. In several cases, moreover, crop failures necessitated additional imports. Despite the general increase in demand for food, the rise in food prices was less than in raw material prices partly on account of inter-governmental agreements tending to stabilize food prices² but also because stocks accumulated earlier in the United States were drawn upon for increased sales abroad.

At the same time it is to be noted that world supplies of food continue to increase less rapidly than its population and far less rapidly than its output of industrial goods, and that for the world as a whole the consumption of food per capita is less now than it was fifteen years ago. Moreover, inequalities in food consumption are now greater than before the war; some countries enjoy substantially increased supplies of food per capita while others have suffered reductions. This reflects not only growing inequalities in the distribution of world output and income but disequilibrium in international trade as well. While certain food importing countries lacked the foreign exchange resources to secure needed supplies, some food exporting countries were, as late as 1948 and 1949, concerned with the accumulation of surpluses of foodstuffs that could not be disposed of at prevailing prices. In general, there do not appear to exist sufficiently sustained economic incentives for a rapid increase in food production in the world.³

Terms of trade

The fact that in 1950 and 1951 the prices of raw materials rose much more than the prices of foodstuffs or of finished manufactures greatly affected the terms of trade of individual countries. Developments in the terms of trade of particular countries depended on the commodity composition of their exports and imports and, above all, on the relative weight in their exports and imports of the commodities whose prices fluctuated most during this period, such as rubber, tin and wool.

Industrialized countries in general are predominantly exporters of manufactures and importers of raw materials; as a group, they suffered a deterioration in their terms of trade of about 10 per cent between the first half of 1950 and of 1951, followed by some small improvement in the second half of 1951. Even among these countries, however, as will be seen from chart 2, there were a few which actually experienced improved terms

of trade throughout 1951 because of the importance of some key raw material or semi-manufacture in their exports.

The losses of the raw material importing countries in respect of their terms of trade were the counterpart of the gains of the raw material exporters. These gains were also unevenly distributed—the countries exporting relatively few of the key raw materials reaping most of the advantage while many of the under-developed countries experienced only small improvements.

Finally, in countries in which food is a major item in exports, the movement of the terms of trade depended on the weight of raw materials and finished manufactures in their imports since the prices of food in general rose somewhat more than those of manufactures but markedly less than those of raw materials.

Trade and payments

Changes in the terms of trade were a major element affecting the balance of payments of most countries. Among the principal countries which export manufactured goods, the United States and several of the countries in western Europe offset the effect of the deterioration in their terms of trade by an increase in the volume of their exports; with the notable exceptions of France and the United Kingdom, merchandise trade surpluses increased or deficits declined in the course of 1951. These movements were greatest in the countries which, at the beginning of 1951, had significant excess capacity for the export of the heavy goods which were most in demand abroad, or which followed disinflationary policies in 1951 specifically designed to limit the domestic demand for imports while setting free additional supplies of goods for export.

In general, the tendency in 1950 for the rest of the world's current account deficit with the United States to decline was reversed in 1951. This reflected in part a relaxation in 1950 of restrictions on imports of dollar goods by many countries whose dollar earnings had increased. In addition, the amount of dollars disbursed to the rest of the world by the United States declined in the second half of 1951 owing primarily to a reduction in the volume of United States purchases of imported goods for stocks. A number of countries were thereby compelled to reintroduce restrictions on dollar imports late in 1951 or early in 1952.

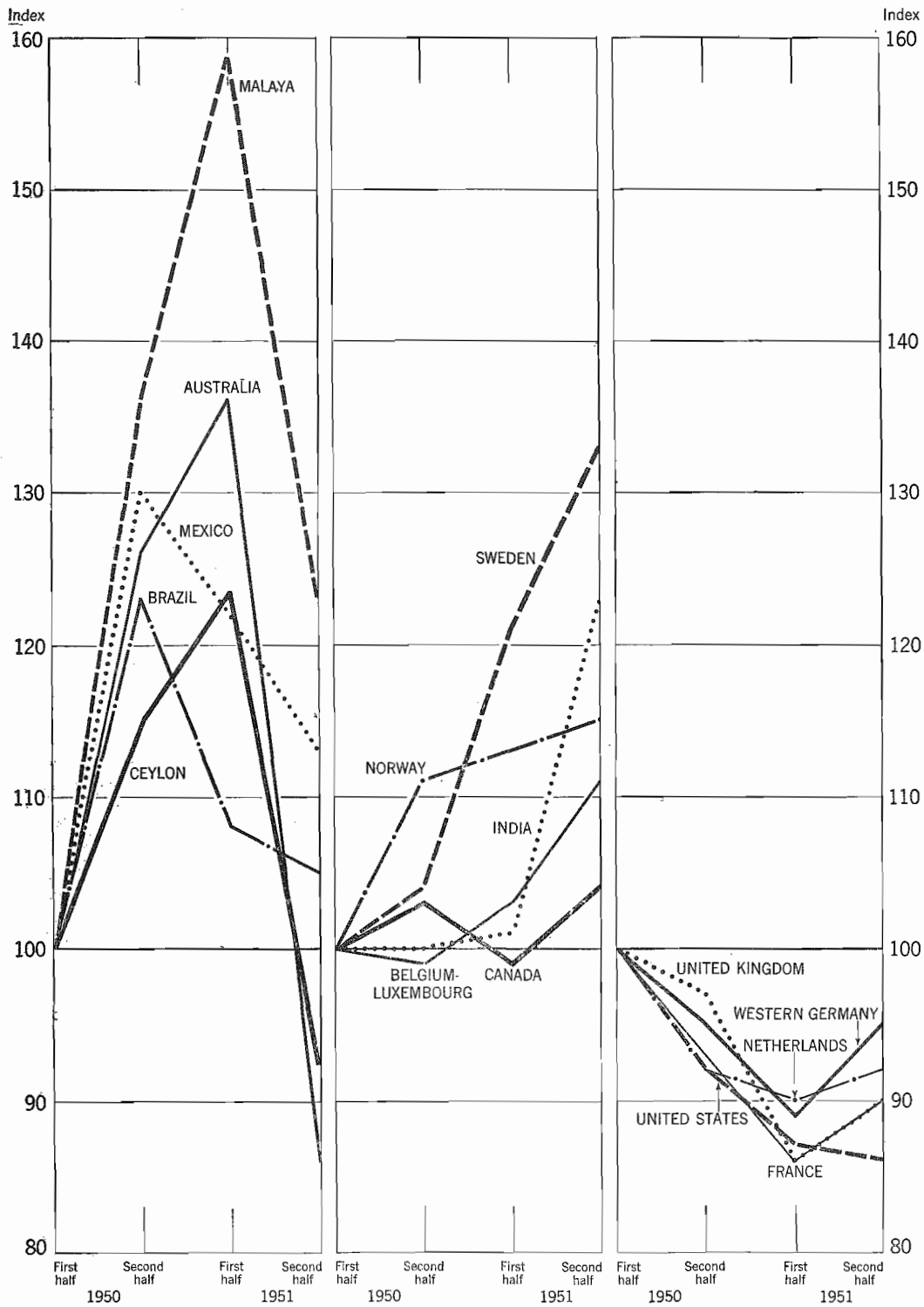
At the end of 1951 there were signs of considerable strain in the balance of payments position of western Europe. The outward manifestations of this situation

² An important example is the International Wheat Agreement.

³ See United Nations, *Land Reform: Defects in Agrarian Structure as Obstacles to Economic Development* (Sales No.: 1951.II.B.3). Resolution 370 (XIII) of the Economic and Social Council contains a number of recommendations addressed to governments concerning land reforms, including a recommendation designed to "assure security of tenure to the cultivator of land so that he may have the incentive to improve the produc-

tivity of the land and to conserve its resources, and the opportunity to retain an equitable share of his production". General Assembly resolution 524 (VI) on land reform, taking into account that "rapid improvements in existing agrarian structures and land tenure systems in many under-developed countries require large-scale financial outlays", urged governments "in working out their fiscal policies, to give active consideration to making funds available for projects of agrarian reform . . .".

Chart 2. Indices of Terms of Trade^a of Selected Countries, 1950 and 1951
(First half of 1950 = 100)



UN PRESENTATION 2470.2

Source: United Nations Department of Economic Affairs, based on official national trade statistics.
^a Export unit value index divided by import unit value index. In some cases, data for second half of 1951 refer to less than full six-month period.

were for the time being confined largely to France and the United Kingdom, which had experienced very sharp declines in their gold and foreign exchange reserves. Their experience illustrates the problems that countries possessing insufficient foreign exchange reserves face in absorbing the effects of short-term inventory fluctuations and speculative capital movements; it also illustrates the basis for international concern in these matters. The difficulties of France and the United Kingdom reflected in large measure the need to restore their inventories of imported goods which had been allowed to run down in 1950; and once the drain on their gold and dollar reserves began, it was intensified by speculative movements of capital. Moreover, the import restrictions which these two countries and their affiliated currency areas were compelled to reintroduce late in 1951 and early in 1952 were bound to have repercussions on the balance of payments positions of other countries.

A further indication of growing difficulties in international trade resulted from a fall in external demand for consumer goods experienced by many industrialized countries in the second half of 1951. This presented a particularly serious problem for the countries which had expected to be able to increase their exports of consumer goods to offset any limitation on exports of capital goods resulting from the competing requirements of domestic rearmament for such goods.

The years 1950 and 1951 once again provided evidence of the exceptional instability to which the balances of payments of primary producing countries are subject.⁴ These countries achieved very large increases in their earnings from exports of raw materials at unprecedentedly high prices in the first nine months following the outbreak of the conflict in Korea. Subsequently they sustained a marked reduction in earnings as the raw material boom subsided.

The fears of the under-developed countries that they would be unable to procure capital goods from industrialized countries because of the demands of rearmament programmes did not materialize during 1951. There were instances of supply difficulties and of a lengthening of delivery periods, but not on such a scale as to reduce imports. Imports of capital goods by under-developed countries were, with certain exceptions,⁵ substantially larger in 1951 than in 1950. They could have been even higher but for the fact that some under-developed countries were not prepared with enough development projects to enable them to absorb more capital goods. Some were compelled to import consumer goods in large volume in order to meet increased

⁴ Certain aspects of this problem were discussed in a report, "Relation of Fluctuations in the Prices of Primary Commodities to the Ability of Under-Developed Countries to Obtain Foreign Exchange", which was submitted to the Economic and Social Council. A revision of this report is being prepared for printing.

⁵ For details, see chapter 6.

demand or to fight famine, and some were willing to see part of their foreign exchange spent on luxury goods, such as high-priced passenger automobiles.

Under the growing pressure of domestic demand resulting from rising export surpluses, increasing domestic investment and shortages of consumer goods, the under-developed countries rushed to place orders for capital goods and consumer goods in the expectation that these commodities would become scarce. Deliveries against these expanded orders were still being made during the second half of 1951. By that time, however, the exports of the under-developed countries had already fallen, their foreign exchange reserves had begun to decline, and several of them had found it necessary to reintroduce import restrictions which they had dropped only a year earlier.

The international trade of the centrally planned economies was influenced during the period under review primarily by factors different from those operating in the rest of the world. For political and military reasons, many other countries during 1950 and 1951 enlarged the scope of measures designed to limit their exports of many commodities, especially key raw materials and equipment items, to the centrally planned economies.⁶ The result of these restrictions was that the trade between the private enterprise economies and the countries of eastern Europe was reduced in quantum in 1951 to only about 70 to 75 per cent of what it had been in 1948 and to about half of the pre-war level. By contrast the quantum of trade among the centrally planned economies themselves more than doubled between 1948 and 1951. This increase reflected the general rise in output in these countries and the growth of a greater degree of specialization and common planning of economic objectives, as well as the replacement of their declining trade with the rest of the world.

Major problems of international concern

When the above changes in the world economic situation during 1950 and 1951 are considered against the background of the earlier post-war years, a number of features stand out.

The destruction of the productive facilities of many countries in Europe, Asia and North Africa during the Second World War had confronted the peoples of these areas with vast problems of rehabilitation and reconstruction. Elsewhere, while productive capacity had in many cases been considerably expanded during the war years, there existed a high level of demand for civilian types of goods which had been unobtainable during the war. Thus, throughout the world, up to 1948 there had been a shortage of goods, which served to stimulate the growth of production.

⁶ These restrictive measures, however, did not apply to Yugoslavia, whose trade with other centrally planned economies had been severed.

The pressure for increased output, especially in the war-devastated countries, eventually resulted in pre-war production levels being restored or exceeded. This involved great efforts at national reconstruction, assisted by grants or loans financed in largest part by countries which had been spared war devastation and had emerged after the war with greatly increased productive capacity. These grants and loans had the effect of enabling the recipient countries to import goods, required both for reconstruction and for sustaining standards of living, at a rate far greater than would otherwise have been possible.

By the end of 1948 the period of post-war reconstruction had come to an end. Three striking features may be noted regarding the period which lasted from that time to the middle of 1950. In industrially advanced countries which had not been confronted with problems of reconstruction, the large expansion of national output since pre-war years permitted commensurate increases in the consumption levels of the general population. In some important economically developed countries, however, while production exceeded pre-war levels, per capita consumption was still no higher than before the war. This resulted from the fact that a larger proportion of the national product was being devoted to investment than before the war, or that the volume of exports had to be increased owing to deterioration in terms of trade in relation to pre-war years or to losses of foreign investments incurred during and after the war, or from some combination of these factors.

In the second place, in a number of under-developed countries, even the low pre-war levels of production and per capita consumption had not been restored. Moreover, several under-developed countries which had succeeded in expanding their industrial capacities during the war showed little sign of making further progress in the post-war period.

Thirdly, in spite of the situation described above, there began to emerge idle productive capacity in many private enterprise economies, both in capital goods and in consumer goods industries. There was also widespread concern over the accumulation in various parts of the world of surpluses in agricultural and other primary products.

It was evident that during this period technical opportunities existed everywhere for further increases in production which could be devoted to increased consumption and more rapid economic development in both industrialized and under-developed countries. At the same time, it became clear that the technical facilities for raising production and consumption levels were not in themselves enough to bring such increases about—any more than they had been before the war.

It was during this period that the need was emphasized in international conferences for measures to main-

tain full employment, to stabilize international demand for primary products and to promote the development of under-developed countries. These three types of measures were viewed as interlocking devices necessitated by the interdependence of the several types of economies existing in the world and by the objectives of universal peace, rising standards of living and social and economic advance. It was the widely accepted view that the problem of maintaining full employment in the industrialized countries could not be solved except in the context of an expanding world economy in which the economic development of under-developed countries would form the most important single element. It was also widely believed that under-developed countries could not make sufficiently rapid progress without an adequate and steady inflow of capital from industrially advanced countries. It seemed clear that the adjustments required to eliminate structural disequilibrium in international trade were attainable without a contraction of world trade only through the rapid growth of production and real income in under-developed areas.

The announcements of rearmament programmes which followed the outbreak of hostilities in Korea in the middle of 1950 had the effect of once again moving to the foreground of attention the technical problems of expanding output and productive facilities. Fear of unemployment gave way to concern about manpower shortages. The danger of accumulating surpluses of primary goods was displaced by questions of how to avoid bottle-necks in production in a period which, it was expected, would be characterized by widespread raw material shortages. Concern over where to get the funds with which to finance the more rapid development of under-developed countries was complicated by questions of where to obtain the capital goods that under-developed countries would wish to buy out of their foreign exchange resources, which were being enlarged by increases in the volume and prices of their raw material exports.

The fact is that many under-developed countries were not able, during 1950 and 1951, to absorb all the capital goods that they could have imported and paid for because their economic development plans had not advanced to the point at which they could determine precisely what equipment they wanted and when. This is a handicap which is likely to persist unless an increasing number of under-developed countries formulate integrated programmes for economic development, including a set of priorities and measures designed to implement these programmes and to check on their progress.

By the end of 1951, moreover, the problem for under-developed countries was shifting in emphasis once more to that of the adequacy of their foreign exchange resources. Owing to the recent slackening in demand for

their exports, some of the under-developed countries are no longer in as favourable a position as they were at the beginning of 1951 to buy increased imports of capital goods. This development illustrates the continuing vulnerability of under-developed countries to fluctuations in international commodity markets. The alternation between fears of commodity surpluses and of shortages is of grave concern—and not merely to under-developed countries.

Of major importance, finally, is the fact that the recent spurt of production in the industrially developed countries, while the progress of the under-developed countries has remained slow, has served to widen still further the production gap to be bridged by under-developed countries. Indications are that the technical obstacles to expanded production in the industrialized countries which had been feared in 1950 were rapidly overcome in 1951 and are of diminishing concern in 1952. There is, indeed, evidence of available capacity in these countries, not only in light industry but in certain branches of durable goods production as well.

⁷ On 12 January 1952, the General Assembly adopted resolution 520 (VI) in which it requested the Economic and Social Council to prepare "a detailed plan for establishing, as soon as circumstances permit, a special fund for grants-in-aid and for low-interest, long-term loans to under-developed countries for the purpose of helping them, at their request, to accelerate their economic development and to finance non-self-liquidating projects which are basic to their economic development".

Several months prior to the adoption of this resolution, the Economic and Social Council in resolution 368 (XIII) requested the International Bank for Reconstruction and Development to consider the contribution which the establishment of an international finance corporation could make to the promotion of the

Supplies of capital goods available for export in 1952 from the industrialized countries are not likely, even under current conditions, to be smaller, and in some cases may well be larger, than in 1951. Of course, should an easing of political tensions in the world bring about a reduction in armament expenditures, the opportunities for raising living standards in both developed and under-developed countries would correspondingly improve.

These facts lend new emphasis to the present need for some kind of international action designed to bring about an adequate international flow of capital to under-developed countries,⁷ to elaborate new techniques for stabilizing the demand for and prices of primary commodities traded internationally,⁸ or to introduce other arrangements that would, under mutually acceptable conditions, permit the industrialized countries to increase the supply of machinery and equipment to the under-developed countries so as to enable them to make more effective use of their abundant natural resources as well as to meet the demands of their trading partners.

financing of productive private enterprise in under-developed countries "either through loans without government guarantee, through equity investments or by other methods intended for the same purpose".

See also United Nations, *Measures for the Economic Development of Under-Developed Countries* (Sales No.: 1951.II.B.2).

⁸ This question is discussed in United Nations, *Measures for International Economic Stability* (Sales No.: 1951.II.A.2) and *National and International Measures for Full Employment* (Sales No.: 1949.II.A.3). See also resolution on commodity control agreements adopted by the sixth session of the Conference of the Food and Agriculture Organization of the United Nations.

Part I

MAJOR NATIONAL ECONOMIC CHANGES

INTRODUCTORY NOTE

The three chapters of this part of the report are devoted to an analysis of the major domestic economic changes which took place during the years 1950 and 1951. For this purpose countries are divided into two groups: those which operate primarily under systems of private enterprise and those whose economies are centrally planned under systems of socialist enterprise. The first group is, in turn, subdivided into industrialized countries with relatively high standards of living and those in which the industrial sectors of the economy employ a relatively small proportion of the population and where living standards are generally low.

Wherever possible, the analysis is presented in terms of national income and its major components, and the national economic changes examined are those which are reflected in changes of these components. Thus, no

attempt is made to examine developments within individual industries except where these developments had an important influence on the major components of the national income, i.e. consumption, private investment, government expenditures and the balance of exports and imports.

Although many countries do not produce or publish data on their national income and its components, in a number of instances it proved possible, on the basis of such data as were available, to construct rough estimates of the changes in national income. These estimates represent general orders of magnitude. While they obviously have no official standing, they are nevertheless considered to provide a reasonably accurate quantitative picture for the purpose of the type of analysis presented in this part of the report.

Chapter 1

ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES

This chapter deals with the broad aspects of national economic changes in 1950 and 1951 in the United States, Canada, Australia and the following economically developed private enterprise economies of western Europe: Belgium, Denmark, France, western Germany, Italy, the Netherlands, Norway, Sweden and the United

Kingdom. The first two sections discuss major changes in 1950 and 1951, respectively, in national production and national expenditure, with particular emphasis on factors affecting the share of consumption in gross national product. The third section considers related developments in prices, wages and profits.

Economic Activity in 1950

CHANGES IN PRODUCTION, EMPLOYMENT AND UNEMPLOYMENT

Industrial production expanded in 1950 as compared with 1949 in all the countries of this group, though there were marked divergencies in the rates of increase. The increases in France, Belgium and Sweden ranged from one to 4 per cent, while Denmark, western Germany, Italy, the Netherlands and the United States registered increases of 10 per cent or more. The largest increase in industrial production—27 per cent—was recorded in western Germany (table 1). Following the outbreak of the Korean conflict in the middle of 1950 there was an acceleration of the rate of increase in

industrial production in several countries, especially in Belgium, western Germany and the United States.

Data on food production and on total agricultural output for the crop years 1949/50 and 1950/51 in relation to 1948/49 are given in table 2. It may be inferred from the data on crop year production that current domestic food supplies in the calendar year 1950 were higher than in the calendar year 1949 in all instances, except in Australia and the United States.

The rise in real gross national product, including the output of all other sectors of the economy, in addition to that of industry and agriculture, ranged from 4 per cent in France and the United Kingdom to over 20 per cent in western Germany (see first column of table 3).

Table 1. Indices of Industrial Production^a in Western European Countries, Canada and the United States, 1949 and 1950

(1949 = 100)

Country	1949		1950		
	First half	Second half	First half	Second half	Full year
Belgium.....	104	96	99	105	102
Canada.....	100	100	104	111	108
Denmark ^b	99	101	112	111	111
France.....	104	97	101	102	101
Germany, western.....	96	104	115	139	127
Italy.....	97	103	111	118	115
Netherlands.....	96	104	104	116	110
Norway ^c	104	96	111	103	107
Sweden ^d	103	98	106	102	104
United Kingdom ^e	100	100	108	109	109
United States ^d	102	98	106	121	114

Source: United Nations, *Monthly Bulletin of Statistics*.

^a Including manufacturing, mining, gas and electricity unless otherwise stated.

^b Manufacturing only.

^c Excluding electricity.

^d Manufacturing and mining only.

^e Including construction.

Table 2. Indices of Agricultural Production in Western European Countries, Australia, Canada and the United States, 1949/50 and 1950/51 (1948/49=100)

Country	Food		All commodities	
	1949/50	1950/51 ^a	1949/50	1950/51 ^a
Australia ^b	108	100	107	103
Belgium.....	125	120	124	119
Canada.....	97	108	95	106
Denmark.....	122	129	122	130
France.....	102	113	102	114
Germany, western.....	118	133	118	133
Italy.....	109	114	108	112
Netherlands.....	120	118	121	118
Norway.....	108	117	108	117
Sweden.....	106	104	106	104
United Kingdom.....	100	106	101	107
United States.....	95	95	97	93

Source: Food and Agriculture Organization of the United Nations.

^a Preliminary figures.

^b In Australia, in contrast with the other countries listed in this table, the crop is harvested in the beginning of the second half of the crop year specified.

Table 3. Indices of Real Gross National Product and Employment, and Percentage of Unemployment in Western European Countries, Canada and the United States, 1950

Country	1949 = 100		Unemployed as percentage of civilian labour force available for hire	
	Real gross national product	Total civilian employment	1949	1950
Belgium.....	..	101 ^a	8.6 ^b	8.4 ^b
Canada.....	105	100 ^c	4.0 ^c	4.6
Denmark.....	106	104 ^d	9.6 ^e	8.7 ^e
France.....	104	101 ^f	..	2.0 ^g
Germany, western.....	122	103 ^h	8.5	10.2
Italy.....	110	99 ⁱ	16	16
Netherlands.....	105	102	2.0	2.5
Norway.....	106	102 ^j	0.8 ^j	0.9 ^j
Sweden.....	105	100 ^h	2.7 ^k	2.2 ^k
United Kingdom.....	104	101	1.6	1.6
United States.....	108	102	6.9 ^l	6.2 ^l

Source: Real gross national product: see table 4. Total civilian employment and unemployment: Replies of governments to the full employment questionnaire covering 1950 and 1951; United Nations, *Monthly Bulletin of Statistics*. Belgium: Institut national de statistique, *Bulletin de statistique* (Brussels); Canada: Dominion Bureau of Statistics, *Labour Force Bulletin* (Ottawa); France: Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique* (Paris); western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik* (Wiesbaden); Italy: United Nations, *Economic Survey of Europe in 1951* (Geneva, 1952); United Kingdom: Central Statistical Office, *Monthly Digest of Statistics* (London); United States: Department of Commerce, *Current Population Reports, Labor Force*, series P-57 (Washington, D.C.).

^a Based on number of man-days worked by male and female workers whether or not covered by social security system.

^b Percentage of wholly unemployed to insured labour force.

^c Estimates for Newfoundland for quarters of 1949 which are not included in the original data, were made by the United Nations Department of Economic Affairs.

^d Insured wage and salary earners.

^e Percentage of unemployed in labour unions providing unemployment benefits.

^f Employment in industry, building, transportation, public utilities, commerce and professions.

^g Figure derived as follows: Number of persons registered in labour exchanges as seeking jobs at the beginning of each month averaged 1.4 per cent of the civilian hired labour force in 1950. This figure was raised to 2.0 per cent on the basis of the unemployment estimate obtained in the national sample survey of October 1950, which was 42 per cent in excess of the average number registered in labour exchanges on 1 October and 1 November 1950.

^h Wage and salary earners.

ⁱ Employment in industry.

^j Figures for civilian employment and civilian labour force available for hire include armed forces. Figures shown for 1950 are for 1950/51.

^k Percentage of unemployed in labour unions.

^l Ratio of unemployed to the sum of employed wage and salary earners plus unemployed; percentage of unemployed to total civilian labour force was 5.5 in 1949, 5.0 in 1950.

Employment changed little in most countries, including even those in which output rose considerably. This reflects the significant increases in average output per man which occurred in a large number of countries despite the fact that the period of post-war reconstruction had already been completed and post-war shortages had been largely overcome by the end of 1948. The increases in productivity resulted in part from the cumulative effect of the large post-war volume of capital outlays, and in part from the economies of operating at capacity.

In about half of the countries, unemployment was either roughly at or slightly below that of 1949 (table 3). In the other countries unemployment was higher, but there was a general tendency for the situation to improve after the first quarter of 1950. The level of unemployment in 1950 was relatively high in a number of countries. This was the case in Belgium, western Germany and Italy, where unemployment had been considerable for a number of years. In Belgium the percentage of unemployment was only slightly below that of 1949; the same was true of Italy even though its gross national product had risen 10 per cent. Developments in western Germany were even more extreme, for unemployment in 1950 averaged about one-fourth above the 1949 level even though the real gross national product, as has been noted, rose about one-fifth during this period. Employment in agriculture and services fell while industrial productivity rose substantially, so that the large increase in output was associated with only a 3 per cent rise in total employment. The labour force available for hire increased by about twice this amount, however, accentuating a trend which had already become apparent in 1949. Unemployment thus rose, both in absolute amount and as a percentage of the labour force available for hire.

In the United States, where relatively high unemployment developed in 1949, the reduction in unemployment in 1950 also lagged behind the recovery in production; this reflected a significant rise in productivity in industry and in agriculture, and also an increase in the labour force of approximately a million persons between 1949 and 1950. Despite the peak level of production in 1950, unemployment averaged about 3.1 million persons; in addition, about 2 million persons were partially unemployed in 1950 for economic rather than for personal reasons. However, whereas the

¹ In order to present the data for all countries on a comparable basis, all components, both in 1949 and in 1950, are expressed in percentages of 1949 gross national product rather than in terms of national currencies.

In the case of Canada, France, the Netherlands, Sweden and the United States, each component of the gross national product is deflated by an appropriate price index. In the case of all other countries, since separate price indices are not available for investment and government expenditure, all components, other than the balance of exports and imports, are deflated by consumer prices, while the real balance of exports is obtained, as in the countries mentioned above, by deflating the value of exports by export prices and the value of imports by import prices.

trend of unemployment in 1949 was upwards, in 1950, after the month of February, it was downward.

In Denmark the average percentage of unemployment, although lower than in 1949, remained at a high level, reflecting the unusually large seasonal fluctuations which are characteristic of that country.

CHANGES IN GROSS NATIONAL PRODUCT

With few exceptions the major types of expenditure on the gross national product in 1950 were either above those of 1949 or at least as high. It will be seen from table 4¹ that the only significant decreases occurred in the following components: the quantum balances of exports and imports of Australia, Canada, the Netherlands and the United States; real private investment in Norway;² and real government expenditure in Norway, the United Kingdom and the United States.

The increases in the quantum balances of exports and imports³ of the western European countries reflected in part the effects of the 1949 currency devaluations, in part the large increases in production of exportable commodities or of goods which could replace imports, and in part the upswing in United States demand, which began with the economic recovery in the first half of 1950 and was accelerated in the second half of 1950 as a result of the Korean hostilities.⁴

Investment both in fixed capital and in inventories was higher in most countries in 1950 than in 1949. In France, western Germany, Italy and the United States, residential construction was increased by various government policies which were at least in part designed to reduce unemployment.⁵ In the United States, the rise in residential construction was an important element in the recovery from the 1949 recession. Of even greater importance for this recovery was the shift from inventory liquidation in 1949 to accumulation in the first half of 1950.

Investment in the second half of 1950 was greatly influenced by the outbreak of the Korean conflict. This gave rise to widespread speculative investment in inventories in many countries of this group. It also led to an expansion in plans for investment in fixed capital, of which a large part, however, could materialize only in 1951. Government expenditures were not yet significantly affected by the military programmes that had been generally adopted in the second half of 1950.

² It continued, however, at a very high level in relation to the gross national product.

³ The quantum balance is defined as the difference between the values of exports and of imports of goods and services, each measured at constant prices. This difference is positive in the case of an export balance and negative in the case of an import balance. An increase in the quantum balance may thus refer to a rise in the export balance, a fall in the import balance or a change from an import balance to an export balance.

⁴ In the United Kingdom an additional factor was the restraining influence of government policy upon imports. For a detailed analysis of changes in foreign trade see part II of this report.

⁵ In France, however, total investment in fixed capital fell.

Table 4. Components of Gross National Product in Western European Countries, Australia, Canada and the United States, 1949 and 1950^a

(At 1949 prices, as percentage of total 1949 gross national product)

Country and year	Gross national product (1)	Personal consumption (2)	Government expenditure (3)	Private investment (4)	Balance of exports and imports of goods and services (5)
<i>Australia:</i>					
1949.....	100.0	70.7	14.9	13.1	1.3
1950.....	104.9	75.4	18.0	15.5	-4.0
<i>Canada:</i>					
1949.....	100.0	67.6	12.5	18.8	1.1
1950.....	105.0	70.1	13.1	23.2	-1.4
<i>Denmark:</i>					
1949.....	100.0	68.8	14.4	18.1	-1.3
1950.....	106.2	71.0	14.8	21.3	-0.9
<i>France:</i>					
1949.....	100.0	71.6	12.2	15.8	0.4
1950.....	104.1	73.8	13.0	15.6	1.7
<i>Germany, western:</i>					
1949.....	100.0	65.2	14.8	23.2	-3.2
1950.....	121.8	76.2	17.2	27.3	1.2
<i>Italy:</i>					
1949.....	100.0	73.7	16.5	12.5	-2.7
1950.....	110.1	78.1	18.2	14.3	-0.5
<i>Netherlands:</i>					
1949.....	100.0	72.0	14.2	15.7	-1.9
1950.....	105.2	72.1	15.8	20.5	-3.0
<i>Norway:</i>					
1949.....	100.0	61.0	20.1	28.5	-9.6
1950.....	106.0	62.4	19.3	27.1	-2.8
<i>Sweden:</i>					
1949.....	100.0	61.0	19.6	17.8	1.6
1950.....	105.0	64.8	20.9	17.9	1.4
<i>United Kingdom:</i>					
1949.....	100.0	66.2	18.5	14.1	1.2
1950.....	104.0	68.0	17.3	14.2	4.5
<i>United States:</i>					
1949.....	100.0	70.2	17.4	13.3	-0.9
1950.....	107.9	74.1	16.2	18.9	-1.4

Source: Australia: Commonwealth Bureau of Census and Statistics, *National Income and Expenditure, 1950-51* (Canberra); Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, Preliminary 1951* (Ottawa); Denmark: Statistiske Departement, *Statistiske Efterretninger* (Copenhagen); France: Ministère des Finances, *Rapport sur les comptes économiques de la nation* (Paris), and additional information and revisions obtained from the Ministry of Finance by the Economic Cooperation Administration Special Mission to France; *Report on the results of the modernization and equipment plan, 1947 to 1950* (Bank for International Settlements, *Press Review No. 168a*, 1 September 1951); western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik*; Italy: Reply to full employment questionnaire covering 1950 and 1951; Netherlands: Based on Central Bureau of Statistics, *Statistische en econometrische onderzoekingen* (The Hague), second and third quarters 1951; Norway: Based on Department of Commerce, *Statistiske Meldinger* (Oslo), No. 1, 1951, and *Nasjonalbudsjettet 1951* (Oslo), and Norwegian reply to full employment

questionnaire covering 1950 and 1951; Sweden: Konjunkturinstitutet, *Meddelanden fran Konjunkturinstitutet* (Stockholm), Serie B:12; United Kingdom: Central Statistical Office, *Monthly Digest of Statistics and National Income and Expenditure of the United Kingdom, 1946 to 1950*, Cmd 8203 (London, 1951); United States: *Mid-year Economic Report of the President* (Washington, D.C.), July 1951.

^a While in 1949 the components add to 100, in 1950 they add to the index of the gross national product.

Notes on data for specific countries

Australia. Figures relate to twelve months ending 30 June. Item (1) deflated by retail price index, with the exception of exports and imports, which were deflated by unit values of merchandise exports and imports, respectively. The inventory valuation adjustment was assumed to be equal to the total change in value of stocks. Items (2) and (4): Consumption includes an estimate of consumer expenditure on motorcars, which is part of the Australian investment account; corresponding

Consumption increased in all countries of this group, except in the Netherlands where it remained about the same. The percentage increases were, however, smaller than in the gross national product in all countries except Australia and Sweden. The relationship of consumption to the gross national product depends upon such factors as (a) terms of trade; (b) taxes net of transfers and subsidies; (c) distribution of income among various income shares, especially between wages and profits,⁶ and (d) the effects, with a given distribution of income, of such factors as pent-up demand, buying scares and availability of certain types of goods, upon the proportion of income allocated to consumption.

In Denmark, western Germany, the Netherlands, Norway and the United Kingdom, the smaller increase in consumption than in the gross national product was to a large extent due to the deterioration of the terms of trade. This unfavourable change resulted from the devaluation of the currencies of the countries in question and, after the Korean crisis, also from the rise in world prices of raw materials. The effect of the terms of trade may be seen from table 5, by comparing the physical gross national product in the first column with its "consumption equivalent" in the second; the latter measures the value of the product in terms of constant consumer prices.⁷ The difference between these columns indicates the loss of income resulting from a change in

⁶ The higher the relative share of profits in income, the higher, *ceteris paribus*, is saving and thus the lower is consumption. Profits in this context are measured exclusive of inventory profits, since total income is so measured.

Table 5. Indices of Gross National Product and Consumption in 1950, at 1949 Prices, in Western European Countries, Australia, Canada and the United States

(1949 = 100)

Country	Gross national product	Consumption equivalent of gross national product	Personal consumption
Australia.....	104.9	106.8	106.6
Canada.....	105.0	104.9	103.6
Denmark.....	106.2	103.5	103.1
France.....	104.1	104.2	103.0
Germany, western.....	121.8	118.7	116.3
Italy.....	110.1	110.0	106.0
Netherlands.....	105.2 ^a	102.2 ^a	100.1
Norway.....	106.0	102.3	102.4
Sweden.....	105.0	103.5	106.2
United Kingdom.....	104.0	102.1	102.7
United States.....	107.9	107.9	105.5

Source: See source and explanatory notes for table 4.

^a Figures relate to net product.

the volume of imports that may be bought for a given volume of exports. Thus, a deterioration in the terms of trade means that a smaller volume of imports is obtained for a given volume of exports, so that the consumption equivalent of the gross national product is reduced.

⁷ For countries where a separate deflator was used for each component the discrepancy between these two columns is also affected by the extent to which the combined index of prices of domestic investment and government expenditure differs from the index of consumer prices.

Notes to table 4 (continued)

adjustment was made with regard to private investment.

Canada. Item (1) deflated by appropriate price indices of components. Item (3) excludes estimated government interest payments of \$97 million in 1949 and \$106 million in 1950, usually included in the Canadian accounts.

Denmark. Item (1) deflated by cost of living index (excluding personal taxes and dues), with the exception of exports and imports, which were deflated by the indices of unit values of merchandise exports and imports, respectively.

France. Item (1) deflated by appropriate price indices of components. Item (2) includes expenditure by government employees in oversea territories, expenditure by diplomats and income in kind to armed forces. Items (3) and (5): Government expenditure includes government contribution to social security; government purchases of goods overseas excluded from government expenditure and imports. Item (5) includes net income from abroad.

Germany, western. Item (1) deflated by cost of living index, except for merchandise exports and imports (exclusive of trade with Berlin and eastern Germany), which were deflated by their respective indices of unit values. Item (3) includes current occupation costs but excludes public investment. Item (4) includes public investment.

Italy. Item (1) deflated by cost of living index, except for exports and imports, which were deflated by their respective indices of unit values. Item (5) excludes net income from abroad.

Netherlands. Item (1): Net national product deflated by price indices of components. Item (4): Net private investment.

Norway. Item (1) deflated by cost of living index, except for exports and imports, which were deflated by the indices of unit values of merchandise exports and imports, respectively.

Sweden. Item (1) deflated by the appropriate indices of components.

United Kingdom. Item (1) deflated by consumer price index, except for exports and imports, which were deflated by the indices of unit values of merchandise exports and imports, respectively. Items (3) and (5): Government expenditure abroad was excluded from government expenditure and corresponding adjustment was made in the balance of exports and imports.

United States. Item (1): Gross national product for 1949 and 1950 based on the sum of the components expressed in terms of their respective prices in the first half of 1951. Items (3) and (5): Government expenditure includes net unilateral transfers. Balance of exports and imports represents net foreign investment, which is equal to export surplus of goods and services minus net unilateral transfers.

An additional factor which operated in the Netherlands and western Germany, and also in Italy, was a relative shift in the distribution of income from labour income to profits, which led to a decline in consumption in relation to income. In the Netherlands the shift was a result of the general elimination of price and rationing controls that occurred in the course of 1949. In western Germany and Italy it seems to reflect the higher mark-ups over costs of production adopted by business concerns in determining prices.

In the United States, the proportionately smaller rise in consumption than in gross national product mainly reflects a fall in the proportion of disposable personal income allocated to consumption, which occurred despite scare buying in the second half of 1950. It may largely be accounted for by the fact that in the first half of 1950 there was a large-scale distribution of a veterans' insurance dividend, part of which was probably saved—thereby lowering the 1950 ratio of consumption to disposable personal income—and part of which had already been spent in the latter part of 1949 before the actual payment, thus raising the 1949 ratio.⁸

In Canada the main factor which kept consumption in 1950 from rising as fast as the gross national product was a considerable reduction in transfer payments. These had been exceptionally high in 1949 when the forced savings portion of the war-time income tax was refunded and when, in addition, large payments on past crops were made to farmers by the Wheat Board.⁹ However, while consumption rose less than gross national product, it increased more than disposable personal income. This reflects the fact that the 1949 consumption

ratio was relatively low because not all of the extraordinary transfers of 1949 were spent on consumption in that year.

The relative share of consumption in the gross national product rose in Sweden and Australia. In Sweden this may have resulted from the increased availability of imported consumer durable goods in 1950. In Australia, this was due, first, to an improvement in the terms of trade which stemmed chiefly from a steep rise in wool prices and, second, to a significant reduction in taxation.

In summary, the primary factors in the increases in gross national product from 1949 to 1950 were (a) increases in private investment in most countries, reflecting to an important extent speculative accumulation of inventories following the outbreak of the Korean conflict; and (b) increases in the balance of the quantum of exports and of imports in the western European countries, owing to the 1949 devaluations, to higher United States demand for imports resulting from the increase of economic activity in 1950, and to greater availability of exportable goods. While these increases tended to generate a rise in consumer demand, in most instances consumption rose less than in proportion to the gross national product. The main reason for this was the adverse influence of the deterioration in terms of trade. In addition, in western Germany, Italy and the Netherlands, a relative shift in the distribution of income from wages to profits affected consumption unfavourably; and in the United States there was a decline in the proportion of disposable personal income allocated to consumption.

Economic Activity in 1951

CHANGES IN PRODUCTION, EMPLOYMENT AND UNEMPLOYMENT

As in 1950, industrial production in 1951 rose in all of the economically developed private enterprise economies, and again there were wide differences in the rates of increase. These ranged from one per cent in Denmark to 21 per cent in western Germany (see table 6). The increase in western Germany raised its relative share in the total industrial production of the western European countries included in this group from about 14 per cent in 1948 to about 24 per cent in 1951. During the same period the relative share of French industrial production in this total fell from 18 per cent to about 16 per cent, while that of the United Kingdom fell from 42 per cent to about 36 per cent.

The rates of increase from the end of 1950 to the end

of 1951 were significantly smaller than from the average for 1950 to the average for 1951 (table 6). In a number of countries, output in the fourth quarter of 1951 was roughly at the level of a year earlier, and in Denmark there was even a decline of 6 per cent. In many of these countries, investment in fixed capital for civilian purposes, notably in residential and commercial construction, was curbed by government policy. In the United Kingdom, production in the second half of 1951 was further hampered by an acute shortage of metals. However, most of the slackening in output in the countries under consideration occurred in civilian consumption goods and was due, not to shortages of basic raw materials, but to a shortfall of consumer demand, i.e., it appears that production of consumption goods could have been increased further if demand had been higher.

⁸ It should be noted that disposable income as defined in this report differs from that of the United States Department of Commerce by the amount of the "statistical discrepancy". According to the unadjusted Department of Commerce estimate of dis-

posable income, the proportion consumed was significantly below that of 1949 even in the second half of 1950.

⁹ These payments are classified as transfers in this report but not in official Canadian national accounts.

Table 6. Indices of Agricultural Production, Industrial Production and Employment, and Percentage of Unemployment in Western European Countries, Canada and the United States, 1951

Country	Corresponding period of preceding year = 100				Unemployed as percentage of civilian labour force available for hire	
	Industrial production ^a 1951		Agricultural production ^b 1950/51	Total civilian employment 1951	1950	1951
	Full year	Fourth quarter				
Belgium.....	114	105	97	..	8.4 ^c	7.4 ^c
Canada.....	107	98	111	103	4.6	2.8
Denmark.....	101 ^d	94 ^d	107	101 ^e	8.7 ^f	9.7 ^f
France.....	113	109	111	103 ^g	2.0	1.5 ^h
Germany, western.....	121	109	113	105 ⁱ	10.2	8.9
Italy.....	113	105	104	..	16 ^j	17 ^j
Netherlands.....	104	99	98	104 ^k	2.5	3.0
Norway.....	105 ^l	101 ^l	108	..	0.9	..
Sweden.....	104 ^m	103 ^m	98	102 ⁿ	2.1 ^o	1.6 ^o
United Kingdom.....	103 ^p	99 ^p	106	100	1.6	1.3
United States.....	111 ^m	101 ^m	96	102	6.2 ^q	3.7 ^q

Source: Food and Agriculture Organization of the United Nations; United Nations, *Monthly Bulletin of Statistics*. Belgium: Institut national de statistique, *Bulletin de statistique*; Canada: Dominion Bureau of Statistics, *Labour Force Bulletin*; Denmark: Statistiske Departement, *Statistiske Efterretninger*; France: Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique* and supplement; western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik*; Italy: United Nations, *Economic Survey of Europe in 1951*; Netherlands: Reply to full employment questionnaire covering period 1950 and 1951, and *Statistisch Bulletin*; United Kingdom: Central Statistical Office, *Monthly Digest of Statistics*; United States: Department of Commerce, *Current Population Reports, Labor Force*, series P-57.

^a Including manufacturing, mining, gas and electricity unless otherwise stated.

^b Preliminary figures.

^c Percentage of wholly unemployed to insured labour force; January to November.

^d Manufacturing only.

^e Insured wage and salary earners.

^f Percentage of unemployed in labour unions providing unemployment benefits.

^g Employment in industry, building, transportation, public utilities, commerce and professions.

^h Figure derived as follows: The percentage change from 1950 to 1951 in the average number of persons seeking jobs has been applied to the 1950 ratio of unemployed to the civilian labour force available for hire (see footnote g, table 3), on the assumption that the change in the civilian labour force available for hire was negligible.

ⁱ Wage and salary earners.

^j January to October.

^k Employment in industry, excluding building; first three quarters.

^l Excluding electricity.

^m Manufacturing and mining only.

ⁿ Employment in manufacturing and mining.

^o Percentage of unemployed in trade unions; January to November.

^p Including construction.

^q Ratio of unemployed to the sum of employed wage and salary earners, plus the unemployed; percentage of unemployed to total civilian labour force was 5.0 in 1950; 3.0 in 1951.

Total agricultural production in 1950/51, determining current domestic supplies for a large part of calendar year 1951, was generally greater than in 1949/50. There were, however, some setbacks in Belgium, the Netherlands and Sweden. In the United States, food production was unchanged but total agricultural output fell; in Canada, on the other hand, livestock production fell significantly despite an increase in total agricultural output.

Since the increases in other sectors of the economy did not match those in industry, the rise in gross national product was generally less than in industrial production. In Denmark, and apparently also in the Netherlands and the United Kingdom, there was little change in the gross national product. Even in other countries where the average for the year was significantly above that of 1950, the increase from the end of 1950 to the end of 1951 was relatively small.

The increases in production were, as in 1950, accom-

panied by some rise in the levels of employment. In countries where output rose considerably, there were again significant increases in average output per man, so that the rise in employment lagged behind that of production. However, in countries where the rise in output was not very large, the increases in productivity were small as well, and in Denmark and the Netherlands, where production slackened in the second half of 1951, there was no increase in average output per man for the year as a whole.

The increases in employment in 1951 as compared with 1950 were reflected in a number of countries in reductions in unemployment; the most significant declines were in Canada and in the United States. In the United States there was a fall in unemployment from 3.1 million to 1.9 million persons, or by approximately the same amount as the rise in employment; the civilian labour force did not show any increase, owing largely to a rise in the armed forces.

There were, however, increases in unemployment in the Netherlands and Denmark, which resulted mainly from the downturn in economic activity in the latter part of the year. In Denmark average unemployment, which is generally quite high owing to wide seasonal fluctuations, was nearly 10 per cent of the insured members of trade unions in 1951. In the Netherlands average unemployment in 1951 was only moderately higher than in 1950, but it assumed fairly large proportions at the end of the year. Unemployment in Belgium and western Germany, though below that of 1950, continued at high levels despite considerable expansion of output; the percentages of unemployment in 1951 were 7.4 and 8.9 in Belgium and western Germany, respectively. In Italy, where unemployment has been the highest of all the countries in this group throughout the post-war period, there was even some increase.

CHANGES IN GROSS NATIONAL PRODUCT

As contrasted with 1950 when all components of the gross national product tended to rise in most countries, the changes in 1951 were more heterogeneous; in some countries there were significant reductions in the quantum balances of exports and imports and in a number of countries the volume of consumption declined. The main factors determining the pattern of these changes in 1951 were (a) increases in military expenditures accompanied by higher taxes and by some limitations on civilian output, especially on residential and commercial construction and on public investment; and (b) the raw material boom which led to a deterioration in the terms of trade of a number of the countries under discussion.

Government expenditure on goods and services in real terms rose in all these countries¹⁰ but the magnitude of the increase varied among countries. In the United States there was a considerable increase in military expenditure in relation to the gross national product; in the other countries the rise in military expenditure was smaller, partly because of differences in plans and partly because of differences in the dates at which they were put into effect. In western Germany the increase reflected in large part a rise in occupation costs. In many of these countries the rise in total government expenditure would have been greater but for decreases in public investment. In Australia, however, there was a large rise in public expenditure on development projects.

With the exception of Australia, Sweden and the United Kingdom, the quantum balance was at least roughly maintained and in most cases it rose significantly. Exports of many of the countries of this group rose appreciably, both to the above three countries and

¹⁰ For Australia the available data relate to changes between the fiscal years 1949/50 and 1950/51 rather than to those between the calendar years 1950 and 1951. However, unless specific exceptions are indicated in the text, the qualitative statements apply to the changes from calendar 1950 to calendar 1951 as well.

to under-developed countries.¹¹ Imports, on the other hand, were kept down in some instances, as a reaction to the speculative accumulation of inventories of imported goods in the second half of 1950. In Denmark and the Netherlands the increase in the quantum balance was the result of a deliberate deflationary policy designed to restrict investment and consumption in order to increase the supplies of exportable goods and to reduce the demand for imports.

In Australia, Sweden and the United Kingdom, the quantum of exports in 1951 was about the same as in 1950, while the volume of imports was significantly higher. Australia and Sweden, though they gained significantly in monetary terms, did not share in the general rise in the quantum of exports, because their exports, which are largely of primary materials, were limited mainly by supply conditions. The United Kingdom volume of exports was likewise limited by inability to expand the output of investment goods, for which there was a particularly large increase in demand in international markets. Despite a roughly stable volume of exports, both Australia and Sweden were able to expand their imports considerably because they benefited from greatly improved terms of trade.¹² The United Kingdom, though its terms of trade worsened, also increased its volume of imports considerably because of public and private replenishment of raw material stocks which had been depleted in the preceding year. This led to a serious deterioration in its foreign exchange position.¹³

Real gross private investment was generally higher in 1951 than in the previous year, except in Belgium, where there was little change, and in Denmark and the Netherlands, where it was reduced. With the exception of Australia, western Germany and Italy, the increases in total private investment in fixed capital (including residential construction) were, however, not large; in Denmark, the Netherlands, Norway and the United Kingdom, investment in fixed capital was roughly unchanged or somewhat below 1950 levels. In many of these countries investment in fixed capital for civilian purposes was restricted by credit controls and, in the United Kingdom and the United States, also by allocations of strategic raw materials. In the United States, Canada, Denmark and the Netherlands, the volume of residential construction was reduced below 1950 levels through such measures. While investment in inventories increased in most countries,¹⁴ it fell in Denmark and

¹¹ The latter used their greater foreign exchange earnings from the raw material boom to accelerate their imports of finished goods from economically developed countries because of the fear of rising prices and possible shortages.

¹² In the second half of 1951, however, the Australian balance of payments turned sharply negative as a result of the slump in wool prices.

¹³ For a detailed discussion of the factors affecting foreign trade in 1951, see part II of this report.

¹⁴ A part of the increase in inventories in some countries may have consisted of work in progress on military equipment for which government payment had not yet been made.

the Netherlands, and in some of the countries in which it rose, at least a part represented involuntary accumulation. This was particularly true in the United States in the first half of the year, largely owing to the failure of consumption to match earlier expectations.

The developments in consumption were varied. The total volume of consumption rose in Australia, France and western Germany; it remained at about the 1950 level in Canada and Sweden; and it fell below 1950 levels in Denmark, the Netherlands, Norway, the United Kingdom and the United States. Although adequate data are not available for Belgium and Italy, it is likely that consumption in these two countries did not fall and may even have risen somewhat.

The relative share of consumption in the gross national product fell in all countries, with the exception of Australia.¹⁵ The factors which accounted for this decline varied from country to country. The most important were: (a) increases in taxes or reductions in subsidies; (b) deterioration in the terms of trade; (c) relative shifts in the distribution of income in favour of profits, especially profits in export industries; and (d) declines in the proportion of disposable personal income which individuals allocated for consumption.

In the United States, owing to heavy increases in taxation and to reductions in transfer payments,¹⁶ the rise in real gross national product was accompanied by a much smaller increase in real disposable personal income. In addition there was a fall in the proportion of the disposable income which was spent for consumption goods, both durable and non-durable, especially in the second half of 1951. For the time being no full explanation of this phenomenon is possible; though anticipatory purchases were made in the second half of 1950, the available data indicate that this "overbuying" can account for only a small part of the decline in 1951. Credit controls may also have contributed to some extent to reduce real consumer expenditures on durable goods in 1951, but this influence does not appear to have been very great, either. Whatever the reasons, however, the result of this development and of the increase in taxation was a fall in the volume of consumption by 1.5 per cent in 1951 while the gross national product rose by 8 per cent. This led to in-

¹⁵ In Australia the share of consumption rose in the fiscal year 1951/52. This increase resulted from a considerable improvement in Australian terms of trade, mainly on account of the tremendous rise in wool prices. Although a part of export profits was retained by government marketing authorities, real incomes rose considerably more than the physical gross national product. As opposed to other countries of this group where the gains from better terms of trade accrued mostly to large-scale enterprise, in Australia the export profits were earned primarily by independent farmers and thus were spent to a greater extent on consumption goods and services.

In the second half of 1951 the movement in the terms of trade was completely reversed, but the effects upon consumption are not yet known.

¹⁶ The decline was due mainly to smaller veterans' insurance dividends in 1951 than in 1950.

voluntary accumulation of inventories since the difference was not fully absorbed by the increases in government expenditure, export balance and other private investment.

The situation in Canada, where total consumption remained virtually unchanged while the gross national product increased by 5 to 6 per cent, was in many respects similar to that in the United States. As in that country, there was a steep rise in taxation, but disposable personal income rose in the same proportion as the gross national product because of especially large payments to farmers on past crops. That consumption nevertheless remained nearly stable is accounted for in part by the fact that farmers did not increase their consumption in line with the steep rise in their incomes; in addition, however, there appears to have been, as in the United States, a reduction in spending out of income on the part of other groups.

The factors which restrained consumption in the United States and Canada were also operative in many of the European countries of this group. Taxes were increased or subsidies were reduced in a number of these countries, especially in Denmark and the Netherlands, where such action formed an important part of general deflationary policy aimed at improving the balance of payments.¹⁷ In addition, in some countries, there seems to have been a decline in the proportion of incomes spent on consumption.¹⁸ In general, however, the more important factors accounting for the fall in the ratio of consumption to gross national product were a deterioration in the terms of trade and a shift in the distribution of income towards profits, especially in export industries.

In all of the European countries under consideration, except Belgium, Norway and Sweden, the terms of trade deteriorated as a result of steep increases in prices of imported raw materials. This affected adversely the real value of income in terms of consumption goods and thus tended to depress consumption in relation to the gross national product.

In Belgium, Norway and Sweden, where the terms of trade improved, the relative share of consumption in the gross national product fell, primarily as a result of a shift in the distribution of income towards export profits. The major increases in export prices in these countries occurred in shipping and in raw material and semi-manufactured goods (steel in Belgium, timber and wood-pulp in Norway and Sweden). Since these price increases were reflected to a very considerable extent in higher profits, they generated only a small additional demand for consumer goods and services. Consequently, the adverse effect upon consumption of the increase in

¹⁷ In Denmark an important part of fiscal policy was the introduction of compulsory saving, the effect of which upon consumption is fairly similar to that of taxation.

¹⁸ In Sweden this may have been due to the unusually high level of consumption of durable goods that had been achieved in 1950 as a result of the liberalization of imports.

Table 7. Indices of Import Prices, Cost of Living and Wages in Western European Countries, Australia, Canada and the United States, 1950 and 1951

(First half of 1949=100)

Period	Australia ^a	Belgium ^{b,c}	Canada ^d	Denmark ^e	France ^f	Germany, western ^g	Italy ^h	Netherlands ⁱ	Norway ^{j,k}	Sweden ^l	United Kingdom ^m	United States ⁿ
<i>Import prices:</i>												
1950 First half.	113	94	105	110	112	116	92	108	111	108	111	98
1950 Second half.	123	102	109	113	119	122	95	114	112	114	123	113
1951 First half.	140	121	122	133	145	146	119	132	130	134	155	132
1951 Third quarter.	147	121	124	147	153	161	125	139	138	148	164	135
<i>Cost of living:</i>												
1950 First half.	109	97	102	106	110	93	95	108	103	100	103	99
1950 Second half.	116	102	106	114	118	92	99	112	109	102	105	103
1951 First half.	128	108	112	121	129	101	105	119	118	115	110	108
1951 Third quarter.	140	109	118	124	136	102	108	122	126	121	116	109
<i>Money wages:</i>												
1950 First half.	108	99	104	104	107	105	107	105	104	103	103	102
1950 Second half.	119	103	108	108	118	111	108	109	109	106	106	107
1951 First half.	133	109	115	113	134	122	112	114	118	115	111	112
1951 Third quarter.	143	114	122	118	157	126	123	116	122	128	..	114
<i>Real wages:ⁿ</i>												
1950 First half.	99	102	102	98	97	113	113	98	101	103	100	103
1950 Second half.	102	101	101	93	100	121	109	97	100	104	101	103
1951 First half.	104	101	102	93	103	121	107	96	100	100	101	104
1951 Third quarter.	102	104	103	95	115	124	114	95	97	106	..	105

Source: Based on data from Statistical Office of the United Nations, except data for money wages as follows: Belgium: Université de Louvain, *Bulletin de l'Institut de recherches économiques et sociales*; France: Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique*; Italy: Istituto centrale di statistica, *Bollettino mensile di statistica*.

^a Money wages represent hourly rates for male workers in mining, construction, transportation, commerce and services.

^b Cost of living figures represent retail prices exclusive of rent. Wages represent hourly earnings of married workers in manufacturing and transportation, inclusive of family allowances.

^c Figures for cost of living and wages are averages of March and June for the first half-year and averages of September and December for the second half-year.

^d Wages represent hourly earnings in manufacturing.

^e For comparability with other countries, cost of living figures exclude personal taxes and dues, which are included in the Danish cost of living index; wages represent hourly earnings in manufacturing, construction, transport, commerce and services.

^f Cost of living figures represent family consumption prices, with averages of March and June for the first half-year, September and December for the second half-year. Money wages are wage rates published by the Ministry of Labour for male and female

workers in industry, building, transportation and commerce for all France. Figures for money wages for the first half-year represent an average of figures for 1 April and 1 July; money wages for the second half-year, an average for 1 October and 1 January.

^g All figures, except those for import prices, are for the area of the United Kingdom and United States zones only. Figures for money wages represent hourly earnings in manufacturing and construction.

^h Figures for wages represent hourly rates for male workers in manufacturing, mining, construction and electricity, inclusive of family allowances.

ⁱ Money wages represent hourly rates for male workers in manufacturing, mining and construction.

^j Figures for money wages represent hourly earnings in manufacturing and mining.

^k Male workers.

^l Figures for cost of living represent consumer price indices, i.e., weighted by total consumption in the country.

^m Half-yearly figures for money wages represent hourly earnings in manufacturing for April and October.

ⁿ Computed by United Nations Department of Economic Affairs; money wages deflated by index of cost of living or consumer prices.

import prices was not counterbalanced by the favourable income effect of increased export prices.

A shift in the distribution of income towards export profits also occurred in some countries where the terms of trade deteriorated, namely, in Denmark, western Germany and, probably, in Italy. In these countries this factor aggravated the adverse influence upon consumption of the unfavourable change in the terms of trade. In western Germany the change in the distribution of income in favour of profits was attributable not only to developments in foreign trade but also to internal developments, i.e., the increase in markups of prices over costs which was referred to in the discussion of 1950 developments continued in 1951.

The 1951 developments that have been discussed thus far may be briefly summarized. The factors which tended to expand economic activity in 1951 were in-

creases in military expenditure and in related investment; in a number of countries, there also took place an expansion in net exports to other countries within the group considered here, as well as to under-developed countries. The rate of increase in gross national product was, however, kept down by factors which checked the demand for consumption and made for a proportionately smaller rise, or in some instances, even caused a decline in the volume of consumption. In some countries the level of economic activity would have been lower had there been an immediate adjustment to the demand for consumption; instead, however, some involuntary accumulation of inventories took place during part of the year. The curtailing of the output of consumption goods to match reduced demand appears to have been the most important factor in the widespread slackening in industrial production and total national output in the latter part of 1951.

Prices, Wages and Profits in 1950 and 1951

The years 1950 and 1951 were characterized by a rising trend in prices. Until the middle of 1950 the major factor in the rise of the cost of living was the increase in import prices resulting from the widespread devaluation of currencies in relation to the dollar which had taken place in September 1949. Amongst the countries which devalued, the cost of living failed to rise only in Belgium and Italy, where the devaluation in relation to the dollar was small, and in western Germany, where a considerable increase in productivity as well as additional subsidies offset the effect of higher import prices. In the United States the cost of living in the first half of 1950 was also slightly below that of a year earlier.

The price trends after the outbreak of Korean hostilities in the middle of 1950 were largely determined by the raw material boom, which resulted mainly from widespread private speculative buying in anticipation of future shortages and price increases and from stockpiling of raw materials by the United States Government. Although prices of rubber, tin and wool, which had risen most in the second half of 1950, fell sharply beginning in the second quarter of 1951, the prices of the first two commodities remained considerably above those of the first half of 1950,¹⁹ and the prices of many other raw materials continued to rise. The general level of raw material prices was thus substantially higher than in the first half of 1950. This was also true, although to a lesser extent, of food prices. The factors sustaining prices of raw materials in 1951 were the considerable rise in manufacturing production which had occurred in the meantime, and the general rise in money incomes resulting from the first stage of the raw mate-

rial boom itself. This rise in money incomes reflects the increase in money wages in response to the primary rise in the cost of living, and the rise in profits which was more or less in line with the increase in labour and material costs.

The raw material boom was of course reflected in a rise of import unit values in the countries considered (see table 7). The rise from the first half of 1950 to the third quarter of 1951 ranged from 18 per cent in Canada to 48 per cent in the United Kingdom, the divergencies among countries being accounted for by differences in the structure and sources of imports.²⁰

The primary increases in world raw material prices led to the initial increases in the cost of living after the middle of 1950. Additional factors affecting the cost of living were increases in indirect taxes or reductions in subsidies; these were especially significant in the Scandinavian countries and in the Netherlands. In the United States and Canada, moreover, there was a greater pressure of demand upon existing food supplies in consequence of higher employment and the resulting rise in incomes; in Canada the situation was aggravated by the deterioration in meat and dairy supplies. These initial increases in the cost of living led to advances in money wages and, through their impact on prices, to further increases in the cost of living.

While the devaluations of 1949 together with the primary factors which raised the cost of living after the middle of 1950 tended to lower real wages, a number of other factors served to counteract this tendency. As shown in table 7, real hourly wages in the third quarter of 1951 were in fact higher than in the first half of 1949, except in Denmark, the Netherlands and Nor-

¹⁹ Wool prices in the third quarter of 1951 were somewhat below those of the first half of 1950 but they were again higher in the fourth quarter.

²⁰ In Canada a small appreciation of exchange helped to check the rise in import prices.

way, where real wages fell by 3 to 5 per cent. The increases in the other countries ranged from 2 per cent in Australia to 24 per cent in western Germany. The considerable increases in real wages in France, Italy and Sweden from the first half of 1951 to the third quarter reflect sharp increases in money wages which may affect the cost of living at a later date.

To the extent to which higher income taxes affected the take-home pay of wage-earners, the indices of real wages in 1951 would have been somewhat lower than those shown in table 7.²¹

The main factors which affected real wages favourably were: (a) the rise in productivity over 1949 levels; (b) the improvement in agricultural supplies in a number of countries, especially in France; and (c) the increase in money wages, which mitigated the effect of the rise in import prices upon real wages. The influence of the latter factor can be seen most readily when the rise in money wages is equal to that of import prices. In that case domestic prices would tend to increase in the same proportion and thus no fall in real

²¹ This, for instance, is the case in the United States, where income tax rates, including withholding taxes, were raised in October 1950. A second increase occurred in November 1951.

wages would occur despite higher import prices. This factor was especially important in France and Australia, where the rise in money wages was in fact of the same order as the increase in import prices.

The changes in profits, as is to be expected in a period of rising prices, were greatly affected by inventory gains. Profits, including such gains, tended to rise more than gross national product (see table 8).²² This was true of such profits not only before tax but also after tax; even in the United States, where there were heavy increases in corporate tax rates during this period, corporate profits, including inventory gains, after tax show a rise as compared with gross national product.

Corporate profits, excluding inventory gains but before taxes, show divergent trends in the different countries. In the United States there was a significant rise in such profits in 1950/51 in relation to the gross national product. In the United Kingdom in 1950, however, such profits rose less than the gross national product, probably because of a time-lag in passing on to the consumer the rise in import prices.

²² Comprehensive data on profits are available for only a few countries; and when this report was completed they did not extend beyond 1950, except for the United States.

Table 8. Indices of Gross National Product and Net Profits in Real Terms^a in Canada, France, the United Kingdom and the United States, 1950 or 1950/51

(1949 or 1949/50 = 100)

Item	Canada ^b	France	United Kingdom	United States ^b
Year	1950	1950	1950	1950/51 ^c
Gross national product	105.0	104.1	104.0	110.5
<i>Total profits:</i> ^d				
Before inventory valuation adjustment:				
Before tax	103.6	..	108.8	..
After tax .....	..	..	107.8	..
After inventory valuation adjustment:				
Before tax	99.2	109.6 ^e	99.9	114.6
After tax .....	..	105.0 ^e	93.5	..
<i>Corporate profits:</i>				
Before inventory valuation adjustment:				
Before tax	115.0	..	110.8	145.7
After tax	111.8	..	107.0	120.7
After inventory valuation adjustment:				
Before tax	106.7	..	101.1	124.8
After tax	94.6	..	92.8	84.4

Source: Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, 1926-1950*; France: Ministère des Finances, *Rapport sur les comptes économiques de la nation*, and additional information and revisions obtained from the Ministry of Finance by the Economic Cooperation Administration Special Mission to France; United Kingdom: *National Income and Expenditure of the United Kingdom, 1946 to 1950*, Cmd 8203; United States: Department of Commerce, *National Income, A Supplement to the Survey of Current Business, 1951* (Washington, D.C.).

^a All data deflated by the index of prices used to deflate the gross national product.

^b Figures for total profits and corporate profits before inventory valuation adjustment are after inventory valuation adjustment for farm products.

^c From mid-year to mid-year.

^d Total profits include, in addition to corporate profits, incomes of unincorporated enterprises plus rent and interest.

^e Including depreciation.

Finally, profits less both inventory gains and taxes declined absolutely in all instances shown in the table, except in France in 1950 when they rose roughly in the same proportion as the gross national product.

In considering the distribution of the gross national product by type of income, it is the profits net of inventory gains which have to be taken into consideration, since such gains are not part of the gross national product. A shift of resources from consumption to other uses tends to generate inflationary pressures; unless there are offsetting factors such as, for example, taxation, these pressures are reflected in a rise in profits net of inventory gains in relation to gross national product. The fact that the relative share of these profits

after taxes did not increase during this period in the countries included in table 8, despite the decrease in consumption in relation to gross national product, is explained by higher taxation, by the effects of the deterioration of terms of trade upon real incomes, or by decreases in the tendency to consume out of disposable personal income.

It will be recalled that in a number of countries not included in table 8 there was a relative shift in the distribution of income to profits (net of inventory gains), especially to profits in export industries. Profits in these countries, as well as inventory gains in countries shown in the table, reflected the higher prices which resulted from the raw material boom.

Chapter 2

CENTRALLY PLANNED ECONOMIES

This chapter consists of two parts, the first dealing with the centrally planned economies of Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania, the Union of Soviet Socialist Republics and Yugoslavia, in eastern Europe; and the second dealing with centrally planned China. The first section of the part on eastern Europe discusses major current eco-

nomical trends, while the second reviews economic plans and thus is concerned mainly with longer-run developments. The part dealing with the area under the administration of the Central People's Government of the People's Republic of China is also divided into two sections, of which the first summarizes major economic policies, and the second economic trends in 1950 and 1951.

A. Eastern Europe

Economic Trends

PRODUCTION AND EMPLOYMENT

The substantial increases in national income which took place in this area during 1950 and 1951 were mainly the result of considerable increases in industrial production; the output of agriculture rose only modestly and in some countries even declined. The largest rates of increase in industrial production in 1950 and 1951 were registered in Poland, Hungary and Romania, which expanded their output about 25 per cent or more each year. In the Union of Soviet Socialist Republics the increases were 23 per cent in 1950 and

16 per cent in 1951. In Yugoslavia the rise in output was the smallest, amounting to 6 per cent both in 1950 and in 1951 (see table 9); this reflected the scaling down of its planned targets for 1950 owing to a lack of imported equipment and raw materials and to a fall in the supply of domestic raw materials and of food.

The increases in industrial production were made possible by increases in the stock of fixed capital and by higher rates of utilization of equipment through introduction of additional work shifts and through adoption of new methods of production.

Table 9. Indices of Industrial Production, Employment and Output per Man in Eastern European Countries, 1950 and 1951

(Corresponding period of preceding year = 100)

Country	Production		Employment		Output per man	
	1950	1951	1950	1951	1950	1951
Bulgaria.....	123	119	106	104 ^a	116	114
Czechoslovakia.....	115	115	108	105	107	110
Germany, eastern.....	126	122	109	..	113 ^b	113 ^b
Hungary.....	135	130	114	114	119	114
Poland.....	131	124	116	112	109 ^c	114 ^c
Romania.....	137	129	121	121 ^d	113	114 ^e
USSR.....	123	116	109	106	113	110
Yugoslavia.....	106	106 ^f	..	..	..	..

Source: Reports on fulfilment of government plans and other official sources; for Yugoslavia, 1951: United Nations, *Economic Survey of Europe in 1951* (Geneva, 1952).

^a Second quarter.

^b Government-owned industry only.

^c Large and medium-scale industry only.

^d First quarter.

^e First half.

^f Three quarters.

The increases in non-agricultural employment in most of these countries reflected in part special measures introduced in order to induce a higher proportion of the population to enter non-agricultural occupations. The main labour reserves were women not already in the labour force and agricultural manpower. However, the extensive use of these resources was insufficient to meet the rapidly growing requirements, and shortages of manpower developed in many essential industries, particularly in Czechoslovakia, Hungary and Poland. In some countries shortages of farm labour on State farms appeared in 1950. In Yugoslavia it was officially reported that at the present level of agricultural technique, no further transfers of manpower to industry could be made without detrimental effects on agricultural output.

Agricultural production in 1950 was greatly affected by a drought, with the result that output in several countries in this area fell short of planned targets and for certain essential commodities was below the 1949 level. The country most affected was Yugoslavia, where output of grain declined by about 35 per cent, leading to a sharp reduction in livestock in 1950 and 1951. In Czechoslovakia, total agricultural output in 1950 increased by 5 per cent, but these increases reflected a very substantial rise in production of potatoes and sugar-beets, while the output of grain declined significantly; in 1951 livestock production also decreased. In Hungary, the output of bread grains rose by about 9 per cent in 1950, but the decline in output of fodder in that year severely reduced livestock production in 1950 and 1951. Bulgaria and Romania were much less affected by the drought, and, although their coarse grain harvest declined, the bread grain crop increased considerably. Poland, eastern Germany and the Union of Soviet Socialist Republics escaped the effects of the drought, and their agricultural production, especially of livestock, increased in 1950. In the Union of Soviet Socialist Republics, livestock production also rose in 1951. In Poland, however, the supply of fodder in 1950/51 was not sufficient to maintain the increased

livestock population, with the result that considerable slaughtering began in late 1950, continuing into the first half of 1951.

The rise in national income¹ which occurred in all countries except Yugoslavia was less than that in industrial production, reflecting the much smaller increase in agricultural output (table 10). Investment in fixed capital rose, with the highest rates of increase in Poland, Hungary and eastern Germany. There were also significant increases in expenditure for military purposes, including stockpiling, especially in 1951. In addition, inventories were generally accumulated to check the development of bottle-necks in production.

In 1950 there was a substantial rise in consumption, which was made possible by an increase in the output of industrial consumer goods and, as concerns food, by favourable 1949 harvests and by larger imports of foodstuffs in food importing countries, especially in eastern Germany. This trend continued in the Union of Soviet Socialist Republics, eastern Germany and Bulgaria in 1951. Although total consumption also increased in Czechoslovakia, Hungary and Romania, their food situation deteriorated in 1951, and it is likely that the per capita food consumption of the urban population of those countries decreased. A similar situation developed in Poland in the second half of 1951.

In Yugoslavia, there was a fall in investment in 1950-51 and a rise in military expenditures. Consumption began to drop sharply, beginning with the second half of 1950, as a result of the disastrous drought.

THE DEMAND AND SUPPLY POSITION

Although investment, military expenditure and consumption all rose in the period 1950 to 1951 (except in Yugoslavia, where consumption and investment fell), the proportions in which these items increased varied from country to country. In some countries consumption

¹ The concept of national income adopted by the eastern European countries represents net output of industry, agriculture, construction, freight transport, communications and trade.

Table 10. Indices of National Income and Investment in Eastern European Countries, 1950 and 1951

(Preceding year=100)

Country	National income ^a		Investment in fixed capital	
	1950	1951	1950	1951
Bulgaria.....	116	130	114	..
Czechoslovakia.....	107	110	..	..
Germany, eastern.....	..	..	146	141
Hungary.....	120	123	167	145
Poland.....	121	112	153	138
Romania.....	125	..	139	130
USSR.....	121	112	123	112

Source: Reports on fulfilment of government plans and other official sources.

^a Net values of output of industry, agriculture, construction, transport, communications and trade.

increased in line with other expenditures, while in others the supply of consumption goods, especially of food, lagged behind, and there developed a pressure of demand upon available supplies. In the Union of Soviet Socialist Republics, the rise in supply of consumption goods was sufficient to ease the demand-supply situation and to bring about a reduction in prices of consumer goods. The increase in the volume of retail sales in government and co-operative stores amounted to 30 per cent from 1949 to 1950 and to 15 per cent from 1950 to 1951. In eastern Germany and Bulgaria, there was also a considerable improvement in the supply position, as a result of which prices were lowered, some goods were derationed, and the free sales of other goods were increased.

In Poland and Romania, the rise in food supplies did not keep pace with the increase in employment and incomes, and demand pressures were intense throughout the period. The major factor in the continuing pressure on food supplies in the cities was a very considerable shift of population from agriculture to industry. This was not paralleled by a commensurate shift in food supplies to the cities from the farms, where per capita consumption increased.

The rise in real wages in Poland in 1950 was accompanied by recurrent specific shortages, especially of meat. To reduce the demand pressures, a monetary reform was introduced in October 1950; this involved cancellation of two-thirds of the purchasing power of the bank-notes in circulation. In addition to reducing demand for consumption out of cash holdings, the purposes of the monetary reform were to prevent speculation and the withholding of agricultural supplies. In spite of the monetary reform, the pressure of demand upon supply mounted towards the middle of 1951 as a result of a further increase in non-agricultural employment and incomes and a decline in supply of certain agricultural goods. This decline was especially significant in meat, because of a reduction in the number of hogs at the end of 1950 and the beginning of 1951, owing to inadequate supplies of fodder. These acute shortages led to widespread speculation and to steep increases in prices in local markets and in black market trade. In order to deal with this situation, a set of measures was introduced in the second half of 1951, including compulsory deliveries of grain from peasants owning more than one hectare of land, rationing of meats and fats, and subscriptions to a government loan amounting to about 5 per cent of the current value of planned investment in 1951.

In Romania, rationing of industrial and agricultural goods remained in effect throughout 1950 and 1951. Since the deliveries of agricultural commodities to the Government at fixed prices were not sufficient to meet the rations, an increasing proportion of income was spent both on free sales in government stores and in black markets. There was therefore a considerable increase in black market prices, especially in 1951.

In Czechoslovakia and Hungary, where the pressure of demand upon supply had eased during the first half of 1950, the trend was reversed after the middle of 1950 as a result of upward revisions in plans for investment and military purposes and of a simultaneous drop in food supplies. The difficulties in supply caused by the 1950 drought were aggravated by speculation, by withholding of deliveries by peasants in anticipation of price increases and by diversion of grain from human to animal consumption. The rise in agricultural prices and the increase in the proportion of output sold on the free market and on the black market swelled peasants' incomes and raised their demand for industrial consumer goods.

At the beginning of 1951, bread and flour were again put on the list of rationed items in Czechoslovakia. In Hungary, where no rationing had existed in 1950, rationing of bread, meat, flour, sugar, fats and soap was introduced. Prices of food and of certain manufactured goods on free sale in government stores were increased in both countries. At the end of 1951, however, Hungary again derationed all of these items with the exception of meat. The derationing of food was facilitated by a favourable harvest of grain and potatoes. Prices of derationed goods were substantially increased as compared to previous prices under rationing, but were fixed below the free sale prices. The effect of these changes on labour income was compensated to a large extent by a rise in money wages.

The acute deterioration in the demand-supply position in Yugoslavia beginning with the second half of 1950 stemmed from the 1950 drought, which affected that country much more severely than it did Czechoslovakia and Hungary. The greatly reduced output of crops and livestock led to a sharp decline in the total supply of food in spite of the rise in net imports. This was followed by a steep rise in food prices on the free market; considerable quantities of agricultural goods were diverted from compulsory deliveries at fixed low prices to the free farm market and to the black market. These developments led to a partial breakdown of the system of government procurement and of rationing. In order to cope with this situation, the following measures were adopted. Rationing was eliminated by stages. Wage-earners and salary earners were partly compensated for the resulting price increases by coupons which entitled them to large discounts on purchases of derationed industrial and agricultural goods on the free market. At a later stage, discount coupons were to a great extent replaced by wage increases. To stimulate an increase in the supply of agricultural goods to the cities, compulsory deliveries of meat, milk, potatoes and several other commodities were abolished, although grain, rice and wool remained subject to government procurement, at lower than free market prices. Relaxation of direct controls was followed by the introduction of several measures tending to reduce the pressure of demand upon supply. A considerable increase in prices

of public utilities tended to reduce the proportion of income available for purchases of food. A substantial increase in farm taxes and in prices of industrial goods² increased the money outlays of peasants and induced them to increase their sales. These measures, together with a larger output of grains in 1951, led to an increase

in the amounts of agricultural commodities supplied to the cities, and the retail prices on free markets, which had risen until May 1951, declined considerably during the second half of the year. As a result, real wages increased as compared with those which prevailed at the beginning of 1951.

Economic Plans

This section reviews the completion of the first post-war five-year plan in the Union of Soviet Socialist Republics; the initiation of the first five-year plan in Romania and the revisions of the five-year plans in Czechoslovakia and Hungary; and the scaling down of the original targets of the five-year plan in Yugoslavia.

UNION OF SOVIET SOCIALIST REPUBLICS

The first post-war five-year plan of the Union of Soviet Socialist Republics was begun in 1946, when production was considerably below the pre-war level. In 1945, grain production was about 56 per cent of the pre-war level, and livestock numbers were also substantially below pre-war.³ Industrial production at the end of 1946 was 76 per cent of production in 1940.

Fulfilment of the five-year plan

Planned output and actual production under the five-year plan for industry are shown in table 11. In 1950, at the end of the period of the plan, industrial production had attained a level 73 per cent above 1940 and 17 per cent above the target set.⁴ National income was 64 per cent above 1940.⁵ The over-fulfilment of the plan was concentrated in the heavy industries. Some of the light industries, on the other hand, did not reach their targets. Although there was a rapid increase in the output of major articles manufactured by light industry during the period of the five-year plan,⁶ the targets for cotton fabrics and shoes were not reached, and output

² Since the system of discount coupons for industrial goods was retained for wage and salary earners, they were affected much less than peasants by the rise in prices.

³ The livestock population was as follows: hogs, 50 per cent of pre-war; cattle, 85 per cent; sheep and goats, 75 per cent; horses, 50 per cent.

⁴ The USSR index measures production in terms of values calculated at 1926-27 prices but, for new commodities not produced in the base period, values have been calculated in most instances at the prices of the year in which they were first introduced into the index. This feature of the index is likely to have made for some overstatement of the actual increases in production. The technical aspects of the problems involved in the calculation of the index are discussed in Y. Joffe, *Planning of Industrial Production* (Moscow, 1948) and more recently in B. Miroshnichenko, "Planning Industrial Production" in *Plano-voe Khozyaistvo*, No. 3, 1951; P. Moskvina, "On Calculating the Index of the Physical Volume of the National Product", *Vestnik Statistiki*, No. 2, 1951; and in United Nations, *Economic Survey of Europe in 1951* (Geneva, 1952). In 1952 a new index, based on wholesale prices in January 1952, was adopted, and it was announced that in the future new goods would be taken into the index at the 1952 prices of comparable goods already in the index.

Table 11. Selected Indices of Planned and Actual Production under USSR Five-Year Plan, 1950

(1940=100)

Item	1950	
	Planned	Actual
National income	138	164
Industrial production	148	173
Crude steel	139	149
Coal	151	157
Crude oil	114	122
Electric power	170	187
Light industry . . . . .	..	117

Source: "Statement of the State Planning Committee of the USSR and the Central Statistical Administration of the USSR", *Pravda* (Moscow), 17 April 1951; "Law on the Five-Year Plan of Restoration and Development of National Economy of the USSR for 1946-1950", *Gospolitizdat* (Moscow, 1946).

of these goods remained at about the pre-war level. The total volume of production of light industry as a whole increased over the pre-war level by only 17 per cent. Although no general index is available for the food processing industry, the data for selected industries suggest that the rise in the output of processed foods was probably not much greater.

The target set for agriculture in the five-year plan was a 27 per cent rise in total output in relation to 1940. Despite the recovery in production during the five post-war years, agriculture failed to attain the targets (see table 12). Compared with 1940 the grain output in 1950 was about 5 per cent higher and the total number of productive livestock about 4 per cent higher.⁷ The rate of increase in total agricultural output was somewhat greater, owing to substantial increases in cotton, sugar-beet and potato crops. The larger grain output was the result of a 13 per cent increase in yield, since the area under grain was smaller in 1950 than in 1940, even though it had increased by 20 per cent since the end of the war. On the other hand, by 1950 the areas under vegetables, potatoes and fodder had increased substantially as compared with the pre-war period—in the case of fodder by 15 per cent.

⁵ See footnote 1 in this chapter.

⁶ During the five years from 1946 to 1950 the output of cotton goods increased 2.4 times, of woollens 2.9 times, of hosiery 5.2 times, of leather footwear 3.2 times and of rubber footwear sevenfold.

⁷ "Statement of the State Planning Committee of the USSR and the Central Statistical Administration of the USSR", *Pravda*, 17 April 1951.

Table 12. Agricultural Production in the Union of Soviet Socialist Republics, 1940 and 1950

Item	1940 Actual	1950		1950 production as percentage of 1940
		Planned (Millions, or millions of tons)	Actual	
Grain ^a	118.8	127.0	124.5	104.8
Sugar-beets	21.0	26.0	23.5	111.9
Cattle	54.5	65.3	57.2	105.0
Pigs	27.5	31.2	24.1	87.6
Cotton	2.7	3.1	3.75	138.9

Source: "Statement on the fulfilment of the Five-Year Plan for 1950", *Pravda*, 26 January 1951; *Soviet Encyclopedia* (Moscow, 1948).

^a Crop standing in the field.

The data on output in industry and in agriculture given above indicate that consumption rose much less than investment in fixed capital as compared with pre-war. As has been noted, the output of light industry rose by 17 per cent, that of the food processing industry only slightly more, while grain production and livestock population rose 4 to 5 per cent. The rise in the consumption of these goods, especially of food, may in fact have been greater than would be indicated by these figures because the year 1940 was characterized by considerable stockpiling. There was also a sharp rise in the output of radios, motorcycles, bicycles, electrical appliances and various household goods, figures for which are included in the statistics of heavy industry rather than of light industry. Finally, net imports of consumer goods probably rose in greater proportion than output. After taking all these factors into consideration, however, it seems clear that the rise in consumption since 1940 must have been much less, and the rise in investment much greater, than the 64 per cent increase in national income.

The planned increase in the employment of wage-earners and salary earners was considerably exceeded. While the target for employment was 33.5 million wage-earners and salary earners in 1950, actual employment at the end of 1950 was 39.2 million, an increase of 7.7 million or 24 per cent over 1940. Employment in industry rose by about 26 per cent. Output per man in industry rose by 37 per cent, the planned increase being 36 per cent. In construction, however, the output per man rose by only 23 per cent instead of by the planned increase of 40 per cent. It follows that the over-fulfilment of the plan for production was due to higher employment than anticipated in the plan.

The rise in productivity was to a considerable extent the result of the substantial increase in the volume of capital equipment available per employed worker. The total stock of fixed capital, valued in constant prices, rose from 1940 to 1950 by 58 per cent, the total number of machine tools in use by more than 100 per cent, and the amount of electric power per worker in industry by 50 per cent.

The developments in national production described above were accompanied by important changes in the

distribution of the labour force as between industry and agriculture, in the geographical location of industry and in the organizational framework of agriculture. The rise in the relative share of industry in national production was associated with a continuous flow of agricultural manpower to industry and resulted in a considerable increase in the urban population as a proportion of the total. The industrialization reflected in these shifts proceeded more rapidly in the eastern territories of the Union of Soviet Socialist Republics than in the west. This tendency, already evident before 1940, was accentuated during the war and continued during the period of the first post-war five-year plan. As a result, the relative share of the eastern regions in total output of basic industrial goods increased considerably.

Within the agricultural sector of the economy there was a substantial increase in the relative share of the total livestock owned by collective farms: for cattle from 37 to 49 per cent; for hogs from 29 to 51 per cent of the total.⁸ This strengthened the Government's control over meat supplies to the cities.

In 1950 a large-scale amalgamation of collective farms was undertaken, with the result that the number of collective farms was reduced within less than a year by approximately one-half. This amalgamation, which represents the first major change in the structure of agriculture since the introduction of collectivization, was intended to increase productivity through a variety of methods, including a more efficient use of modern machinery, more rational rotation of crops and a more even distribution of capital equipment per worker.

The new targets

The fulfilment of the five-year plan in 1950 was not followed by any announcement of a new five-year plan. However, it had been announced as far back as 1946 that plans were to be prepared encompassing several five-year periods and the general targets for 1960 were formulated at that time.⁹ Table 13 shows the targets set at that time for 1950 and 1960, together with produc-

⁸ The major part of the remaining livestock is privately owned by the members of collective farms and the rest by State farms, factories, etc.

⁹ Announcement by Premier Josef Stalin on 9 February 1946.

tion for 1950. No over-all economic plan for the years after 1950 has been published, and no other data are available concerning either current industrial and agricultural targets or the extent to which previous targets may have been modified in the light of the levels attained in 1950. However, several large-scale specific development plans have been announced and put into operation. These include a plan of protective afforestation for the period 1949 to 1965; plans adopted in 1950 for the period 1950 to 1957 for construction of three hydroelectric stations with an output amounting to 25 per cent of total 1950 production of electricity; a network of canals, including the Volga-Don canal, which will integrate into one transport system all the seas of the European part of the Union of Soviet Socialist Republics, and water supply and irrigation works to provide water to 28 million hectares of land.

Table 13. Targets for USSR Industrial Production Announced in 1946 for 1950 and 1960 and Actual Production in 1950

(1940=100)

Industry	Targets		Actual production 1950
	1950	1960	
Total industrial production . . .	148	300	173
Coal	151	300	157
Steel	139	328	149
Oil	114	200	122

Source: Targets and production for 1950 from "Law on the Five-Year Plan of Restoration and Development of National Economy of the USSR for 1946-1950", *Gospolitizdat*, and from "Statement of the State Planning Committee of the USSR and the Central Statistical Administration of the USSR", *Pravda*. Targets for 1960 based on statement of 9 February 1946 by Premier Josef Stalin indicating the following goals for 1960: threefold increase in industrial production over 1940; annual output of 50 million tons of pig-iron, 60 million tons of steel, 500 million tons of coal and 60 million tons of oil.

CZECHOSLOVAKIA, HUNGARY AND ROMANIA

In 1950, Romania announced its first five-year plan of economic development, and Czechoslovakia and Hungary revised their five-year plans upward.¹⁰ Table 14 shows the targets for Romania and both the old and new targets for Czechoslovakia and Hungary.

The plans provide for much higher rates of increase in production in industry than in agriculture and for increases in investment in relation to national income. This is particularly stressed in the revisions of the plans for Czechoslovakia and Hungary. The expansion of investment in fixed capital in Romania and Hungary depends to a considerable extent upon imports of capital equipment from the Union of Soviet Socialist Republics and from Czechoslovakia.

The conditions which appear to have determined the new plans in this group of countries can be summarized as follows: production in the preceding years indicated the possibility of exceeding the original targets and led to decisions to increase the pace of development at the beginning of 1950; the increase in world political tension after the outbreak of war in Korea led to further attempts to increase the economic and also the military potential of eastern European countries at an accelerated rate; the deterioration in trade relations between the eastern European countries and the rest of the world made for a tendency to adapt the structure of production in each country to the import and export requirements of the other countries within the group.

¹⁰ Apart from the over-all revisions of the five-year plans in these three countries, there were also substantial upward revisions of the targets for 1951 in Bulgaria and Poland as compared with the targets set for that year in the original five-year plans. Eastern Germany also raised its targets for 1955 because its industrial production in 1950, the last pre-plan year, was higher than originally estimated. At the same time it changed the production targets for individual industries by giving much greater emphasis to production of investment goods.

Table 14. Targets for Five-Year Plans of Czechoslovakia, Hungary and Romania

Item	Czechoslovakia 1949 to 1953		Hungary 1950 to 1954		Romania 1951 to 1955 (1950=100)
	Former targets (1948=100)	Revised targets	Former targets (1949=100)	Revised targets	
National income	148	..	163	230	..
Industrial production	157	198	186	310	244
Heavy industry	166	231	204	380	..
Light industry	154 ^a	173 ^a	173	245	..
Agricultural production	137	153	142	154	188
Industrial employment	118	130	124	162	139
Industrial productivity	132	160	150	192	175
Consumption	140	150	135	150	188 ^b

Source: *Czechoslovak Economic Bulletin* (Prague, 1951); Hungarian Law on Amendment of Act XXV-1949 covering Five-Year Plan (Buda-

pest, 1951); *Romanian News* (Washington, D.C.).

^a Including food industry.

^b Per capita.

The new or revised plans were prepared not only on the basis of national needs but also in agreement with the long-term plans and requirements of other planned economies. The co-ordination in planning was implemented chiefly through long-term trade agreements between various countries of this area and the Union of Soviet Socialist Republics, the main exporter of industrial raw materials and capital equipment.

The upward revision of plans of economic development presupposed a considerable increase in productivity both in industry and in agriculture. These changes were closely associated, in the plans of several countries, with a rapid increase in co-operative and State farming. The proportion of State and co-operative owned land in 1950 was still relatively small in Czechoslovakia, Hungary and Romania despite a substantial increase over 1949. The same was true of Poland, but in Bulgaria this sector amounted in 1950 to more than 50 per cent of the total farm land (table 15).

Table 15. Percentage of Farm Land Owned by Government and Co-operative Farms in Eastern European Countries, 1949 and 1950

Country	1949	1950
Bulgaria.....	15.0	50 to 60
Czechoslovakia.....	..	22.0
Hungary.....	6.7	13.1
Poland.....	8.1	13.0
Romania.....	..	13.0

Source: Reports on fulfilment of government plans and other official sources.

YUGOSLAVIA

In Yugoslavia the targets for various industries were considerably reduced and the completion of the five-year plan was postponed until 1952. The deterioration in the Yugoslav economic situation was the outcome of a set of unfavourable circumstances which developed after the break in economic relations with other eastern European countries in 1948. The five-year plan scheduled for 1947 to 1951 was based to a considerable extent on imports of capital equipment and certain raw materials from the Union of Soviet Socialist Republics and from other eastern European countries, a large proportion of which were to be financed by long-term credits. The break in economic relations with these countries during the second year of the plan deprived Yugoslavia of credits and of capital equipment already ordered and also led to the diversion of some resources from investment to military expenditure.

In 1950, industrial production reached about 86 per cent of the target set for the last year of the plan. However, the increase in industrial production was unevenly divided among industries and, while some industries exceeded the targets considerably, in many essential fields, such as heavy industry and production of electricity, the achievements remained far below the planned levels. The plan for agricultural production based on development of large-scale collective farming was not fulfilled, because of lack of agricultural machinery and fertilizers. The food situation deteriorated considerably in 1950 as a result of the drought. The decrease in agricultural production led to a fall in exports and consequently to a decline in imports of raw materials and equipment.

In these circumstances the Government decided to reduce the targets of the plan and to postpone its fulfilment until 1952. Investment in fixed capital, which in 1950 had already been reduced as compared to 1949, was scheduled to decline in 1951 by 25 per cent and in 1952 by another 20 per cent. The completion of the modified plan none the less presupposes substantial foreign loans for importing capital equipment and raw materials during the remainder of the five-year plan.

Simultaneously with the revision of the targets of the five-year plan, considerable modifications were decided upon in methods of planning and in the management of the Yugoslav economy. Some of these were introduced in 1950 and 1951; others were scheduled to be put into effect in 1952. Major characteristics of the new system are a considerable decentralization in planning and management and the creation of workers' councils to control the management of nationalized enterprises. Before the introduction of the new system, the Federal Government planned in detail the output of individual enterprises and controlled directly their financial operations. According to the new system, the Federal Government's plan will determine only the basic minimum quotas of output and investment, the wage bill and the average rates of profit for industries and constituent republics, but not for separate enterprises. Within this framework the republics will prepare their own regional plans and, in co-operation with industrial associations and individual enterprises, also the specific plans for industries and enterprises.

Simultaneously, nationalized enterprises will be established as separate legal units on the basis of strict economic accounting. Part of their profits after deduction of taxes and contributions will be transferred into an investment fund for the individual enterprise and another part into a "fluctuating wage fund" which, under the jurisdiction of the workers' councils, will be distributed among the workers in the form of bonuses. Wages will be linked more than heretofore to the skill and efficiency of individual workers.

B. Centrally Planned China¹¹

Economic Policies

The character of the economy was considerably altered in the course of 1950 and 1951 as a result of the expansion of the scope of economic planning and the carrying out of an agrarian reform. The most important developments in economic planning were the following.

The nationalization programme for industry and trade was accelerated. By the middle of 1951, the Government owned and operated, on an average, about one-half of the total industrial capacity. In production goods industries, nationalization was completed for more than four-fifths of the total capacity. The importance of government-owned firms in selected manufacturing industries is given in table 16. In wholesale trade the share of government trading companies amounted to 14 per cent in 1950 and 25 per cent in 1951; in a number of staple commodities these companies have a predominant position. In addition to nationalization of industry and trade, the establishment of consumer co-operatives, peasants' co-operatives and small industrial producer co-operatives was promoted.

Control of the resources of the economy has been centralized. The supply of production goods is controlled through nationalization of a large part of heavy industry. In addition, private trade is regulated through government trading companies which supply private industry with raw materials and purchase their products. These controls, taken together, determine the broad pattern of production, consumption and investment in the entire economy in line with an over-all plan drawn up by the Ministry of Trade. The trend of investment policy has been to emphasize the development of consumer goods industries, especially by equipping the existing small and medium-sized firms. Other investment generally has been confined to the fields of irrigation, power and military works.

The promulgation of the new Agrarian Reform Law in June 1950 was followed by an acceleration of land redistribution. By the spring of 1951, the agrarian reform had been carried out in areas with a rural population of 285 million, or more than two-thirds of the total rural population. The land redistribution for the remaining areas was scheduled to be completed before the spring of 1952.

¹¹ Although data are fragmentary, an attempt is made in this section, and in a section of chapter 3, to review major economic changes in China since 1950. This section of chapter 2 deals with the economic situation in the area under the administration of the Central People's Government of the People's Republic of China.

Table 16. Proportion of Industrial Capacity in Centrally Planned China Owned and Operated by the Government, 1951^a

<i>Industry or product</i>	<i>Per cent of total capacity</i>
<i>Production goods industries:</i>	
Petroleum.....	100
Steel.....	97
Electricity.....	75
Coal.....	72
Cement.....	54
Machinery.....	45
<i>Consumption goods industries:</i>	
Paper.....	56
Fats and oils.....	55
Cotton spinning and weaving.....	44
Wool spinning and weaving.....	44
Flour milling.....	37
Cigarettes.....	26
Matches.....	24
Tanning.....	13
Silk weaving.....	7

Source: *Economics Weekly* (Shanghai).

^a At mid-1951.

Before the reform, about one-half of the land was owned by landlords, who rented it to tenant farmers. These farmers and hired labourers constituted about two-thirds of the rural population. As a result of land redistribution, a large proportion of the population have become independent peasants. For instance, after the completion of the reform in the north-eastern¹² and the northern regions, the independent peasants constituted, according to official data, 80 per cent and 70 per cent of the rural population, respectively. The reform did not extend to the land cultivated by "rich peasants", that is, peasants employing hired labour; it even permitted them to retain small portions of the land which they rented out.

Mutual aid teams and rural co-operatives were established in order to pool labour, tools, livestock and other production facilities. In the northern and north-eastern regions, 60 per cent to 70 per cent of the farmers were reported in 1951 to have joined in such co-operative activities.

lic of China. The economic situation in Taiwan, which is administered by the National Government of China, is discussed in chapter 3.

¹² Manchuria.

Economic Trends

Total agricultural production rose considerably during 1950 and 1951 as a result of an increase in the acreage cultivated, improvements in irrigation and increased utilization of insecticides and fertilizers. In 1951 the production of food grains was estimated to have reached 93 per cent, and the production of raw cotton 133 per cent, of their peak levels of 1936. However, other industrial crops, except jute, were still much below their pre-war peaks.

Industrial production, which was generally at a very low level in 1949 owing to war dislocation, recovered rapidly during 1950 and 1951, and by the end of 1951 had reached or exceeded the previous peak year levels in many industries (table 17). This increase was accounted for both by higher employment and by higher average labour productivity. An important factor in the rise in productivity was the breaking of bottle-necks in supplies of key commodities; to a considerable extent this was effected by concentrating imports on critical raw materials, fuels and machine parts.¹³

Retail prices, which had experienced a period of extremely rapid increase in the fourth quarter of 1949 and the first quarter of 1950, were approximately stable in the subsequent period, showing some decrease in the remaining quarters of 1950 and some rise in the course of 1951 (see table 18). The most important factors contributing to this relative stability were a significant recovery in the supplies of consumer goods and a sharp reduction in the budget deficit. The budget deficit was kept at a relatively low level in 1950 and 1951 despite a rise in public investment in both years and a considerable increase in military expenditure in 1951.¹⁴ The recovery of production and trade led to a sharp rise in the profits of government-owned enterprises and in tax revenues. These revenues were supplemented in 1950 by proceeds from bonds that were distributed mainly by government assignment and, in 1951, by contributions made by the population towards the financing of military expenditures.

¹³ In 1950, nearly 80 per cent of total imports consisted of machinery and scarce industrial raw materials, while in the pre-war period imports had consisted mainly of consumption goods.

¹⁴ As stated by the Vice-Minister of Finance in March 1951, budget expenditures in 1950 were covered as follows: ordinary receipts, 83.3 per cent; subscriptions to long-term bonds, 4.7 per cent; foreign loans, 3.0 per cent; remaining deficit, 9 per cent. Although government expenditure in 1950 exceeded the plan, largely owing to higher military expenditures and transfer pay-

Table 17. Selected Indices of Agricultural and Industrial Production in Centrally Planned China, 1949 to 1951^a

(Previously recorded peak year^b=100)

Commodity	1949	1950	1951 ^c
<i>Agricultural production:</i>			
Food grains ^d	76	87	93
Raw cotton	51	84	133
<i>Industrial production:</i>			
Pig-iron	11	49	64
Steel ingots and castings	16	69	97
Structural steel	19	67	120
Cement	31	66	107
Copper	—	253	333
Tin	30 ^e	38	46
Tungsten . . . . .	..	76	80
Soda ash	63	97	124
Coal	45	59	69
Electricity	72	78	94
Glass . . . . .	..	120	138
Cotton yarn	72	100	106
Cotton cloth	73	109	114
Paper	90	115	155
Jute bags . . . . .	..	43	100
Sugar	40	48	60

Source: *People's Daily* (Peking); *Ta Kung Pao* (Shanghai).

^a Figures for the base year, for 1950 and for 1951 from report of Chairman of the Central Planning Bureau, October 1951; figures for 1949 from speech by Vice-Chairman of the Central Financial and Economic Committee.

^b For agricultural production, 1936; for industrial production generally, 1936 and, in the case of the north-eastern region (Manchuria), 1943.

^c Agricultural indices are based on actual harvests; industrial production indices are estimates for the full year based on production for first nine months of 1951.

^d Including soy-beans; production of rice in 1951 had reached the peak pre-war level.

^e Estimated.

The recovery in industry and agriculture and the agrarian reform were accompanied by increases in the real earnings and consumption of workers and peasants in 1950 and 1951. In 1950 the total real wage bill increased by about 20 per cent over 1949, and total rural consumption of industrial goods increased by about 30 per cent.¹⁵

ments than had originally been anticipated, government revenues were also in excess of the plan, and the actual deficit in 1950 was slightly below the planned deficit.

¹⁵ Corresponding data for 1951 were not available when this report was completed.

Table 18. Retail Price Indices^a in Selected Cities of Centrally Planned China, 1949 to 1951

(First quarter of 1950=100)

<i>Period</i>	<i>Shanghai</i>	<i>Tientsin</i>	<i>Peking</i>	<i>Wuhan</i>	<i>Canton</i>	<i>Sian</i>	<i>Average^b</i>
1949:							
Fourth quarter	36	43 ^c	..	34 ^c	..	..	..
1950:							
First quarter	100	100	100	100	100	100	100
Second quarter	102	106	104	97	93	80	100
Third quarter	96	96	94	89	84	70	93
Fourth quarter	93	102	100	90	76	81	93
1951:							
First quarter	94	107	105	96	73	89	96
Second quarter	99	112	107	97	77	92	99
Third quarter	102	114	110	97	78	94	102
Fourth quarter	102	119	114	97	78	96	103

Source: *People's Handbook* (Shanghai); *Ta Kung Pao* (Shanghai).

^b Weighted average; weights as follows: Shanghai, 45; Tientsin, 15; Peking, 15; Wuhan, 10; Canton, 10; Sian, 5.

^a Price indices based on "parity savings units".

^c Based upon incomplete data.

Chapter 3

SELECTED COUNTRIES OF LATIN AMERICA AND THE FAR EAST

This chapter analyses the domestic economic situation of Argentina, Brazil, Chile, Cuba and Mexico, in Latin America; and of India, Japan, the Philippines and China (Taiwan) in the Far East.

During 1950 and 1951, the steep rise in the prices of raw materials exported by these countries was an outstanding factor in their economic situation. Although import prices also rose considerably, their terms of trade generally improved. The influence of the rise in export prices upon the domestic economy varied significantly from country to country; in particular, the substantial rise in the cost of living which all of these countries experienced was not necessarily related to the expansion of incomes resulting from higher export prices.

Thus, Japan is not an exporter of raw materials, while India's raw material exports have been decreasing in importance, relative to exports of textiles. Moreover, India's foreign trade constitutes a relatively small proportion of its total economic activities. The raw material boom to which reference was made in the discussion of the economically developed private enterprise economies therefore affected Japan as an importer rather than as an exporter, while the effect of rising export prices was of limited significance in India.

In Argentina, Chile, Cuba and Mexico, the influence of the rise in world prices of their export products was greater, but even there it was largely overshadowed by such factors as climatic conditions affecting agricultural output, by investment not related to the raw material boom, or by changes in rates of exchange. Similarly, the economic situation in Taiwan was dominated by inflationary problems which had no immediate connexion with the export prices of raw materials.

In Brazil, the large profits from exports in 1950 did not exert any considerable pressure of demand until 1951. Since these profits accrued mostly to the large-scale planters and traders, they did not significantly affect the demand for domestic consumer goods. However, the reinvestment of such profits at a later stage led to a recrudescence of the building boom in the first half of 1951, which contributed to inflationary pressures in that period.

In the Philippines, also, the large profits from exports did not substantially increase demand for domestic consumer goods. However, the increase in the prices of the main export crops contributed to a considerable rise in their output, and the resulting increase in employment generated inflationary pressures.

A. Selected Latin American Countries

Economic Activity in 1950

CHANGES IN PRODUCTION

For the second year in succession there was a fall in agricultural production in Argentina, reflecting primarily the smaller harvests of coarse grains and of some oil-seeds; since the output of animal products fell only slightly in 1950, the over-all rate of decline was relatively small. Total agricultural output also fell in Chile, mostly as a result of the failure of the 1949/50 wheat crop, which was about 25 per cent below the level of the previous year. In Brazil, Cuba and Mexico, the 1950 agricultural output was higher, both as regards foodstuffs for domestic consumption, and as regards export products, with the notable exception of the Brazilian coffee crop, which remained at the same level (table 19).

Taking the year as a whole, there were increases in the level of industrial production compared with the

previous year in all countries except Chile (table 20). The increases ranged from 3 per cent in Argentina to 9 per cent in Mexico. The changes in mining were generally of the same order of magnitude as those in manufacturing. In Chile, both manufacturing and mining were approximately at the 1949 level; in mining this was the outcome of a fall in the first half of 1950 and a recovery in the second half.

The level of total physical output and of economic activity in the various countries reflected the diverse movements of the main components of production described above. If the necessary adjustments are made for the movement of services, it is possible to estimate for each country, by appropriate weighting of the components, the change in gross national product from 1949 to 1950. It will be seen from table 21 that the gross national product fell slightly in Argentina and

Table 19. Indices of Agricultural Production in Selected Latin American Countries, 1950 and 1951
(1948/49 or 1949=100)

Country	Crops		Livestock		Total	
	1949/50 or 1950	1950/51 or 1951	1950	1951	1950	1951
Argentina.....	91	107	97	93 ^a	94	100
Brazil.....	105	109	103	..	105	..
Chile.....	87	..	100	..	92	..
Mexico.....	107	..	..	..	..	..

Source: United Nations Department of Economic Affairs; based on official national statistics of production, except indices of livestock production in Brazil and Chile, which were based on data from the Economic Commission for Latin America. In computing the indices, use was made of the following sources: Argentina, Dirección General del Servicio Estadístico Nacional, *Síntesis Estadística Mensual de la República Argentina* (Buenos Aires); Brazil, Banco do Brasil, S.A., *Relatório de 1950* (Rio de Janeiro); Conselho Nacional de

Estadística, *Anuário Estatístico do Brasil* (Rio de Janeiro, 1951); Chile, Dirección General de Estadística, *Estadística Chilena* (Santiago); Cuba, Banco Nacional de Cuba, *Memoria 1949-1950* (Havana) and *Cuba Económica y Financiera* (Havana); Mexico, Dirección General de Estadística, *Revista de Estadística* (Mexico, D. F.) and Secretaría de Agricultura y Ganadería, *Boletín de la Dirección de Economía Rural* (Mexico, D. F.).

^a Based on first half of 1951.

Chile but rose from 5 to 7 per cent in Brazil, Cuba and Mexico.

CHANGES IN GROSS NATIONAL PRODUCT

The changes in the components of the gross national product in 1950 in relation to 1949 were very different

for Argentina and Chile, on the one hand, and for Brazil, Cuba and Mexico on the other (table 21). In the first two, there was an increase in the quantum balance of exports and imports, but the fall in investment and consumption was greater than this increase, with the net result that the gross national product of each

Table 20. Indices of Industrial Production in Selected Latin American Countries, 1949 to 1951
(1949=100)

Country and type of production	1949			1950			1951 First half
	First half	Second half	Full year	First half	Second half	Full year	
<i>Argentina:</i>							
Total industrial production ^a ...	98	102	100	99	108	103	102
Manufacturing industries...	98	102	100	99	108	103	100
Extractive industries.....	102	98	100	99	104	102	111
<i>Brazil:</i>							
Manufacturing industries ^b	101	99	100	92	120	106	105
<i>Chile:</i>							
Total industrial production ^c ...	98	102	100	100	100	100	106
Manufacturing industries...	98	102	100	100	100	100	111
Mining ^d	107	93	100	91	107	99	100
<i>Mexico:</i>							
Total industrial production ^e ...	98	103	100	106	112	109	118
Manufacturing industries...	98	103	100	108	116	112	121
Mining ^f	96	105	100	108	111	110	97

Source: Argentina, Dirección General del Servicio Estadístico Nacional, *Síntesis Estadística de la República Argentina* (Buenos Aires); Brazil, *Conjuntura Económica, Boletim Mensal do Centro de Análise da Conjuntura Económica*, Fundação Getúlio Vargas (Rio de Janeiro); Chile, Dirección General de Estadística, *Estadística Chilena* (Santiago); Mexico, Banco de México, *Vigesimano-vena Asamblea General Ordinaria de Accionistas* (Mexico, D. F., 1951) and preliminary data from the Banco de México, S.A. (Mexico, D. F.).

^a Including mining, gas and electricity.

^b Heavy industry, electricity, sugar and derivatives, and textiles.

^c Including construction and electricity, but excluding mining.

^d Copper, gold and silver, nitrates, iodine and coal.

^e Including production of electricity, mining and the oil industry.

^f Production of metallic ores and metals, silver, gold, lead, zinc and copper; excluding oil.

showed some decline. In Brazil and in Cuba, the quantum balance of exports and imports declined, and in Mexico it remained approximately the same in both years;¹ investment and consumption rose sufficiently, however, to bring about an increase in the gross national product in each of these three countries.

The divergent developments in the quantum balances of these two groups of countries arise largely from differences in their foreign exchange position. The terms of trade of Brazil, Cuba and Mexico were more favourable in 1950, especially in the second half under the

¹ In Mexico the considerable deterioration in the quantum balance of merchandise trade was offset by a large rise in revenue from the tourist trade.

influence of the raw material boom. In consequence, there was no deterioration in the balance of payments of any of these countries even though the rise in the volume of imports was not matched by the rise in exports² (tables 22 and 23). In Brazil there was even a shift from an import balance to a very large export balance, in money terms, as a result of the boom in coffee prices despite the fact that the volume of coffee exports fell.³

² For Mexico see preceding footnote.

³ The decline in exports is accounted for by the fact that coffee inventories were not drawn upon in 1950 as had been the case in 1949. As was mentioned earlier, the 1950 coffee crop was about the same as in the preceding year.

Table 21. Components of Gross National Product, at 1949 Prices, in Selected Latin American Countries, 1949 and 1950

(As percentage of 1949 gross national product)

Country and year	Gross national product (1)	Personal consumption (2)	Government expenditure on current account (3)	Gross investment, public and private (4)	Balance of exports and imports of goods and services (5)
<i>Argentina:</i>					
1949.....	100.0	70.0	11.8	20.6	-2.4
1950.....	99.0	67.9	11.4	19.7	—
<i>Brazil:</i>					
1949.....	100.0	74.4	11.0	14.8	-0.2
1950.....	106.0	78.8	13.2	17.4	-3.4
<i>Chile:</i>					
1949.....	100.0	78.2	11.0	14.3	-3.5
1950.....	98.0	75.0	13.5	11.6	-2.0
<i>Cuba:</i>					
1949.....	100.0	73.6	10.8	10.9	40.7
1950.....	105.0	79.3	14.0	11.9	-0.3
<i>Mexico:</i>					
1949.....	100.0	76.0	7.8	14.9	1.4
1950.....	107.0	80.2	8.7	16.2	1.7

Source: United Nations Department of Economic Affairs; estimated from available statistics. The orders of magnitude reflected by these figures are believed to provide a reasonably accurate quantitative picture for the purpose of the analysis in the text.

The gross national product was derived from estimates of production. No adjustment has been made for net payments of dividends and interest abroad, which are therefore included in the gross national product. Direct estimates were made of the balance of merchandise trade and services other than net payments of dividends and interest abroad, public expenditures on current account and total gross investment. Consumption was obtained as a residual but was checked in each case by direct estimates based on a sample covering major consumption items.

In order to make the figures comparable from year to year and from country to country, the various components were calculated throughout in 1949 prices, and are shown in each case in the form of ratios to the 1949 gross national product of the respective country. For conversion into 1949 prices, the values of exports and imports (including services) were deflated by corresponding unit values so that the difference represents the quantum balance. For the other components, the cost of living

index was used except for certain components whose price movements differed significantly from that of the cost of living, for example, the value of construction and imports of capital goods, for which specific deflators were used.

Notes on data for specific countries

Argentina. Item (3) includes expenditures of the Municipal Administration of Buenos Aires and of the non-commercial autonomous agencies. Item (4) includes changes in inventories in export commodities held by the government trading agency (Instituto Argentino de Promoción del Intercambio).

Brazil. Item (3) includes expenditures of states and municipalities. Item (4) includes changes in inventories of coffee.

Chile. Item (3) includes expenditures of municipalities and of the non-commercial autonomous agencies.

Cuba. Item (3) corresponds to total revenue of the Cuban Government under the ordinary budget, on the assumption that the possible surpluses and deficits under this budget were negligible. Item (4) includes changes in inventories of sugar.

Mexico. Item (3) includes expenditures of the states and municipalities, and of the autonomous agencies.

Table 22. Quantum of Merchandise Trade of Selected Latin American Countries, 1949 to 1951

(Measured in millions of national currency at 1949 prices)

Country and item	1949	1950			1951 First half
		First half	Second half	Full year	
<i>Argentina:</i>					
Exports	3,719	2,566	1,955	4,521	1,867
Imports	4,642	2,326	2,162	4,488	2,167
Balance	-923	240	-207	33	-300
<i>Brazil:</i>					
Exports	20,153	6,998	10,009	17,007	9,216
Imports	20,648	9,372	14,550	23,922	15,926
Balance	-495	-2,374	-4,541	-6,915	-6,710
<i>Chile:^a</i>					
Exports	1,438	640	750	1,390	638
Imports	1,475	590	624	1,214	615
Balance	-37	50	126	176	23
<i>Cuba:</i>					
Exports	578	282	312	594	336
Imports	451	259	289	548	305
Balance	127	23	23	46	31
<i>Mexico:</i>					
Exports	3,388	1,517	2,052	3,569	1,654
Imports	3,524	1,758	2,394	4,152	2,617
Balance ^b	-136	-241	-342	-583	-963

Source: For 1949, United Nations *Monthly Bulletin of Statistics*. For 1950 and 1951, the current values shown in that publication were deflated by dividing them by an index of the corresponding unit values of imports and exports (see table 23).

^a In gold pesos.

^b The figures for Mexico differ significantly from those in column (5) of table 21 because the latter include revenue derived from tourists.

The terms of trade also improved for Argentina, but not for Chile.⁴ The strained exchange position of both countries at the beginning of 1950 induced them to continue and even to strengthen import and exchange restrictions, which resulted in curtailment of imports. Argentina, in addition, sharply expanded its exports of wheat and oil-seeds by drawing on government-held stocks.

Developments in private and public investment in Argentina and Chile were also affected to a considerable extent by their foreign trade policies. Although the import restrictions were concentrated mainly on imports of non-essential consumption goods, they struck at the imports of capital equipment as well. This affected not only that part of private investment which consisted of imported investment goods but also the complementary home-produced investment such as building of factories and installation of equipment. In addition, since Argentina's increase in exports was

⁴ The average dollar unit values of Argentine exports fell in 1950 as compared with 1949, but the dollar prices of imports fell even more, as a result of currency devaluation of western European countries in 1949, so that "dollar terms of trade" improved. In Chile, the rise in dollar prices for copper in the second half of 1950 merely cancelled out the decline in the first half of the year; since Chile depends much less upon western Europe as a source of supply for its imports, dollar import prices did not fall, and the "dollar terms of trade" also remained roughly unchanged.

achieved by drawing upon government-held stocks, there was a corresponding offset in the volume of investment. None of these factors operated in Brazil, Cuba and Mexico, and indeed public and private investment showed considerable increases there.⁵ As to government expenditure exclusive of public investment,⁶ it increased or was at least maintained in all countries under consideration.

Consumption, however, as already stated, was reduced in Argentina and Chile and increased in the other countries. In the first group, consumption fell more than the gross national product, as shown in table 24. In Argentina, this appears to have been largely due to the elimination of most food subsidies. The fall in real incomes resulting both from the drop in gross national product and from the elimination of subsidies lessened the demand for manufactured commodities roughly to

⁵ In Brazil a contributing factor was the change in coffee inventories, noted above. Since in 1950 there was no drawing upon inventories for exports as had been the case in 1949, investment in inventories was *pro tanto* higher in 1950 than in 1949.

⁶ In so far as possible, the expenditures on current account of the autonomous government agencies of a non-commercial nature were included. Expenditures on current account of governmental or semi-governmental agencies engaged in the sale of goods and services (for example, public utilities or oil monopolies) were excluded, as such expenditures are part of the other components of the gross national product.

Table 23. Indices of Export and Import Unit Values and of Terms of Trade of Selected Latin American Countries, 1950 and 1951^a

(1949 = 100)

Country, currency and item	1950			1951 First half
	First half	Second half	Full year	
<i>Argentina:</i>				
In United States dollars: ^a				
Exports	89	88	89	..
Imports	84	73	79	..
Terms of trade	106	120	113	..
In pesos:				
Exports	100	139	119	208
Imports	98	118	108	189
Terms of trade	102	118	110	110
<i>Brazil:</i>				
Exports	130	158	145	166
Imports	85	85	85	100
Terms of trade	153	188	171	166
<i>Chile:</i>				
In United States dollars: ^a				
Exports	93	104	99	123
Imports	98	100	99	108
Terms of trade	95	104	100	114
In pesos:				
Exports . . . . .	..	..	116	..
Imports . . . . .	..	..	132	..
Terms of trade . . . . .	..	..	88	..
<i>Cuba:</i>				
Exports	103	113	108	123 ^b
Imports	92	96	93	108 ^b
Terms of trade	112	118	115	114 ^b
<i>Mexico:</i>				
Exports	97	125	112	138 ^b
Imports	106	106	106	124 ^b
Terms of trade	91	118	105	111 ^b

Source: United Nations Department of Economic Affairs; based on official statistics. Chilean data computed on the basis of official indices of quantum of exports and imports. To compute unit values in paper pesos, the trade values in gold pesos were converted into paper pesos at the respective average exchange rates. Mexican data estimated on basis of indices published by Banco Nacional de Comercio Exterior, S. A., in *Comercio Exterior* (Mexico, D. F.).

^a The indices of unit values and of terms of trade

represent changes in terms of domestic currencies. For Argentina and Chile, which operate under a system of differential rates of exchange, the terms of trade were computed both in United States dollars and in domestic currencies. The "dollar terms of trade" represent the terms of exchange with foreign countries; the local currency terms of trade should be interpreted as an indication of the "domestic" terms of exchange between sellers of export goods and domestic consumers of import goods.

^b Estimated.

the same extent as their supply was reduced by import restrictions. On balance there was, therefore, little if any inflationary pressure from the demand side in Argentina during 1950 even though the cost of living rose by some 25 per cent as subsidies were removed and the cost of imports and labour costs rose.

In Chile, the fall in consumption was due primarily to the deterioration in the supply position which re-

⁷ Part of the discrepancy between the changes in gross national product and consumption in Chile is accounted for by the deterioration in terms of trade in domestic currency as a result of the reduction in the differential rates of exchange. (In table 24 this is reflected in the difference between the indices of gross na-

sulted from the failure of agricultural production and from import restrictions. This fall in the supply of consumption goods, which was greater than that in the gross national product, was associated with some increase in inflationary demand pressures.⁷

In Brazil and Cuba, and to a lesser extent in Mexico, there was an increase in consumption in absolute terms, made possible by an improvement in supply both from

tional product in physical terms and in consumption equivalent.) It should be noted that, as stated above, the "dollar terms of trade" remained roughly unchanged; thus the deterioration in the "domestic terms of trade" was equivalent in this case to increased import duties.

Table 24. Indices of Gross National Product and Consumption in 1950, at 1949 Prices, in Selected Latin American Countries

(1949=100)

Country	Gross national product (1)	Consumption equivalent of gross national product (2)	Personal consumption (3)
Argentina.....	99.0	99.0	97.0
Brazil.....	106.0	110.0	106.0
Chile.....	98.0	97.5	96.0
Cuba.....	105.0	109.0	107.0
Mexico.....	107.0	108.0	105.0

Source: United Nations Department of Economic Affairs; based on available statistical information. The orders of magnitude reflected by these figures are believed to provide a reasonably accurate quantitative picture for the purpose of the analysis presented in the text. Column (1) repeats the estimates of real gross national product from table 21 and measures the physical volume of output. Column (2) gives the value of the gross national product deflated by an index of consumer prices. The difference between the two columns is mainly due to the change in terms of trade, since these determine the volume of imports that may be bought for a given volume of exports. However, for countries for which a separate deflator was used for each component, the discrepancy between the first two columns of the table is also affected by the extent to which the combined index of the prices of domestic investment and government expenditure differs from the index of consumer prices. The relation of the volume of consumption, shown in column (3), to the consumption equivalent of the gross national product is determined by (a) taxes net of transfers and subsidies; (b) the distribution of income among various income-receiving groups of the population, especially between wages and profits; and (c) the ratio of consumption to income for given income groups.

domestic food production and from increased imports. In Brazil, real consumption increased in the same proportion as the physical gross national product, even though incomes were inflated by the steep increase in export prices (table 24). The rise in consumption was nevertheless in line with that of demand because the rise in export prices accrued mainly to profits, out of which only a small part was spent on consumption. In Cuba, the effect of higher export prices upon incomes was to a large extent offset by higher government revenue, while the supply of consumption goods increased somewhat more than the gross national product. In neither of these two countries, therefore, was there any significant increase in the pressure of demand upon the supply of consumption goods in 1950 as compared with 1949. In Mexico, however, the supply of consumption goods did not keep pace with the gross national product, and there apparently was some increase of inflationary demand pressure.

Except for Cuba, the cost of living rose in all the countries under review, the increases being greatest in Argentina and Chile (table 25). In Argentina, the withdrawal of subsidies, and in Chile the inflationary demand pressures, resulted in a fall in real wages and thus intensified the wage-price spiral of the preceding period.⁸ In Mexico the increase in prices was not accompanied by an increase in money wages, and accordingly real wages also fell. In Brazil prices rose practically to the same extent as in Mexico, but wages increased as well.

⁸ In Chile, the inflationary spiral is of long standing; in Argentina, it began with the decline in real wages in the second half of 1949 after a period of rapid increase in 1947 and 1948.

Table 25. Indices of Cost of Living in Selected Latin American Countries, 1949 to 1951
(1949=100)

Country	1949			1950			1951 First half
	First half	Second half	Full year	First half	Second half	Full year	
Argentina: ^a							
General.....	..	..	100	118	133	126	153
Brazil: ^b							
General.....	100	100	100	105	107	106	112
Chile: ^c							
General.....	95	105	100	109	121	115	130
Cuba:							
Food.....	102	98	100	94	100	97	105 ^d
Mexico: ^e							
General.....	98	102	100	104	108	106	113

Source: United Nations, *Monthly Bulletin of Statistics*.

^a Buenos Aires.

^b São Paulo.

^c Santiago.

^d Four months only.

^e Mexico City: cost of food, clothing, soap and coal.

Economic Activity in 1951⁹

CHANGES IN PRODUCTION IN FIRST HALF OF 1951

Compared to 1949/50, total agricultural production was higher in all the countries of this group. In Argentina, the 1950/51 crop of cereals and oil-seeds improved substantially compared to that of the previous year when corn (maize) in particular had been severely affected by the drought. Among the livestock products, production of meat declined as against the corresponding period of 1950, and output of wool was slightly higher. In Brazil and Mexico, production of the late crops of 1950 and of some of the early crops of 1951 was generally higher, and in Cuba the 1951 sugar crop was slightly larger.

In Brazil and Mexico, industrial production and the level of output in manufacturing were substantially above the level of the corresponding period of 1950 (table 20). On the other hand, Argentina showed only a slight rise in industrial output, and in Chile the recorded increase in industrial production resulted from the putting into operation of a substantial addition to the country's steel-producing capacity; there was very little change in the level of output in the rest of the manufacturing industries. In the extractive industries, output in Chile was higher than in the first half of 1950 even though it showed a drop as compared with the second half. Mexico experienced a substantial drop in output of minerals compared to both the first and second halves of 1950.

Total physical output, which can be considered as representative of the gross national product, rose in all countries compared to the corresponding period of 1950. It increased significantly in Brazil and Mexico, and to a lesser extent in Argentina, Chile and Cuba.

CHANGES IN GROSS NATIONAL PRODUCT IN FIRST HALF OF 1951

The economic developments from the first half of 1950 to the first half of 1951 in Brazil, Cuba and Mexico had much in common with developments from 1949 to 1950. Brazil and Mexico experienced a decline in the quantum balances of exports and imports; this was due to a considerably greater rise in the volume of imports than in the volume of exports (table 22). In Cuba the quantum balance remained small, with both exports and imports showing a rise. Private and public investment in fixed capital showed, as in 1950, a significant increase owing to larger imports of capital equipment¹⁰ and to an expansion in residential building. An important element in these developments, especially with regard to residential building, was the reinvest-

ment of export profits earned in the second half of 1950; this factor was especially prominent in Brazil. There was also an increase in investment in inventories, especially of imported goods, which may have been at least partly of a speculative nature. In Cuba, these increases in fixed capital investment were offset by a decline in export inventories of sugar compared to the first half of 1950, so that total investment was practically unchanged.

Consumption showed some increase in Brazil, Cuba, and Mexico. There was also a rise in the gross national product in these three countries. The effects of the improvements in terms of trade (see table 23) were counterbalanced by increases in tax revenue, so that incomes after taxes did not rise at a higher rate than the gross national product. In Brazil and Mexico the percentage increase in consumption was less than in gross national product and in incomes after taxes, and inflationary pressures increased. In Cuba, the rise in both consumption and gross national product was small, and thus there was no significant increase in inflationary demand pressures.

Prices in the first half of 1951 were 7 to 10 per cent higher than in the corresponding period of 1950, which reflects at least in part the increase in import prices, especially in Cuba (table 25).

Unlike developments in the three countries considered above, changes in the components of the gross national product of Argentina and of Chile during this period were significantly different from those between 1949 and 1950. In both countries, import restrictions had already been in effect during the first half of 1950, and from then on to the first half of 1951 imports were approximately stable (table 22). But while the quantum balance of exports and imports was practically unchanged in Chile, there was a fall in the volume of exports from Argentina which was associated partly with smaller meat production, with the result that the quantum balance of Argentina's exports and imports deteriorated in 1951.

Investment in fixed capital stayed virtually the same in both countries, compared with the corresponding period in 1950; a reduction in imports of capital goods was associated with an increase in domestic production, particularly of steel in Chile. However, in Argentina there was an increase in total investment, reflecting the replenishment of inventories of export commodities, and in Chile there seems to have taken place an accumulation of inventories of industrial goods. Consumption remained practically stable in both countries; in Chile there was some fall in the domestic production of food, but the deficiency was made good by higher imports. The net result of these changes in the components of the gross national product was that the total increased somewhat in both countries.

⁹ Since data for the entire year 1951 were not available at the time this report was completed, the analysis is confined to the first half of 1951.

¹⁰ For a discussion of the problems of supply of capital goods to under-developed countries, see chapter 6 of this report.

In Argentina, the "dollar terms of trade" rose and, despite the devaluation, there was also an improvement in the terms of trade in domestic currency (table 23). The effect of this improvement upon incomes was, however, more than offset by an increase in government revenue. In Chile, where there was also an improvement in the "dollar terms of trade," the terms of trade in domestic currency deteriorated considerably following a devaluation of the differential import rates.¹¹ Despite the small increases in gross national product, real in-

comes after taxes were virtually unchanged in both countries. Consumption likewise was practically unchanged.

Nevertheless, the cost of living rose from the first half of 1950 to the first half of 1951 by about 30 per cent in Argentina and about 20 per cent in Chile (table 25). This rise in living costs reflected the continuation of the price-wage spiral of the preceding period, which was aggravated by the devaluation.

B. Selected Countries in the Far East

This section of the report describes and analyses the course of economic events in 1950 and 1951¹² in India, Japan, the Philippines and the island of Taiwan—the area of China administered by the National Government.

In India, Japan and the Philippines a moderate increase in agricultural output in 1949/50 improved food supplies in 1950. In Japan, food output continued to rise in 1950/51. In India, however, although the output of fibres was higher for the second year in succession, the cereal crop was poor and a prospective deterioration in the food supply was apparent well in advance of the harvest. In the Philippines the cereal crop was somewhat smaller but crops for export were improved. Industrial production rose in Japan and in the Philippines during the period under discussion. In India industrial production receded a little in 1950 but recovered significantly in the first half of 1951.

The effect of these changes in 1950 was to increase the real gross national product in all three countries. On the expenditure side, large increases were registered in the quantum balance in each country; exports were

higher in all instances, but in India and the Philippines import restrictions played an important part in bringing about the shift in the quantum balance. Consumption also rose moderately in Japan. It may, however, have fallen somewhat in India and the Philippines, and since incomes rose owing to the increase in gross national product, inflationary pressures developed in these two countries.

In the first half of 1951 the experience of the three countries diverged more widely. Gross national product continued to rise in Japan and the Philippines but receded a little in India. In the Philippines, the change in the quantum balance continued to act as the major stimulating influence. In Japan, investment in inventories became the most important of several factors combining to raise product and income. Real consumption receded in all three countries, especially in India. The scarcity of consumer goods, increasing in India and persisting in the Philippines, continued to cause inflationary pressures. In Japan consumer demand was restrained by a redistribution of income towards profits, stemming probably from the application of higher markups over production costs in determining prices.

India

In India, the 1950/51 decline in the output of cereals was a determining factor in the period under consideration. Since the decline was anticipated, its effects began to be felt long before the actual harvest. Although cereal output was up 4 to 5 per cent in the crop year 1949/50, decidedly poor prospects for the next harvest foreshadowed a deterioration in the food supply well before the end of 1950. In fact, the 1950/51 crop was

about 10 per cent smaller, and rice was the poorest of all the major crops. Since sugar output continued to rise, the decline in total food production was no more than 5 per cent. In both years, but especially in 1949/50, there was a large increase in the output of fibres, raising the total output of crops about 4 or 5 per cent in 1949/50 and holding the decline in 1950/51 to about the same percentage (table 26).

¹¹ In Argentina, both export and import rates of the peso in terms of foreign currencies were reduced. Some of the resulting increase in the revenue of the government export agency was passed on to the farmers through higher prices, while producers of goods exported through private channels benefited directly from the higher export rates. The devaluation therefore was tantamount to the imposition of duties on imports and simul-

taneous payment of subsidies on exports. In Chile, where the devaluation was largely confined to the import rates, it amounted primarily to an increase in import duties.

¹² Since data for the entire year 1951 were not available at the time this report was completed, the analysis does not extend beyond the first half of 1951.

Table 26. Selected Indicators of Economic Activity in India, 1949 to 1951

Period	Type of activity			
AGRICULTURAL PRODUCTION (1948/49=100)				
<i>Crop year:</i>	<i>Total crops^a</i>	<i>Food grains^b</i>	<i>Fibres^c</i>	
1949/50.....	105	105	150	
1950/51.....	101	96	164	
INDUSTRIAL PRODUCTION (1949=100)				
<i>Year or half-year:</i>	<i>Total</i>	<i>Cotton cloth</i>	<i>Jute manufactures</i>	
1950 First half.....	99	98	86	
1950 Second half.....	99	90	91	
1950 Full year.....	99	94	89	
1951 First half.....	108	104	91	
FOREIGN TRADE ^d (MILLIONS OF 1949 RUPEES)				
<i>Year or half-year:</i>	<i>Quantum of exports^e</i>	<i>Quantum of imports</i>	<i>Balance</i>	<i>Terms of trade^e (1949=100)</i>
1949.....	4,767	6,703	-1,936	100
1950 First half.....	2,317	2,350	-33	104
1950 Second half.....	2,759	2,783	-24	104
1950 Full year.....	5,076	5,133	-57	104
1951 First half.....	2,858	2,998	-140	105

Source: Government of India, *Agricultural Situation in India*; Ministry of Commerce, *Monthly Abstract of Statistics* (New Delhi). Index for agricultural production computed by United Nations Department of Economic Affairs from official national statistics.

^a Food grains, fibres, oil-seeds, *gur*, gram, potatoes and tobacco.

^b Rice, wheat, *jowar*, *bajra*, *ragi*, maize, barley.

^c Cotton and jute.

^d Quantum balances include landborne trade and represent current values deflated by unit value indices. Unit value indices are based on air and sea-borne trade only; this represents over 90 per cent of total trade.

^e Excluding export duties.

In 1950 industrial production barely reached the 1949 level, in spite of a steady growth in the output of steel, coal and cement. Special factors were depressing the volume of activity in the important textile industries. The trade impasse with respect to Pakistan continued to curtail the supply of raw materials to jute manufacturers. Although there was an adequate supply of raw cotton, manufacturers were apparently unwilling to maintain production at the controlled price. In fact, jute and some other raw materials, as well as cotton, were being withheld from production for speculative reasons. The trend in the production of cotton textiles was reversed early in 1951 when prices of raw cotton and of cotton cloth were raised. Jute production also began to improve after a trade agreement was signed with Pakistan and jute prices were decontrolled. As a result of gradual recovery in textiles, continuing expansion in the output of heavy industries and a large increase in the output of sugar refineries following an excellent crop, industrial production in the first half of 1951 was nearly 10 per cent higher than a year earlier.

The improvement in agricultural output in 1949/50 thus wholly accounted for a modest rise in real gross national product in 1950 while a poor crop at the subsequent harvest was responsible for a decline in the first half of 1951 in spite of the growth of industrial output.

The major change in the components of demand in India during 1950 occurred in the quantum balance of merchandise trade. Exports rose, particularly in the second half of the year, and exports of cotton yarn and piece-goods were well over twice the level of the previous year. The Government succeeded in effecting a drastic cut in imports, especially of textiles and of some other consumer goods, and adhered to its policy of reducing imports of grain until the threat of a poor harvest emerged late in the year. In these circumstances, the quantum deficit was reduced to a very small fraction of its former size. However, this trend was arrested in the first half of 1951 in spite of the higher level of exports. Imports of grain were greatly increased, while new limitations were imposed on the export of cotton piece-goods in the second quarter in order to ensure a more adequate supply to the domestic market. The quantum deficit thus rose by comparison with the first half of 1950.

Investment in plant and equipment remained somewhat below that of 1949, both in 1950 and throughout the first half of 1951; this decline was associated with a fall in imports of capital goods which was not fully offset by the steadily rising activity in domestic capital goods industries. The accumulation of inventories, however, increased both in 1950 and in the first half of 1951, owing to the hoarding of grain and of such raw

materials as jute and cotton in 1950, and the accumulation of stocks of cotton cloth in the first half of 1951.

Meanwhile government expenditure on current account, which fell appreciably in 1950, was rising in the first six months of 1951.

Consumption was no higher and possibly somewhat lower in 1950 in spite of the rise in gross national product and income; and in the first half of 1951 consumption fell more than gross national product and income. This decline was the result of current supply conditions, which were characterized by scarcity of food late in 1950 and in the first half of 1951, and by scarcity of textiles in 1950.

The supply of foodstuffs seems to have improved during most of 1950 but toward the end of the year the prospect of a poor harvest and the world-wide resurgence of inflationary forces encouraged hoarding.¹³ The growing scarcity of foodstuffs necessitated a 25 per cent cut in rations in January 1951, and when the ration was restored in most states in June it contained less rice.

In 1950 there also occurred a drastic contraction in the supply of finished cotton goods. The decline in domestic output, the virtual elimination of imports and

the expansion of exports combined to reduce domestic supplies by about 30 per cent. There was some improvement in the first half of 1951, particularly in the second quarter when the Government established greatly reduced quotas for the export of cotton cloth. However, this restriction resulted in an accumulation of inventories rather than increased consumption, partly for speculative purposes and partly because the goods produced were not suited to the needs of the domestic market.

The rise in wholesale prices in 1950, as measured by official indices, was comparatively small; it occurred in the second half of the year, reversing a slight downward trend from the latter part of 1949 into the first part of 1950. The movement of prices in the unrationed sectors was, of course, much more pronounced. In the first half of 1951 wholesale prices moved decidedly higher, reflecting some degree of decontrol, and permitted increases in the controlled textile sector, as well as the continuing advance of raw material prices. The wholesale and retail price indices for food show only a moderate rise over the period but they mainly measure the prices of rationed foodstuffs; moreover, the retail price indices do not reflect changes in quality.

Japan

Gross national product in Japan increased about 13 per cent in real terms in 1950 and continued to rise in the first half of 1951. All but a minor part of this increase was attributable to industrial production. Although there was a considerable rise in activity in mining and in construction, the most significant advance in output occurred in the manufacturing industries (table 27). The rise in output was accompanied by only a small expansion in employment—reflecting a marked improvement in productivity. Agricultural output in 1950 was little higher as a whole, owing to a decline in the output of raw silk, but food crops were larger.

In 1950 all the components of gross national expenditure contributed to the increase in the total, the foreign trade component making the major contribution. In spite of a strong negative shift in the quantum balance, the rising trend in output was maintained in the first half of 1951, but it was associated with a considerable accumulation of inventories.

Exports rose sharply in 1950, particularly in the second half of the year, when there was the added factor of a large inflow of receipts as a result of military procurement by United States authorities. The large deficit in the quantum balance of 1949 was thus virtually erased in 1950. However, the accumulation of large

stocks of raw materials and the growing demand for capital goods from abroad led to a huge expansion in imports in the first half of 1951. Since exports held close to the level reached in the latter part of 1950, the quantum balance turned strongly negative. There was no significant change in the terms of trade during this period.

The volume of investment in plant and equipment was rising in 1950 and in the first half of 1951. However, the large stocks involuntarily accumulated in the previous year were drawn on to support the rising level of production in 1950. In the first half of 1951 inventory liquidation gave way to large-scale accumulation. Production ran well ahead of exports and domestic consumption so that fairly heavy stocks of finished goods were built up, probably for speculative purposes; in addition, there was extensive restocking of raw materials. Having been appreciably higher in 1950 than in 1949 in spite of disinvestment in inventories, gross private investment rose still further in the first half of 1951. There was the further stimulus of a moderate increase in government expenditure during the period under consideration.

Income after tax rose faster than gross national product during part of the period as a result of a reduction in income and business taxes. Nevertheless, real consumption rose only moderately in 1950 and, in the first half of 1951, receded a little below the level of the first half of 1950. The shortfall in consumption is explained

¹³ Apparent consumption, which takes account of the change in government stocks, production and net imports, rose; but this fails to take account of an unknown amount of disappearance into private hoards.

Table 27. Selected Indicators of Economic Activity in Japan, 1949 to 1951

Period		Type of activity				
AGRICULTURAL PRODUCTION (1949=100)						
Year:		Total ^a			Crops	
1950	Full year	101			106	
INDUSTRIAL PRODUCTION (1949=100)						
Year or half-year:		Total ^b	Mining		Manufacturing ^b	
1950	First half	114	101		117	
1950	Second half	137	111		142	
1950	Full year	125	106		129	
1951	First half	167	114		175	
PRICES AND WAGES (1949=100)						
Year or half-year:		Effective consumer prices (urban)			Real monthly earnings in manufacturing ^c	
1950	First half	93			121	
1950	Second half	94			139	
1950	Full year	93			130	
1951	First half	107			133	
FOREIGN TRADE (THOUSAND MILLIONS OF 1949 YEN)						
Year or half-year:		Quantum of exports, f.o.b. ^d	Quantum of special procurement ^e	Quantum of imports, c.i.f. ^d	Balance	Terms of trade (1949=100)
1949		169	—	284	-115	100
1950	First half	144	—	199	-55	92
1950	Second half	200	31	185	46	94
1950	Full year	344	31	384	-9	93
1951	First half	194	49	332	-89	96

Source: Japanese Economic Stabilization Board, *Economic Survey of Japan, 1950-51* and *Monthly Economic Report* (Tokyo); Bank of Japan, *Financial Statistics Monthly* (Tokyo); Japanese Ministry of Finance, *Statistical Abstract of Japanese Economy, 1950* (Tokyo); Supreme Command for the Allied Powers, *Japanese Economic Statistics* (Tokyo).

^a Including sericulture and livestock.

^b Official monthly figures have been adjusted to conform with official annual figures for 1950.

^c In large factories only.

^d Recorded trade.

^e Deflated by export price index; the item includes services which are estimated at about 20 per cent of the total.

by a major shift in the distribution of income towards profits, in particular from 1950 to 1951, as a result of higher markups over costs of production which prevented real wages from keeping pace with the remarkable improvement in productivity.¹⁴ The fact that manufacturing output nearly doubled from 1949 to the first

half of 1951 with only a small increase in employment, while real earnings rose by less than one-third,¹⁵ provides a rough indication of the magnitude of the shift. Indeed, while real wages rose during 1950, the trend did not continue in 1951.

The Philippines

Agriculture and industry both contributed to a modest increase in the real gross national product in the Philippines in 1950 and in the first half of 1951. Output of domestically consumed crops was about 5 per cent higher in the crop year 1949/50, and in the year following there was a further 3 per cent rise, though the rice and corn crops were slightly smaller. The major export crops, except sugar, registered better yields in 1949/50. In 1950/51 production of all export crops

¹⁴ Similar developments were noted in western Germany during this period (see chapter 1).

rose substantially, partly at least, under the influence of the raw material boom (table 28). Mining and manufacturing output rose in 1950 and again in the first half of 1951. While import restrictions provided a strong stimulus to domestic activity in some manufacturing industries, they had a distinctly depressing effect on trade and services. Construction, for reasons described below, also declined significantly during 1950 and 1951.

¹⁵ The increase in real earnings in large factories was about one-third but it was less in small establishments.

Table 28. Selected Indicators of Economic Activity in the Philippines, 1949 to 1951

Period	Type of activity			
AGRICULTURAL PRODUCTION (1948/49=100)				
<i>Crop year:</i>	<i>Domestically consumed crops^a</i>		<i>Export crops^b</i>	
1949/50.....	105		103	
1950/51.....	108 ^c		143 ^c	
INDUSTRIAL PRODUCTION (1949=100)				
<i>Year or half-year:</i>	<i>Cotton piece-goods</i>		<i>Mining^d</i>	
1950 First half.....	206		..	
1950 Second half.....	238		..	
1950 Full year.....	223		107	
1951 First half.....	253		117 ^e	
COST OF LIVING, MANILA (1949=100)				
<i>Year or half-year:</i>	<i>All items</i>		<i>Foodstuffs</i>	
1950 First half.....	96		92	
1950 Second half.....	100		95	
1950 Full year.....	98		93	
1951 First half.....	105		101	
FOREIGN TRADE ^f (MILLIONS OF 1949 PESOS)				
<i>Year or half-year:</i>	<i>Quantum of exports</i>	<i>Quantum of imports</i>	<i>Balance</i>	<i>Terms of trade (1949=100)</i>
1949.....	522	1,173	-651	100
1950 First half.....	273	520	-247	141
1950 Second half.....	325	385	-60	150
1950 Full year.....	598	905	-307	145
1951 First half.....	393	448	-55	134

Source: Central Bank of the Philippines, *Statistical Bulletin; Economic Survey, January-June 1951; Second Annual Report; Central Bank Economic Indicators* (Manila). Index of export crop production computed by Department of Economic Affairs from national statistics.

^a Index of Central Bank of the Philippines; includes rice (palay), leaf tobacco, maguey, maize, coffee, dry beans and unshelled ground-nuts, also abaca, an export commodity.

^b Abaca, copra and sugar, appropriately weighted.

^c Preliminary estimate.

^d Index of Central Bank of the Philippines; copper, chromite, gold, iron ore and manganese.

^e Estimate for full year 1951.

^f Quantum represents money values deflated by unit value indices.

The quantum balance made the most significant contribution to the increase in real gross national product in 1950 and during the first half of 1951. The reduction of the Philippine export deficit in the first half of 1951 to about a sixth of its 1949 volume reflected in part a rise in exports and in part the reduction in imports resulting from the stringent restrictions imposed at the end of 1949.¹⁶ Government expenditure rose over the period, but private investment in plant and equipment declined sharply. Commercial construction, which was an important part of private investment, had been closely tied in with the high level of imports, a large proportion of which were luxury and semi-luxury goods. Following the imposition of import restrictions, commercial building declined and other construction did not fill the gap. The cut in imports of capital goods no doubt also contributed to the drop in private investment. In the first half of 1951 there occurred a rise in investment in inventories, partly for

¹⁶ These restrictions were progressively relaxed in the first half of 1951.

speculative purposes; this rise may have offset the continuing decline in fixed capital investment.

The rise in real gross national product over the period was accompanied by a somewhat diminishing supply of consumer goods. This was due largely to the import restrictions, which were not fully offset by increased domestic production.¹⁷ In the first half of 1951 consumption may also have been adversely affected by speculative accumulation of inventories.

The decline in consumption in the face of the rising trend in gross national product and the resulting increase in incomes was the main factor in the inflationary pressure which began in the Philippines in 1950 and continued into 1951. Although in 1950 incomes increased even more than the gross national product, owing to a considerable improvement in the terms of trade, this improvement appears to have gone primarily into profits, so that it did not generate any material demand

¹⁷ The percentage increase in output of textiles was large but the rise was not great in absolute terms.

for mass consumption goods. On the other hand, even though in the first half of 1951 a sharp rise in government revenue stemming from new and higher taxes and from improved methods of collection significantly counteracted inflationary pressures, it did not succeed in eliminating them.

Despite inflationary pressures in 1950, prices, on the average, were slightly below the 1949 level; this was accounted for by a considerable decline in urban money wages while rural wages did not improve and may even have fallen. Thus inflationary pressure was reflected, not in a greater rise in prices than in wages, but in a smaller drop in prices than in wages. The decline in money wages was the result of an increase in urban

unemployment in trade, services and construction following the imposition of import restrictions, the effect of which was only partly offset by the rise in manufacturing activity. Since the rise in gross national product was due primarily to an increase in the output of export crops, it was reflected largely in a reduction in rural under-employment and not in an increase in urban employment.

As contrasted with 1950, inflationary pressure in the first half of 1951 was reflected in a rise in prices while money wages on the average did not improve. The cost of living averaged about 10 per cent above the level of the first half of 1950 and about 7 per cent above that of the entire year 1950.

China: Taiwan¹⁸

Developments in Taiwan represent a special case among the countries of this group in that the situation was dominated by the problem of intense inflation associated with the financing of the budget deficit. In 1950 government revenue was sufficient to cover only about three-fifths of government expenditure, leaving a deficit amounting to about 15 per cent of the national income. A part of the deficit was financed from proceeds of the sale of imported goods, as provided for in the bilateral agreement with the United States Govern-

ment. But, for the most part, the Government relied on the liquidation of gold stocks to discourage the hoarding of goods arising from reinvestment of liquid funds created by the budget deficit. Much of the gold stock was disposed of in the first half of the year. That this policy was partially successful in stemming inflationary forces is attested by a brief interlude of relative stability in retail prices. However, the progressive depletion of stocks forced the Government to limit sales of gold in the second half of the year and finally to suspend sales entirely in December. Prices

¹⁸ See chapter 2, footnote 11.

Table 29. Selected Indicators of Economic Activity in China: Taiwan, 1950 and 1951
(1949=100)

Item	1950			1951 First half
	First half	Second half	Full year	
<i>Agricultural production:</i>				
Rice . . . . .	..	..	115	118 ^a
Sugar (raw) ^b . . . . .	..	..	57	..
Tea . . . . .	..	..	68	..
<i>Industrial production:</i>				
Cotton cloth	148	180	164	234
Salt	91	45	68	212
Kerosene	43	39	41	62
Electricity	118	126	122	133
Cement	112	116	114	137
Coal	93	81	87	95
Chemical fertilizers	96	152	124	183
Retail prices (Taipeh) ^c	175	208	192	277

Source: Provincial Government of Taiwan, *Statistical Abstract of Taiwan, Summary Report of State-Owned Manufacturing and Mining Enterprises*, and *Taiwan Monthly of Commodity-Price Statistics*; *Central Daily News* (Taipeh).

^a There are two crops of rice of approximately

equal size; figure for first half of 1951 represents the early crop, calculated at an annual rate, as a percentage of total 1949 output.

^b Crop year beginning in the year shown.

^c June to December 1949 = 100.

then resumed their upward course even though the sale of Economic Cooperation Administration goods rose substantially. In the first half of 1951 retail prices averaged 58 per cent above the level of the same period in 1950 (table 29). This rise in prices occurred despite a substantial improvement in the supply situation.

The output of rice increased by 15 per cent in 1950 and continued rising in 1951; the increase occurred

partly at the expense of sugar production. The output of tea also fell. There was a considerable expansion in industrial production during this period, the output of cotton cloth in 1951 being more than double 1949 production; the output of fertilizers was 80 per cent higher, and the output of cement and electric power about one-third higher. On the other hand, coal production remained below the 1949 level.

Part II

INTERNATIONAL TRADE AND PAYMENTS

Chapter 4

GENERAL IMPACT ON WORLD TRADE OF THE RAW MATERIAL BOOM

The eighteen months following the outbreak of the Korean conflict witnessed far-reaching changes in the volume, direction and composition of world trade. These changes resulted from an initial expansion, after mid-1950, of the demand for goods of all types, followed in 1951 by a levelling off in the pressure of this demand.

In the second half of 1950, increases in industrial output in a number of industrialized countries, combined with heavy purchases for inventory in anticipation of serious scarcities during the period of rearmament, resulted in a considerable expansion of the demand for imports, particularly of raw materials. As a result, prices of raw materials rose much more than prices of either foodstuffs or manufactures. The consequent shift in terms of trade had far-reaching repercussions on the respective trade and payments positions of the industrialized and primary producing countries.

After March 1951, there was a reversal of the upward movement of prices of the commodities experiencing the greatest price gains in the preceding period, while prices of other commodities continued to rise. This generally coincided with the subsiding of the previous buying wave, the slowing down of United States purchases for stockpile, and the adoption of various other measures for controlling the demand for raw materials. From September 1951 to the end of the year there was no pronounced trend in raw material prices.

The easing of raw material prices resulted in some improvement in the terms of trade of the industrialized countries after mid-1951. From the point of view of the countries producing primary commodities, the large fluctuations in raw material prices during 1950 and 1951 were associated with abrupt increases and subsequent declines in their foreign exchange earnings, causing serious instability in their balances of payments.

Factors Responsible for Increased Demand for Raw Materials¹

Considerable concern had existed in 1949 regarding the danger of burdensome surpluses of raw materials. The volume of raw material imports into the United States had fallen markedly during the year, owing to the decline in industrial production. Though this was more than offset by larger imports into western Europe and Japan, as indicated in table 30, stocks of many raw materials had begun to accumulate in primary producing countries.

The revival of business activity in the United States in the first half of 1950 generated an increase in demand for imported raw materials and hence some hardening of commodity prices. Notwithstanding, inter-governmental discussions on the danger of surpluses of certain commodities continued, and there was even some expectation that commodity price rises during the first six months of 1950 would prove to be temporary; several western European countries even deferred imports of raw materials during this period and permitted their

stocks to decline. Thus the inventory position in several countries was relatively tight when the conflict in Korea began and plans were announced for large-scale expenditures for defence production and strategic stockpiling.

Following immediately upon these events, expectations regarding supplies were sharply revised in many countries. The sudden expansion of demand for raw materials rapidly forced up their prices, the supply position being insufficiently elastic to meet all requirements for normal, precautionary and speculative purposes. Countries such as the United States, in which business expectations even before the Korean war had been in the direction of expanding raw material imports, adjusted rapidly to the new situation. Their imports in the third quarter of 1950, partially reflecting purchases contracted for before the middle of the year, already began to show a further rise. In other countries, particularly the United Kingdom and France, a complete reversal of earlier expectations was required, and imports in the second half of 1950 were lower than in the first half.

¹ For a discussion of the production and supply positions in individual commodities see United Nations, *Review of International Commodity Problems, 1951*; see also "Recent Changes in Production" (Sales No.: 1952.II.C.1).

Table 30. Indices of the Volume of Manufacturing Output and Raw Material^a
Imports of Industrialized Countries, 1948 to 1951

(1948 = 100)

Country and item	1948 Full year	1949 Full year	1950 First half	1950 Second half	1951 First half
<i>United States:</i>					
Manufacturing output.....	100	92	99	112	116
Imports of raw materials.....	100	91	126	134	121
<i>OEEC countries^b (excluding western Germany):</i>					
Manufacturing output.....	100	108	116	118	127
Imports of raw materials.....	100	112	120	119	124
<i>Germany, western:</i>					
Manufacturing output.....	100	152	172	215	229
Imports of raw materials.....	100	174	222	259	233
<i>Japan:</i>					
Manufacturing output.....	100	136	154	189	238
Imports of raw materials ^c	100	181	286	306	518
<i>Total, above countries:</i>					
Manufacturing output.....	100	100	108	120	126
Imports of raw materials.....	100	108	130	133	135
<i>Percentage share of western Germany and Japan in:</i>					
Total manufacturing output.....	6.1	8.9	9.6	10.4	11.2
Total imports of raw materials.....	6.0	9.8	11.3	12.4	14.6

Source: United Nations Department of Economic Affairs.

^a Copper, raw cotton, hides and skins, mineral oils, rubber, timber, tin (concentrates and metal), wood-pulp and raw wool. Indices are based on the quantities of these commodities imported by the respective countries, valued uniformly for all countries at typical dollar prices for these commodities prevailing in 1948. For any particular country the indices may differ from the published raw mate-

rial import indices owing both to differences in coverage and to the method of weighting.

^b Based on data for following countries belonging to the Organisation for European Economic Co-operation: Austria, Belgium-Luxembourg, Denmark, France, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland, Turkey and United Kingdom.

^c Excluding timber.

SIGNIFICANCE OF UNITED STATES DEMAND

Since pre-war years, total imports of raw materials by the United States have increased somewhat less than industrial output,² but the absolute rise in these imports has been considerable. In 1950 United States consumption of aluminium was nearly seven times as great as before the war and that of copper, iron ore, rubber, timber and wood-pulp from two to three times as great. As may be seen from table 31, these increases in consumption entailed a substantial expansion in United States imports of a number of raw materials between 1937 and 1948. Moreover, for several key items, notably copper, iron ore, lead, zinc, and also wool, the United States was much more dependent on foreign sources of supply than before the Second World War. The enhanced importance of United States demand in world commodity markets since the war has resulted in a tendency for changes in United States demand to set the pace of events generally.

² Thus, for example, the ratio in 1929 prices of United States imports of crude materials to total manufacturing production fell from 6.60 per cent in 1937 to 4.13 per cent in 1948. The ratio of imports of semi-manufactures to total manufacturing production also declined considerably between these years. See *World Economic Report, 1949-50*, table 84.

In the first half of 1950, the volume of United States imports of raw materials rose in relation to industrial production, owing to a considerable expansion of imports for government stockpiles and to a general rebuilding of commercial stocks after the liquidations of 1949. In the second half of 1950, the ratio of raw material imports to domestic manufacturing output, in real terms, actually fell slightly, but the rise in the absolute amount of imports sufficed to generate large increases in the prices of primary materials.

The expectations aroused by announcements in the United States in the second half of 1950 as to future military and stockpile³ requirements for certain raw materials gave rise to general hoarding of these materials. Indeed, the anticipatory and speculative buying on private account was probably a more important element in the rise in United States imports in the second half of 1950 than increases in purchases for current consumption or for strategic stockpiles. New purchases for stockpile were little higher in the second half of

³ The United States stockpile objective was raised from \$4,900 million at the beginning of 1950 to \$8,600 million at the end of 1950 (in prices of 30 June 1951).

Table 31. Imports of Certain Raw Materials by the United States, 1937, 1948, 1950 and 1951

(Thousands of metric tons)

Commodity	1937	1948	1950	1951 ^a
Aluminium	20.3	140.5	222.0	148.0
Bauxite	515.6	2,528.8	2,516.4	2,875.3
Chrome	251.0	617.5	525.6	595.1
Cobalt	0.7	3.5	3.9	5.3
Copper	206.4	442.9	549.8	505.6
Iron ore	2,481.2	6,200.9	8,364.1	10,366.2
Lead	14.5	288.9	503.0	192.3
Lumber ^b	661.4	1,869.0	3,423.5	2,541.4
Nickel	49.4	97.0	88.2	86.5
Rubber, natural	601.1	747.2	817.2	780.3
Tin	89.7	88.3	113.5	62.3
Wood-pulp	2,172.7	1,974.0	2,158.2	2,218.5
Wool (clean basis)	99.3	218.6	216.4	182.2
Zinc	37.7	251.5	368.4	327.7

Source: United States Department of Commerce, *Quarterly Summary of Foreign Commerce of the United States* (Washington, D. C.). For aluminium: metal and scrap, excluding plates, sheets, etc.; for chrome: metal content of ores; for cobalt: metal content of ore and concentrates (except in 1937), and metal; for copper: copper content of ore, mattes, blister, refined copper in plates, bars, ingots or pigs, and copper scrap; for lead: lead content of ores, flue dust, mattes, bullion, pigs

and bars, reclaimed lead and scrap, except anti-monial lead scrap; for nickel: pigs, ingots, shot, etc., as well as nickel ore, mattes and oxides; for tin: metal content of ores and concentrates, certain tin alloys and scrap tin; for zinc: metal content of ores and concentrates, blocks, pigs or slabs and scrap.

^a First nine months of 1951 at annual rate.

^b In millions of board feet.

1950 than in the preceding six months and did not in fact reach a peak until the first quarter of 1951, as may be seen from table 32. None the less, they had a strong

impact on raw material supplies, which were already under severe pressure by virtue of the high level of stockpile purchases during the first half of 1950.

Table 32. Stockpile Commitments and Expenditures of the United States, 1947 to 1951

(Millions of United States dollars)

Period	Commitments ^a		Expenditures	
	During period specified	Cumulative to end of period ^b	During period specified	Cumulative to end of period ^b
1947	149	184	32	32
1948	529	713	147	179
1949	333	1,046	453	632
1950:				
January to June	401	1,447	195	827
July to December	430	1,877	256	1,083
1951:				
January to March	1,000 ^c	2,877	396	1,479
April to June	645 ^d	3,522		
July to September	300 ^e	3,820 ^e	349	1,828
October to December	288 ^d	4,110		

Source: United States Munitions Board, *Stockpile Report to the Congress* (Washington, D.C.), 23 July 1951 and 23 January 1952, except as noted.

^a Contracts placed.

^b Since July 1946, when the post-war programme was initiated.

^c Data for first quarter of 1951 from *Report to*

the President by Director of Defense Mobilization (Washington, D.C.), 1 April 1951.

^d Residual of semi-annual totals reported by Munitions Board.

^e Estimated as follows: commitments for future deliveries as of 30 September less similar commitments as of 30 June, net of deliveries during third quarter. Data from *Report to the President by Director of Defense Mobilization*, 1 October 1951.

Data on changes in stocks of individual commodities fail to reflect the special role which purchases for inventory on private account played in the upsurge of demand in raw material markets. In fact, these data generally show a deterioration in stocks in the latter half of 1950.⁴ It appears, however, that the exceptional rise in "consumption" indices in many cases represented in reality sizable stock increases, either directly in raw material stocks held by fabricators or indirectly in the form of semi-fabricated stocks. As table 33 shows, the index of "consumption" of important stockpiled commodities, which were in greatest demand, rose by nearly a third between 1949 and 1950, though the index of manufacturing activity went up by only 14 per cent. In 1951, after the wave of panic buying and hoarding had subsided, these two indices showed no such extreme divergence.

The book value of manufacturers' inventories in the United States also rose between 30 June and 31 December 1950 by 30 per cent for raw materials and by 18 per cent for goods in process. In contrast, the value of inventories of finished goods fell slightly—reflecting heavy consumer buying. Though part of the increase in the value of inventories, particularly of raw materials, is accounted for by the rise in prices,⁵ the physical volume of manufacturers' inventories of raw materials and goods in process certainly increased substantially.

DEMAND FROM OTHER INDUSTRIALIZED COUNTRIES

Because the import content of their manufactures is very much higher than that of United States manufactures, the economies of western European countries are more sensitive to changes in the supply and prices of imported raw materials. Imports of raw materials by western Europe rose fairly rapidly from 1948 to the first half of 1950, as shown in table 30. In the second half of 1950, however, there was a slight decrease, chiefly on account of a lag in United Kingdom and French purchases. In France the decrease in raw material imports followed an accumulation of stocks in the first half of the year; in the United Kingdom, the drop was due to both government and private buying policy,

⁴ Data on stocks of most raw materials are limited to producers' stocks and generally do not include stocks in the possession of consuming industries (fabricators or manufacturers of finished goods). In the case of non-ferrous metals, "consumption" indices are in fact deliveries from smelters and refineries to fabricators. The unusual movement of these deliveries suggests that an important share of such deliveries went into stocks rather than into production. There was an abrupt rise in these deliveries in August 1950 and an equally sharp drop in February 1951, coinciding with the beginning and end of the boom in commodity markets. Deliveries during the seven months, August 1950 to February 1951, were about 17 per cent higher than in the preceding seven months period, to which level they returned in the months following the end of the boom.

⁵ Inventories are generally valued at cost, so that price increases are reflected in additions to stocks, but not necessarily in the value of previously acquired stocks. The rise in the United States index of raw material prices between June and December 1950 was less than 12 per cent, compared to the increase of 30 per cent in the book value of manufacturers' inventories of raw materials.

Table 33. Indices of Raw Material Consumption^a and Manufacturing Activity in the United States, 1950 and 1951
(1949 = 100)

Item	1950	1951 ^b
Raw material consumption ^a	121	127
Stockpiled commodities ^a	132	125
Other commodities	117	127
Manufacturing activity	114	127

Source: Manufacturing index from Federal Reserve System, *Federal Reserve Bulletin* (Washington, D.C.); consumption index compiled by United Nations Department of Economic Affairs by weighting commodity consumption data by typical 1948 prices; data on consumption of individual commodities obtained from sources indicated below.

^a Including data on the following commodities from sources specified: for aluminium, copper, lead and zinc: data for 1949 and 1950 from United States Economic Cooperation Administration, *World Production and Consumption Data* (Washington, D.C., 1951); data for 1951 from reports of American Bureau of Metal Statistics and American Zinc Institute (New York City). For cotton: International Cotton Advisory Committee, *Quarterly Statistical Bulletin* (Washington, D.C.); for iron ore: Statistical Office of the United Nations. For rubber: Secretariat of Rubber Study Group, *Rubber Statistical Bulletin* (London); for timber and wood-pulp: Food and Agriculture Organization, *Forestry Yearbook, 1949* (Washington, D.C., 1950 and United States Department of Commerce, *Survey of Current Business* (Washington, D.C.); for tin: International Tin Study Group, *Statistical Bulletin* (The Hague); for wool: Commonwealth Economic Committee, *Wool Intelligence* (London).

^b Nine months at annual rates.

^c Aluminium, copper, lead, rubber, tin, wool and zinc.

which appears to have been based on the expectation prevailing before mid-1950 that commodity prices were likely to decline. Both these countries had some difficulty in placing orders once the general race for raw materials began,⁶ and were compelled to replenish their stocks in 1951.

Certain other western European countries substantially increased their imports of raw materials in the second half of 1950. The volume of Swiss raw material imports, for example, was expanded by more than 60 per cent between the first half and second half of 1950.⁷ The growing raw material requirements of western Germany and Japan also swelled the demand for imports. Whereas the industrial output and raw material imports of these countries had been extremely low in 1948, both had risen sharply by the second half of 1950. While their share in the manufacturing output of the

⁶ Thus, for example, the United Kingdom Timber Control had declined to pay the prices asked by Swedish shippers earlier in 1950, in the hope of later price concessions. As a result, Swedish output was committed to other markets, and Sweden was unable to increase supplies to the United Kingdom when that country sought to raise its purchases after the outbreak of the Korean conflict. The United Kingdom was thus compelled to pay much higher prices at the end of the year for imports from North America.

⁷ In May and June of 1950 the Swiss Government had recommended to its people the reconstitution of private stocks of raw materials and of various consumer goods (especially food), certain credit facilities being extended to those who needed help to finance the accumulation of such goods.

industrialized countries rose to 10 per cent in the second half of 1950, their share in the imports of these countries increased still more.

As a combined result of declines in raw material imports into some industrialized countries, notably France and the United Kingdom, and increases in others, the total volume of imports of raw materials by all these countries taken together rose moderately between the first half and second half of 1950 and to a considerably lesser extent than their industrial output. However, owing to short-term limitations on raw material supply, the effect of the temporary upsurge in demand was reflected in soaring raw material prices rather than in a greatly increased volume of imports.

SUBSIDING OF THE RAW MATERIAL BOOM

Owing to its speculative character, the scramble for raw materials was bound to subside as commercial inventories reached saturation levels. Moreover, towards mid-1951, for reasons analysed in chapter 1, consumer expenditures did not keep pace with the output of consumer goods so that there was a fall in demand for raw materials by the industries producing these goods. Finally, raw material requirements for military production did not increase as rapidly as had been anticipated.

Beginning in the second quarter of 1951, United States imports of raw materials declined substantially from peaks reached in the preceding two quarters, and continued to decline in the second half of 1951. An important element in this situation was the relaxation of demand resulting from changes in United States governmental policy. A number of direct steps were

taken, having the effect of reducing the demand for imports, including a slowing down of the rate of stock-piling,⁸ adoption of allocation schemes, the fixing of ceiling prices for imports of certain raw materials, and centralization of United States buying of rubber and tin through the Reconstruction Finance Corporation. In addition, considerably increased taxation of business and consumers indirectly damped demand for raw materials.

There was a distinct easing of raw material supplies in world markets, both on account of the contraction of United States imports and of a continued rise in the output of raw materials. Imports by western Europe (excluding western Germany) rose in the first half of 1951, though to a somewhat lesser degree than manufacturing production. There appears to have been an improvement none the less in the level of raw material stocks in several western European countries in which stocks had been depleted during the course of 1950. At the same time, measures to control inventories and uses of critical raw materials became more widespread and were progressively tightened.

The instability in the demand for raw materials characteristic of the period from mid-1950 to the early months of 1951 is thus seen to have had its origin in abnormal demand factors associated with the immediate repercussions of the Korean conflict. After the first quarter of 1951, the supply of primary products, which had meanwhile increased, proved sufficient, in a context of newly introduced governmental fiscal measures and direct controls, to support a level of industrial production considerably higher than in 1950 without any further serious increase, generally, in raw material prices.

Changes in the Terms of Trade

The exceptional degree of fluctuation in prices of raw materials during 1950 and 1951 is apparent from the data on price movements shown in table 34. As can be seen from that table, raw material prices had generally shown a tendency to harden in the first half of 1950 owing to the recovery of United States demand. This was true both of dollar commodities, the prices of which had ceased to fall during this period and had even begun to rise once more, and of dollar prices of primary commodities exported by devaluing countries, which rapidly regained their pre-devaluation parities. Prices of virtually all raw materials rose during the subsequent commodity boom, but non-dollar commodities—

particularly those exported by the sterling area—responded most vigorously, and reached considerably higher peaks than did others. In the first quarter of 1951, rubber prices were four times those of the same period of the previous year; wool prices were two and one-half times as high, and prices of tin rose to nearly the same extent; prices of burlap, jute and cordage fibres reached their peaks in the following quarter.

Prices of sterling and other non-dollar commodities—especially rubber, tin and wool—suffered a severe setback in the second and third quarters of 1951. The prices of rubber and tin had fallen by the final quarter of 1951 by more than a third from peaks reached in February of the same year but were still well above their levels just prior to the boom. Wool prices were affected most, falling by more than two-thirds between March 1951, the peak, and September 1951, in which month they were below prices obtaining in the first half

⁸ This is reflected in the fall in commitments after the first quarter of 1951, as shown in table 32. It was announced in July 1951 that competing requirements of the defence programme had forced a generally slower rate of accumulation of a number of critical materials, and that short-term procurement targets had been established. It was not considered that these targets affected ultimate stockpile objectives.

Table 34. Indices of Raw Material Prices in Principal Markets, 1948 to 1951

(First half of 1950 = 100; based on dollar prices)

Commodity and description	1948	1949 (January to August)	1950 quarters				1951 quarters			
			First	Second	Third	Fourth	First	Second	Third	Fourth
<i>Commodities supplied, on balance, from non-dollar to dollar area:</i>										
Burlap: Indian 10½ oz., 40-inch, Calcutta.....	127	112	105	95	105	147	192	240	189	186
Jute: Pakistan, middle white, Narayanganji.....	137	133	96	103	96	89	142	223	147	142
Sisal: British East African No. 1..	101	107	99	101	107	136	180	191	189	167
Rubber: Malaya, RSS No. 1, Singapore.....	96	80	82	118	197	283	340	265	224	229
Tin: Malaya, ex works Singapore.	137	153	99	101	126	172	225	188	146	159
Wool: Australia, greasy, average auction prices.....	79	100	99	101	154	183	266	184	92	116
<i>Commodities supplied, on balance, from dollar to non-dollar area:</i>										
Copper:										
US domestic electrolytic (Conn. Valley).....	115	104	95	105	117	126	126	126	126	126
UK, electrolytic, London.....	120	101	95	105	120	125	125	137	145	141
Cotton:										
US, middling 15/16.....	104	100	98	102	119	128	138	139	113	124
Egypt, ashmouni, Alexandria..	105	78	82	118	86	135	151	132	119	107
Brazil, No. 5, São Paulo.....	99	107	96	104	139	192	228	195	150	200
Lead:										
US, pig, desilverized, New York	156	142	101	99	116	144	147	147	147	165
UK, soft, foreign, duty paid...	151	162	102	98	118	146	149	175	197	189
Linseed oil:										
US, raw, New York.....	162	149	100	100	102	98	127	123	96	112
UK, naked ex works.....	213	177	98	102	103	104	112	129	138	141
Zinc:										
US, domestic prime western, New York.....	121	120	90	110	140	155	157	157	157	170
UK, G.O.B., foreign duty paid..	120	132	90	110	139	157	157	166	197	197
<i>Commodities traded mainly within dollar or non-dollar area:</i>										
Coal:										
UK, steam and household, unit value of exports.....	139	142	100	100	100	100	101	110	111	115
US, bituminous, composite...	92	98	101	99	99	99	101	103	104	105
Italy, industrial, Genoa.....	141	125	100	100	99	109	139	159	159	155
Nitrates:										
US, Chilean crude, c.i.f. port warehouses.....	96	106	100	100	100	100	104	104	104	107
Newsprint:										
Canadian mill.....	100	101	100	100	100	105	107	107	118	118
France, domestic ex factory..	115	141	99	101	108	125	150	171	222	234
Steel:										
US, billets, Pittsburgh.....	90	98	100	100	100	102	106	106	106	106
UK, billets, blooms and slabs..	120	135	100	100	100	100	101	102	122	128
Sulphuric acid:										
US, 66° Be, eastern works....	89	98	98	102	102	114	115	115	115	113
UK, 168° Tw, naked ex works..	133	134	99	101	101	107	107	129	130	149
Wood-pulp:										
US, sulphite, bleached No. 1 book.....	110	108	100	100	105	111	119	119	119	119
Swedish, unit value of imports of UK, c.i.f.....	179	160	94	106	111	133	150	209	260	267

Source: International Monetary Fund, *International Financial Statistics* (Washington, D.C.), and Statistical Office of the

United Nations. See these sources for further description of commodities.

of 1950. In contrast, prices of dollar commodities, with the notable exception of cotton, continued to rise.⁹

It has been pointed out that the rise in prices of important sterling area commodities between September 1950 and the early months of 1951 did no more than restore price relations between dollar and non-dollar commodities (with the exception of wool) which prevailed in the last pre-war years. From this point of view, the raw material boom of the second half of 1950 is regarded as having tended to even out post-war "distortions" in price relations. Any such tendency was brought to a halt, however, by the sharp decline in prices of sterling commodities between March and September 1951.

In the final quarter of 1951, price increases, if any, were largely restricted to dollar goods, while prices of non-dollar commodities in several cases suffered a further decline. In general, however, raw material prices showed no consistent or marked tendency to move in one direction or another, but remained above levels prevailing before the outbreak of the Korean conflict.

The abrupt and steep climb of raw material prices between August 1950 and the early months of 1951 left prices of manufactures and foodstuffs far behind. The

⁹ In the case of cotton, the prospects of a very much larger crop in the United States in 1951/52 caused a downturn in prices, which was more pronounced for cotton provided from sources other than the United States; cotton prices tended to become firmer in the final quarter of 1951, however, when the final crop returns proved to be lower than those predicted.

¹⁰ The latter discrepancy may be explained by the fact that only marginal supplies of certain commodities are sold at prices quoted in international markets, a substantial part, and fre-

resulting gap—which measures the extent of the improvement in the terms of trade of raw material exporters—subsequently narrowed rapidly. On the one hand, much of the earlier price gains registered by raw materials disappeared following the end of the boom; on the other, prices of manufactures tended to increase as higher raw material costs and rising money wages were reflected in the prices of finished goods. For several reasons, both the improvement and subsequent deterioration in the terms of trade of exporters of raw materials relative to exporters of foodstuffs and manufactures lagged considerably behind changes in price quotations in international markets and were also of a somewhat more moderate character.¹⁰

Table 35 compares the movement of the dollar unit value indices of world exports of raw materials, foodstuffs and manufactures. The rise in export prices of raw materials is seen to have been heavily influenced by the exceptionally large increase in prices of rubber, tin and wool. Thus the terms of trade of exporters of raw materials other than rubber, tin and wool improved as against exporters of manufactures by about 5 per cent in each of the two semi-annual periods following the Korean crisis—a considerably smaller improvement than would be indicated by the movement of the overall index of raw material prices inclusive of rubber,

quently the major part, of the sales of such commodities being covered by long-term contracts. An offsetting factor is introduced, however, when buyers have to pay premiums of as much as 50 per cent over the prices quoted in the market. There appears to be a time lag of as much as five months before the effects of increases in prices quoted in the market are reflected in export prices, according to an analysis appearing in the United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), June 1951.

Table 35. Indices of Export Unit Values of Raw Materials, Foodstuffs and Manufactures in World Trade, 1948, 1950 and 1951

(First half of 1950 = 100; based on dollar prices)

Item	1948 Full year	1950 First half	1950 Second half	1951 First half
<i>World export unit values of:</i>				
Raw materials	109	100	118	146
Rubber, tin and wool	98	100	170	256
Other raw materials	111	100	108	123
Foodstuffs	111	100	107	117
Coffee	54	100	110	117
Other foodstuffs	119	100	107	117
Manufactures	123	100	103	112
<i>Terms of trade between:</i>				
Exporters of raw materials and of manufactures*	89	100	115	130
Excluding rubber, tin, wool	90	100	105	110
Exporters of foodstuffs and of manu- factures*	90	100	104	105
Excluding coffee	97	100	104	105

Source: United Nations Department of Economic Affairs. For details as to commodities included and weighting, see table 37.

* Export unit value indices for raw materials or foodstuffs, respectively, divided by corresponding indices for manufactures.

tin and wool. This largely explains the disparity in the gains in terms of trade of primary producers that are exporters of the latter commodities and those that are exporters of other raw materials and foodstuffs.

Changes in the terms of trade of individual countries have thus depended in the first instance on the proportions of their imports and exports consisting of raw materials, foodstuffs and manufactures. Industrialized countries have generally been adversely affected by the developments described above, in so far as raw materials have considerable weight in their imports and manufactures predominate in their exports; conversely, there has been a substantial improvement in the terms of trade of under-developed countries.

The countries of western Europe, the United States and Japan together suffered a deterioration in their terms of trade of nearly 10 per cent between the first half of 1950 and the same period of 1951 (table 36). The average deterioration would have been greater but for the fact that several of the countries in western Europe improved their position in this respect by virtue of the large share of raw materials in their exports.¹¹

The significance of a change in the terms of trade of any particular country depends, of course, upon the relation of foreign trade to its total economic activity. The adverse movement in the terms of trade of the United States after the outbreak of hostilities in Korea was comparable to that in the United Kingdom, and greater than in several of the other countries of western Europe. The significance of this movement, however, was very different for the United States from that for other countries, owing to the fact that imports of goods represented only some 3 per cent of the United States gross national product, whereas they comprised from 10 to 45 per cent of the gross national product in the western European countries.

The terms of trade of individual primary producing countries improved in varying degrees, the variation being primarily the result of uneven rises in export, rather than in import, prices. Import prices rose fairly uniformly in primary producing countries. It was noted earlier, however, that export prices of certain raw materials rose very much more than others. Since a few commodities—frequently only one—account for the bulk of the export earnings of most primary producers, the degree of improvement in the terms of trade of an individual country depended on whether it was an exporter of the particular commodities the prices of which

¹¹ Examples are Norway and Sweden, which are important exporters of wood products. In addition, Belgium-Luxembourg and Japan, although they are exporters of finished manufactures and importers of raw materials, were able to offset the rises in their import prices by still greater increases in export prices. In Belgium-Luxembourg, where there had been a substantial surplus capacity for steel production, and a sharp fall in steel prices in the first half of 1950, producers were subsequently able to meet the urgent marginal requirements of other countries and to obtain greatly increased prices for quick delivery.

Table 36. Indices of Terms of Trade of Certain Countries, 1950 and 1951

(First half of 1950=100; based on dollar prices)

Country	1950 Second half	1951 First half	1951 Second half
Total, western Europe, United States and Japan	96	90	..
Total, OEEC countries.....	97	92	..
Austria.....	103	88	103
Belgium-Luxembourg.....	99	103	111
Denmark.....	97	88	88
France.....	93	86	90
Germany, western.....	95	89	95
Ireland.....	103	96	92 ^a
Italy.....	96	86	89 ^a
Netherlands.....	92	90	92
Norway.....	111	113	115
Sweden.....	104	121	133
Switzerland.....	98	88	90
Turkey.....	106	113	94 ^a
United Kingdom.....	97	86	90
United States.....	92	87	86
Japan.....	103	104	..
Total, primary producing countries.....	109	119	..
<i>Of which:</i>			
Australia.....	126	136	86 ^b
Brazil.....	123	108	105 ^b
Ceylon.....	115	123	92
Canada.....	103	99	104
Chile.....	108	119	128 ^c
Cuba.....	105	104	..
Finland.....	106	121	136
India ^d	100	101	117
Malaya.....	136	159	123 ^b
Mexico.....	130	122	113 ^a
Philippines.....	107	95	..
Spain.....	102	107	104

Source: United Nations Department of Economic Affairs, based on national trade statistics, and Organisation for European Economic Co-operation, *Foreign Trade Statistics* (Paris). Terms of trade computed by dividing export prices by import prices.

^a Five months only.

^b Third quarter only.

^c Four months only.

^d Excludes export duties.

had risen most since mid-1950. For primary producing areas as a whole, there was an improvement in the terms of trade of nearly 20 per cent between the first half of 1950 and the corresponding period of 1951 (table 36), export prices increasing by nearly 40 per cent and import prices by 17 per cent between these two periods.

Belgian export prices for pig-iron and steel rose by over 85 per cent between June 1950 and June 1951. Belgium is also a significant exporter of non-ferrous metals and products, the prices of which rose steeply after June 1950. Japanese textile prices before mid-1950 had been much lower than those of other leading exporters except India. Heavy consumer demand for textiles in other countries in the second half of 1950 enabled Japan to raise its export prices considerably more than the cost of the imported fibres.

The greatest improvement in terms of trade—amounting to upwards of 30 per cent—was registered by exporters of rubber, tin and wool, such as Australia, Indonesia, Malaya, New Zealand, the Union of South Africa and Uruguay. Since the second quarter of 1951, most of these countries have suffered a sharp deterioration in the purchasing power of their exports owing to the fall in prices of the commodities just listed.

Cotton producers and exporters, such as Egypt, Lebanon, Mexico, Pakistan and Syria, also benefited

substantially from an improvement in terms of trade. These and other countries realized a gain in terms of trade of from 10 to 30 per cent between the first half of 1950 and the first half of 1951. On the other hand, some countries experienced little or no improvement in their terms of trade, because raw materials formed a large share of their imports, or because they were primarily exporters of foodstuffs the prices of which had risen approximately in line with those of manufactures.

The fluctuations in prices and terms of trade described above had significant repercussions on international trade during 1950 and 1951, as will be seen in table 37. The volume of world exports of raw materials rose by only 5 per cent between the first half of 1950 and the same period in 1951, while the value of these exports increased by as much as 53 per cent. In the case of manufactures, on the other hand, while the volume of world exports increased by 30 per cent between these periods, their value rose only 45 per cent. Trade in food occupied an intermediate position. A considerably greater increase in exports of food than of

raw materials was due to the large carry-overs of United States stocks of grain, providing a reservoir from which sudden increases in effective demand from the rest of the world could be met. Moreover, a substantial increase in the rice trade resulted from the resumption by certain Far Eastern countries of their traditional role of exporters. At the same time, the value of food exports increased less than that of manufactures or raw materials, owing in considerable measure to the stabilization of prices under the International Wheat Agreement and certain long-term food contracts.

Table 37. Indices of Total Value, Quantum and Unit Value of World Exports of Raw Materials, Foodstuffs and Manufactures, 1948, 1950 and 1951

(First half of 1950=100; based on dollar prices)

Item	1948 Full year	1950 First half	1950 Second half	1951 First half
<i>Foodstuffs:</i> ^a				
Total value	114	100	115	140
Quantum	103	100	107	120
Unit value	111	100	107	117
<i>Raw materials:</i> ^b				
Total value	92	100	125	153
Quantum	85	100	106	105
Unit value	109	100	118	146
<i>Manufactures:</i> ^c				
Total value	105	100	119	145
Quantum	86	100	115	130
Unit value	123	100	103	112
<i>Total exports:</i>				
Total value	106	100	122	146
Quantum	88	100	114	119
Unit value	119	100	107	123

Source: United Nations Department of Economic Affairs.

^a Based on world exports of grains, potatoes, meat, fats and oils, sugar and beverages, weighted by the value of exports of each commodity in 1948.

^b Based on exports of twenty-seven commodities by countries accounting for at least 80 per cent of

world exports of each commodity, weighted by the value of exports of each commodity in 1948.

^c Based on official indices of Austria, Belgium-Luxembourg, France, western Germany, Italy, Japan, Netherlands, Sweden, Switzerland, the United Kingdom and the United States, weighted by the value of exports of manufactures of each country in 1948.

These divergent movements in the export quanta and prices of food, raw materials and manufactures were reflected in changes in the volume of trade between the industrialized countries, the chief exporters of manufactures, and the primary producing countries. As shown in table 38, the countries belonging to the Organisation for European Economic Co-operation, the United States and Japan together expanded the quantum of their exports to primary producing areas by 20 per cent between the first halves of 1950 and of 1951, while the

volume of their imports from these areas increased by only ten per cent between these two periods. On balance they provided to primary producing areas in the twelve months following the outbreak of the Korean conflict about \$1,900 million more of goods, in 1948 prices, than they obtained from these areas; exports to and imports from these areas had been approximately in balance in the first half of 1950, when measured in 1948 prices.

Table 38. Trade of OEEC Countries, Japan and the United States with One Another and with Rest of World, 1948 to 1951

(Thousand millions of United States dollars, f.o.b.; in 1948 prices)

Period	Total		Exports to one another ^c (3)	Trade with rest of world	
	Exports ^a (1)	Imports ^b (2)		Exports (4)	Imports (5)
1948 Semi-annual average	14.9	14.9	6.6	8.3	8.3
1949 Semi-annual average	16.8	15.9	7.5	9.3	8.4
1950 First half	17.4	17.4	8.4	9.0	9.0
1950 Second half	20.0	19.2	9.8	10.2	9.4
1951 First half	21.7	20.6	10.7	11.0	9.9

Source: United Nations Department of Economic Affairs, based on official national statistics.

^a Excluding "special category" exports.

^b Sum of columns (3) and (5); imports from rest of world estimated on basis of quantum of exports of rest of world to these countries.

^c Exports of countries in the Organisation for European Economic Co-operation to one another (in thousand millions): 1948, \$4,300; 1949, \$5,100; 1950, first half, \$6,400; 1950, second half, \$7,900; 1951, first half, \$8,400.

The movement of the terms of trade against industrialized countries was a major cause of renewed balance of payments difficulties which were encountered in 1951 by a few countries of western Europe and which threatened to spread to other countries of the area. It placed additional demands on the capacity of these countries at a time when they had not yet achieved a balance in their external transactions and were attempting to increase the proportion of their resources devoted to defence expenditures. The problems to which this situation gave rise are analysed in the following chapter.

There was a corresponding improvement in the balances of payments of the primary producing countries, owing to the favourable development of their terms of trade, though the resulting gains were very unequally distributed. Concern was expressed in these countries

as to the extent to which the increased earnings from their exports would enable them to raise their imports of capital goods from the industrialized countries, given the competing requirements of rearmament in those countries; and how far, if they were unable to secure delivery of essential imports, they might be confronted with involuntary increases in their foreign exchange reserves, offset at least in part by rising import prices. The actual course of developments with respect to these problems is discussed in chapter 6.

The group of centrally planned economies became increasingly isolated, economically, from the rest of the world in 1950 and 1951, and these countries have therefore been confronted with problems of a somewhat different character from the above. These problems form the subject of discussion in chapter 7.

Chapter 5

BALANCE OF PAYMENTS OF THE UNITED STATES, WESTERN EUROPE¹ AND JAPAN

The fundamental balance of payments problem of concern at mid-1950 to the countries which contemplated rearmament programmes was that, if increased arms expenditures were to result in a heavy pressure of domestic demand, there would be a tendency for exportable surpluses to fall, particularly in the categories of goods produced by the heavy industries, and for imports to rise under the stimulus of expanding industrial output and money incomes.

This was not likely to cause any balance of payments difficulty in the United States, which had previously been running large surpluses in its current account with other countries, and could, if necessary, finance import surpluses over an extended period with the aid of large accumulated gold reserves. In western Europe, however, where an over-all balance in current international transactions had not yet been achieved by mid-1950, and where monetary reserves were generally low, any pressure on the balance of payments, including the balance with the dollar area, was likely to raise much more difficult problems.

In the event, increases in arms expenditures had only a limited impact on balances of payments up to the end of 1951. For the time being, most industrialized countries were able to increase the volume of their exports sufficiently to counterbalance both the rise that

took place in the volume of their imports and the deterioration in their terms of trade, and only in two countries—France and the United Kingdom—had there yet occurred serious balance of payments difficulties. In other western European countries, balance of payments positions generally improved in the course of 1951, though this improvement was in part contingent upon their being able to maintain surpluses in transactions with France and with the United Kingdom.

The following discussion deals with four interrelated aspects of the balance of payments problems of the United States, western Europe and Japan as they emerged in 1950 and 1951. The first section of the analysis concerns developments in the United States balance of payments in this period, and the relation of these developments to the general dollar problem. The second examines the nature of the factors bearing upon the problems of western Europe and Japan in achieving a balance in their international transactions. The third deals with the repercussions of developments during this period upon the efforts made within the framework of the European Payments Union to introduce a liberalized system of intra-European trade and payments. Finally, the fourth section examines certain United Kingdom problems arising out of its special economic relationships with the sterling area.

The United States and the Dollar Problem

Up to mid-1950, the central problem in post-war international payments had been that of determining by what means a workable pattern of international settlements could be achieved in the future, at a considerably reduced level of United States foreign aid.² This was essentially the problem of how to diminish still further the deficit of the rest of the world with the United States on current transactions in goods and services, without such reductions in imports as would cause a setback in economic activity.

The major part of that deficit since the end of the war was the counterpart of aid shipments for recon-

¹ In the following discussion, "western Europe" generally refers to the countries which are members of the Organisation for European Economic Co-operation: Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey and the United Kingdom.

² That is, in view of the approaching end of the European Recovery Program.

struction and of the drawing down by under-developed countries of gold and dollar balances accumulated during the war. It was evident that that segment of the rest of the world's deficit with the United States which was due to these causes was bound to disappear in time.

By mid-1950, the deficit of the rest of the world with the United States³ had, in fact, already been greatly reduced—from \$6,700 million in 1948 to an annual rate of \$3,100 million in the first half of 1950. The decline in the United States current surplus with the rest of the world between these periods was due almost entirely to the reduction in its exports of goods and services. This reduction, in turn, was the result of the recovery of production in western Europe, lessening the need for abnormal imports from the dollar area of such commodities as coal and grain; and of increased

³ On current transactions in goods and services (including military goods and services).

Table 39. Supply of Dollars by the United States and their Use by Other Countries, 1950 and 1951
(Millions of United States dollars)

Item	Total	Canada	Latin America	United Kingdom	Rest of sterling area	Continental OEEC countries	Continental OEEC dependencies	Other Europe	All other countries	International institutions
SUPPLY OF DOLLARS BY THE UNITED STATES										
<i>United States imports of goods and services:</i>										
1950 First half	5,239	1,059	1,584	417	617	758	131	112	555	6
1950 Second half	6,889	1,379	1,978	480	757	1,011	163	115	960	46
1951 First half	7,853	1,319	2,268	511	1,092	1,233	174	131	1,105	20
1951 Second half	7,258	1,502	1,814	523	783	1,226	217	93	1,068	32
<i>United States Government grants and loans (net):^a</i>										
1950 First half	2,146	4	15	418	38	1,257	2	7	342	63
1950 Second half	1,555	5	10	225	24	891	3	24	323	50
1951 First half	1,693	3	97	115	29	1,039	5	55	312	38
1951 Second half	1,487	4	10	19	125	756	4	63	291	215
<i>Private capital and donations (net):</i>										
1950 First half	471	165	-20	47	66	108	3	23	74	5
1950 Second half	1,327	536	204	116	51	294	6	-1	115	6
1951 First half	789	255	155	24	36	90	4	10	163	52
1951 Second half	510	154	77	-35	37	70	-10	25	93	99
<i>Total supply of dollars:</i>										
1950 First half	7,856	1,228	1,579	882	721	2,123	136	142	971	74
1950 Second half	9,771	1,920	2,192	821	832	2,196	172	138	1,398	102
1951 First half	10,335	1,577	2,520	650	1,157	2,362	183	196	1,580	110
1951 Second half	9,255	1,660	1,901	507	945	2,052	211	181	1,452	346
USE OF DOLLARS BY OTHER COUNTRIES										
<i>United States exports of goods and services:^{a b}</i>										
1950 First half	6,663	1,264	1,718	406	534	1,601	127	88	860	65
1950 Second half	7,179	1,467	2,201	458	512	1,382	142	95	885	37
1951 First half	8,895	1,777	2,421	558	687	1,938	149	168	1,166	31
1951 Second half	9,732	1,716	2,623	849	960	1,983	207	161	1,203	30
<i>Increase in gold and dollar assets:^c</i>										
1950 First half	1,122	127	-5	457	13	366	16	-11	138	21
1950 Second half	2,507	510	351	523	9	522	32	-6	425	141
1951 First half	1,057	-40	284	476	-16	205	2	-12	168	-10
1951 Second half	-605	4	-240	-927	-2	128	11	0	392	29
<i>Multilateral settlements, and errors and omissions:^d</i>										
1950 First half	71	-163	-134	19	174	156	-7	65	-27	-12
1950 Second half	85	-57	-360	-160	311	292	-2	49	88	-76
1951 First half	383	-160	-185	-384	486	219	32	40	246	89
1951 Second half	128	-60	-482	585	-13	-59	-7	20	-143	287

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), June, September and December 1951 and March 1952.

^a Excluding military aid, and exports of goods and services in connexion with such aid.

^b United Kingdom purchases for cash of "special category"

commodities are included in the total for continental Organisation for European Economic Co-operation countries.

^c Minus sign indicates sale of gold or liquidation of dollar assets by other countries.

^d Apart from errors and omissions, minus sign indicates net receipts of dollars from countries other than the United States.

restrictions on dollar imports imposed in 1949 by the United Kingdom, the oversea sterling area and other primary producing countries. The post-war import surpluses of these countries had caused a serious drain on their reserves, aggravated in some cases during 1949 by a decrease in exports to the United States as a result of the recession in that country.

Although a large part of the deficits with the United States characteristic of the special conditions of the earlier post-war years had thus been reduced by the middle of 1950, there remained a persistent problem of balance in transactions between the United States and the rest of the world.⁴ This was reflected in the continuing tendency for the United States to sell more goods abroad than it needed to import. On the one hand, the trend towards economic expansion and development in the rest of the world even after the end of the reconstruction period sustained a persistent demand for the machinery and industrial materials which the United States, by virtue of its high level of technology and productivity, was particularly well-equipped to supply. On the other hand, the structure of the United States economy was such that it appeared unlikely that the amount of dollars disbursed to the rest of the world through United States imports of goods and services alone would rise sufficiently to meet all the requirements of other countries for dollar goods and services. Given these factors, the only solutions to the problem of persistent deficits with the United States appeared to be either that the United States would finance a continuing surplus with other countries by means of private or governmental funds; or that the rest of the world would further restrict its imports of dollar goods and services; or some combination of these two courses.

EASING OF THE DOLLAR SHORTAGE IN 1950

While this basic problem of dollar balance persisted throughout 1950 and 1951, its long-term character was for a time obscured by other factors, particularly after mid-1950. The clearest outward manifestation of this fact was that, notwithstanding the continuing over-all surplus of the United States on its current transactions in goods and services, the United States was actually losing gold and dollar reserves to other countries throughout 1950 and during the first half of 1951. During this period as a whole, while all other countries taken together were in deficit with the United States on current transactions in goods and services to the extent of \$4,100 million, they *added* over \$4,600 million to their gold and dollar reserves as a result of all transactions with the United States. The increase in the real value of their reserves was considerably less than the above, owing to the rise in their import prices.⁵ On

⁴ For a fuller examination of the general nature of post-war dollar deficits, see United Nations, *World Economic Report, 1949-50*, chapter 9.

⁵ For example, the rise in United States export prices of about 18 per cent during this period was equivalent to a loss of gold and dollar reserves by the rest of the world of about \$3,000 million.

balance, however, other countries did experience an improvement in the real value of their reserves, in spite of their continuing deficits with the United States. The primary reason for this improvement was the fact that the aid afforded to other countries by the United States considerably exceeded its current surplus with them. During 1950 and the first half of 1951, the amount of such aid in the form of grants alone was over \$6,400 million, inclusive of more than \$1,300 million in military aid. In addition, there was a net outflow of United States private capital and donations during this period in the amount of \$2,600 million.

The period of gold losses by the United States to the rest of the world came to an end by mid-1951, and once again the deficits of other countries with the United States began to exceed the inflow of dollar capital, so that a number of countries were compelled to draw upon their reserves.

Table 39 sets forth the main elements in the total supply of dollars to the rest of the world by the United States in 1950 and 1951, together with the manner in which these dollars were used, transactions in military goods and services being excluded.⁶

During the first half of 1950 United States imports of goods and services from the rest of the world recovered from the low levels of mid-1949, associated with the United States recession of that year, to the level of 1948. Exports, however, were 20 per cent lower than in 1948, and since United States foreign aid was little reduced, the rest of the world was able to use part of the total supply of dollars to add to reserves, instead of drawing upon reserves to finance part of the dollar deficit, as had been necessary in 1948.

After the outbreak of the Korean war, the situation changed in several respects. The supply of dollars to the rest of the world by the United States increased by nearly 25 per cent, notwithstanding a sharp fall in the disbursements of dollars under foreign economic aid programmes. The main factor in this development was the steep increase in United States imports of goods and services, particularly of raw materials for private and governmental inventory accumulation. In addition, however, there were large private capital outflows of a speculative or special character.⁷

⁶ United States exports of military goods and services are tied directly to military grants in aid and are not subject to demand factors in the normal sense. Data on United States military grants in aid in 1950 and 1951 are given in table 40.

⁷ In the third quarter of 1950, particularly, there was a large abnormal movement of United States private capital: outflows of \$537 million to Canada and \$72 million to the United Kingdom represented to a considerable extent speculation on the possible appreciation of their respective currencies. In addition, there were loans by a number of private United States banks to the French Government, amounting to \$225 million, as backing for an increase in French monetary circulation. A short-term outflow of \$98 million to Latin America in the fourth quarter of 1950 was largely speculative in character.

Since the increase in the supply of dollars to the rest of the world by the United States during the second half of 1950 proceeded largely from an expansion of the value of imports, while aid to western Europe was reduced, the areas which received most of the additional dollars were mainly those producing primary materials. The demand for these materials—and their prices—had risen more than for any other categories of goods. Thus, Canada and Latin America alone received nearly 70 per cent of the increase in the supply of dollars between the first half of 1950 and the second half, while the supply of dollars to continental western Europe was little changed, and the supply to the United Kingdom actually fell, since the decline in aid was larger than the increase in imports and private capital outflow together.⁸ Imports of goods and services increased particularly sharply from the group of countries listed as “all other countries” in table 39, which include mainly non-sterling Middle Eastern and Far Eastern countries. A considerable part of this increase represents larger imports of merchandise for domestic consumption from Indonesia, Japan, the Philippines and Thailand. In addition, the special procurement of goods and services by the United States in Japan in connexion with the Korean war, as well as the disbursements in that country by United States personnel, formed a growing proportion of the increase in imports of goods and services from “all other countries”.⁹

It will be noted that the United States current surplus on transactions in non-military goods and services fell to an annual rate of less than \$600 million during the second half of 1950, compared with a rate of over \$2,800 million in the first half of the year. This development seems to have been the result of temporary factors, particularly of the lag which occurred between the rise in United States imports and the rise in exports. The main reason for this lag was that certain other countries responded with some caution and delay to the improvement in their dollar position, and some time necessarily elapsed before the relaxation of their import restrictions resulted in an increase in actual deliveries from the dollar area. It is also possible that the pressure of domestic buying temporarily limited supplies available for export.

REAPPEARANCE OF THE DOLLAR PROBLEM IN 1951

During the early months of 1951, the balance of payments of the United States began to undergo significant changes. Exports of non-military goods and services rose sharply in the first half of 1951, the major part of the increase representing a higher volume of merchandise exports. Increases in exports of manufactured goods mainly reflect the previous rise in the dollar

⁸ However, the United Kingdom, as custodian of the sterling area's dollar pool, received substantial transfers of dollars earned by the rest of the sterling area.

⁹ Contracts awarded and payments made by the United States armed forces and the Economic Cooperation Administration in Japan, as published by the Bank of Japan in *Monthly Financial*

earnings of other countries. To a considerable extent, however, the additional exports consisted of essential foodstuffs, fuels and raw materials which other countries would have had to purchase almost irrespective of their gold and dollar reserve positions. This applies particularly to the large increase in exports of coal, petroleum products and timber to western Europe, as well as to the shipments of grain to Europe and India, in so far as these were the result of poor harvests.¹⁰

At the same time, United States imports of merchandise for consumption reached a peak in the first quarter of 1951, after which they began to decline. This was due particularly to a fall in the volume and prices of imported raw materials, owing to the cessation of speculative buying and to the marked change in governmental import policy early in 1951 described in the preceding chapter.

While the first half of 1951, therefore, represents a turning point in the United States balance of payments, the United States was still losing gold and dollars to other countries, though at a rapidly declining rate. The full effect of the fall in demand for imports did not become apparent until the second half of 1951; in the first half, on the average, imports still remained even above the high level of the second half of 1950. This, together with a temporary rise in United States foreign economic aid, more than offset the effects of a sharp reduction in speculative capital outflow, so that on balance the total of dollars supplied by the United States in the first half of 1951 was higher than in the previous half-year. The value of exports did not begin to overtake the total supply of dollars by the United States until mid-1951.

By the second half of 1951, however, foreign economic aid provided by the United States had fallen short of the surplus on current transactions in non-military goods and services by an amount equivalent to an annual rate of nearly \$2,000 million. As a result, other countries had to liquidate their gold and dollar reserves in payment for their dollar deficits at an annual rate nearly twice as high as in 1948. The major losses of gold and dollars to the United States by other countries during this period were those incurred by the sterling area for reasons which will be examined below.

Statistics, November 1951, were as follows, in millions of United States dollars:

	Cumulative from 26 June 1950 to		
	31 December 1950	30 June 1951	30 September 1951
Contracts awarded:			
Goods.....	127	231	313
Services.....	64	99	141
Total.....	191	330	454
Payments.....	76	243	322

Payments against special purchases in Japan therefore represented nearly one-fifth of the increase in United States imports of goods and services from “all other countries”, as indicated in table 39 between the first and second halves of 1950, and over three-fifths of the increase in imports from these countries between the second half of 1950 and the first half of 1951.

¹⁰ Much of the grain shipped to western Europe, however, represented purchase for stocks.

The fall in United States imports between the first and second halves of 1951 was proportionately larger than between the corresponding periods of 1949. The decline in these imports in 1951 was, moreover, of greater consequence for the dollar balance of the rest of the world than in 1949, because of the higher proportion in 1951 of United States imports to the total supply of dollars than in 1949, when foreign economic aid had been at a considerably higher level and imports much lower.¹¹ Meanwhile, United States exports of goods and services continued to increase in the second half of 1951, apart from seasonal declines in deliveries of foodstuffs and raw cotton in the third quarter, and some tendency towards a weakening of foreign demand for manufactured consumer goods such as passenger cars and parts, household appliances and textiles. The rise in exports continued to reflect the restocking of dollar goods by other countries, and had not yet

¹¹ The ratio of United States imports of goods and services to the total supply of dollars from that country (excluding mili-

been affected by the reimposition of restrictions on imports in countries which were beginning to experience a decline in monetary reserves. Significant elements in the increases in United States exports of goods and services between the first and second halves of 1951 were a rise in receipts on transport account resulting from heavy shipments of coal to western Europe, and an expansion of income, partly seasonal, on foreign investments.

As has happened on other occasions in the post-war period when the current deficit of the rest of the world with the United States has risen sharply, speculative capital movements tended to magnify the imbalance. A reduction occurred in sterling balances held in the United States, which had been abnormally high since the speculation on the appreciation of sterling in the second half of 1950. There also appears to have been

tary aid) was approximately 58 per cent in the year 1949 as a whole and averaged 77 per cent in 1951.

Table 40. Pattern of United States Foreign Aid, 1950 and 1951
(Millions of United States dollars)

Area and period	Exports of non-military goods and services	Government grants and loans for economic aid ^a	Percentage ratio of economic aid to non-military exports of goods and services	Government grants for military aid ^b	Military aid as percentage of total aid
<i>Total:</i>					
1950 First half	6,663	2,146	32	120	0.5
1950 Second half	7,179	1,555	22	463	23
1951 First half	8,895	1,693	19	763	31
1951 Second half	9,732	1,487	15	750	34
<i>OEEC countries:</i>					
1950 First half	2,037	1,710	84	113	6
1950 Second half	1,876	1,142	61	400	26
1951 First half	2,532	1,175	46	629	35
1951 Second half	2,877	788	27	532	40
<i>All other countries:^c</i>					
1950 First half	860	342	40	7	2
1950 Second half	885	323	36	63	16
1951 First half	1,165	312	27	134	30
1951 Second half	1,203	291	24	163	36
<i>Rest of world:^d</i>					
1950 First half	3,766	94	2	—	—
1950 Second half	4,418	90	2	—	—
1951 First half	5,197	206	4	—	—
1951 Second half	5,652	408	7	°	°

Source: United States Department of Commerce, *Survey of Current Business*, June, September and December 1951, and March 1952.

^a It has been assumed that all governmental loans and all grants other than those specified in footnote b were for economic aid to other countries.

^b Including the Greek-Turkish, Chinese and Mutual Defense Assistance Programs.

^c This group of countries is the same as that under the same heading in table 39, and consists mainly of non-sterling countries in the Middle East and Far East.

^d All countries other than those included in the two previous main headings; also including "international institutions".

^e In the second half of 1951, Latin American countries received \$55 million in military aid.

an increase in the speculative outflow of capital from the rest of the world to the United States in 1951.¹²

CHANGING PATTERN OF UNITED STATES FOREIGN AID

During the period under consideration, the pattern of United States foreign aid has been substantially modified as indicated in table 40. On the one hand, the level of economic aid has fallen steadily, both in absolute terms and in relation to United States exports of goods and services. On the other hand, while the total amount of aid, having fallen to a low point in the third quarter of 1950, subsequently increased, this increase was attributable entirely to the financing of larger exports of military goods and services, more than offsetting the decline in economic aid. The areas mainly affected by these changes were western Europe and certain countries in the Far East included under the classification "all other countries" in tables 39 and 40.

In the first half of 1950, United States economic aid to western Europe had amounted to as much as 84 per cent¹³ of exports of non-military goods and services to that area; this compares with 67 per cent in 1948, when exports had been much higher and had been financed in part by the drawing down of other countries' reserves. With the drawing to a close of the European Recovery Program, and the rise in western European demand, the proportion of aid-financed exports to western Europe fell drastically, so that by the second half of 1951 economic aid to western European countries was equivalent to only 27 per cent of United States non-military exports of goods and services to them. By that time, the proportion of military aid to total aid had risen to 40 per cent.

As will be apparent from table 41, United States aid disbursements to western Europe for economic purposes are likely to decline appreciably during the fiscal year ending in June 1952—probably below the level of western Europe's mid-1951 deficit with the United States on current transactions in non-military goods and services.

Similar considerations apply to other countries, particularly Japan, to which no further allocations of economic aid were anticipated after 30 June 1951.

It is therefore likely that several countries previously receiving substantial economic aid from the United States will find it necessary to reduce their current dol-

¹² The over-all residual item in the United States balance of payments fell from \$785 million in 1949 to only \$156 million in 1950, suggesting a sharp fall in unrecorded capital movements to the United States as the dollar balance of the rest of the world improved. In 1951, however, the residual item rose again to \$511 million, indicating a resumption on a larger scale of unrecorded capital inflow from the rest of the world. The franc and sterling areas might have been expected to constitute the source of a significant part of this movement, owing to their balance of payments difficulties in the second half of 1951. However, it will be seen from table 39 that the residual item fell significantly from the first to the second half of 1951, the reason for which is not at present clear.

Table 41. United States Funds Available for Economic Aid^a to Western Europe, 1950/51 and 1951/52^b

(Millions of United States dollars)

Item	1950/51	1951/52
Unexpended balances at beginning of fiscal year ^c	2,160	1,670
Less outstanding commitments.....	1,901	1,643
Uncommitted balances at beginning of fiscal year.....	259	27
New appropriations for fiscal year.....	1,993	1,500 ^d
Funds available for obligation during fiscal year.....	2,252	1,527 ^d

Source: United States Department of Commerce.

^a Under the European Recovery and Mutual Defense Assistance Programs.

^b Twelve months ending 30 June.

^c From previous appropriations.

^d Inclusive of \$478 million transferred by the President on 4 February 1952 from military to economic aid funds.

lar deficits from mid-1951 levels, probably by the use of import restrictions. Some of these countries, however, may be able to supplement their dollar resources from purchases of goods and services by the United States armed forces and their personnel. Payments in respect of such transactions have already increased considerably in Japan,¹⁴ and have begun to rise in western Europe. However, while a large part of western Europe's current dollar deficit in 1951 was attributable to the United Kingdom, it appeared that payments of this type by the United States were more likely to be concentrated on the European continent.¹⁵

With respect to non-western European countries which are not large recipients of economic aid, the fall in their gold and dollar resources resulting from their expanded purchases from and declining exports to the United States in 1951 has already led, in a number of cases, to a renewed tightening of import restrictions. It should be noted, however, that there was an increase in economic aid to some of these countries in 1951, notably to Argentina, India, Yugoslavia and to certain countries in South East Asia.

SIGNIFICANCE OF DEVELOPMENTS FROM 1949 TO 1951

In general, experience during the period from 1949 to 1951 suggests that the tendency to run persistent deficits on current account with the United States remains a fundamental problem facing most countries in greater or lesser measure. The period has been characterized by sharp fluctuations in United States imports

¹³ It must be borne in mind that in practice part of United States disbursements of dollars to western Europe were used to purchase goods and services in countries other than the United States.

¹⁴ Details are given in footnote 9 in this chapter.

¹⁵ United States Department of Commerce, *Survey of Current Business*, September 1951, page 24.

—resulting from relatively much smaller fluctuations in the domestic economy of the United States—the effects of which on the dollar earnings of other countries were superimposed upon a gradually declining volume of economic aid. Most countries outside the dollar area have adjusted themselves to the resulting changes in their dollar positions by relaxation of import restrictions and restocking of dollar goods in times of high dollar receipts and renewed dollar economies when receipts have fallen. The time lags involved in the administrative decisions required for this process of adjustment, together with reinforcing rather than off-

setting speculative capital movements, have caused sharp increases in the gold and dollar reserves of non-dollar countries in some periods, and equally sharp declines in others. On the whole, the effective demand for imports from the United States has been limited through the operation of direct controls rather than by the level of income in the rest of the world. Even in 1950, when gold and dollar reserves were rising, it is likely that the demand for United States goods, in the absence of controls, would have exceeded the supply of dollar resources currently made available by the United States.

Developments in the Balance of Payments of Western Europe and Japan

Substantial progress had been made by the first half of 1950 towards elimination of the very large current deficits which all major industrialized countries other than the United States had been incurring in earlier post-war years. The counterpart of this development was the diminution in the United States surplus on current account noted earlier.

In general, this movement towards closer balance was, between 1948 and the first half of 1950, associated with contrasting movements in the exports of the United States on the one hand, and of the other industrialized countries on the other hand. United States exports tended to fall with the decline in its foreign aid programmes, and with the exhaustion of gold and dollar reserves of other countries, while imports remained unchanged;¹⁶ at the same time the exports of other industrial countries tended to increase more than their imports¹⁷ as their production rose and their most pressing accumulated demands for domestic reconstruction and consumption were gradually met.

The progress made in western Europe during 1949 and the first half of 1950 towards narrowing the gap between exports and imports was accompanied by the emergence of certain difficulties. The United States recession of 1949 and the general alleviation of post-war shortages indicated the end of the period of abnormal post-war sellers' markets, during which western Europe had found no difficulty in successive expansions of its exports. It was against this background that most western European countries devalued their currencies in relation to the dollar in 1949.¹⁸ Although United States economic activity had increased again during the first half of 1950, there were signs of a weakening of demand in a number of other oversea markets, and the total

quantum of exports from the United States and western Europe to these markets declined.

After mid-1950, the increase in world demand which resulted from the repercussions of the Korean conflict temporarily altered the character of the payments problems facing the industrialized countries. In the sellers' market which prevailed for most goods until the early months of 1951, and for capital goods throughout 1951, and in the absence, as yet, of any marked increase in rearmament expenditures, western Europe and Japan were able to expand the volume of their exports to whatever limits were allowed by their available capacity and stocks. Between the first nine months of 1950 and of 1951, the quantum of western Europe's exports to the rest of the world rose by 25 per cent, while imports increased by only 11 per cent. The growth of exports was due particularly to increased demand from the United States and from the countries benefiting from the raw material boom and improved terms of trade.

VOLUME OF EXPORTS AND IMPORTS

In table 42, data are given on the volume of exports and imports of the industrialized countries in 1950 and 1951, the countries being arranged in descending order of the increase in export volume between the first half of 1950 and the first half of 1951. As will be seen, the countries showing the largest increases in export volume between these periods were generally those in which there was substantial excess capacity before mid-1950 and in which productivity rose markedly in 1951 as a result of the fuller utilization of their resources. The relatively high positions in the table of Denmark and the Netherlands, both of which had had relatively full employment of their resources before mid-1950, was

¹⁶ United States imports fell from 1948 to 1949, but returned to the 1948 level in the first half of 1950.

¹⁷ Although the expansion of production gave rise to associated increases in certain types of imports, it also facilitated reductions in imports of an abnormal character, resulting from previous low levels of domestic output.

¹⁸ The devaluations, together with the subsequent United States recovery, contributed to larger increases in the volume of exports than of imports in a number of western European coun-

tries in the first half of 1950. Additional factors in this connexion were the import policies adopted by these countries. Thus, in the United Kingdom, import restrictions introduced in 1949 affected the quantum balance of trade in the first half of 1950. On the other hand, in the Netherlands an expansionist import policy resulted in an actual deterioration of the quantum balance, notwithstanding devaluation. The short-term effects of devaluation on current dollar balances were examined in United Nations, *World Economic Report, 1949-50*.

Table 42. Indices of Quantum of Exports and Imports of OEEC Countries, Japan and the United States,^a 1950 and 1951

(1948=100)

Country and category	1950		1951	
	First half	Second half	First half	Second half
Germany, western:				
Exports	344	526	594	654
Imports	174	234	204	212
Switzerland:				
Exports	95	132	132	140
Imports	84	117	126	111
France:				
Exports	178	222	248	227
Imports	113	103	123	130
Japan: ^b				
Exports	144	200	194	195
Imports	122	113	203 ^c	..
Netherlands:				
Exports	174	234	230	254
Imports	145	149	163	137
Austria:				
Exports	159	213	206	202
Imports ^d	192	181	206	217
Denmark:				
Exports	149	186	192	190
Imports	154	166	162	142
United States:				
Exports	88	91	112	118
Imports	110	127	126	109
Belgium-Luxembourg: ^e				
Exports	113	116	143	135
Imports	99	108	117	108
Italy:				
Exports	118	146	143	146
Imports	119	113	132	128
Turkey:				
Exports	111	140	123	136
Imports	120	146	139	176
Norway:				
Exports	134	140	149	166
Imports	130	112	137	140
United Kingdom:				
Exports	122	132	131	132
Imports	111	106	122	131
Sweden:				
Exports	134	154	142	153
Imports	99	115	133	122
Ireland:				
Exports	117	153	117	158
Imports	111	112	124	106

Source: Statistical Office of the United Nations; Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin* (Paris); International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

^a In descending order of increase in the quantum of exports between the first half of 1950 and the first half of 1951.

^b 1949 = 100.

^c Five-month average.

^d Excluding shipments under the European Recovery Program.

^e The half-yearly data do not reflect revisions made in the annual figures, which are often substantial. For example, the revised 1950 quantum index for exports is 123 and for imports 112 (1948 = 100), compared with the monthly averages for 1950 of 115 and 104, respectively. Revised data for 1951 were not available at the time of going to press and the above half-yearly data must therefore be interpreted with caution.

due to the disinflationary policies followed by their Governments in 1951, which had the effect of increasing exportable surpluses.

In the second half of 1951, United Kingdom exports began to be limited by the shortfall in steel supplies¹⁹ resulting from the sharp reduction in imports of scrap from western Germany, and by the competing requirements of rearmament. A decline in French exports in the second half of 1951 resulted from the effect of export restrictions²⁰ imposed to conserve supplies of foodstuffs, raw materials and other goods and thus to limit the upward trend of domestic prices. All countries, including the above, experienced some weakening of foreign demand for consumer goods in the second half of 1951 as a reaction against previous excess buying.

There were substantial differences in the trend of imports in these countries, and it is striking that in many cases there was little relationship between the increase in imports in 1951 and the increase in industrial production. This was due generally to the magnitude of speculative influences in the second half of 1950. In several cases imports rose considerably in the second half of 1950, reflecting not merely higher output and income, but heavy speculative buying and, in the United States, strategic stockpiling. In other countries, notably

¹⁹ The United Kingdom was thereby compelled to seek imports of steel from the United States for 1952.

²⁰ These included particularly restrictions imposed in February and March 1951 on exports of a variety of foodstuffs, including grains, fats and meat, as well as raw materials and

France and the United Kingdom, imports decreased in the second half of 1950 owing to an accumulation of inventories in the first half of the year in the case of France and to governmental and private buying policy in the United Kingdom.²¹

In several of the countries which had increased their stocks of imported goods in the second half of 1950, the demand for imports generally levelled off or declined in the course of 1951 even though industrial production increased. In four countries, however, the volume of imports increased considerably more than industrial production between 1950 and 1951. In France and the United Kingdom it became necessary in 1951 to replenish stocks of imported commodities which had been allowed to decline in 1950, at prices which had, meanwhile, risen very considerably. The imports of Norway and Sweden also increased sharply in 1951 for reasons which will be indicated below.

EFFECT OF DETERIORATION IN TERMS OF TRADE

While most of the industrialized countries increased the volume of their exports more than the volume of their imports in 1951, the effect of this change upon the current balance of trade of each was considerably affected by the deterioration in the terms of trade—described in the preceding chapter—in all countries ex-

semi-manufactures, particularly steel products, non-ferrous metals, sulphuric acid, raw textiles, chemicals, leather and paper pulp. The incidence of these restrictions was particularly marked in trade with other members of the European Payments Union.

²¹ See discussion of this point in chapter 4.

Table 43. Indices of Import Equivalent of Exports^a of OEEC countries, Japan and the United States,^b 1950 and 1951

(1948=100)

Country	1950		1951	
	First half	Second half	First half	Second half
Germany, western ^c	81	118	127	146
Japan	334	474	479	..
Norway	118	135	155	173
Belgium-Luxembourg	114	114	145	152
Sweden	114	135	144	171
Netherlands	160	200	198	215
France	156	182	186	181
Austria	164	218	187	216
Switzerland	120	160	136	141
Denmark	142	172	160	156
United States	81	77	91	93
Italy	134	160	148	160
United Kingdom	112	116	108	112
OEEC countries ^d	119	134	129	139 ^e

Source: United Nations Department of Economic Affairs.

^a The indices were obtained by deflating current export values by import unit value indices.

^b In descending order of increase between first half of 1950 and of 1951.

^c 1950 = 100.

^d To non-OEEC countries only.

^e Third quarter.

cept Belgium-Luxembourg, Japan, Norway, Sweden and Turkey. In table 43, estimates are given of changes in the import equivalent of exports of the industrialized countries—that is, in the volume of imports which current exports could have purchased, allowing for changes in import prices. The countries are arranged in descending order of the increase in the import equivalent of exports between the first half of 1950 and the first half of 1951. It will be seen that in all but one of the countries whose terms of trade moved adversely after mid-1950, the value of exports rose sufficiently to offset the increase in import prices, so that the import equivalent of exports increased by comparison with the first half of 1950. The United Kingdom is the only country listed in table 43 showing a lower import equivalent of exports in the first half of 1951 than in the corresponding period of 1950, owing to the relatively large deterioration in its terms of trade and the relatively small rise in its export volume. Taking the whole period from 1948 to the first six months of 1951—that is, including the effects of the devaluation of September 1949 as well as the further deterioration in terms of trade after mid-1950—the volume of United Kingdom exports increased by 31 per cent, but the import equivalent of its exports rose by only 8 per cent. In the second half of 1951, the import equivalent of

exports rose in all countries except Denmark and France; the terms of trade tended to improve in this period to some extent.

FACTORS IN CHANGES IN CURRENT BALANCES

In most industrialized countries other than the United States, a sharp reduction in over-all trade deficits during the first six months following the outbreak of the Korean conflict was followed by a renewed increase in deficits during the first half of 1951, as is shown in table 44.

During the second half of 1950, the expansion of their exports, together with the delay by a number of major western European countries in increasing the volume of their imports, had led to a reduction in the total deficit of OEEC countries on current transactions in goods and services by approximately \$1,000 million, compared with the first half of the year.²² This, however, had been associated with reductions in working stocks of imported commodities in several countries, as noted previously. Thus, the increases which occurred in the deficits of most western European industrialized

²² Imports under the Mutual Defense Assistance Program are excluded from this estimate. The deterioration of the terms of trade was relatively moderate during the second half of 1950.

Table 44. Trade Balances^a of OEEC Countries, Japan and the United States, 1950 and 1951

(Millions of United States dollars in current prices)

Country	1950		1951	
	First half	Second half	First half	Second half
<i>Countries with improving current trade balances:^b</i>				
Belgium-Luxembourg	-12	-85	103	255
Denmark	-68	-35	-62	-12
Germany, western	-231	-223	74	245
Netherlands	-275	-162	-313	-22
Norway	-144	-76	-100	-70
Sweden	14	26	-25	196
United States	1,056	368	1,340	2,718
<i>Countries with deteriorating current trade balances:^b</i>				
Austria	-99	-10	-79	-53
France	-37	343	132	-39
Italy	-113	14	-181	-39
Japan ^c	-89	98	-279	..
Switzerland	7	-48	-135	-12
Turkey	-9	16	0	-43
United Kingdom	-282	-10	-1,024	-1,286
OEEC countries ^d	-1,708	-906	-2,327	-1,698 ^e

Source: United Nations Department of Economic Affairs.

^a Exports, f.o.b., less imports, f.o.b. See footnotes a, f and g, to table 45.

^b Between 1950 and 1951 as a whole.

^c Excluding special procurement by the United

States armed forces and Economic Cooperation Administration, not included in the foreign trade statistics. For data on such procurement see footnote 9 in this chapter.

^d Covering trade of all OEEC metropolitan countries with all other countries.

^e Five-month figure at half-yearly rate.

countries between the second half of 1950 and the first half of 1951 resulted, in part, from an expansion of their imports designed to replenish diminishing stocks. In addition, however, exports fell in a number of cases from the peaks reached towards the end of 1950 under the influence of the scare buying of that period, and there was also a considerable deterioration in the terms of trade. In Japan also, the emergence of a foreign trade surplus during the second half of 1950 was followed by renewed deficits resulting from higher imports. Japan's over-all current account deficit more than doubled between the first halves of 1950 and of 1951.

Nevertheless, it may be noted that, in a number of continental OEEC countries, over-all deficits during the first half of 1951, though higher than in the preceding half-year, were still somewhat smaller than they had been during the first half of 1950, owing to the relatively large expansion which had taken place in their exports.

In the second half of 1951, a levelling off or decline in the demand for imports by a large number of industrialized countries, together with a fall in the prices of imported raw materials, resulted in most cases in increased surpluses or reduced deficits on merchandise account. While in most of these countries there was no significant change in the aggregate pressure of domestic demand between the first and second halves of 1951, there was a slackening of demand for imported raw materials and consumer goods, stocks of which were now adequate in relation to current and prospective consumption. In France and the United Kingdom, however, current trade balances deteriorated in the second half of 1951 owing to a continuation of the process of restocking combined, in France, with the effect of export restrictions, and, in the United Kingdom, with the limitation of exports resulting from bottle-necks in the steel industry, and, in both countries, with a decrease in external demand for consumer goods.²³

The interplay of the various factors bearing upon the current merchandise trade balances of the industrialized countries in this period is reflected in the analysis of changes in these balances between 1950 and 1951 contained in table 45. In that table, the movements in the balances are attributed to two main factors: to changes in the quantities of exports and imports and to changes in the prices of exports and imports. In addition, the

²³ See previous discussion of the volume of exports and imports. Notwithstanding the change in the French position from a surplus on merchandise account in the first half of 1951 to a deficit in the second half, the export surplus with the franc area continued to increase, owing to a considerable rise in French investment in that area. The United Kingdom current surplus with the rest of the sterling area also rose in the second half of 1951.

²⁴ The terms of trade effect, as analysed in table 45, may be defined as the difference between the actual value of imports in the first half of 1951 and the value of the same quantum of imports on the assumption that import prices had risen to exactly the same extent as export prices since 1950. In other words, the third column of table 45 gives an estimate of the additional

price factor is further analysed into what may be called the "terms of trade" effect and the effect of changes in the general level of prices. The former of these price factors is solely the result of the relative change in import and export prices, while the latter measures the effect upon the trade balances of the absolute movement in the general price level.²⁴

As can be seen from table 45 there were sharp divergencies in developments in the trade balances of these countries between 1950 and 1951. Particularly significant improvements in trade balances in 1951 were recorded in Belgium-Luxembourg, western Germany and the United States, where the existence of excess capacity at the beginning of 1951 and the sharp rise in productivity in 1951 enabled exports to be increased considerably. In western Germany an additional factor was the restriction on imports imposed early in 1951.²⁵ In Denmark and the Netherlands, moreover, disinflationary governmental policies, as noted earlier, contributed to the relatively greater rise in the volume of exports than of imports. In all these cases except Belgium-Luxembourg, where the terms of trade improved, favourable movements in the quantum balances of trade more than offset adverse developments in prices. In Sweden a very considerable improvement in the terms of trade enabled the volume of imports to be expanded much more than the volume of exports without adverse effects on the trade balance. In Norway, however, the favourable movement in the terms of trade was offset by the effect of the rise in the general price level in increasing the trade deficit; the large increase in the volume of imports was made possible by a corresponding expansion in the volume of exports.

The deterioration of current trade balances in Austria, France, Italy, and Switzerland was due entirely to adverse developments in prices, since the quantum balances of trade in all cases improved. In Japan,²⁶ Turkey and the United Kingdom, however, quantum balances of trade deteriorated as well, owing to large increases in the volume of imports.

One effect common to all countries listed in table 45 except Belgium-Luxembourg and Sweden was that the changes in prices between 1950 and 1951 resulted in increased deficits or reduced surpluses. For all OEEC countries, the total cost of changes in terms of trade

cost of imports in 1951 resulting from the fact that import prices had risen more than export prices.

The effect of a rise (or fall) in the general level of prices in international trade is generally to increase (or decrease) both merchandise surpluses and deficits. In table 45, this effect is indicated in the fourth column.

²⁵ See discussion below of western Germany's position in the European Payments Union.

²⁶ Available data permit a comparison for Japan only as between the first half of 1950 and the first half of 1951. Part of the deterioration in Japan's commercial trade balance shown in table 45 was offset by increased sales of goods to the United States armed forces under special procurement contracts not included in the foreign trade statistics. See footnote 9 in this chapter.

Table 45. Changes in Merchandise Trade Balances of OEEC Countries, Japan and the United States, between 1950 and 1951

(Millions of United States dollars)

Country and category	Change in trade balance in current prices ^a	Change in quantum balance ^b	Terms of trade ^c	General price level ^d	Total price effect ^e
<i>Countries with improving current trade balances:</i>					
Belgium-Luxembourg.....	462	202	228	32	260
Denmark.....	29	116	-89	2	-87
Germany, western.....	772	817	-125	80	-45
Netherlands.....	102	226	-89	-35	-124
Norway.....	50	51	50	-51	-1
Sweden.....	132	-159	359	-68	291
United States.....	2,635	3,019	-1,024	640	-384
<i>Countries with deteriorating current trade balances:</i>					
Austria.....	-24	38	-36	-26	-62
France.....	-212	75	-349	62	-287
Italy.....	-121	29	-134	-16	-150
Japan ^f	-190	-125	39	-104	-65
Switzerland.....	-107	11	-115	-3	-118
Turkey.....	-49	-41	-2	-6	-8
United Kingdom.....	-2,018	-754	-1,110	-154	-1,264
OEEC countries ^g	-1,088	717	-1,519	-286	-1,805

Source: United Nations Department of Economic Affairs.

^a Current merchandise trade balance for 1951 less the corresponding balance for 1950. Exports valued f.o.b. F.o.b. value of imports obtained by deduction of 10 per cent from recorded c.i.f. values, except for the United States, whose imports are recorded f.o.b. See also footnotes f and g.

^b Merchandise trade balance for 1951 revalued at 1950 prices, less the current trade balance for 1950.

^c Computed from the formula $I(Pe-Pi)$. See footnote d.

^d Computed from the formula $(E-I) (Pe-1)$. E, I

are exports, imports in 1951 revalued at 1950 prices; Pe, Pi are export, import unit value indices in 1951 (1950 = 1).

^e Total of preceding two columns.

^f Covering first halves of 1950 and of 1951 only. F.o.b. value for imports estimated by deducting 15 per cent from c.i.f. value in first half of 1950 and 18 per cent in the first half of 1951. See also footnote c to table 44.

^g Covering trade of all OEEC metropolitan countries with all other countries for first nine months of 1950 and 1951. F.o.b. value of imports obtained by deduction of 12.5 per cent from recorded c.i.f. values.

and in the general level of prices between the first nine months of 1950 and of 1951, in transactions with the rest of the world, is estimated at \$1,800 million. An idea of the significance of this figure may be gained from the fact that it is equivalent to nearly 18 per cent of the total value of exports by OEEC countries to the rest of the world in the first nine months of 1951.

The worsening of the terms of trade of the industrialized countries was moderated in some cases by other factors. Countries possessing large investments in areas producing primary commodities benefited from increased income on these investments resulting from the higher prices and volume of exports of raw materials. Again, countries with large merchant marines increased their earnings on shipping account as freight rates reacted to the scarcity in shipping space which developed after mid-1950, owing to the general ex-

pansion in the volume of international trade, and as a consequence particularly of the military shipments over long distances to the Far East, and of the resumption by the United States of coal and grain exports to western Europe.

These factors were of greatest significance in the United States, where increases in net income on private investments and on transport account, together with the rise in the general level of prices, more than offset the effect on the trade balance of the deterioration in terms of trade. The increase in income from investments and shipping in the first half of 1951 was small in relation to the deterioration in terms of trade in Denmark, the Netherlands and the United Kingdom; and in the second half of 1951 the United Kingdom's invisible income from abroad dropped sharply.²⁷ In Norway, however, where the terms of trade improved, the

²⁷ See discussion of United Kingdom balance of payments below. Between the first half of 1950 and the first half of 1951, the increase in the net income of Denmark, the Netherlands and the United Kingdom on account of interest, profits and dividends, and of shipping services, offset less than 20 per cent

of the adverse effects of price changes on the trade balance. It should, however, be noted that transfers of interest, profits and dividends were probably considerably less than actual earnings, a considerable part of which was reinvested.

increase in income on transport account was significant in relation to the current account balance.²⁸

While the tendency for the terms of trade of industrialized countries to improve since mid-1951 has, to that extent, eased the problem of securing an over-all balance in their transactions, other factors coming into play may have an opposite effect. The general weakening of demand for consumer goods and the renewed restrictions applied by a number of primary producing countries on imports of less essential goods, owing to declines in their monetary reserves, imply a greater concentration of the exports of industrialized countries upon precisely those products—namely, of the capital goods industries—the output of which is most likely to be affected by the requirements of defence.²⁹ In addition, other western European countries are likely to be affected by the import restrictions reimposed by France and the United Kingdom late in 1951 and early in 1952.

STRUCTURE OF THE EXTERNAL TRANSACTIONS OF WESTERN EUROPE AND JAPAN

Transactions with the dollar area constituted the major remaining element of imbalance in western Europe's current account with overseas countries in the first half of 1950. This imbalance persisted throughout the period under consideration; it was only temporarily masked during the second half of 1950 when an abnormal increase occurred in United States imports from western Europe while exports continued to fall—thus causing a narrowing of dollar deficits. A new phase of western Europe's dollar problem emerged in 1951. Up to the end of 1950—except for a brief period in 1949³⁰—rising production in western Europe had been associated with declining dollar deficits. Had it been possible for western European countries to continue the process, hitherto under way, of replacing imports from the dollar area by expanding domestic output and taking advantage of increased supplies from overseas non-dollar sources, the dollar gap might have been further reduced in 1951. The further increases in western Europe's output in 1951 were, however, associated in a number of cases with rising, not with falling, dollar deficits. There were several reasons for this reversal of previous tendencies. Part of the fall in dollar deficits in 1950 had simply represented a decline in stocks of dollar commodities³¹ which had to be made good in 1951.

In addition, however, western Europe's basic industries proved insufficiently flexible in output to meet

²⁸ The over-all current account deficit of Norway of \$112 million in 1950 was replaced by a surplus of \$27 million in 1951; the increase in net freight receipts, which rose nearly 70 per cent between these two years, amounted to \$114 million.

²⁹ In the United Kingdom, the Chancellor of the Exchequer announced on 29 January 1952 that the total supply of plant and machinery to the home market for civilian use would be reduced by some £150-200 million, i.e., by about one-sixth, from the level that obtained in 1950 in order that resources might be concentrated on increasing exports and satisfying the needs of defence.

the exceptional demands put upon them after mid-1950. Just as the sudden rise in industrial output in the United States after mid-1950 made it necessary to seek abnormal purchases of steel from western Europe, so western Europe turned once again to the Western Hemisphere for larger quantities of a number of raw materials—particularly coal, petroleum products and timber—and foodstuffs.³² Requirements from the dollar area, were, moreover, all the greater on account of the low level and falling trend of trade with eastern Europe.³³

Finally the accumulation of gold and dollar reserves which had taken place in western Europe in 1950 made it possible to raise imports from the dollar area notwithstanding the declining trend in United States economic aid.

The largest deterioration in the dollar balance occurred in the United Kingdom, whose dollar deficit rose considerably in the first half of 1951 and continued to increase in the third and fourth quarters of that year. Although France's merchandise deficit with the dollar area was smaller in the first nine months of 1951 than in the comparable period of 1950, that country encountered some difficulties towards the end of 1951 as a result of uncertainties regarding the timing and amount of United States aid.³⁴ The problem was complicated in these two countries by speculative capital movements.

In general, even in those cases in which dollar deficits had been somewhat reduced in 1951, the basic problem remained of finding the means to a balance with the dollar area at a high level of trade and at progressively lower levels of United States economic aid. Underlying the specific manifestations of that problem in 1951, indicated above, there persisted certain longer-term structural difficulties. Certain of these have already been discussed in connexion with the examination of the United States balance of payments. Additional problems for western Europe derive from the fact that, under normal conditions, western Europe's manufactured exports have a rather limited market in North America, which is itself a competing producer of manufactures, while at high and rising levels of activity western Europe has still not found the means for dispensing with large-scale imports of the food and raw materials of which North America is also the most important producer. For example, recent estimates of the Coal Committee of the Organisation for European Economic Co-operation suggest that, assuming a 25 per cent increase in the gross national products of western

³⁰ The period of the United States recession.

³¹ See, for example, footnote 49 in this chapter.

³² Expenditures in dollars (including dollar freight) upon imports of coal alone by western Europe from the United States in 1951 may have been of the order of \$450 million. In 1950 these imports had been very small.

³³ See chapter 7.

³⁴ It was subsequently announced that France could expect to receive \$600 million during the year ending in June 1952 in the form of aid or United States military purchases.

European countries by 1956, western Europe would still have an over-all deficit in coal output of 25 million to 35 million tons a year.

In addition, opportunities for western Europe to earn a surplus of dollars through transactions with countries outside North America appeared to be virtually confined to dollar transfers from affiliated currency areas; other countries during this period continued to use their dollar resources to increase their imports from the United States, to reduce dollar indebtedness or to add to reserves. In the absence of a major shift from the United States to western Europe as a source of imports for other countries, the persistent dollar problem would be soluble for many of the western European countries only in terms of a direct balancing of transactions with the United States.

Exports to the United States of goods and services³⁵ from continental western Europe³⁶ during the year 1951 reached a very high level, though much of United States buying from western Europe in this period was related to temporary domestic shortages in products which the United States does not normally import from abroad in large quantities.³⁷ On the assumption that this level of exports is maintained, it would require a reduction of at least one-third in the rate of continental western Europe's non-military imports from the United States in 1951 to achieve approximate balance with the United States on current transactions in non-military goods and services.

So far as non-dollar transactions were concerned, western Europe had considerably reduced its deficit

³⁵ Excluding military purchases by the United States in western Europe.

³⁶ The United Kingdom dollar problem is examined further below.

³⁷ Between the first halves of 1950 and of 1951, the rise in imports of steel mill products and chemicals alone accounted for almost half of the rise in the value of United States imports from western Europe, although the share of these two groups in

with the non-dollar area as a whole by the first half of 1950; the abnormal expansion of exports during the second half of the year, when the deterioration in terms of trade was as yet relatively moderate, accelerated this process temporarily.³⁸

In the first half of 1951, however, as shown in table 46, the deterioration in the terms of trade of western Europe resulted in a reversal of this trend, particularly with respect to the oversea sterling area — a leading source for certain primary materials whose prices had soared since mid-1950. The effect of this was concentrated in the United Kingdom, since continental western Europe was able for the time being to offset its increased deficit with the oversea sterling area by a surplus with the United Kingdom. The implications of these developments are examined further below.

Japan had a greatly increased deficit with the dollar area on non-military transactions in the first half of 1951, reversing the previous tendency towards reduction of dollar deficits as United States grants in aid declined. This increase in the deficit was the result of a liberalizing of imports and replacement from United States sources of certain goods previously obtained from the mainland of China.³⁹ The increased deficit was financed in part from dollar receipts from the United States through continued grants in aid and also purchases of goods and services in connexion with the Korean war.⁴⁰ It became necessary, however, to draw upon reserves to finance part of the deficit. At the same time, Japan was accumulating surpluses in sterling, which, under an agreement with the United Kingdom of September 1951, it could no longer require to be converted into dollars.

total United States imports from western Europe had been less than 10 per cent during the first half of 1950.

³⁸ The United Kingdom had had current account surpluses with oversea non-dollar countries since 1947.

³⁹ Primarily rice, salt, soya beans, coking coal and iron ore. See chapter 7.

⁴⁰ See footnote 9 in this chapter.

Table 46. Oversea Balance of Trade^a of OEEC Countries, 1948, 1950 and 1951

(Millions of United States dollars; half-yearly figures)

Merchandise trade balance	1948 ^b	United Kingdom				1948 ^b	Other OEEC countries			
		1950		1951			1950		1951	
		First half	Second half	First half	Third quarter ^b		First half	Second half	First half	Third quarter ^b
With dollar area . .	-456	-191	-150	-302	-618	-1,470	-879	-602	-767	-1,048
With other non-OEEC countries	-145	-137	155	-579	-462	-571	-398	-362	-688	60
With oversea sterling area . .	184	112	280	-175	167	-150	-339	-327	-606	-313
Total with non-OEEC countries	-601	-328	5	-881	-1,080	-2,041	-1,277	-964	-1,455	-988

Source: Statistical Office of the United Nations.

^a Exports, f.o.b., minus imports, f.o.b.; the latter figures were

obtained by deduction of 12.5 per cent from c.i.f. imports.

^b Half-yearly average.

It was intended, moreover, that United States aid to Japan should cease from mid-1951. Some readjustment of transactions with the sterling and dollar areas therefore became necessary. Import allocations by Japan

in the second half of 1951 were therefore designed to reduce dollar imports and at the same time to increase imports from the sterling area and other non-dollar countries.⁴¹

The Problem of Intra-European Payments

The payments problems confronting western Europe during the period under consideration were not confined to those associated with external balance but concerned also the internal payments relations among western European countries themselves.

The establishment of the European Payments Union in mid-1950 had as its primary objective the introduction of a partial convertibility of western European currencies. Together with the measures taken by the OEEC countries from November 1949 onwards to relax restrictions on private trade in goods and services among western European countries, it was designed as a step in a process which, it was hoped, would ultimately lead to a wider restoration of non-discriminatory trade and convertibility of currencies.

With the introduction of the European Payments Union, the formal distinction between hard and soft currencies was abolished, since proceeds of exports to a soft currency country had the same value in the clearing as equivalent exports to a hard currency country. Thus, there was no longer any incentive for countries to balance their transactions bilaterally and, in particular, to balance their payments with the hard currency area of western Europe. It was, indeed, a primary objective of the new system to abolish these processes. In place of these incentives, however, there began to develop a tendency to concentrate exports upon countries in which a relatively high degree of liberalization and domestic demand had increased the market for imports. In this way, deficits and surpluses rapidly began to be concentrated in a few countries, giving rise to serious problems of settlement.

In the first nine months of the union's operations, the dominant influences were the creditor positions of France and the United Kingdom, and the deficit of western Germany as indicated in table 47. The United Kingdom surplus, by far the largest, resulted partly from the increased volume and prices of oversea sterling area exports of raw materials to continental western Europe, partly from a lag in United Kingdom imports during the second half of 1950 while exports rose, and finally, from an inflow of speculative capital into the United Kingdom in anticipation that sterling would appreciate in relation to the dollar. France, which together with the United Kingdom accounted for well over half of the gross surpluses in the European Pay-

ments Union up to the end of March 1951, and for over 80 per cent of the net surpluses, had accumulated inventories of imported goods in the first half of 1950; thus, exports rose sharply in the second half of 1950 in response to increased foreign demand and the liberalization of trade in other countries, while imports fell.

Table 47. Cumulative Net Positions in European Payments Union, 31 March 1951 and 31 December 1951

(Millions of units of account^a)

Member country and associated monetary area ^b	Cumulative net positions, surplus (+) or deficit (-)	
	31 March 1951	31 December 1951
Austria	-82.6	-130.6
Belgium-Luxembourg	+89.5	+601.5
Denmark	-41.0	-32.3
France	+271.3	-199.7
Germany, western	-456.9	+36.0
Greece	-93.7	-186.7
Iceland	-3.9	-8.5
Italy	-83.5	+194.7
Netherlands	-192.7	-50.0
Norway	-73.9	-69.6
Portugal	+63.4	+96.5
Sweden	-45.7	+177.5
Switzerland	+26.5	+141.2
Turkey	-10.8	-98.2
United Kingdom	+633.9	-471.8
Total	±1,084.6	±1,247.4

Source: Twenty-first annual report of the Bank for International Settlements; and Press release of the European Payments Union, 12 January 1952.

^a Equivalent to United States dollars.

^b Ireland and Trieste are included in the monetary areas of the United Kingdom and Italy, respectively. All dependent territories are included with the respective metropolitan countries; the United Kingdom entry also includes the independent members of the sterling area.

Neither the United Kingdom nor the French surpluses of themselves caused serious difficulties in the union's operations.⁴² However, the surpluses were concentrated in large part upon western Germany, and it was in this respect that serious problems arose. The growth of the

⁴¹ On 17 February 1952 the Japanese Ministry of Finance stated that measures would be taken to limit exports to the sterling area as well as to increase imports from that area.

⁴² This was due to the relatively large quotas of these countries, requiring them to advance substantial credit to the union in respect to their surpluses; to the "initial debit balance" allotted to the United Kingdom against conditional dollar aid from the United States; and to the fact that certain "existing resources" in the form of sterling balances could be used for settlement of deficits.

western German trade deficit with the European Payments Union area between the first and second halves of 1950 resulted largely from an increase in demand for imports, especially raw materials, associated with a continuing growth in industrial production, as well as for speculative purposes. The soaring prices of raw materials further aggravated the difficulty. At the same time, western Germany was increasing its exports, but, owing to the longer delivery periods involved, particularly for capital goods exports, there was a time lag between the rise in imports and returns from exports. There appears also to have been a substantial speculative outward movement of capital—largely to the United Kingdom in anticipation of an appreciation of sterling.

In addition, western Germany had been allotted a quota of only \$320 million in the European Payments Union, on the basis of its trade in 1949, though in fact there had been a very large increase in its foreign trade since that time. The western German quota was later, in July 1951, increased to \$500 million, but for the time being the low quota served to limit the amount of credit from the union upon which western Germany could draw.

The deterioration in western Germany's position had already become apparent in October 1950, and in December 1950 the Council of the Organisation for European Economic Co-operation decided that one-third of western German accounting deficits in excess of the quota should be settled in gold or dollars, and the remainder by a special credit up to \$120 million. In addition, western Germany undertook to restrict the volume of domestic credit as a means of reducing the demand for imports. These measures proved insufficient, however, and in the middle of February 1951, western Germany decided to suspend its liberalization of imports. Thereafter the situation was brought rapidly under control; from March 1951, western Germany began to show surpluses with the European Payments Union, and succeeded in repaying the special credit by the end of May 1951.

During the last three quarters of 1951, there were substantial changes in the leading surplus and deficit positions in the European Payments Union as indicated in table 47. In the first place, both the United Kingdom and the French surpluses were greatly reduced, and ultimately replaced by deficits. The United Kingdom, after consultation with the Managing Board of the European Payments Union regarding its large accumulated surplus, had further reduced its quantitative restrictions on imports from the other OEEC countries, had increased allocations of foreign exchange for tourists, had expanded purchases of defence materials from member countries and had further relaxed restrictions on the use of sterling by continental western European

countries. Simultaneously, oversea sterling countries were increasing their purchases on the continent of goods which were becoming difficult to obtain in the United Kingdom, while their exports declined more than seasonally after the middle of the year owing to the fall in raw material prices. France had also relaxed import restrictions and exchange controls, temporarily suspended certain tariffs, and extended liberalization measures to additional oversea territories, while exports fell, largely under the influence of export restrictions.⁴³ The consequent deterioration in the balance of payments positions of France and the United Kingdom was accompanied by an appreciable flight of capital.

As a result of the serious drain on the gold and dollar reserves of the United Kingdom during the second half of 1951, to which gold losses to the European Payments Union had contributed, the United Kingdom imposed import restrictions, in November 1951, having the effect of reducing the percentage of liberalization of its imports from western Europe on private account from over 90 per cent to approximately 60 per cent. The effect of these restrictions on other countries was expected to be moderated only in part by the fact that western Germany was to reintroduce some relaxation of its import restrictions from 1 January 1952.⁴⁴

The most serious problems, however, arose in relation to the position of Belgium-Luxembourg, the surplus of which passed the limit of its quota during August 1951. Belgium-Luxembourg had a large capacity for the production of heavy goods in relation to its requirements for domestic investment and was therefore able to expand exports very considerably in 1951. In the first half of 1951, the Belgian creditor position was due largely to its persistent surplus with the Netherlands, resulting from the very extensive liberalization of transactions between the two countries in preparation for a customs union.⁴⁵ From August, however, the Netherlands also began to register surpluses with the union, while the Belgian surplus continued to increase, largely owing to increased exports to the United Kingdom and the rest of the sterling area. Special arrangements were therefore made whereby Belgian surpluses in excess of its quota were to be financed as follows: 50 per cent by gold payments by the union and 50 per cent by Belgian credits to the union, while surpluses in the last quarter of 1951 were to be settled up to \$80 million in gold and the remainder in credit. Belgium itself took steps to restrict dollar imports and to encourage imports, particularly of capital equipment, from western Europe. On the other hand, an attempt was made to increase exports to the dollar area rather than to western Europe. To this end, there was a tightening of export licensing, and 5 per cent of the proceeds of exports to western Europe were blocked by the Bel-

⁴³ See footnote 20 in this chapter.

⁴⁴ In February 1952 the French Government also took steps to restrict imports from other OEEC countries.

⁴⁵ The percentage of liberalized trade with Belgium-Luxembourg was reduced by the Netherlands from 95 per cent to 60 per cent for the fourth quarter of 1951.

Table 48. Financing of Net Accounting Surplus or Deficit of Selected Countries in European Payments Union, at end of December 1951

(Millions of units of account^a)

Member country and associated monetary area ^b	Quota	Total accounting surplus (+) or deficit (-) ^c	Settlements within quota		Settlements outside quota ^d	
			Credit granted by (+) or to (-) member	Gold received (+) or paid (-) by member	Credit granted by member (+)	Gold received by member (+)
<i>Surplus countries:</i>						
Belgium-Luxembourg	360 ^e	+590.7	+198.4	+132.2	+142.9	+117.2
Italy	205	+237.7	+123.0	+82.0	+16.3	+16.3
Portugal	70	+97.4	+42.0	+28.0	+14.9	+12.5
Sweden	260	+171.4	+111.7	+59.7	—	—
Switzerland	250	+141.9	+96.0	+46.0	—	—
<i>Deficit countries:</i>						
France	520	-184.0	-168.0	-16.0	—	—
United Kingdom	1,060	-712.1	-539.2	-172.9	—	—

Source: Press release of European Payments Union, 12 January 1952.

^a Equivalent to United States dollars.

^b See footnote b to table 47.

^c The accounting surpluses or deficits differ from the cumulative net surpluses or deficits given in table 47, by the amounts of any initial credit or

debit balances used, and net use of "existing resources"—for example, sterling balances.

^d In accordance with special decisions of the Council of the Organisation for European Economic Co-operation.

^e Owing to the establishment of an "initial debit balance" for Belgium-Luxembourg of 29.4 million units, the quota can be used to cover surpluses for an amount not exceeding 330.6 million units.

gian National Bank for a period of six months;⁴⁶ subsequently a small export tax of 1 to 3 per cent was introduced. Capital exports to western European countries, except Switzerland, were freed, and a system for the scrutiny of payments from other countries was introduced in order to prevent inward speculative capital movements.

As indicated in table 48, the surpluses of Italy and Portugal likewise rose in excess of their quotas in the second half of 1951, and the Swiss surplus also increased considerably. All these countries took measures to reduce their surpluses similar to those taken in Belgium-Luxembourg.⁴⁷

The preceding sketch of major developments in intra-European payments from mid-1950 to the end of 1951 suffices to indicate the nature of the problems resulting from attempts to liberalize trade and payments within a limited area of the world. In the first place, there is obviously no reason, under existing conditions, why any particular western European country should be in over-all balance, even in the long run, with the rest of western Europe. This was recognized at the time of establishment of the European Payments Union through

the provision of "initial" credits and debits for countries considered to be "structural" debtors or creditors, respectively, *vis-à-vis* the rest of western Europe, the initial debit balances of structural creditor countries being offset by "conditional" dollar aid from the United States. No new set of balances was worked out for the second year of the union's operations. Consequently, persistent surpluses or deficits of a structural character were bound to raise problems of settlement in the longer run. At this stage, in the absence of measures making for corrective adjustments in the demand for imports of surplus and deficit countries, two alternatives were possible: either to provide full settlement in gold to a country such as Belgium-Luxembourg, whose surplus was in excess of its quota; or, by failing to provide full settlement in gold and thus requiring further advances of credit from Belgium-Luxembourg, to compel that country to reorient the structure of its foreign trade as between western Europe and other areas. The former method meant, in effect, that the rest of western Europe would be paying in gold or dollars for its surplus of imports from Belgium-Luxembourg while similar imports from the dollar area were subject to much more stringent controls. In addition, the resources of the

⁴⁶ These measures were intended to have the same effect as import restrictions against Belgium-Luxembourg by other western European countries would have had. There is the difference, of course, that measures taken by Belgium-Luxembourg to discourage exports to western Europe can be easily abandoned, if necessary, by Belgium-Luxembourg, whereas import restrictions by other countries might tend to persist after the need for them had passed. From 20 January 1952, it was decided to block 5

to 10 per cent of the proceeds of Belgium-Luxembourg's exports to western Europe for six months, the percentage to depend in each case upon the strength of foreign demand for the particular product. In March 1952 the upper limit of the percentage amounts to be blocked was raised to 25 per cent.

⁴⁷ The Swedish surplus was due to somewhat different factors from the above, being the result of very favourable developments in terms of trade.

union would not necessarily permit such a policy to be followed.⁴⁸

The latter method, which was the one actually followed, implied a definite retreat from the policy of greater freedom in international trade and payments. It is, in a sense, paradoxical that Belgium-Luxembourg which, throughout the post-war period, has had fewer discriminatory restrictions on its dollar trade and payments than practically any other European country, should have been compelled to introduce such restrictions in 1951—at a time when its own dollar balance did not call for such a measure—in the interests of preserving the liberalization of trade and payments in western Europe.

This development serves to emphasize the fact that the problem of the internal balance of western Europe is inextricably related to that of its balance with the rest of the world. If the structural surplus of an individual country with the European Payments Union cannot be used—or can be used only in part—to finance deficits which that country incurs elsewhere, a conflict inevitably arises between the liberalization of trade and payments among members of the union on the one hand and between member and non-member countries on the other.

There is, however, an additional aspect to the problem of balance among a group of countries which have liberalized their trade and payments with one another. One of the most important factors determining the configuration of surpluses and deficits within such a group will be the levels of income and demand in the respective countries. It will be recalled that domestic economic developments in the respective countries had largely been responsible, with some exceptions, for the earlier division of western Europe into “hard” and “soft” currency countries; the latter, broadly speaking, had consisted of those in which there was a relatively high level of domestic investment and demand, and

which had been compelled to limit their consequent import surpluses by means of direct controls; the former, characterized by a relatively lower level of internal demand, had undertaken a greater liberalization of their foreign transactions. Under any system in which trade and exchange controls were removed by both groups of countries, the degree of balance achieved depended on how far individual countries kept in step with respect to domestic income and demand. The reappearance of chronic surpluses in Belgium-Luxembourg, Italy, Portugal and, to a lesser extent, in Switzerland suggests that the previous division of western Europe into hard and soft currency countries may have recurred in another form.

Undoubtedly one of the major elements in the fluctuations in intra-European surpluses and deficits in 1950 and 1951 was the character of inventory changes in the various countries, to which reference was made earlier. In addition, however, the imbalance in intra-European payments at the end of 1951 was closely related to the fact that one group of western European countries was, at current levels of domestic investment and arms expenditures, able to undertake a sufficiently large expansion in production for export, particularly of capital goods, to more than offset increases in imports, while the other group was not able to do so. The problem confronting the deficit countries was, therefore, how far they would attempt to accommodate their domestic requirements for investment goods to the needs of their foreign balance; or how far they would go back on the liberalization of their trade, thus returning, in effect, to the type of solution for this problem employed before mid-1950. Similarly, the problem facing the surplus countries was how far—if they did not wish, as a matter of long-run policy, to continue advancing credits to the rest of western Europe, nor to reorient the direction of their trade by administrative controls—they would be prepared to take such expansionist domestic measures as would have the effect of increasing their demand for imports.

Special Position of the United Kingdom

The United Kingdom occupies a dual position in international trade and payments. As a large importer of raw materials, the United Kingdom was among those countries which suffered the largest deterioration in terms of trade after mid-1950. On the other hand, the spectacular increases in the prices of sterling area raw materials in 1950, and the larger volume of imports of these materials by the United States, contributed con-

siderably to the exceptional rise in the gold and dollar reserves held by the United Kingdom for the sterling area.

Largely by virtue of the special character of the United Kingdom's position in international trade, that country underwent some remarkable fluctuations in its international transactions within the space of a single year. In the fourth quarter of 1950, the United Kingdom

⁴⁸ Thus, during part of the period in which Belgium-Luxembourg was receiving large gold payments, the leading deficit countries, France and the United Kingdom, owing to their relatively large quotas, were receiving credit from the union and were not reimbursing the union for its payments to Belgium-Luxembourg. As a result, the union's gold and dollar reserve fell

from \$368 million at the end of July 1951 to \$179 million at the end of October 1951. Subsequently, as the deficits of France and the United Kingdom rose to the point at which progressively increasing gold payments to the union had to be made, the union's gold and dollar reserve recovered and had reached a level of \$217 million by the end of 1951.

was adding to its gold and dollar reserves at an annual rate of nearly \$2,200 million, while in the corresponding quarter of 1951 it was losing these reserves at the rate of \$3,700 million a year. At the beginning of 1951, the United Kingdom, representing the whole of the sterling area, was by far the largest creditor country in the European Payments Union; by the end of November 1951, it had become the largest debtor. While in the summer and autumn of 1950 there had been a large inflow of speculative capital into the United Kingdom in anticipation of the appreciation of sterling, by the third quarter of 1951 the flow had been reversed in the expectation that sterling might be devalued even though there had been no important change in the price competitiveness of United Kingdom exports and despite the fact that one of the major difficulties confronting the country was the already serious lag in the rise of export prices behind import prices. It will be convenient first to examine the United Kingdom's own over-all balance on current account with the rest of the world; secondly, transactions between the United Kingdom and the rest of the sterling area on the one hand and the dollar area and continental western Europe on the other; and finally, the United Kingdom's transactions with the rest of the sterling area.

OVER-ALL BALANCE OF THE UNITED KINGDOM

In 1950, the United Kingdom was in substantial over-all surplus on current account. However, there were certain temporary elements in the situation contributing to the surplus. Of these the most important were the abnormal increase in exports in the second half of 1950 reflecting the scare buying of that period, and the low level of imports resulting from the withholding of

⁴⁹ The Chancellor of the Exchequer stated to Parliament on 13 February 1951 that "the fall during 1950 in stocks of raw materials (excluding petroleum) of which substantial proportions are or have been obtained from dollar sources, was about £40 million valued at end-1950 dollar prices". Since stocks of

governmental and private purchases up to the middle of the year and even beyond. For the latter reason, part of the surplus of 1950 must, as noted previously, be offset against the fall in stocks of imported raw materials.⁴⁹

It was anticipated in the *Economic Survey for 1951*⁵⁰ that the effect of a rising volume of imports at considerably higher prices in 1951 would more than offset the expected increase in exports, so that the active current balance of 1950 would be eliminated. It was expected, in addition, that strategic stockpiling amounting to £100 million in 1951 would result in a deficit to that extent, this however being equivalent to "exchanging asset for asset, or matching asset against increased liability".⁵¹

As may be seen from table 49, the current account deficit of the United Kingdom in 1951 was much larger than had been foreseen, owing to deteriorations on both visible and invisible accounts. The main factors in the growth of the visible deficit—over and above the adverse movement already contemplated in the *Economic Survey for 1951*—were the larger rise in the quantum of imports⁵² and the greater deterioration in terms of trade than expected. The significance of these factors has already been examined. Major elements in the very large decline in the invisible surplus in the second half of 1951 were the fall in income from oil transactions resulting from the nationalization of the petroleum industry in Iran and the conclusion of new agreements with other countries in the Middle East; a sharp in-

non-dollar primary products were also allowed to fall, it is evident that a significant proportion of the United Kingdom current surplus of £244 million in 1950 was attributable to the decline in raw material stocks.

⁵⁰ Cmd 8195 (London, 1951).

⁵¹ *Economic Survey for 1951*, paragraph 90.

⁵² It is likely that a significant part of the greater increase in import quantum than expected was due to the extensive liberalization of imports from OEEC countries referred to earlier.

Table 49. Balance of Payments of United Kingdom on Current Account, 1950 and 1951

(Millions of pounds sterling; annual rates)

Item	1950 actual	1951 forecast ^a	1951 actual	
			First half	Second half
Imports, f.o.b.	2,372	3,300 ^b	3,292 ^b	3,702 ^b
Exports and re-exports, f.o.b.	2,225	2,750	2,620	2,796
Merchandise trade balance	-147	-550	-672	-906
Invisible account (net)	391	450	486	50 ^c
Balance on current account	244	-100	-186	-856

Source: United Kingdom, *Economic Survey for 1951*, Cmd 8195, and *Balance of Payments, 1948 to 1951*, Cmd 8505.

^a In the *Economic Survey for 1951*.

^b Including stockpiling, forecast in the *Economic*

Survey for 1951 as £100 million for the entire year 1951.

^c Payment of £39.3 million was made at the end of 1951 in interest on the Canadian and United States loans of 1946. This payment is, of course, included at an annual rate in the above table.

Table 50. The Net Gold and Dollar Balance of the Sterling Area, 1948 to 1951
(Millions of dollars; annual rates)

Item	1948	1949	1950	1951	
				First half	Second half
<i>Transactions with dollar area:</i>					
United Kingdom account:					
Imports, f.o.b.	1,629	1,604	1,203	1,702	2,394
Exports and re-exports, f.o.b.	761	672	865	1,052	1,084
Invisible account (net)	-198	-206	38	28	-566 ^a
Balance on current account	-1,066	-1,138	-300	-622	-1,876
Repayment of government loans	-101	-52	-103	-82	-206 ^a
Change in sterling liabilities	5	31	135	-38	-192
Other transactions	-141	38	361	202	-118
Total United Kingdom balance with dollar area	-1,303	-1,121	93	-540	-2,392
Rest of sterling area account:					
Total balance with dollar area of:					
Dependent oversea territories	164	149	371	656	244
Other sterling area countries	-474	-530	62	210	-628
Gold sales to the United Kingdom	222	234	281	230	206
Total balance of rest of sterling area	-88	-147	714	1,096	-178
<i>Transactions with non-dollar areas:</i>					
Net gold and dollar receipts from or payments to (-):					
Other Western Hemisphere	-36	-7	27	—	-2
OEEC countries	-178	-151	-1	212	-400
Other non-sterling countries	-73	-99	-15	70	-178
Non-territorial organizations	-32	-6	-13	-10	-6
Total net gold and dollar transfers	-319	-263	-2	272	-586
Total net gold and dollar balance	-1,710	-1,531	805	828	-3,156

Source: United Kingdom, *Balance of Payments, 1948 to 1951*, Cmd 8505.

^a Payments made at the end of 1951 of \$110.7

million in interest and \$65.5 million in principal on the Canadian and United States loans of 1946 affect the "invisible" and "repayment" items, respectively.

crease in out-payments on shipping account, particularly to OEEC countries; and the payments which fell due on the Canadian and United States loans of 1946. Only the latter had been foreseen in the *Economic Survey for 1951*.⁵³

TRANSACTIONS WITH THE DOLLAR AREA AND WESTERN EUROPE

Between 1949 and 1950, as shown in table 50, the sterling area as a whole changed a net gold and dollar deficit of \$1,531 million into a surplus of \$805 million. Of this total favourable movement of \$2,336 million, \$1,214 million—just over one-half—was attributable to transactions of the United Kingdom itself. Most of the

⁵³ Of the total adverse movement of £218 million in the invisible account between the first and second halves of 1951, £39.3 million represented interest payments to Canada and the United States; £40 million represented a decline in net earnings on shipping account, while the miscellaneous credit item in the United Kingdom balance of payments which includes oversea transactions of United Kingdom oil companies showed a decline of £99 million. There was also a seasonal increase of £18 million in net travel expenditures; and a contra-seasonal fall of £11 million in interest, profit and dividend receipts, probably resulting from a decline in earnings on investments in oversea sterling area raw material production.

change in the United Kingdom account was due to larger exports and smaller imports of goods and services. However, a significant proportion of the total improvement was due to capital inflows of an abnormal character, associated with speculation on the appreciation of sterling in the second half of 1950.⁵⁴

The rest of the sterling area contributed rather more than one-third of the over-all improvement in the sterling area gold and dollar position between 1949 and 1950, the main factors being the reduction of imports from the dollar area, under the 1949 agreement to restrict dollar imports to 75 per cent of the 1948 level,⁵⁵ and the expansion of raw material exports to the United States.

Between 1950 and the first half of 1951, the United Kingdom experienced a deterioration on both current

⁵⁴ This was partly reflected in the increase of over \$130 million in dollar area holdings of sterling balances between 30 June and 31 December 1950. In addition, the item entitled "other capital transactions" in the United Kingdom gold and dollar account showed a favourable movement of \$289 million between 1949 and 1950; it is possible that a substantial or major part of this amount reflects speculative capital inflow.

⁵⁵ These restrictions were, however, progressively relaxed after mid-1950.

and capital transactions with the dollar area, while the rest of the sterling area had an even larger surplus on dollar transactions than in the first and second halves of 1950. The increase in the current United Kingdom dollar deficit in the first half of 1951 was due to a much larger expansion in imports than in exports, owing to commercial restocking and strategic stockpiling.⁵⁶ The change in the United Kingdom capital account in the first half of 1951 was due mainly to the cessation of the abnormal dollar capital inflow of the second half of 1950.

Both the dependent territories and the independent members of the sterling area increased their dollar surpluses considerably in the first half of 1951, offsetting the major part of the deterioration in the United Kingdom dollar position.

Finally, there was a continued improvement in dollar transactions with non-dollar countries, and, in particular, the large credit position of the sterling area in the European Payments Union gave rise to partial settlements in dollars.

In the second half of 1951, the sterling area had a net gold and dollar deficit of \$1,578 million—a deterioration of nearly \$2,000 million compared with the position in the first half of the year. The United King-

⁵⁶ Of the total increase of \$845 million in the imports (f.o.b.) of the United Kingdom from the dollar area between 1950 and 1951, \$515 million was accounted for by higher raw material imports, mainly of coal, petroleum and timber. Increased imports of foodstuffs, mainly grain and sugar, accounted for another \$211 million; and tobacco for \$70 million. Imports of machinery and vehicles increased by only \$40 million.

dom trade deficit with the dollar area rose by \$330 million owing to continued increases in imports for commercial restocking and strategic stockpiling, and the replacement of oil imports from Iran. At the same time, the dollar surplus of the oversea sterling area was replaced by a deficit, representing a deterioration of \$637 million. This resulted from a more than seasonal decline in the volume and prices of raw material exports to the United States, and to increased dollar imports, primarily by the independent members of the oversea sterling area. It is noteworthy that in 1951 as a whole United Kingdom imports from the dollar area were, in current value, over 25 per cent higher than in 1948 and the imports of the independent members of the sterling area, other than the Union of South Africa, more than 35 per cent higher. The dollar imports of the dependent oversea territories, on the other hand, were in current value 35 per cent lower in 1951 than in 1948, and these countries are the only ones in the sterling area which have consistently contributed to the dollar pool during recent years.

The growing deficit of the entire sterling area with other OEEC countries in the second half of 1951, resulting from the liberalization of trade and payments with these countries, gave rise to gold losses of \$200 million⁵⁷ in the second half of 1951, compared with net receipts of \$106 million in the first half of the year.

⁵⁷ Of this loss \$40 million was reimbursed to the United Kingdom by the United States, in accordance with an agreement relating to the use of sterling balances by net debtors to the European Payments Union.

Table 51. Financing of Sterling Area Gold and Dollar Balance, 1949 to 1951
(Millions of United States dollars)

Period	Net gold and dollar surplus or deficit(-)	Canadian credit ^a	Fund drawings ^b	ERP aid ^c	Addition to gold and dollar reserve (decrease(-))	Gold and dollar reserves at end of period
1949:						
First quarter	-330	30	32	324	56	1,912
Second quarter	-632	30	—	339	-262	1,651
Third quarter	-539	29	—	284	-225	1,425
Fourth quarter	-31	27	20	247	263	1,688
1950:						
First quarter	40	27	—	230	297	1,984
Second quarter	180	18	—	240	438	2,422
Third quarter	187	—	—	147	334	2,756
Fourth quarter	398	—	—	145	544	3,300
1951:						
First quarter	360	—	—	98	458	3,758
Second quarter	54	—	—	56	109	3,867
Third quarter	-638	—	—	40	-598	3,269
Fourth quarter	-940	—	—	6	-934	2,335

Source: United Kingdom, *Balance of Payments, 1948 to 1951*, Cmd 8505.

^a To United Kingdom.

^b From International Monetary Fund, by rest of sterling area.

^c European Recovery Program aid to United Kingdom and Ireland.

The factors thus far considered—the growing United Kingdom dollar trade deficit, the elimination of the dollar surplus of the oversea sterling area, and the gold and dollar losses to other OEEC countries—account for less than \$1,300 million, or about two-thirds of the total deterioration in the sterling area's gold and dollar position in the second half of 1951. A further \$176 million became due at the end of 1951 for payment of interest and principal on the 1946 Canadian and United States loans to the United Kingdom. There was also a deterioration in the United Kingdom's invisible account in respect of oil transactions, and in dollar transactions with non-dollar countries other than those in the European Payments Union. Finally, there were significant movements of speculative capital. Holdings of sterling in Canada and the United States had been unusually high since the speculation on the appreciation of the pound towards the end of 1950; part of these holdings were converted into dollars in the second half of 1951.

⁵⁸ It was also decided that the sterling area crisis could not be overcome "by negative and restrictive methods alone". The situation required that the sterling area should be in balance with the rest of the world and with the dollar area by the second half of 1952, and that for some years to come the area should be in surplus with the rest of the world, and with the dollar

There was probably also some speculative outflow of capital from the United Kingdom.

In view of the drastic decline in the gold and dollar reserve of the sterling area pool in the second half of 1951, it was decided by a meeting of Commonwealth ministers in January 1952 that concerted efforts would be made to reduce the level of expenditures on dollar imports in 1952.⁵⁸ The fact that considerable increases had occurred in stocks of dollar goods in sterling area countries in 1951 is likely to facilitate such reductions for a time.

The course of events with respect to sterling area transactions with other countries participating in the European Payments Union was similar in several respects to developments *vis-à-vis* the dollar area, and has already been reviewed above.

TRANSACTIONS WITH THE REST OF THE STERLING AREA

The major problem confronting the United Kingdom at mid-1951 in respect of its economic relations with area. This would necessitate all possible measures to combat inflation; and to increase the productive power of the area—where necessary by adequate investment, including investment from outside the sterling area. In addition it would be "a definite objective to make sterling convertible and keep it so".

Table 52. Liabilities of United Kingdom to Rest of Sterling Area, 1948 to 1951
(Millions of pounds sterling)

Rest of sterling area transactions	1948	1949	1950	1951	
				First half	Second half
Current deficit with the United Kingdom.....	-232	-266	-234	-68	-171
Balance with dollar area.....	-77	-89	155	155	-69
Balance with OEEC countries.....	76	-14	155	114	-93
Balance with rest of world.....				37	42	-69
Sales of gold to the United Kingdom, etc. ^a	152	101	117	47	39
Capital inflow from the United Kingdom.....	149	256	149	78	52
Total of above (equals net increase or decrease (-) in rest of sterling area's sterling balances).....	68	-12	379	368	-311
Of which:					
Dependent oversea territories.....	46	27	171	154	56
Other sterling area countries.....	22	-39	208	214	-367
Increase or decrease (-) in gold and dollar reserves held by United Kingdom:					
Millions of dollars.....	-223	-168	1,612	567	-1,532
Millions of pounds sterling.....	-55	146 ^b	575	203	-547
United Kingdom credit or debit (-) balance in EPU units of account ^c			80	114	-166
Total sterling balances of rest of sterling area, in current prices ^c	2,365	2,353	2,732	3,100	2,789
Total sterling balances of rest of sterling area, in 1950 prices ^c	2,516	2,477	2,577	2,583	2,196

Source: United Kingdom, *Balance of Payments, 1948 to 1951*, Cmd 8505.

^a Including receipts by Ireland under the European Recovery Program, transactions with the International Monetary Fund and International Bank for Reconstruction and Development, and the gold loan of the Union of South Africa to the United Kingdom of £80 million in 1948.

^b The increase in the sterling value of the gold and dollar reserve in 1949 was due to the devaluation of the pound, which more than offset the fall in the dollar value of the reserves.

^c End of period. European Payments Union units of account are equivalent to United States dollars. Value of sterling balances in 1950 prices obtained on basis of changes in United Kingdom export prices.

the rest of the sterling area derived partly from the situation described above in which oversea sterling countries maintained surpluses with the dollar area and with continental western Europe, while the United Kingdom position with these areas was deteriorating, and partly from the fact that the United Kingdom's own surplus with the rest of the sterling area tended to fall. The effect of these developments may be followed by examining the changes in holdings of sterling balances by the rest of the sterling area, as set forth in table 52.

In 1950 the oversea sterling area continued, as in earlier years, to run large deficits on current transactions with the United Kingdom, but offset these deficits by still larger surpluses with other countries, dollar and non-dollar, by virtue of the rising volume and prices of raw material sales to them. As a result, the sterling balances were enlarged by the sterling proceeds of these surpluses, as well as by the sterling proceeds of gold sales to the United Kingdom and of the continued outflow of capital from the United Kingdom to the sterling area. Since releases from blocked sterling balances to Ceylon, India and Pakistan were greatly reduced after mid-1949, the net result of the above factors was to increase the oversea sterling area's holdings of sterling balances by £379 million during 1950. Against these increases in sterling liabilities, however, the United Kingdom had accumulated still larger assets in the form of gold and dollar reserves and of credits with the European Payments Union.

During the first half of 1951, the current value of sterling balances held by the rest of the sterling area increased by a further £368 million, or by nearly as much as during the entire year 1950. However, the rise in United Kingdom export prices fully offset this increase, so that the real value of the balances remained virtually unchanged. Nevertheless, there was a fundamental change in the situation in the sense that the oversea sterling area continued to supply dollars to the central reserve, while the United Kingdom, which began to run large deficits with the dollar area in 1951, drew upon the reserve. In addition, the United Kingdom current dollar deficit was larger than its current surplus with the rest of the sterling area. Under the sterling area mechanism, the oversea sterling countries were now in effect advancing dollar credits to the United Kingdom without receiving a surplus of imports from the United Kingdom to an equivalent extent. Thus the external balance of the United Kingdom began to depend, to an important degree, on the extent to which oversea sterling countries would continue to allow their holdings of United Kingdom liabilities to accumulate notwithstanding the steady depreciation of these liabilities in real terms, and in spite of the fact that the

counterbalancing dollar assets were being drawn upon rather heavily by the United Kingdom itself.

While the fall in the United Kingdom current surplus with the rest of the sterling area in the first half of 1951 was undoubtedly a matter of concern in relation to the smoothness of operations of the sterling area mechanism, it should be noted that this fall appears to have been entirely the result of price factors. Between the first halves of 1950 and 1951, the volume of United Kingdom exports to the rest of the sterling area rose by 7 per cent, while the volume of its imports from that area fell by the same percentage amount. However, because of the adverse movement in its terms of trade, the United Kingdom's trade balance⁵⁹ with the rest of the sterling area deteriorated from a surplus of \$3.5 million to a deficit of \$347 million⁶⁰ between these periods.

In the second half of 1951, the situation changed considerably, and the independent members of the oversea sterling area began to draw heavily upon their sterling balances.⁶¹ These countries increased their imports not only from the United Kingdom but also from the dollar area and continental western Europe, while their exports were falling. Thus the deterioration in current balances was no longer confined to the United Kingdom. The more generalized crisis of the sterling area at the end of 1951 therefore did not arise, as previously, from the failure of the United Kingdom to "earn" dollar transfers from the rest of the sterling area through an equivalent export surplus with that area, but was manifested in the growing over-all and dollar deficits of the independent members of the sterling area as well as of the United Kingdom. Only the dependent territories continued to accumulate sterling balances, since their dollar surpluses were not matched by a corresponding surplus of imports from other countries.

In these circumstances, a rise in the export surplus on current account of the United Kingdom with the rest of the sterling area, such as in fact occurred in the second half of 1951, could result in a general improvement of the sterling area's position only in so far as it was accompanied by a renewed increase in the net contributions to the sterling area dollar pool of oversea sterling area countries and a reduction in the United Kingdom's own dollar deficit. This depended on economies in dollar expenditures by the United Kingdom and the independent members of the sterling area, as well as on increases in dollar earnings — which had been depressed in the latter half of 1951 as a result of the decline in United States demand for the raw materials exported by the oversea sterling area. The question arose, however, as to how far the independent members of the sterling area were likely, in the future, to supply

⁵⁹ Exports f.o.b. less imports c.i.f.

⁶⁰ At the prices obtaining in the first half of 1950, the United Kingdom had a trade surplus of about \$200 million during the first half of 1951 *vis-à-vis* the rest of the sterling area.

⁶¹ By the end of 1951 United Kingdom liabilities to the rest of the sterling area were at by far their lowest point, in real terms, since the end of the war.

dollars to the central pool against a surplus of imports from the United Kingdom. These countries have, in recent years, been net contributors to the pool only under exceptional conditions in which their exports to the dollar area have increased so rapidly as to outrun the expansion of their dollar imports.

A further problem was likely to arise from the closer association with the sterling area of western Germany and Japan—two of the United Kingdom's most important competitors—as from the beginning of September 1951.⁶² The general effect of the payments agreements concluded with western Germany and Japan at

that time was to enlarge the scope of current payments in sterling by and to these countries. It appeared possible that both of these countries, which had already made significant incursions into sterling area markets, would be able to satisfy a still larger proportion of the import requirements of the overseas sterling area, particularly if they were able to offer quicker delivery or lower prices than the United Kingdom, where the supply position was much tighter. To that extent, the maintenance of the United Kingdom export surplus with the overseas sterling area would meet with obstacles, and the "earning" of dollars from that area by the United Kingdom would become more difficult.⁶³

General Character of Balance of Payments Problems in 1950 and 1951

The experience of 1950 and 1951 throws little light on the magnitude of balance of payments problems to be expected should arms expenditures be expanded to an extent and in a manner which would result in considerably increased pressure of demand and significant limitations on export volume in all or most of the industrialized countries. Thus far the problems of the period have arisen primarily from changes in inventory positions; from differences in the ability of the various countries to meet the demands placed upon their resources by the need to expand the quantum of their exports so as to offset deteriorations in their terms of trade; and from the persistence of the imbalance in transactions between the United States and the rest of the world.

Changes in inventory policy in the United States and the United Kingdom account for much of the opposite and mutually reinforcing fluctuations in the balances of payments of these countries in this period. In 1950 large inventory accumulations in the United States contributed to the fall in its current surplus, while an opposite trend in inventories in the United Kingdom⁶⁴ contributed to a rise in its current surplus. Similarly, a decline in demand for stocks in the United States in 1951, and hence a renewed rise in the current surplus, was accompanied by essential restocking at higher

prices and a deterioration in the balance of payments in the United Kingdom. This latter deterioration gave rise to renewed import restrictions by the United Kingdom, which, in 1952, are likely to have the effect once more of a reduction in stocks of imported goods such as occurred in 1950. Changes in other industrialized countries generally present features similar to one or other of the above cases.

Apart from the effects of inventory changes, additional disequilibria occurred in 1951, characterized by increasing surpluses or reduced deficits in countries where the existence of excess capacity, disinflationary governmental policies, or a relatively slow rise in arms expenditures made it possible to achieve sufficiently large increases in exports, especially of heavy goods, to more than offset increases in the quantity and prices of imports; and by growing deficits in countries where the capacity for increasing exports of the capital goods which were most in demand abroad was, to a greater extent, limited by domestic requirements whether for rearmament or for other purposes. Adverse developments in the latter countries were intensified by a slackening in foreign demand for consumer goods in the second half of 1951. At the same time part of the improvement in the balance of payments positions of the former group of countries resulted from the extensive liberalization of imports by countries in the latter group, particularly France and the United Kingdom. This situation was likely to change as a result of the import restrictions which the latter countries were compelled to reintroduce late in 1951 and early in 1952.

⁶² Western Germany entered the sterling area's transferable account system, members of which are free to employ sterling in the settlement of current transactions with one another and with members of the sterling area. Japan, which had previously been entitled to convert sterling holdings in excess of £17 million into dollars, lost that right, under the new agreement, but in addition to being free to use sterling holdings for expenditures anywhere in the sterling area, was given facilities for "administrative" transferability to non-sterling countries. For the first time in an agreement of this type, an advance guarantee was given that all applications for permission to pay in sterling for goods or services imported by Japan from transferable account and certain other countries—though not necessarily applications to receive payment in sterling for exports to them—would be automatically granted. Moreover, Japan did not undertake to accept sterling from non-sterling countries, and equally there was no obligation on these countries to accept sterling from Japan.

⁶³ If western Germany succeeded in establishing a steady export surplus with the sterling area as a whole, it would, through the machinery of the European Payments Union, and if transactions with other members of the union were in balance, earn partial settlements in dollars. Japan, on the other hand, could no longer earn dollars from transactions with the sterling area after the agreement of September 1951, and took measures to limit exports to the sterling area early in 1952, owing to a considerable accumulation of sterling balances resulting from persistent surpluses with that area.

⁶⁴ The entire sterling area, in fact, sharply restricted imports of dollar goods in 1950.

An additional major element of disequilibrium in international payments resulted both from a marked short-run instability in dollar balances of payments and from a continuing tendency for a large part of the world to run persistent deficits with the dollar area. Fluctuations in United States demand for the reasons mentioned above constituted one aspect of this problem. Equally important was the fact that at current levels and rates of increase in income in the rest of the world, the demand for imports from the United States constantly tended to exceed current dollar earnings.

Difficulties resulting from the above primary factors have been accompanied by significant swings in the flow of speculative capital, notwithstanding the existence of

exchange control in many of the countries concerned. While certain of the speculative capital outflows characteristic of the period have tended to be self-correcting in the longer run—particularly in so far as they have taken the form of an acceleration of payment for imports and a delayed repatriation of the proceeds of exports—they have, in the short run, magnified the amplitude of fluctuations which, on account of normal transactions alone, would have been somewhat smaller. They have thereby contributed to short-term balance of payments problems and have compelled countries possessing insufficient monetary reserves to meet such contingencies, to resort to a somewhat greater degree of import restriction or other action than would otherwise have been necessary.

Chapter 6

INTERNATIONAL TRADE AND PAYMENTS OF EXPORTERS OF PRIMARY COMMODITIES

The increase in demand for primary commodities and the consequent rise in their prices during 1950 and 1951 produced striking changes in the international trade and payments position of the countries which are chiefly exporters of these products. The primary producing countries comprise the large under-developed areas of the world but in addition include a number of industrially more advanced countries, whose foreign trade is also based mainly on the exchange of primary products for manufactures.¹

Primary producers depend to a much larger extent than industrial countries on merchandise exports for their foreign exchange earnings. These earnings, which provide the means for financing most of their imports of manufactures, are derived largely from exports to industrialized countries, and are therefore especially sensitive to changes in demand from these countries. Owing to the exceptionally sudden and large changes in this demand during 1950 and 1951, earnings fluctuated to an even greater degree than usual.

As a group, primary producing countries increased their foreign exchange earnings substantially during 1950 and the early part of 1951. Furthermore, owing to the improvement in their terms of trade during that period, they were able, despite higher outlays for invisible items, to import a substantially larger quantity

of goods than before while adding to their foreign exchange holdings. However, by the second quarter of 1951 their earnings had ceased to rise and, in the last half of the year, fell sharply. Since their expenditures for imports continued to mount, their foreign exchange reserves were reduced by the latter part of 1951 to levels considerably below the peaks reached earlier in the year. A relatively small proportion of the rise in their foreign exchange resources after mid-1950 was attributable to the increased flow of public and private foreign capital to primary producing areas—with the notable exception of Canada.

The changes in the aggregate trade and payments of primary producing countries during this period tended, however, to be heavily weighted by exceptionally favourable movements in a relatively few countries. The majority registered more moderate gains than the aggregates would imply and there was in fact very little, if any, improvement in the situation of a considerable number of countries in the group. Since there was a general and fairly uniform rise in prices of imports of manufactures, the degree to which a given primary producing country improved its position depended very largely on whether it was an important exporter of the relatively few commodities which were especially affected by the boom in primary commodity markets.

The Uneven Rise in Export Earnings

Despite the fact that many countries producing primary commodities devalued their currencies late in 1949, the dollar unit value of exports of primary producing areas as a whole declined by less than 5 per cent between 1949 and the first half of 1950, principally because of the buoyancy imparted to commodity markets by the recovery of United States import demand during the latter period. As a result, their export earnings (in terms of dollars) in the first half of 1950 were only slightly below what they had been in 1949.²

Earnings of primary producers rose during the twelve months ending 30 June 1951, as a result of the com-

modity boom, by 40 per cent compared with the annual rate of earnings of the first six months of 1950. In the second half of 1950 the gain in earnings stemmed in considerable measure from a rise in the quantum of exports as well as from higher prices. The further enlargement of export earnings in the first half of 1951, on the other hand, was almost entirely accounted for by higher prices, which reached their peak in the early months of the year.

After mid-1951, primary producers' earnings fell sharply as may be seen from table 53, owing both to the reduced volume of exports and to the drop in prices. The downward movement of prices, particularly of the

the preceding chapter; or of the centrally planned economies, which are covered in the next chapter.

² The quantum of their exports showed almost no change.

¹ This chapter does not cover developments in the international trade and payments of the countries of western Europe which are members of the Organisation for European Economic Co-operation, the United States and Japan, which are discussed in

Table 53. Indices of Total Value, Quantum and Unit Value of Exports of Countries Producing Primary Commodities, 1948 to 1951

(In terms of United States dollars, f.o.b.)

Period	Total value (millions)	First half of 1950 = 100		
		Total value	Quantum	Unit value
1948 Semi-annual average.....	11,850	107	97	110
1949 Semi-annual average.....	11,200	102	99	103
1950 First half.....	11,050	100	100	100
1950 Second half.....	13,900	126	110	115
1951 First half.....	16,850	153	109	139
1951 Third quarter ^a	14,750	133	100	133

Source: United Nations Department of Economic Affairs; based on national statistics.

^a Semi-annual rate.

“war-scare” commodities—rubber, tin and wool—accounted for most of the drop in earnings, though the quantum of exports also appears to have declined.

The uneven geographic distribution of the rise in export earnings during the boom period has been its most striking characteristic. As table 54 shows, twelve countries alone were responsible for three-fifths of the aggregate gain in earnings of primary producers between the first half of 1950 and of 1951. These twelve countries accounted for only a third of the total value of exports of primary producers during the first half of 1950. Their export earnings virtually doubled between these two periods. The exceptional gains which they realized were attributable in most cases to the fact that they were important exporters of commodities which experienced the largest rise in prices during the commodity boom.

A second and somewhat larger group of countries registered gains of from one-third to two-thirds between the first half of 1950 and of 1951. If their earnings are added to those of the preceding group, three-fourths of the total gain in primary producers' earnings between these two periods is accounted for. By contrast, these countries accounted for less than half of the value of all exports of primary producing areas in the first half of 1950. The remaining—and considerably more numerous—countries of the primary producer group experienced an average rise in export earnings of approximately 25 per cent between the two periods.³

The disparities described above have tended to diminish rapidly since the middle of 1951, owing to the fall

³ Special circumstances affected the trade of Yugoslavia and Hong Kong. Yugoslavia's export earnings were adversely affected by the breakdown in its trade with eastern Europe and the reduction of exportable surpluses of agricultural products owing to drought. The export earnings of Hong Kong, which carries on a large transit trade, rose sharply during 1949 and 1950 and reached a peak in the first quarter of 1951 but then fell rapidly because of embargoes placed upon exports to the area controlled by the Central People's Government of the People's Republic of China.

⁴ The rise in prices largely accounted for the increase in earnings of most commodities. Though a number of the com-

modities shown in table 55 were exported in larger volume in the second half of 1950 as compared with the first six months of the year, this was not true of several of the more important ones, such as wool and cotton. Furthermore, a number of commodities were exported in lesser volume in the first half of 1951 than in the same period of 1950 and exports of most were little, if any, higher. Even though substantially larger amounts of rubber, tin, wood-pulp and chromium were exported in the first half of 1951 than a year earlier, quantum increases contributed to a lesser degree than price to the higher earnings of these exports.

in the earnings of countries which had experienced the larger increases in earnings, and the continued rise in the earnings of others. The decline was particularly severe in the case of the first group of countries in table 54, which includes the principal beneficiaries of the commodity boom. Notwithstanding, the combined earnings of these countries and of the second group, which includes other important gainers, during the third quarter of 1951 were still more than 40 per cent above the quarterly average of the first half of 1950. The remaining primary producing countries, as a group, appeared to have experienced a further substantial rise in earnings in the third quarter of 1951, when they were about a fourth above the quarterly average of earnings in the first six months of 1950.

That these heterogeneous developments were due principally to the widely varying degrees to which prices of individual commodities rose during the boom, is apparent from a comparison of changes during 1950 and 1951 in the average unit value, the quantum and the total value of exports⁴ of some twenty-eight commodities in table 55. The largest increases and subsequent declines in export earnings were registered by the major exporters of rubber, tin and wool. Earnings from exports of cotton, jute and other hard fibres were subject to similar fluctuations, though of lesser amplitude. The value of exports of petroleum producing countries generally showed a steady upward movement during the entire period under review, as the post-war expansion in such trade continued. Though food exporters as a group were not as favourably affected, exporters of coffee, cocoa, vegetable fats and sugar registered large gains in earnings, which were generally sustained.

modities shown in table 55 were exported in larger volume in the second half of 1950 as compared with the first six months of the year, this was not true of several of the more important ones, such as wool and cotton. Furthermore, a number of commodities were exported in lesser volume in the first half of 1951 than in the same period of 1950 and exports of most were little, if any, higher. Even though substantially larger amounts of rubber, tin, wood-pulp and chromium were exported in the first half of 1951 than a year earlier, quantum increases contributed to a lesser degree than price to the higher earnings of these exports.

Table 54. Export Earnings of Primary Producing Countries, 1948, 1950 and 1951
(Millions of United States dollars; in current prices, f.o.b.)

Country ^a	Export earnings					Percentage increase between first half of 1950 and of 1951	Cumulative percentage of		Commodities principally responsible for gain
	1948 ^b	1950		1951			Total exports in first half of 1950	Total gain between first half of 1950 and of 1951	
		First half	Second half	First half	Third quarter ^b				
Group I. Major primary exporters:^c									
<i>Countries with largest increases:^d</i>									
Malaya.....	406	392	893	1,141	828	191	3.6	12.9	Rubber, tin
Indonesia.....	178	259	457	648	478	179	5.9	19.6	Tin, rubber, copra
Pakistan.....	138	173	228	399	143	131	7.5	23.5	Jute and cotton
Iran.....	250	230	470	451	204	96	9.6	27.3	Petroleum
Mexico.....	238	185	281	358	398	94	11.2	30.3	Cotton, lead, coffee
Union of South Africa.....	231	269	438	516	430	92	13.7	34.5	Wool
Finland.....	250	162	226	307	558	90	15.1	37.0	Lumber products
Uruguay.....	90	102	114	179	100	75	16.1	38.3	Wool
Brazil.....	585	487	857	827	925	70	20.5	44.2	Coffee
Philippines.....	158	142	189	240	186	69	21.8	45.9	Copra, abaca, sugar
Australia.....	826	803	873	1,335	652	66	29.0	55.0	Wool
India.....	638	507	627	840	772	66	33.6	60.8	Jute and cotton manufactures
Total, above countries	3,988	3,711	5,653	7,241	5,514	95			
<i>Countries with important increases:^e</i>									
British Africa ^f	340	323	360	534	408	65	36.6	64.4	Copper, sisal, misc.
Ceylon.....	145	133	195	206	175	55	37.8	65.6	Rubber
Iraq, Bahrein and Kuwait.....	92	153	180	236	..	54	39.2	67.1	Petroleum
Thailand.....	101	140	147	215	118	54	40.4	68.4	Rice, rubber, tin
Belgian Congo.....	122	117	155	175	200	50	41.4	69.4	Mineral products
Egypt.....	295	237	260	355	140	50	43.6	71.4	Cotton
Saudi Arabia.....	101	139	178	205	258	47	44.9	72.5	Petroleum
Cuba.....	354	288	382	415	470	44	47.5	74.7	Sugar, tobacco
Colombia.....	145	154	237	218	222	42	48.9	75.8	Petroleum, coffee
Burma.....	89	75	76	100	114	33	49.6	76.3	Rice
Total, above countries	1,784	1,759	2,170	2,659	2,350	51			
<i>Other countries:</i>									
Chile.....	165	127	167	164	171	29	50.7	76.9	Copper, wool
Canada.....	1,535	1,296	1,574	1,645	1,975	27	62.5	82.9	Lumber products
French Africa ^g	406	396	454	503	..	27	66.1	84.7	Grains, phosphates
Venezuela.....	554	557	674	705	722	27	71.1	87.3	Petroleum
New Zealand.....	248	302	209	368	375	22	73.9	88.4	Wool
Argentina.....	812	581	483	675	555	16	79.1	90.1	Hides, wool, meat, linseed oil
Netherlands Antilles.....	210	263	274	295	..	12	81.5	90.6	Petroleum products
Spain ^h	257	269	266	286	..	7	83.2	91.0	
Total, above countries	4,187	3,791	4,101	4,641	4,750	22			
Total, all countries in Group I.....	9,959	9,261	11,924	14,541	12,600	56	83.2	91.0	
Group II. All other primary producing countriesⁱ.....									
	1,634	1,508	1,446	1,867	1,900	24	97.8	95.8	

Source: United Nations Department of Economic Affairs; based on national statistics.

^a In descending order of percentage gain between first half of 1950 and of 1951.

^b Semi-annual rate.

^c Exports in first half of 1950 exceeded \$150 million at annual rates.

^d Export earnings rose more than two-thirds between first half of 1950 and of 1951.

^e Export earnings increased by more than one-third but less than two-thirds between first half of 1950 and of 1951.

^f Gold Coast, Nigeria, Northern Rhodesia and Southern Rhodesia only.

^g Algeria, French Morocco, Tunisia and French West Africa only.

^h Including Canary Islands.

ⁱ Excluding Hong Kong, owing to abnormal factors affecting its trade.

Table 55. Indices of Value, Price and Quantum of World Exports of Certain Primary Products, 1950 and 1951

(First half of 1950=100; value indices based on dollar prices)

Commodity ^a	1950 Second half			1951 First half		
	Total value	Unit value	Quantum	Total value	Unit value	Quantum
Natural rubber	273	207	132	375	302	124
Tin in concentrates	89	94	95	237	215	110
Wood-pulp	129	122	106	220	198	111
Chromium ore	184	145	127	212	168	126
Zinc ore and concentrates	208	154	135	202	167	121
Soda ash and carbonate	192	111	173	197	123	160
Wool	113	169	67	185	246	75
Caustic soda	121	104	116	183	172	106
Tin metal	144	121	119	181	211	86
Coffee	177	110	161	158	117	135
Copper and alloys	133	123	108	156	153	102
Sugar	124	112	111	150	127	118
Wheat	91	101	90	148	105	140
Rice	131	104	126	143	104	137
Lead, unwrought	129	115	112	141	142	99
Rye	62	100	62	139	114	122
Iron ore and concentrates	154	107	144	128	104	123
Nickel ore and concentrates	106	120	88	125	125	100
Zinc and alloys	151	142	106	123	144	86
Lead ore and concentrates	122	104	117	117	123	95
Petroleum	112	97	115	117	98	120
Newsprint	106	102	104	116	113	103
Nickel, unwrought	101	120	84	114	128	89
Cotton	85	113	75	108	139	78
Manganese ore and concentrates	94	99	95	93	111	83
Aluminium and alloys	89	105	85	92	115	80
Sulphur	112	100	112	91	108	84
Iron and steel scrap	94	107	88	54	145	37

Source: United Nations Department of Economic Affairs.

^a Arranged in descending order of increase in total value in first half of 1951. Quantum indices are based on physical quantities either of world exports estimated by various international commodity study groups and the Food and Agriculture Organization of the United Nations, or of exports

of countries accounting for 80 per cent or more of world exports. Unit values for raw materials are weighted averages calculated from trade returns of principal exporters of each commodity. In the case of foodstuffs, unit values are estimated by lagging price quotations in leading markets. Indices of total value are the product of quantum and unit value indices.

The chief beneficiaries of the rise in rubber and tin prices were Malaya and Indonesia.⁵ These two countries alone accounted for nearly 20 per cent of the total gain in the export earnings⁶ of primary producers between the first six months of 1950 and the corresponding period of 1951. Both countries expanded the volume of their rubber exports in the latter half of 1950. Indonesian exports of rubber continued to rise in the first half of 1951,⁷ but Malayan exports fell off considerably and were at a rate very little above that of the same period of the year before. As a result, Indonesia replaced Malaya as the largest exporter of this commodity. Earnings of both countries from rubber exports dropped in the first half of 1951 because of the sharp

⁵ The rise in rubber prices was principally responsible for the increase in Ceylon's earnings. Higher prices of both rubber and tin contributed to the rise in the value of Thailand's exports, though this country benefited to a far greater extent from the recovery of trade in rice.

fall in prices which followed the decision by the United States late in 1950 to reduce its consumption of natural rubber. Malayan rubber exports were also affected adversely by the imposition in May 1951 of an embargo on rubber shipments to the Chinese mainland from British territories and by further restrictions on exports of rubber to eastern European countries.

Similarly, earnings of these two countries from their exports of tin, which rose considerably in the latter part of 1950 and the early months of 1951, dropped sharply after the United States suspended its purchases for strategic stockpiles early in 1951 and established a

⁶ Considerably less, however, if Malayan re-exports of Indonesian rubber and tin, after processing, were deducted.

⁷ Indonesian exports had in general been hampered in earlier post-war years by military disturbances; its exports recovered rapidly during 1950 and 1951 under the stimulus of strong demand and high prices for its principal products.

government monopoly for tin imports. The decline in total exports of tin from Malaya was mitigated by continued large purchases by European countries and substantial purchases for inventory by a number of other countries—notably Argentina. United States imports of tin are being resumed under the agreement reached in January 1952.

Bolivian tin exports, which were also favoured in the latter part of 1950 and the early months of 1951 by the spectacular rise in tin prices, suffered a setback when shipments were suspended in the middle of the year because of difficulties in obtaining agreement on prices. Tin shipments were renewed at the beginning of the third quarter of the year under a short-term contract that expired in October.

The movement of wool prices accounted for most of the fluctuations during 1950 and 1951 in the export earnings of Australia, New Zealand, the Union of South Africa and Uruguay. Earnings of these countries rose steeply between mid-1950 and the first quarter of 1951 and thereafter declined only somewhat less precipitously. In the case of Uruguay, a 75 per cent fall in the value of wool exports from 1950 to 1951 caused its total earnings to decline by 40 per cent.

The reduction in world cotton supplies during the 1950/51 season, associated chiefly with lowered cotton acreages in the United States, tended to increase the demand for cotton—as well as for other natural fibres—from cotton growing areas outside the United States. Export prices of cotton from these areas rose considerably more than the price of United States cotton. The value of Egyptian exports to the United Kingdom, its largest customer, and to the United States more than doubled between the first half of 1950 and the corresponding period of 1951; exports to its other trading partners were also substantially higher in value.⁸ The break in cotton prices at the end of the first quarter of 1951 saw the beginning of a downturn in Egypt's export earnings, and in May 1951 the export duty was reduced by 75 per cent in order to sustain exports. Mexico also was especially favoured by the boom in the cotton market.

Rising demand for both cotton and jute contributed to a substantial increase in the foreign exchange earnings of Pakistan.⁹ After the middle of 1950, Pakistan's exports of both these commodities increased considerably in volume as well as in price. Between the first half of 1950 and of 1951 the volume of jute exports doubled, while cotton exports increased by about a

⁸ The high prices of cotton served to accelerate the tendency in recent post-war years for acreage devoted to cotton to increase at the expense of the cultivation of rice, wheat, maize and other cereals. Egypt has used part of its increased earnings from cotton exports to finance imports of cereals.

⁹ The volume of exports from Pakistan in the first half of 1950 was extremely low as a result of the fall in jute exports to India; to some extent, this was offset by the expansion of cotton exports to Europe.

third. The expansion of India's export earnings during 1951 was associated in part with the improvement of its trading relations with Pakistan. The volume of Indian exports of jute manufactures, which was extremely low throughout 1950, rose sharply after the signing of a new trade agreement with Pakistan in February 1951, but the larger part of the increase in the value of these exports was attributable to the rise in prices.

A measure of the substantial gains in export earnings registered by exporters of timber and timber products is afforded by Finland. The volume of Finnish exports increased in 1950 despite marketing difficulties early in the year and strikes in the latter part. In the first half of 1951 heavy world demand for timber supported a substantial rise in both the price and volume of timber exports; the unit values of timber exports during the period were nearly 70 per cent greater than those in the corresponding period of 1950 and continued to move upwards during the third quarter of 1951 under the pressure of sustained demand. The volume of imports of Finnish timber products by the United Kingdom, Finland's main trading partner in 1951, was more than twice as great as in 1950.

Canada, which is also heavily dependent upon its exports of timber and timber products as a source of foreign exchange, was especially affected by fluctuations in United States import demand for these products. Thus Canada's export earnings rose substantially in the second half of 1950 when the volume and prices of its lumber exports and the prices of its exports of wood-pulp and newsprint rose sharply. In the case of lumber, the construction boom in the United States caused a sharp rise in the volume of exports to the United States and sent lumber prices to unprecedented heights, notwithstanding a drastic curtailment of United Kingdom imports of Canadian lumber.

The imposition of credit restrictions on housing in the United States at the end of 1950 reduced Canadian lumber exports to that country and caused lumber prices to soften, though total exports were not adversely affected owing to the renewed demand for lumber from the United Kingdom in the first half of 1951. The total value of Canada's exports of lumber, wood-pulp and newsprint in the latter period was substantially higher than in the same period of the preceding year, owing principally to the further rise in prices of wood-pulp and newsprint.¹⁰

Developments since the outbreak of the Korean conflict have given a new stimulus to the expansion of petroleum production and to the exports of the oil producing countries of the Middle East and the Far

¹⁰ Because of the expanding scale of investments in mining, Canadian exports of non-ferrous metals assumed greater importance; though the value of such exports in 1950 and 1951 was small by comparison with those of forest and agricultural products, the increase in both the volume and the price of metal exports made a significant contribution to the rise in Canadian export earnings during these years.

East and of Latin America. The effects of large post-war investments in this field were, however, not fully reflected in 1951 exports of petroleum.

Among the countries which are important suppliers of foodstuffs, the exporters of coffee, particularly in Latin America, were especially favoured by a substantial rise in prices, and in many cases by an increase in the volume of exports as well. Among the Latin American countries, Brazil, the world's leading exporter of coffee, experienced the largest absolute gain in export earnings and accounted for a major share of the total gain of the area between the first half of 1950 and the corresponding period in 1951. Favourable developments in the markets for coffee also brought higher earnings to Colombia and the Central American republics.¹¹

¹¹ Many of the coffee producing countries also benefited from larger sales of other exports, e.g., Brazil from cotton and cocoa, and Colombia from petroleum.

Strong demand for fats and oils contributed to higher earnings in the Philippines, which expanded the volume of its coconut oil exports by as much as 50 per cent between the first half of 1950 and the corresponding period of 1951. On the supply side, this remarkable expansion was made possible by drawing down of stocks accumulated in the latter part of 1949 and the early months of 1950 when production was rising more rapidly than exports.

The market for sugar also showed considerable strength, owing to rising consumption levels and heavy purchases for stocks in importing countries. Cuba was the principal beneficiary because it was in an especially favourable position to meet the enlarged demand for sugar by virtue of exceptionally abundant crops in the past few seasons. In Taiwan, where sugar accounted for three-fourths of the total value of exports, a reduction in the volume of sugar exports in 1951, owing to the

Table 56. Export Earnings of Major Primary Producing Areas in Western European, United States and Other Markets, 1950 and 1951

Exporting area and destination	Value (Millions of United States dollars, f.o.b.)			Per cent increase over first half of 1950		Distribution of total increase over first half of 1950	
	1950 First half	1950 Second half	1951 First half	1950 Second half	1951 First half	1950 Second half	1951 First half
	Total, all primary producing countries	11,030	13,890	16,840	26	53	100
<i>Of which, exports to:</i>							
United States	3,110	4,130	4,695	33	51	36	27
United Kingdom	2,195	2,155	2,985	—	36	—1	14
OEEC countries ^a	2,300	3,045	3,710	32	61	26	24
Other countries	3,425	4,560	5,450	33	59	39	35
<i>Canada:</i>							
Total	1,295	1,575	1,630	22	26	10	6
United States	830	1,050	1,055	26	27	8	4
Other countries	465	525	575	13	24	2	2
<i>Latin America:</i>							
Total	2,860	3,650	3,915	28	37	28	18
United States	1,300	1,750	1,930	35	48	16	11
Other countries	1,560	1,900	1,985	22	27	12	7
<i>Oversea sterling area:</i>							
Total	3,820	4,970	6,700	30	75	40	50
United States	555	740	1,020	33	84	6	8
United Kingdom	1,230	1,245	1,780	1	45	—	9
OEEC countries ^a	645	975	1,305	52	103	12	11
Other countries	1,390	2,010	2,595	45	86	22	21
<i>European dependencies:</i>							
Total	1,040	1,195	1,385	15	33	5	6
Western Europe	710	780	955	10	35	2	4
Other countries	330	415	430	26	30	3	2
<i>Other countries:</i>							
Total	2,015	2,500	3,210	24	59	17	20
United States	300	450	525	50	75	5	4
Western Europe	845	950	1,295	12	53	4	8
Other countries	870	1,100	1,390	26	60	8	8

Source: United Nations Department of Economic Affairs; based on national statistics.

^a Excluding the United Kingdom.

lower harvest of 1950/51, offset much of the gain derived from higher prices.¹²

Argentina, one of the world's largest exporters of foodstuffs, increased the dollar value of its exports by a sixth between the first half of 1950 and of 1951; considerably higher prices were obtained for its leading non-food exports—hides, wool, linseed oil—and also for meat. However, grain exports dropped owing to the decline in current production and the depletion of stock carry-overs. Furthermore, the 1951 wheat harvest was half of the size of the previous year's, leaving no wheat for export and possibly requiring the import of wheat in 1952. Meat exports to Argentina's largest customer—the United Kingdom—were suspended between June 1950 and May 1951. They were temporarily suspended again a few months later and resumed at reduced levels because of a shortage of exportable supplies, owing to the continuing rise in domestic meat consumption and to the reduction in livestock production caused by a series of droughts. Issuance of new licences for the export of wool was discontinued between February and June 1951, because of the downturn in prices, and wool exports have since shrunk rapidly. Exports of hides have likewise fallen sharply.

The relative gains in export earnings of different areas and the extent to which these gains were realized in various markets are summarized in table 56. The oversea sterling area, the principal gainer, was responsible for as much as half of the increase in export

earnings of all primary producing countries between the first half of 1950 and of 1951. As the major exporters of rubber, tin and wool, oversea sterling countries increased their exports 75 per cent between these two periods. In the second half of 1950 the rise in the value of Latin American exports was proportionately almost as large as that of the oversea sterling area¹³ and accounted for more than a fourth of the total gain in export earnings between the first and second halves of the year. In the first half of 1951, however, Latin American exports rose only moderately. In contrast, during the last-mentioned period large gains were registered not only by oversea sterling countries but by many primary producing countries in other parts of the world.

Latin America and Canada, because a large part of their trade is with the United States, registered most of their gains in the United States market, as might be expected. On the other hand, the larger part of the gain in earnings of the oversea sterling area was realized in western European and, more generally, in non-dollar markets, though dollar earnings were also substantially higher. European dependencies, whose trade is heavily oriented towards the metropolitan areas, generally showed the largest rise in earnings in European markets. Finally, primary producers in other parts of the world, a relatively small share of whose exports is directed to the United States, experienced the highest proportionate increases in their exports to the United States market.

The Expansion of Imports

GENERAL LEVEL OF IMPORTS

The sizable expansion of export earnings enabled primary producers to finance a substantially higher volume of imports during 1950 and 1951. Their expenditures for imports did not rise as fast as their earnings from exports, so that there was a tendency for many primary producing countries to accumulate gold and foreign exchange during the year following the Korean crisis. In the second quarter of 1951, however, outlays for imports almost equalled earnings from exports; by the third quarter, expenditures for imports actually exceeded export earnings, and foreign exchange resources began to dwindle.

The rise in export earnings of primary producing countries between the first half of 1950 and of 1951, if entirely available to them for the import of goods, would have permitted an expansion of the quantum of imports by about 30 per cent between these two periods,

as may be seen from the indices below (first half of 1950=100).

	1950 Second half	1951 First half
Import equivalent of export earnings ^a . . .	120	130
Actual quantum of imports	114	124
Foreign exchange assets ^b	110	122
Terms of trade	109	119

^a Value of exports adjusted for changes in terms of trade.

^b Current value of public and private holdings (including short-term balances) of gold, dollars and sterling, at end of specified period.

In fact, the quantum of imports increased by only 24 per cent¹⁴ and the unutilized earnings contributed to raising foreign exchange holdings by 22 per cent between 30 June 1950 and 30 June 1951.

For the most part the rise in exchange reserves merely reflected the lag between receipts and expenditures,

¹³ Part of this rise appears to have been seasonal.

¹⁴ However, it must be remembered that in many countries not all of the rise in export earnings was in fact available for financing imports; on the other hand, additional resources for this purpose were available to some countries from the inflow of capital from abroad.

¹² Taiwan's import surplus in 1950 was financed by United States economic aid, reparations and reduction of foreign exchange holdings. In 1951, a substantially increased proportion of imports was covered by economic aid from the United States; in addition, gold reserves were further decreased by domestic sales of gold to combat inflation.

since no serious difficulties were encountered in obtaining imports of most types of goods during 1951. To a certain extent, the lag of imports behind exports was attributable to the caution exercised in the relaxation of earlier import restrictions. In some cases, the accumulation of gold and foreign exchange was viewed as a welcome addition to depleted foreign exchange reserves.

Estimates of the movement of the quantum of imports of major primary producing areas between 1948 and 1951 are provided in table 57, and data on the current value of the imports of individual primary producing countries from 1948 to the third quarter of 1951 are given in table 58.

Table 57. Indices of Quantum of Imports of Primary Producing Areas, 1948, 1950 and 1951 (First half of 1950=100)

Area	1948	1950		1951 First half
		First half	Second half	
All primary producing areas	98	100	114	124
Canada	99	100	115	124
Latin America	108	100	114	133
Oversea sterling area	97	100	118	125
European dependencies ^a	82	100	106	118
Other areas	91	100	111	117

Source: United Nations Department of Economic Affairs; based on national statistics.

^a Excluding those of the United Kingdom.

Table 58. Value of Imports of Major Primary Producing Areas and Countries, 1948 to 1951

(Millions of United States dollars in current prices, c.i.f.; semi-annual data or rates)

Area and country	1948	1949	1950		1951	
			First half	Second half	First half	Third quarter ^a
Total, all primary producing countries	12,650	12,610	10,750	13,050	15,650	16,250
Canada	1,448	1,485	1,448	1,769	2,186	2,163
<i>Latin American republics:</i>						
Total	3,038	2,850	2,313	2,815	3,590	..
<i>Of which:</i>						
Argentina	778	545	443	517	685	..
Brazil	566	558	430	665	855	..
Chile	135	152	119	129	138	158
Colombia	168	132	148	188	193	..
Cuba	290	248	262	305	344	..
Mexico	264	229	216	344	472	402
Venezuela	377	368	288	284	369	348
<i>Oversea sterling area:</i>						
Total	4,408	4,536	3,504	4,454	5,328	..
<i>Of which:</i>						
Australia	679	762	731	828	1,007	1,262
Ceylon	153	148	119	126	166	162
India	734	874	507	606	786	1,038
Malaya	421	405	366	586	814	726
New Zealand	218	218	206	236	179	..
Pakistan	128	205	136	215	253	..
Union of South Africa	782	655	396	550	705	788
<i>European dependencies^b</i>	1,346	1,315	1,374	1,435	1,727	..
<i>Other countries:</i>						
Total	2,410	2,424	2,091	2,577	2,841	..
<i>Of which:</i>						
Egypt	358	337	266	345	340	452
Finland	244	205	176	211	272	376
Indonesia	214	268	154	248	264	592
Philippines	322	313	187	176	205	280
Spain	235	228	198	194	186	..

Source: Based on data in *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.

^a Preliminary.

^b Excluding dependent territories of the United Kingdom.

It would appear that the full effect of the reimposition of restrictions in 1949 following the decline in United States import demand was not felt until the first half of 1950, when the volume of imports in most primary producing countries¹⁵ was markedly lower than in 1949. However, a few of the more important primary producing countries, such as Australia, Ceylon and Malaya, were receiving a very much larger volume of imports even in the first half of 1950.¹⁶

After mid-1950 increases in export surpluses or reductions in trade deficits resulting chiefly from the rise in export earnings tended to generate a higher demand for imports by many primary producing countries. In several others whose foreign trade balances were less affected by the upsurge in raw material prices, demand for imports expanded because of inflationary pressures stemming from other factors, such as rising domestic investment or failure of domestic supplies of food to increase in line with personal incomes. Because of the greater pressure for imports, including anticipatory and speculative purchases, and the improvement in trading position, most of the countries which imposed restrictions on imports in 1949 began to relax them, particularly in the second half of 1950.

It was noted in the preceding section that countries accounting for only 50 per cent of the exports of all primary producing countries in the first half of 1950 obtained about 75 per cent of the total gain in export proceeds between the first half of 1950 and of 1951. During the first half of 1950, the same countries accounted for somewhat less than half of the aggregate imports of the world's primary producing areas, but obtained nearly three-fifths of the increase in imports between the first half of 1950 and the same period of 1951. However, in a number of countries in the overseas sterling area, whose rise in exports was among the largest, imports did not increase to the same extent, largely because restrictions were not relaxed until September 1950. By contrast, in many Latin American countries, which were the first to be affected by the recovery in United States demand during the first half of 1950, restrictions on imports were generally fewer and less severe, and they were among the first to relax such restrictions when the value of their exports began to rise. Thus the rise in Latin American imports followed not far behind that of their exports. Canada's imports rose considerably in the first half of 1951, even though Canada registered a relatively limited gain in export earnings between the first half of 1950 and of 1951, and had to draw upon its exchange reserves.

¹⁵ Particularly in Argentina, Brazil, Chile, India, Indonesia, the Philippines and the Union of South Africa. In several countries currency devaluations also served to reduce imports in the first half of 1950.

¹⁶ The terms of trade and the import equivalent of exports of these three countries improved considerably as a result of the effect on their import prices of the United Kingdom devaluation of 1949, while their export prices rose after devaluation to levels approaching pre-devaluation dollar parities. In the case of

COMPOSITION OF IMPORTS

The commodity composition of the imports of primary producing areas was affected to some degree by developments after the middle of 1950. Imports of manufactures, which account for about four-fifths of all of their imports from the industrialized countries, moved steadily upwards after mid-1950; at the same time there appeared to have been a considerable expansion in imports of food and raw materials by a number of primary producing countries, which are substantial importers of these commodities. In general, the expansion in imports of manufactures was greater for consumer goods than for capital goods.

In the second half of 1950, the volume of imports of manufactures from industrialized countries increased by about 10 per cent, imports of capital goods rising considerably less than imports of consumer goods, as shown in table 59. The relatively smaller increase in imports of producers' goods is partly explained by the time lag between orders and deliveries, which is characteristic of heavy equipment. There was some increase in imports from western Europe in this category, largely reflecting orders placed before mid-1950 under the stimulus of devaluations and the replacement of dollar imports. This increase barely sufficed to offset the further decline in imports of producers' goods from the United States in the second half of 1950, owing to earlier reductions in orders from the United States. On the other hand, the larger orders for dollar equipment placed after the relaxation of restrictions were not yet reflected in current imports.

There are several reasons for the preponderance of consumer items, such as food, textiles and passenger cars in the above rise. Over and above the effect of increased incomes on demand, there occurred in the primary producing countries, as in the industrialized countries, several waves of abnormal buying and hoarding in anticipation of scarcities or of increases in price, while the improved balance of payments positions of the primary producing countries enabled them to relax restrictions on imports of less essential items.

The expansion in imports of manufactures which began in 1950 became more marked in the first half of 1951, when such imports were nearly 30 per cent larger than in the corresponding period of 1950. By this time, the enhanced demand for producer goods was exercising its full effect on the volume of imports. This demand, though it arose primarily from the increased purchasing power of primary producing countries, was

Malaya the rise in imports partly reflected transit trade in rubber and tin through the port of Singapore or increases in imports of these commodities for processing and export. In Australia foreign exchange resources had also been considerably reinforced by an inflow of investment and speculative capital from the United Kingdom. Imports were also higher in the first half of 1950 than in 1949 in Iran, owing to greatly increased imports associated with the expansion of oil refineries, and in a few of the dependencies of continental western European countries, owing to enlarged investment programmes.

Table 59. Indices of Quantum of Exports of Manufactures from Western Europe, Japan and the United States to Major Primary Producing Countries, by Commodity Groups, 1950 and 1951

(First half of 1950=100)

Destination and period	Metals and manufactures	Machinery	Passenger cars	Other transport equipment	Chemicals	Textiles	Other manufactures	Total
<i>Canada:</i>								
1950 Second half.....	127	97	106	95	106	106	121	107
1951 First half.....	152	142	125	126	129	134	135	137
<i>Latin America:^a</i>								
1950 Second half.....	91	116	176	102	117	114	127	112
1951 First half.....	129	133	263	131	142	114	127	134
<i>Oversea sterling area:^b</i>								
1950 Second half.....	113	93	122	88	128	149	101	111
1951 First half.....	122	116	76	112	121	170	124	125
<i>European oversea dependencies:^c</i>								
1950 Second half.....	101	101	112	98	156	111	109	108
1951 First half.....	114	116	137	107	127	114	125	120
<i>Other countries:^d</i>								
1950 Second half.....	89	120	133	83	130	99	132	106
1951 First half.....	118	125	217	109	167	134	160	133
<i>Total of above:</i>								
1950 Second half.....	104	105	131	95	124	121	115	110
1951 First half.....	127	127	141	120	135	136	133	129

Source: United Nations Department of Economic Affairs. For definition of the categories of manufactures see United Nations, *Economic Survey of Europe in 1949*, page 261.

^a Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru, Uruguay and Venezuela.

^b Australia, Burma, Ceylon, India, Iraq, New Zealand, Pakistan and Union of South Africa.

^c Dependent territories of western European countries, including United Kingdom dependencies in the sterling area and former Italian colonies.

^d Egypt, Indonesia, Iran, Israel, Lebanon, Syria and Thailand.

intensified by a desire to procure capital equipment before supplies might be curtailed because of increased requirements for military production. Contrary to anticipations which were widely entertained immediately after the outbreak of hostilities in Korea, there was a considerable expansion in exports of capital goods from industrial countries to primary producers throughout the first half of 1951. None the less, capital goods imports rose to a lesser extent than imports of consumer goods between the first half of 1950 and of 1951.

Canada, where the market for consumer goods became saturated after the first quarter of 1951 (as in the United States), was one of the few countries in which imports of capital goods rose more than those of consumer goods. Significant investments in the extractive industries, partly by United States capital, and increased defence production resulted in an exceptionally large expansion of capital goods imports in 1951 into that country. Elsewhere, there were marked increases in imports of capital goods in Latin America and in the oversea sterling area, particularly in Australia and the Union of South Africa, where a substantial increase in investment had occurred.

¹⁷ The failure of Indonesia's total imports to rise to the same extent as exports was due partly to the halving of privately held cash balances in March 1950 through currency reform; and partly to the introduction at about the same time of a foreign

In India, however, imports of capital goods fell steadily throughout the period under consideration, increased foreign exchange resources being utilized chiefly to obtain larger imports of food as well as of raw cotton and jute, the prices of which had increased very sharply. In Indonesia, likewise, imports of capital goods both in 1950 and in the first half of 1951 were less than two-thirds of the 1949 figures, notwithstanding the fact that Indonesia ranked second in gains from increases in exports during this period. By contrast, imports of consumer goods rose, owing to a redistribution of income in favour of small producers of rubber and copra resulting from the boom in these commodities.¹⁷ Imports of capital goods also declined in volume in the Philippines, where restrictions had been lifted earlier on food and consumer items owing to the pressure on supplies.

The expansion in imports of consumer goods continued in the first half of 1951, but at a somewhat reduced rate. Even so, the items showing the largest increases between the first half of 1950 and of 1951 were consumer goods, such as passenger cars and textiles—particularly imports from the United States where

exchange certificate scheme which had the effect of drastically increasing the domestic prices of imported goods. The decline in imports of capital goods was also attributable in part to reduced imports of oil companies after 1949.

domestic demand for these goods weakened early in 1951. Thus, imports of passenger cars by a large number of countries in Latin America and the Middle East more than doubled between the first half of 1950 and of 1951. In the oversea sterling area, imports of cars declined sharply because a severe shortage of shipping had drastically limited United Kingdom exports to Australia. Imports of textiles by countries in the Middle East and in the oversea sterling area also increased considerably—particularly from Japan. There were, finally, widespread increases in imports of food in countries where income had risen—for example, in Latin America—as well as in India, where there had been a drought.

In general, the large gains in the export earnings of the primary producing countries since mid-1950 do not appear to have made a major direct contribution to the implementation of their plans for economic development. Leaving aside the relatively more developed countries, less than 10 per cent of the aggregate increase in export proceeds between the first half of 1950 and of 1951 resulted in higher imports of machinery, metals and manufactures, and transport equipment other than passenger cars. Even in countries in which imports of such goods increased, the effect was often simply to

restore such imports to the levels of 1948 or 1949. In some significant instances—India being the leading example—imports of capital equipment fell both absolutely and in relation to other imports.

Furthermore, as has been seen, much of the expanded foreign exchange income of primary producing countries was devoted to purchasing larger quantities of food and consumer goods, owing to increases in inflationary pressures, speculative hoarding by consumers and other factors. Where the increases in income were confined for the most part to a relatively small sector of the population, they gave rise to greatly expanded imports of luxury items.

Since the first quarter of 1951, the fall in the export proceeds of primary producing countries and the continuing high level of imports—partly reflecting expanded orders placed early in 1951—have resulted in declines in foreign exchange reserves in a number of cases, and in the reimposition of import restrictions. The effect of these newly imposed restrictions was not yet reflected in imports in the latter half of 1951. In a number of primary producing countries, there was also some weakening of consumer demand late in 1951, which further tended to depress the import of consumer goods.

Improvement in the Balance of Payments Position of Primary Producing Areas

BALANCE ON MERCHANDISE TRADE

The marked improvement in the balance of payments position of primary producing areas since mid-1950 has been associated almost entirely with favourable developments in merchandise trade. As may be seen from table 60, the export surplus of these countries as a group more than doubled between the first half of 1950 and the same period of 1951—rising by more than \$500 million in each of the semi-annual periods after June 1950. This upward trend was reversed, however, in the second quarter of 1951, when the value of imports rose to a greater extent than that of exports. The export surplus continued to decline at a more rapid rate in the latter half of 1951 as earnings dropped further while import expenditures continued at the high levels prevailing in the earlier part of the year.

Virtually all of the increase in the export surplus in the latter half of 1950 was with the United States, the considerably larger export surplus with western Europe remaining virtually unchanged. However, in the latter case a sharp fall in the trade surplus of primary producing areas with the United Kingdom was roughly offset by a rise in the surplus with continental Europe. In contrast, the further, and equally large, rise in the over-all export surplus of primary producers in the first half of 1951 was largely attributable to the

increase in exports to the United Kingdom, which during this period replenished inventories run down in 1950. At the same time, the surplus with the United States was sharply reduced as imports into primary producing areas from that country expanded rapidly.

Trade balances in the second and third quarters of 1951 were much less favourable. Primary producing areas no longer enjoyed the export surplus in their trade with the United States which had emerged for the first time in the post-war period during the first half of 1950 and which grew throughout 1950 and the early months of 1951. In fact, by the third quarter the surplus had turned into a sizable deficit—of more than \$250 million—and their trade balance with continental western Europe also deteriorated sharply. On the other hand, they continued to have a substantial export surplus with the United Kingdom throughout 1951.

The oversea sterling area, which accounted for some three-fifths of the total surplus of primary producing areas in the first half of 1950, substantially improved trade balances with all other areas in the year following the Korean crisis. In the second half of 1950, the higher surplus resulted chiefly from its trade with the United States. The area's export surplus reached a peak in the first half of 1951 but this rise was largely attributable to its trade with the United Kingdom. Since the early months of 1951 there has been a sharp deterioration of

Table 60. Trade Balances of Primary Producing Countries with Other Areas, 1950 and 1951

(Millions of United States dollars, in current prices of exports and imports, f.o.b.)

Trade balance with:	Trade balance of					
	All primary producing countries	Canada	Latin America	Oversea sterling area	European dependencies	Rest of world
<i>Total:</i>						
1950 First half	1,130	45	630	565	-220	110
1950 Second half	1,665	-50	720	835	-130	290
1951 First half	2,290	-265	585	1,700	-195	465
<i>United States:</i>						
1950 First half	130	-75	105	185	15	-100
1950 Second half	780	-40	285	405	35	95
1951 First half	410	-320	180	510	40	—
<i>United Kingdom:</i>						
1950 First half	310	55	125	-25	85	70
1950 Second half	30	20	80	-160	80	10
1951 First half	735	40	110	270	130	185
<i>Other OEEC countries:</i>						
1950 First half	580	35	80	400	-25	90
1950 Second half	830	60	105	560	-45	150
1951 First half	850	40	25	710	-90	165
<i>Japan:</i>						
1950 First half	5	—	10	—	—	-5
1950 Second half	-75	—	-5	-40	—	-30
1951 First half	40	25	5	35	-10	-15
<i>Centrally planned economies:</i>						
1950 First half	105	—	20	75	-5	15
1950 Second half	100	—	-10	125	-15	—
1951 First half	255	-5	-5	245	-5	25
<i>Other primary producing countries:</i>						
1950 First half	—	30	290	-70	-290	40
1950 Second half	—	-90	265	-55	-185	65
1951 First half	—	-45	270	-70	-260	105

Source: United Nations Department of Economic Affairs. Minus signs indicate excess of imports over exports.

the oversea sterling area's trade balance. During the third quarter, the trade surplus declined by nearly three-fourths from the peak reached in the first quarter of the year;¹⁸ the trade surplus with both the United States and continental western Europe dropped below \$100 million and, in addition, the area was once more in deficit with the United Kingdom.

Latin America's surplus with the United States in the last half of 1950 was significantly higher than in the preceding half-year. Beginning with the second quarter of 1951, the area was once more in deficit with the United States as rising expenditures for imports overtook declining export earnings from that source. The deterioration in this direction, and in the third quarter of 1951 with continental western Europe as well, was offset for the most part by a growing export surplus with the United Kingdom, so that the total trade of the area has been approximately in balance since March 1951.¹⁹

¹⁸ This decline was only partly seasonal.

Changes in the net trading position of other primary producing areas, which include principally the countries of the Middle East and Asia and the Far East, were similar in many respects to those described for the oversea sterling group. Their export earnings also reached a peak in the early part of 1951 and have since fallen steeply at the same time as their imports, particularly from the United States, continued to expand. Their exports to the United States had already begun to fall in the second quarter of 1951 but their earnings were sustained in that quarter by higher demand from European sources. In the latter half of the year, however, the value of their exports generally declined as prices dropped substantially.

The rise in the trade surplus of primary producers in the year following the Korean crisis proved to be of a temporary character and this surplus tended to contract after the first quarter of 1951; the latter tendency

¹⁹ With the notable exception of the export surplus resulting from exports of Venezuelan petroleum to the Netherlands Antilles.

became less marked, however, by the end of the year. A further worsening of trade balances would probably lead primary producing countries generally to reimpose former restrictions or tighten existing ones. In fact, the oversea sterling area, which has been among those most adversely affected by recent developments, has already taken steps in this direction. A number of countries, particularly in Latin America, also began to tighten restrictions about the middle of 1951, but the effect of such measures was not yet reflected in the level of imports during the third quarter of the year.

CHANGES IN OTHER CURRENT TRANSACTIONS AND CAPITAL MOVEMENTS

Trade surpluses of primary producing areas were partly offset by increases in outward payments for freight and other services. Payments for transport of goods, which accounted for more than a fifth of all payments on service account in 1950, rose significantly (table 61). The volume of merchandise imports, to which the major share of these payments relate, was 14 per cent higher in the latter half of 1950, and 24 per cent higher in the following six months than in the first half of 1950. Furthermore, there was a steep rise in freight rates, which, for many items, more than doubled between 1950 and 1951. On the average, it is estimated that unit charges for freight increased by as much as a third from 1950 to 1951.

While the rise in freight charges affected almost all primary producers, the increase in other invisible payments was accounted for by a relatively small number of countries. The increase in Latin American payments to the United States in the latter half of 1950 reflects to an important extent the higher earnings resulting from the investment programme in Venezuelan petroleum production, which had virtually come to an end by the beginning of 1950, as well as from the remittance of a larger proportion of current profits than in previous years. The rise in these payments by other areas, particularly by the oversea sterling area, to the United States and the United Kingdom was also associated with the post-war expansion of investment in petroleum production in the Middle East. In the case of the United Kingdom, returns on investments in Malayan rubber and tin were considerably higher. There was also an increase during this period in dividend payments on continental European investments in primary producing areas.

Net payments by primary producing areas in 1950 for freight, interest and dividends on foreign investment and other services approximately equalled their aggregate trade surplus. The increase in invisible payments between the first and second halves of the year virtually offset the rise in their trade surplus; however, the further gain of \$600 million in the trade surplus in the first half of 1951 contributed to a rise in foreign

Table 61. Payments of Primary Producers for Transport and Other Services, 1950 and 1951

(Millions of United States dollars, net)

Payments	Total			Transportation			Other		
	1950		1951	1950		1951	1950		1951
	First half	Second half	First half	First half	Second half	First half	First half	Second half	First half
<i>To United States:</i>									
Total	525	730	715	50	50	100	475	680	615
<i>Of which, payments by:</i>									
Canada	163	61	168	-26	-27	-21	189	88	189
Latin America	245	462	317	11	26	17	234	436	300
Oversea sterling area	54	94	71	19	21	38	35	73	33
European dependencies	10	18	13	5	7	9	5	11	4
<i>To United Kingdom:</i>									
Total	330	450	490	110	140	195	220	310	295
<i>Of which, payments by:</i>									
Western Hemisphere non-dollar area	111	98	103	11	14	17	100	84	86
Oversea sterling area ^a	204	298	362	78	95	136	125	203	226
Total paid to United States and United Kingdom	855	1,180	1,205	160	190	295	695	990	910
Total payments ^b	2,860	1,700		600	500		2,260	1,200	

Source: Official balance of payments statistics.

^a Including Iceland and Ireland.

^b Including estimate for payments to countries other than United States and United Kingdom.

exchange holdings as net invisible payments remained at the level of the preceding semi-annual period. Since remittances of profits and interest tend to be heavier in the latter half of the calendar year, the improvement may have been partly seasonal in character.

Though the net inflow of capital into primary producing areas recovered somewhat during the latter half of 1950 from the relatively low level to which it had fallen in the preceding six months, foreign public and private investment in these areas continued to be of secondary importance as a source of foreign exchange income. Table 62 contains estimates of net capital movements to primary producing areas during 1950 and 1951 based on data available for the principal capital exporting countries. It is not possible in the case of countries other than the United States to separate movements of long-term capital from those of a short-term character, so that the size of capital flow for investment generally tends to be overstated by these figures. Furthermore, part of the flow of long-term capital to Australia, Canada and the Union of South

Africa included purchases of existing securities and did not necessarily lead directly to a proportionate expansion in investment. These qualifications must be borne in mind in the discussion below.

The flow of capital to Canada was exceptional and it accounted for over a third of the total movement of capital to all primary producing countries in 1950. During the third quarter this movement was greatly accelerated and was related to speculative expectations with regard to the value of the Canadian dollar. After the freeing of Canadian foreign exchange rates, the movement of United States capital into Canada slowed down considerably but there was no reversal of the flow. Most of the direct investment of the United States in Canada during this period was in petroleum exploitation, and in manufacturing and mining, particularly mining.²⁰

There was a net flow of capital to other primary producing areas at half-yearly rates of about \$800 mil-

²⁰ To increase the supply of a wide range of metals and minerals, including iron ore, copper, zinc and asbestos.

Table 62. Public and Private Long-Term and Short-Term Capital Movements to Primary Producing Areas, 1950 and 1951

(Net movements in millions of United States dollars)

Source and period	Canada	Latin America ^a	Overseas sterling area ^b	Other primary producing countries ^c	Total	
					Including Canada	Excluding Canada
<i>United States:</i>						
1950 First half.....	161	-17	53	208	405	244
1950 Second half.....	533	197	34	255	1,019	486
1951 First half.....	250	233	26	207	716	466
<i>Of which, long-term:^d</i>						
1950 First half.....	164	103	17	241	524	361
1950 Second half.....	430	115	38	229	811	382
1951 First half.....	252	214	22	187	675	423
<i>United Kingdom:</i>						
1950 First half.....	—	-22	196	20	194	194
1950 Second half.....	—	-56	179	67	190	190
1951 First half.....	..	-14	274	20	280	280
<i>International Bank for Reconstruction and Development:</i>						
1950 First half.....	—	22	16	—	38	38
1950 Second half.....	—	16	4	—	20	20
1951 First half.....	—	25	19	— ^e	44	44
<i>Total, all sources:^f</i>						
1950 Semi-annual average..	..	..	..	..	1,200	800
1951 First half.....	..	..	..	..	1,300	1,050

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D.C.); *United Kingdom Balance of Payments, 1948 to 1951*, Cmd 8379; International Monetary Fund, *International Financial Statistics* (Washington, D.C.); total capital movements from all sources estimated by United Nations Department of Economic Affairs.

^a In the case of the United Kingdom, excluding dollar countries.

^b In the case of the United Kingdom, including Iceland and Ireland.

^c In the case of the United States, excluding military aid to Korea.

^d Including unilateral transfers.

^e Less than \$1 million.

^f Including estimates of net capital movements from all other sources, principally in western Europe.

lion in 1950 and \$1,000 million in the first half of 1951. Capital movements in the twelve months following the Korean crisis were considerably above the level of the first half of 1950. The contribution of this rise to the expansion of investment for economic development appears to have been limited, because a significant part of the increase resulted from exceptional short-term transfers and, in the important case of Argentina, from a large-scale funding operation reported as a long-term capital movement from the United States.

In the first half of 1950, net capital inflow amounted to about 7 per cent of export earnings for primary producing areas, exclusive of Canada. The contribution of capital movements to the increase in the total foreign exchange resources of primary producers since the middle of 1950 has also been relatively limited. In the twelve months ending 30 June 1951, primary producing countries as a group, exclusive of Canada, increased their foreign exchange earnings from merchandise exports by about \$8,000 million over the annual rate of export earnings in the first half of 1950. Their net imports of capital in the same twelve-month period were about \$2,000 million, an increase of \$600 million over the annual rate of such imports in the first half of 1950.

The flow of United States capital to other primary producing areas fell off sharply between 1949 and the first half of 1950 and continued to consist predominantly of direct investments. For the most part, this reduction was a result of tapering off in investment programmes in the petroleum industries of Latin America and the Middle East and a return flow of short-term capital from Latin America. The value of United States capital movements rose in the second half of 1950, chiefly because of the reversal of the flow of short-term funds as commercial credits, particularly to Latin America, were again expanded but also because of a speculative flow of private capital to certain Latin American countries. The outflow of United States funds to primary producing areas in the first half of 1951 remained at the level of the preceding six months, mainly because of the sizable credit extended by the Export-Import Bank to Argentina for repayment of commercial debts in the United States.

The net outflow of United States long-term capital to primary producing areas declined between the second and third quarters of 1951 both for direct and for portfolio investment but chiefly for the latter. The fall in direct investment again resulted from the completion of a number of major projects in the oil industry. The decline which took place in direct investment may prove to be a temporary one because rising demand for petroleum and other raw materials may again necessitate an

increase in productive capacity abroad. There was in fact a mild recovery in the final quarter of 1951 from the low level to which direct investments fell in the preceding quarter.²¹ The United States continued to be the source of well over a half of the total net movement of capital to primary producing countries.

The United Kingdom, which next to the United States is the principal supplier of capital to primary producing countries, expanded its investment activity in the oversea sterling countries in 1951, while continuing the process of disinvestment in Latin America.²² Australia and the Union of South Africa continued in 1951 to be the chief recipients of capital from the United Kingdom. In the case of Australia, there was a sharp increase in the inflow of short-term funds, which had reached substantial proportions in the first half of 1950 owing to speculation on the appreciation of its currency. The movement of capital from the United Kingdom to the Union of South Africa was supplemented by an increasing volume of United States and Swiss investment during 1950. Though the receipts of capital by the Union of South Africa from all sources in the first half of 1951 appeared to have fallen off, the decline may prove to be temporary in view of recent loans of \$50 million by the International Bank for Reconstruction and Development and \$30 million by a group of United States banks. There appeared to have been some increase in the outflow of United Kingdom funds under various colonial development plans and an increase in British investment in Malaya, owing to reinvestment of profits.

In the absence of a renewal of large-scale private lending to primary producing countries, the International Bank for Reconstruction and Development has become a principal source for portfolio capital in the past few years. Actual disbursements against loans granted to primary producing countries in 1949 and 1950 amounted to slightly under \$60 million but rose to about \$125 million in 1951. The undisbursed balance on 30 November 1951 of loans agreed upon to that date was somewhat under \$300 million.

RISE IN GOLD AND FOREIGN EXCHANGE ASSETS

The considerable improvement in the net payments position of primary producing areas between January 1950 and June 1951 may be seen from the rise in their foreign exchange assets, shown in table 63. At 30 June 1951 the gold, dollar and sterling holdings of the oversea sterling area, which accounted for more than half of the increase in reserves between June 1950 and June 1951, had regained the larger part of the earlier decline in dollar terms which was partly the statistical result of the change in exchange rates and partly the consequence of heavy drawings on reserves during 1949. The aggregate holdings of Canada and Latin America rose to a much smaller extent during 1950 and 1951 but

²¹ However, the rate was considerably smaller than during the first half of 1951 or during 1950, and most of the rise was accounted for by Canada. There was a much larger rise in the final quarter of 1951 in short-term capital movements from the United States, which caused the net outflow of United States capital to return almost to the level of the first half of 1951.

²² United Kingdom repatriation of investment in Latin America in the twelve months ending 30 June amounted to \$84 million.

Table 63. Foreign Exchange Assets^a of Primary Producing Areas, 1949 to 1951
(Thousand millions of United States dollars)

Period	At end of period	Increase during period			
		Total	Gold	Dollars	Sterling
31 December 1949.....	13.7	—	—	—	—
1 January to 30 June 1950.....	14.5	0.8	0.1	—	0.7
1 July to 31 December 1950.....	16.0	1.5	0.3	0.9	0.3
1 January to 30 June 1951.....	17.6	1.6	0.3	0.2	1.1
31 December 1949 to 30 June 1951....	17.6	3.9	0.8	1.0	2.1
<i>Of which:</i>					
Oversea sterling area.....	9.1	2.3	0.1 ^b	0.1 ^b	2.1
Latin America.....	3.9	0.6	0.4	0.2	—
Canada.....	2.0	0.6	0.2	0.4	—

Source: United Nations Department of Economic Affairs, based on data reported in International Monetary Fund, *International Financial Statistics* and United Kingdom, *Balance of Payments, 1948 to 1951*, Cmd 8379.

^a Including gold reserves, short-term dollar holdings (official and private) and sterling balances.

^b Excluding claims of the sterling area on the dollar pool.

were substantially above their 1948 level at 30 June 1951, though, in the case of Latin America, well below the post-war peak of 1945.

The bulk of the international assets of primary producers is held in the form of gold, dollars and sterling. Most countries also maintain balances in other currencies but these are usually comparatively small. The increase in sterling balances during 1950 and the first half of 1951 occurred almost exclusively in the oversea sterling area and was attributable, on the one hand, to the area's export surplus, not only with the dollar area but with other areas as well—chiefly continental Europe—and, on the other, to gold sales to the United Kingdom and to the movement of United Kingdom capital to the area.²³ In the second half of 1951, however, there was a sharp fall in the sterling balances of oversea sterling countries. Sterling holdings of other areas, with the exception of Iran and Egypt, remained relatively unimportant. There was a considerable reduction in Latin America's sterling holdings, particularly in the second half of 1950; sterling holdings were maintained at the same level in the first half of 1951 by virtue of Brazil's purchase of sterling from the International Monetary Fund in the early months of the year.

There have been several distinct phases in the movement of official gold and foreign exchange reserves in primary producing countries since the beginning of 1950. As table 64 shows, from January to June 1950 the rate of increase was relatively moderate and tended to be concentrated in a few countries, being associated in some instances with sizable capital movements. In the latter half of 1950 virtually all areas added to their reserves—the gains ranging from approximately 5 to 15

²³ For discussion of balance of payments of the sterling area, see preceding chapter.

per cent. Canada alone accounted for about a third of the aggregate gain because of the exceptionally high inflow of capital during this period. During the first quarter of 1951 there were large gains in the sterling area and in Latin America but in other areas there was some slackening in the rate at which reserves were increasing, and in Canada reserves declined. During the second quarter of 1951 there was very little tendency for reserves to rise further, and they generally declined during the third quarter as export proceeds fell and imports remained at the higher level of earlier periods.

On balance, the real gains in the foreign exchange assets of the primary producing countries have proven to be considerably smaller than the rise in the current value of such assets, since the latter increase has virtually been cancelled by the fall in purchasing power owing to higher import prices. Table 65 shows the increase between June 1950 and June 1951 in the nominal and real value of the official gold and foreign exchange reserves of various primary producing areas. While the increase in the dollar value of these reserves amounted to \$2,600 million, their purchasing power increased by little more than \$100 million, or less than one per cent, owing to the rise in import prices in the intervening period. For a large number of countries, including Brazil, India and the Union of South Africa, the rise in the current dollar value of reserves was not large enough to offset the loss in purchasing power. Others, such as Cuba, Colombia and probably Egypt, suffered a greater loss in real terms than is apparent from the decline in nominal reserves. Nevertheless, the reserve position of primary producers in mid-1951, as against a year earlier, was relatively much better than that of many industrialized countries whose reserves had suffered a much greater decline in purchasing power.

Table 64. Official Gold and Foreign Exchange Reserves of Primary Producing Areas, 1948, 1950 and 1951

(Millions of United States dollars)

Country	31 December 1948	30 June 1950	31 December 1950	30 June 1951	31 December 1951
Canada.....	1,011	1,265	1,742 ^a	1,680	1,779 ^a
<i>Latin America:</i>					
Total.....	2,485	2,555	2,885	3,005	..
Dollar countries:					
Colombia.....	84	108	101	97	123
Cuba.....	316	437	353	399	422
Mexico.....	78	98	290	244	250 ^b
Venezuela.....	386	401	374	373	373
Other countries.....	159	176	190	252	232 ^b
Total, above countries.....	1,023	1,220	1,308	1,365	..
Non-dollar countries:					
Argentina ^a	359	413	480	594	482
Brazil.....	757	586	665	619	514
Uruguay.....	241	240	312	284	199
Other countries.....	105	96	120	143	135
Total, above countries.....	1,462	1,335	1,577	1,640	1,330
<i>Oversea sterling area:</i>					
Total.....	8,390	6,365	6,798	7,825	..
Independent member countries:					
Australia.....	1,214	1,310	1,325	1,686	..
Ceylon.....	254	153	191	211	217
India ^c	3,354	1,985	2,000	2,048	1,888
Iraq.....	4	16	25	25	22
New Zealand.....	198	192	164	249	113
Pakistan.....	805	471	507	604	631 ^d
Union of South Africa.....	330	431	475	458	386
Total, above countries.....	6,159	4,558	4,687	5,281	..
Dependent territories.....	2,231	1,807	2,111	2,544	2,699
<i>Other countries:</i>					
Egypt.....	1,068	700	734	..	..
Finland.....	75	67	85	143	217
Indonesia ^a	218	220	320	363	419
Iran.....	273	236	240	235	196
Israel.....	33	57	31	8	8
Philippines.....	400	221	285	272	246
Spain.....	125	64	75	70	56 ^b
Thailand.....	212	250	285	318	289
Total, above countries.....	2,404	1,815	2,055	2,140	..
Total, all above countries..	14,290	12,000	13,480	14,650	..

Source: International Monetary Fund, *International Financial Statistics*.

^a Gold and dollar balances only.

^b September 1951.

^c Including some long-term securities.

^d November 1951.

Table 65. Change in Nominal and Real Value of Official Gold and Foreign Exchange Reserves of Primary Producing Areas between 30 June 1950 and 30 June 1951

(Millions of United States dollars)

Area	Value on 30 June 1950 (1)	Value on 30 June 1951		Net gain, 30 June 1950 to 30 June 1951	
		In current prices (2)	Adjusted for rise in import prices ^a (3)	Nominal ^b (4)	Real ^c (5)
All primary producing countries ^d	12,000	14,650	12,115	2,650	115
Canada	1,265	1,680	1,360	415	95
Latin America:					
Total	2,555	3,005	2,505	450	-50
Dollar countries	1,220	1,365	1,185	145	-35
Non-dollar countries	1,335	1,640	1,320	305	-15
Oversea sterling area	6,365	7,825	6,390	1,460	25
Other countries ^d	1,815	2,140	1,860	325	45

Source: United Nations Department of Economic Affairs, based on official national statistics.

^a Between June 1950 and June 1951.

^b Column (2) less column (1).

^c Column (3) less column (1).

^d Excluding the following primary producing countries for which data are not available: Afghanistan, Burma, Ethiopia, Lebanon, Saudi Arabia, Syria, Taiwan and Yugoslavia.

Summary

The over-all balance of payments position of the primary producing areas is summarized in table 66 and may be recapitulated as follows. Their aggregate export earnings increased by more than a fourth in the last half of 1950 and again by more than a fifth in the first half of 1951. By virtue of these successive increases, they were able to expand imports over the first half of 1950 by \$2,300 million (at current prices) in the latter

half of the year and by a further \$2,300 million in the first six months of 1951. At the same time, owing primarily to the lag of import expenditures behind export receipts, they added \$1,500 million to their gold and foreign exchange holdings during the second half of 1950 and another \$1,700 million in the following semi-annual period.

Table 66. Estimated Balance of International Payments of Primary Producing Areas, 1950 and 1951

(Thousand millions of United States dollars)

Item	Including Canada			Excluding Canada		
	1950		1951 First half	1950		1951 First half
	First half	Second half		First half	Second half	
<i>Goods and services:</i>						
Exports, f.o.b.	11.0	13.9	16.8	9.7	12.3	15.1
Imports, f.o.b.	9.9	12.2	14.5	8.6	10.6	12.5
Balance	1.1	1.7	2.3	1.1	1.7	2.6
Income on investment and other services (net)	-1.2	-1.6	-1.7	-1.1	-1.5	-1.5
Balance on goods and services	-0.1	0.1	0.6	—	0.2	1.1
<i>Capital movements and donations (net)</i>	0.9	1.5	1.3	0.7	0.9	1.0
<i>Monetary reserves and other for- eign exchange balances (net)^a</i>	-1.1	-1.5	-1.7	-0.8	-1.0	-1.7
<i>Errors and omissions^b</i>	0.3	-0.1	-0.2	0.1	-0.1	-0.4

Source: United Nations Department of Economic Affairs, based on official national statistics.

^a Minus signs here reflect increases in reserves and balances.

^b Including non-monetary gold movements.

For primary producing areas as a whole, exclusive of Canada, higher invisible payments in the first half of 1951 were offset to some extent by a larger inflow of capital, but the latter fell off rather steeply in the second half of the year. The absolute changes in the movement of invisible items and foreign capital were in the aggregate relatively small by comparison with the increases in merchandise trade and thus did not significantly affect the net balance of payments of primary producing areas as a whole. However, the net payments positions of a number of countries, particularly of Canada and of the petroleum producing countries, which have been among the principal recipients of foreign capital in the post-war years, were considerably affected both by fluctuations in capital movements and the rise in profit remittances.

The recent gains in the export earnings of primary producing countries are of special interest in relation to the short-term prospects for financing external costs of economic development in these areas, since at the present level of international lending and investment, earnings from the export of goods provide the bulk of the foreign exchange resources for this purpose. It has been shown that these gains have been very unevenly distributed among various countries in the group, and that they are, judging from recent trends, highly unstable and in some instances purely temporary in character. Furthermore, increases in earnings have been offset to an important extent by rising prices of merchandise imports and services, so that by the end of 1951 most of the earlier advantages enjoyed by primary producing areas had been eliminated.

Chapter 7

TRADE OF THE CENTRALLY PLANNED ECONOMIES¹

The years 1950 and 1951 witnessed a further development of the tendency for the world to be divided into two groups of countries, the members of each group trading on a relatively large scale with one another, but only to a limited extent with members of the other group. Between 1949 and 1950, the quantum of trade among the centrally planned economies and among the

countries comprising the rest of the world continued to rise, but trade between these two groups of countries—that is, “east-west trade”—declined by some 10 to 20 per cent. These trends continued in 1951, and there were signs of increasing momentum in the process of economic separation of the two areas. By 1951, east-west trade² had fallen to about a half of the pre-war volume.

East-West Trade

In order to place east-west trade in perspective, it is necessary to take account of the fact that both groups of countries comprise areas which are so large and diversified in resources as to be virtually self-sufficient; even if the level of trade between them were much higher than it was in 1950, it would still be relatively small by comparison with their total output of goods.

By far the major part of east-west trade consists of exchanges between western and eastern Europe,³ as table 67 indicates. In western Europe, where the ratio of total imports to gross national product averages somewhat less than 20 per cent, imports from eastern Europe in 1950 accounted for only about one-fortieth of total imports and consequently for less than one-half of one per cent of gross national product. In eastern Europe, where total imports probably do not exceed 2 per cent of the gross national product, owing to the size and virtual self-sufficiency of the Union of Soviet Socialist Republics, imports from western Europe—even at the reduced levels of 1951—probably accounted for over one-fifth of total imports, and hence, again, for less than one-half of one per cent of gross national product.

The present low ratio of east-west trade to the gross national products of both participating groups of countries does not imply that this trade is of little signifi-

Table 67. Indices of Quantum of Trade of Eastern Europe^a with Rest of World,^b 1949 to 1951

(1948=100)

Item	1949	1950	1951 ^c
Trade of eastern Europe with rest of world.....	95-100	80-85	70-75
Trade among countries of rest of world.....	107	119	136
Trade among eastern European countries ^d	135-145	160-190	..

Source: United Nations Department of Economic Affairs.

^a Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the Soviet Union.

^b Excluding eastern Germany and area of China controlled by the Central People's Government.

^c First six months at annual rate.

^d Estimated. See discussion in text of trade among eastern European countries. According to a statement in *Pravda* of 9 April 1952, trade among the countries mentioned in footnote a, together with Albania, the Chinese mainland, eastern Germany, Mongolia and northern Korea more than doubled between 1948 and 1950.

cance. Certain of the items exchanged are sufficiently important to provide incentives on both sides to maintain or increase the level of that trade.

On the side of the “eastern” group of countries, there is a desire to increase imports of capital goods and raw materials required in connexion with their plans for economic development. While the great bulk of the industrial equipment employed by them is manufactured within the area, imports represent a means of expanding the industrial base at a somewhat faster rate than would otherwise be possible.

The major items in the imports of “western” countries are essential agricultural products and raw mate-

¹ In the following discussion the “centrally planned economies” include Bulgaria, Czechoslovakia, Hungary, Poland, Romania, the Union of Soviet Socialist Republics and, unless otherwise indicated, the area controlled by the Central People's Government of the People's Republic of China; eastern Germany is included where indicated.

² Excluding that of the area of China controlled by the Central People's Government.

³ Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Soviet Union.

Table 68. Regional Pattern of Eastern European Trade, 1948, 1950 and 1951

(Value in millions of dollars; in current prices, f.o.b.^a)

Trade with	Trade of eastern Europe					
	1948		1950		1951 ^b	
	Imports	Exports	Imports	Exports	Imports	Exports
Western Europe ^c	610	830	570	615	600	735
United States.....	120	115	25	80	5	70
Oversea sterling area.....	175	45	155	40	235	60
Middle East.....	75	65	45	50	60	80
Latin America.....	85	30	45	40	35	45
Other areas ^d	340	220	80	70	150	100
Total	1,405	1,305	920	895	1,085	1,090

Source: Statistical Office of the United Nations. Estimates based on trade data furnished by the trading partners of eastern European countries.

^a All figures rounded to nearest \$5 million.

^b First six months at annual rate.

^c Member countries of the Organisation for European Economic Co-operation.

^d Excluding the area of China controlled by the Central People's Government.

rials. While these countries as a whole dispose of adequate supplies of these commodities, supplies from non-dollar sources are scarce in relation to demand, and imports from eastern Europe therefore represent, particularly to western Europe, a means of economizing on dollar expenditures. Where freight costs are important—as in the case of coal—imports have in the past been obtained at lower cost in eastern Europe than would have been possible from non-European sources.⁴

Finland and Yugoslavia occupy a special position in east-west trade. Finland is almost the only European country which trades freely with both eastern and western Europe. Yugoslavia, which is a centrally planned economy that maintains a government monopoly of its foreign trade, has reoriented its trade to the west following the deterioration in political and economic relations with other eastern European countries in 1948. The trade of these two countries is included in the scope of the analysis in chapter 6, above.

IMPORTS BY EASTERN EUROPE FROM THE REST OF THE WORLD

Since 1949, the United States and a large number of western European countries have followed a common restrictive policy with respect to certain types of exports to the centrally planned economies. In the United States, this was effected under the Export Control Act of 1949.⁵

⁴ In 1951, however, the delivered cost of Polish coal in western Europe approached that of United States coal.

⁵ The Export Control Act of 1949 introduced controls which "have helped safeguard national security by a selective limitation of the export of American materials, equipment and advanced technology which would enhance the military power of Soviet Bloc nations . . . Between March 1948 and June 1950 licence applications for shipments to eastern Europe totalling \$155 million were disapproved. Many of the applications which were approved were reduced in quantity; and undoubtedly other applications were not filed at all because of the persuasive effect

A steadily growing "positive list" of commodities was instituted in respect of which export licences for shipment to eastern Europe were required. From the first quarter of 1951, export licences became necessary for all commodities for shipment to eastern Europe.⁶ As a result, the value of United States exports to eastern Europe fell from \$122 million in 1948 to an annual rate of only \$5 million in the first half of 1951. In addition, measures have been taken to discourage other countries from re-exporting strategic goods originating in the United States to the centrally planned economies, and restrictions have been imposed on United States aid to any countries which maintain such exports.

Similar policies have been adopted by most western European countries. In 1951, some 95 per cent of goods classified by the United States as of primary strategic importance were similarly classified by these western European countries, and their export to the centrally planned economies was prohibited. The volume of capital goods exports from western Europe to eastern Europe increased substantially from 1948 to 1949 but there was little further increase from 1949 to 1950 (see table 69). In 1951, there was a sharp reduction. In the first nine months of 1951, exports of machinery and vehicles from Belgium, France, western Germany, Italy and the United Kingdom⁷ fell by over one-third; the most substantial decline was from the United Kingdom, which had been the largest supplier of machinery.

of export rejections for similar licence applications". *Export Control: Twelfth Quarterly Report by the United States Secretary of Commerce* (Washington, D.C.), August 1950.

⁶ Since the end of July 1950, no licences for "positive list" commodities have been issued for exports to the mainland of China. There were no United States exports to the China mainland in the first half of 1951. An embargo on all shipments to north Korea was put into effect in June 1950.

⁷ These countries account for two-thirds of total western European exports of these categories to eastern Europe.

Table 69. Western European Commodity Exports to Eastern Europe, 1948 to 1950

(Millions of United States dollars; in constant prices,^a f.o.b.)

Commodity group and year	Total trade	Main exporters ^b in western Europe			Main importers ^c in eastern Europe		
		Italy	Denmark	Norway	Poland	Czechoslovakia	USSR
<i>Food, beverages and tobacco:</i>							
1948.....	62.4	3.2	21.3	6.4	7.6	25.3	25.7
1949.....	61.8	3.2	15.2	8.5	23.0	21.3	15.8
1950.....	29.6	7.1	6.5	4.8	14.8	10.1	3.8
<i>Raw materials:</i>							
1948.....	196.8	28.5	65.4	11.0	46.6	57.9	81.4
1949.....	157.2	15.3	28.8	26.6	40.9	56.1	40.1
1950.....	107.7	21.2	17.7	15.1	39.3	34.7	19.1
<i>Metals and metal manufactures:</i>							
1948.....	74.4	1.8	20.8	14.7	26.4	15.7	26.7
1949.....	107.0	4.3	38.4	22.6	39.8	19.3	32.9
1950.....	105.5	31.1	19.0	18.1	31.5	25.9	23.5
<i>Machinery:</i>							
1948.....	135.3	29.3	29.7	10.1	63.0	29.8	33.3
1949.....	205.3	60.5	35.2	23.9	84.4	54.3	40.1
1950.....	255.5	63.9	47.3	34.0	108.8	66.4	37.0
<i>Vehicles and other transport equipment:</i>							
1948.....	64.6	35.1	—	6.5	36.6	18.5	1.4
1949.....	75.8	44.8	0.7	6.4	46.0	18.8	3.8
1950.....	60.6	33.6	4.1	6.5	37.7	13.2	4.0
<i>Chemicals:</i>							
1948.....	41.8	1.4	16.4	3.6	23.7	9.7	3.1
1949.....	62.7	11.0	10.9	7.7	27.2	14.3	9.8
1950.....	44.4	12.9	10.0	3.8	17.9	13.1	9.4
<i>Textiles:</i>							
1948.....	22.0	2.2	7.2	3.5	8.6	4.2	1.6
1949.....	33.3	9.3	3.0	7.7	13.3	8.9	3.4
1950.....	35.5	8.9	7.2	5.2	12.8	9.7	4.9
<i>Other manufactures:</i>							
1948.....	36.8	15.7	0.3	6.0	16.3	10.7	6.1
1949.....	57.8	33.7	1.5	5.9	32.5	13.0	6.8
1950.....	35.3	14.8	3.8	6.0	13.3	9.4	6.9
<i>Unspecified:</i>							
1948.....	35.9	28.6	0.1	3.7	12.8	6.9	1.1
1949.....	59.0	16.8	16.5	8.1	20.1	14.3	15.9
1950.....	38.3	13.3	13.1	4.5	15.8	10.9	6.2
<i>Total, above groups:</i>							
1948.....	670.0	157.1	92.0	86.6	257.9	159.7	188.3
1949.....	819.9	149.7	91.0	118.2	279.6	216.1	213.1
1950.....	712.4	100.9	99.3	99.2	216.9	195.7	172.1

Source: United Nations, *Economic Bulletin for Europe* (Geneva), October 1951.

^a For 1948, in current prices; for 1949 and 1950, first nine

months expressed at annual rates, in January to September 1949 prices.

^b Main exporters in 1950.

^c Main importers in 1950.

Table 70. Exports of Australian Wool and Malayan^a Rubber to Eastern Europe, 1948 to 1951

Commodity and unit	1948	1949	1950	1951
Rubber (thousands of long tons).....	117	81	91	78
Wool (millions of pounds avoirdupois; greasy basis).....	54	72	62	37 ^b

Source: Secretariat of Rubber Study Group, *Rubber Statistical Bulletin* (London); Australia: Commonwealth Bureau of Census and Statistics, *Monthly Bulletin of Overseas Trade Statistics*.

^a Including United Kingdom re-exports.

^b First eleven months at annual rate.

Exports to eastern Europe of such raw materials as non-ferrous metals, cotton, jute, rubber and wool declined in 1950 and 1951. Cotton exports to eastern Europe (excluding the USSR) provided the raw materials, in 1949/50, for about one-third of the cotton textile output of the area; these exports were substantially reduced in 1950/51, mainly as a result of the virtual elimination of United States exports to eastern Europe. The imposition of limitations on exports of rubber to eastern Europe by the United Kingdom and Malaya early in 1951 resulted in a substantial reduction in deliveries (see table 70). An exception to this downward trend is the export of Swedish iron ore. Under the Swedish-Polish trade agreement covering the period from November 1951 to October 1952, Sweden is to export a million tons of iron ore in exchange for 3 million tons of Polish coal. This volume of iron ore represents an increase over the level of shipments in 1950.

EXPORTS BY EASTERN EUROPE TO THE REST OF THE WORLD

In the early post-war period, the low level of production in eastern Europe was a major element contributing to the decline in east-west trade in relation to pre-war years. However, progressive increases in output in eastern Europe were associated with a considerable rise in the capacity to export.

Of the total exports to the rest of the world by eastern Europe in 1950, approximately three-quarters went to other European countries; the commodities which predominated in exports to western Europe were, in order of current value, coal, grain, meat and timber. The domestic demand for these goods in eastern Europe was high, and in some countries there have been actual shortages of one or more of these commodities in recent years. However, in order to obtain imports of capital equipment, eastern Europe exported these commodities to the west, albeit such exports represented, for eastern Europe as a whole, a relatively small proportion of total output.

In 1950, the increased output of coal in western Europe, together with a slackening of demand in France in the first half of the year, resulted in a reduction of

western Europe's imports of coal from the United States from 10 million metric tons in 1949 to 0.4 million tons in 1950; and from eastern Europe, from 13.6 million tons to 11.2 million tons (see table 71). In 1951, the rise of industrial activity in western Europe was accompanied by a resumption of imports from the United States at levels above those of 1948. While overall imports from Poland in the first half of 1951 remained at a level similar to that in 1950 and below that of 1948 and 1949, imports from Poland by Denmark, western Germany, Finland, Ireland, Sweden and Switzerland were either maintained or increased. To some of these countries such imports continued to be of major importance; for example, Polish supplies in 1950 comprised some 40 per cent of total consumption in Denmark.

Table 71. Exports of Selected Commodities from Eastern Europe to Ten Western European Countries,^a 1948 to 1950

Commodity and unit	1948	1949	1950
<i>Millions of specified unit:</i>			
Bread grains ^b (metric ton).....	0.7	1.3	0.6
Coarse grains ^b (metric ton).....	1.4	1.0	1.1
Coal ^c (metric ton).....	13.2	13.6	11.2
Timber ^d (cubic metre).....	0.7	1.2	1.3
<i>Thousands of metric tons:</i>			
Steel.....	188	189	67
Sugar.....	37	118	56
Meat.....	14	29	79
Eggs.....	12	16	27
Tobacco.....	3	4	2
Index of volume	100	118	96

Source: United Nations, *Economic Bulletin for Europe*, October 1951.

^a Belgium-Luxembourg, France, western Germany, Italy, Netherlands, Norway, Sweden, Switzerland, Turkey and the United Kingdom.

^b Including Yugoslav exports; excluding exports of Czechoslovakia. Exports include those to Denmark, Finland and Greece.

^c Including also imports of Austria and Denmark.

^d Softwood logs and sawn softwood.

The Union of Soviet Socialist Republics is the major eastern European exporter of timber, and the United Kingdom is the dominant importer. The share of the Soviet Union in the total softwood imports of the United Kingdom grew from 2.1 per cent in 1948 and 7.6 per cent in 1949 to 17.9 per cent in 1950. Although United Kingdom softwood purchases in the first half of 1951 generally rose substantially in response to expanded demand, imports from the Soviet Union were reduced. A new contract, concluded in July 1951, provides for a smaller volume of trade in timber between the two countries than in 1950.

In 1950 western European imports of all grains fell, both from eastern Europe and from other sources. The reduction in bread grain imports by western Germany and Italy reflected the recovery in domestic production in these countries. Western Europe's total imports of feed grains from all areas remained unchanged in 1950, but imports from eastern Europe increased, a rise in imports from the Soviet Union more than offsetting a fall in supplies made available by Hungary. The increase in United Kingdom imports of USSR coarse grains—from 200,000 tons in 1949 to 700,000 tons in 1950—resulted in the Soviet Union's supplying one-third of total United Kingdom imports of coarse grains in 1950.

In the first nine months of 1951, western European grain imports from all sources increased, especially the imports of the United Kingdom. However, most of this latter increase was obtained from Australia and the United States and there was little increase from eastern Europe. A contract for coarse grain between the United Kingdom and the Soviet Union concluded in September 1951 provides for the same quantity of feed deliveries as in the previous contract—together with 200,000 tons of wheat.

Trade in meat did not follow the same pattern. Supplies of bacon from Poland to the United Kingdom, which are governed by a five-year agreement (1949 to 1953), have formed a continually increasing proportion of total United Kingdom imports. In 1950 imports of bacon from Poland amounted to 15 per cent of total United Kingdom imports of bacon, and this proportion increased further with a sharp reduction in the supply from Canada and an increase in the supply from Poland in 1951.

Generally, the quantities of the commodities involved in imports from eastern Europe were small in relation to western Europe's total consumption, but they were of considerable significance in relation to the dollar problem. In 1950, the deficit of western Europe with the United States and Canada on current transactions in non-military goods and services amounted to approximately \$1,350 million. If the coal, grain and timber which were obtained from eastern Europe⁸ in that year

⁸ Excluding eastern Germany.

⁹ USSR exports of manganese ore to the United States had fallen to zero by the second quarter of 1951.

had been purchased in North America, the effect would have been to increase the dollar deficit by about \$350 million. In 1951, the continuing low level of western Europe's imports of these commodities from eastern Europe was accompanied by a considerable expansion in imports from North America. The reason for this was largely that increased deliveries from eastern Europe could have been obtained only by making corresponding counter-deliveries of goods required by the eastern countries but subject to export restrictions in the west.

Eastern Europe's exports to other areas are of somewhat different composition from those to western Europe. To the United States these countries have been suppliers of relatively few "essential" commodities, of which manganese ore from the Soviet Union was the most important.⁹ For the most part these exports consist of luxury items, such as USSR furs and Czechoslovak textile and glass manufactures. The structure of United States imports from eastern Europe, together with its general self-sufficiency, has enabled the United States to reduce its imports from eastern Europe much more than has been possible for western Europe. Between 1948 and the first half of 1951, the value of United States imports from these countries fell by nearly 40 per cent. In August 1951, the United States decided to suspend tariff concessions to the countries of eastern Europe and in September 1951 it withdrew from Czechoslovakia the tariff concessions granted under the General Agreement on Tariffs and Trade.

Eastern Europe, particularly Czechoslovakia, has been supplying limited amounts of manufactures, including steel products, machinery, and electrical equipment, to a number of countries in the Middle East, Latin America and the overseas sterling area. Eastern European exports of grain to Egypt and India have also been of some significance during the period under consideration.¹⁰

TRADE BETWEEN EASTERN AND WESTERN GERMANY

Inter-zonal trade in Germany continues to reflect, in an extreme form, the general stagnation of east-west trade. By the end of 1950, although industrial production in both east and west Germany had regained pre-war levels, trade between the two areas, which have complementary industrial structures, remained insignificant. In 1948 the volume of inter-zonal trade was reduced to between 6 and 7 per cent of the trade of 1936. The rate of exchanges planned under the Frankfurt Agreement (which covered the period October 1949 to June 1950) was virtually the same as the level of trade carried on in the first half of 1948, and since then trade has continued to decline.¹¹

¹⁰ Egyptian imports of grain from eastern Europe in 1950 amounted to 204,000 tons. In 1951 India received 99,000 tons of USSR wheat.

¹¹ This conclusion is only slightly modified by the extent of illegal trade and of the trade between west Berlin and eastern Germany.

Trade among the Countries of Eastern Europe

It is possible to give only a general indication of the broad trends and significance of trade among the countries of eastern Europe, since precise data on absolute quantities, prices and composition are generally not available. Recent official and other statements¹² concerning economic relationships between these countries stress the development of a considerable degree of economic integration, specialization and co-ordinated planning, with the primary aim of the maximum possible development of industry, particularly of heavy industry, throughout the area. This objective has been fostered by the Council of Mutual Economic Assistance, established in January 1949, which was composed initially of Bulgaria, Czechoslovakia, Hungary, Poland, Rumania and the Union of Soviet Socialist Republics. These countries were later joined by Albania and eastern Germany.

The structure and volume of trade among these countries are determined by certain characteristics of their present level of development and of their relations with the rest of the world, as well as by their own planned economic objectives. The region as a whole comprises areas at very different levels of economic development. Thus, Czechoslovakia and eastern Germany had relatively advanced industries even before the war. Bulgaria and Rumania, on the other hand, were then and still remain relatively under-developed economies. The Soviet Union occupies a special position in the area by virtue of the size and diversity of its output and resources. While foreign trade is not of major quantitative importance for the Soviet Union, it is much more significant for other eastern European countries which depend on imports for large proportions of their raw material supplies and—particularly the under-developed countries—for their industrial equipment.

GENERAL LEVEL AND COMPOSITION OF TRADE

Changes in the total turnover of trade of five eastern European countries (not including eastern Germany and the USSR) are shown in table 72.

From what is known of the trade of these five countries with the rest of the world (excluding the USSR) and of the share of that segment of their trade in the total, it is possible to estimate that their trade with one another and with the Soviet Union increased by something of the order of 35 to 45 per cent between 1948 and 1949 and by a further 15 to 30 per cent between 1949 and 1950. Available indications are that trade

¹² See particularly the article by H. Minc, Vice-Premier and Minister of Planning for Poland in *Pravda*, 25 September 1951; and the article by M. Paromov on "Forms and Methods of Economic Co-operation between the Union of Soviet Socialist Republics and the People's Democracies" in *Problems of Economics* (Moscow), December 1950.

Table 72. Indices of Total Trade^a of Five Eastern European Countries,^b 1947 to 1950
(1946=100)

Year	Index
1947.....	223.9
1948.....	346.6
1949.....	409.3
1950.....	412

Source: *Pravda* (Moscow), 25 September 1951.

^a It is assumed that the data refer to the total imports and exports of the respective countries, in constant prices.

^b Bulgaria, Czechoslovakia, Hungary, Poland and Rumania.

among these five countries and the Soviet Union rose sufficiently to offset the decline in the quantum of their trade with other countries, both in 1950 and in 1951. Moreover, in 1950 the total volume of trade of the countries of eastern Europe (other than the USSR) exceeded the pre-war level. In addition to the trade of these five countries, eastern Germany developed, in 1950 and 1951, as a major trading country in the area. In 1950 its trade with the rest of eastern Europe increased by close to 60 per cent and there were plans to increase it still further in 1951.

As a result of the divergent movements in trade with one another and with the rest of the world, the trade of eastern European countries with one another rose from approximately two-fifths of their total trade in 1948 to about one-half in 1949 and to over three-fifths in 1950. The relative significance of trade with the west continued to be greater for Czechoslovakia and Poland than for other eastern European countries. Even in these two countries, however, the proportion of trade with other eastern European countries and the Soviet Union to total trade rose from about 45 per cent in 1949 to 55 per cent in 1950.¹³ In the other countries, the corresponding ratio for 1950 was probably of the order of 70 per cent.

TRADE OF THE UNION OF SOVIET SOCIALIST REPUBLICS

In 1949 the total volume of USSR foreign trade was more than double the pre-war level, and by 1951 the volume of this trade had risen to three times that of pre-war.

As already indicated, the USSR occupies a leading position in the system of economic relationships in eastern Europe—the Soviet Union's resources and out-

¹³ The sharp change in the geographical distribution of Czechoslovak trade is illustrated by the following figures showing the percentage of Czechoslovak trade with countries other than eastern Europe: 1948, 70 per cent; 1949, 55; 1950, 45; 1951, 40; and 1952, 30 per cent (data for 1948 to 1950 represent actual figures; for 1951 and 1952, planned figures).

put being considerably larger than those of all other eastern European countries taken together. In 1949 the rest of eastern Europe accounted for about two-thirds of the total trade of the Soviet Union, compared with some 3 per cent before the war. In 1950, about two-thirds of the trade of the Soviet Union with the rest of eastern Europe was with Czechoslovakia, eastern Germany and Poland. It is likely that, even without the existing restrictions on east-west trade, the Soviet Union would have become a leading source of supply of essential items for the countries of eastern Europe, owing to the system of planning adopted in these countries; the stagnation of east-west trade has, however, served to increase the relative importance of the Soviet Union in this respect.

The bulk of USSR exports to the rest of eastern Europe—to the less developed and the more developed countries alike—consists of raw materials and industrial equipment, supplied partly on credit. Among the leading raw material exports are iron ore, non-ferrous ores and metals, and raw cotton. More than 70 per cent of Bulgaria's post-war imports from the Soviet Union, up to and including 1948, consisted of raw materials and machinery. Hungary, in 1949, was scheduled to obtain from the Soviet Union 60 per cent of its iron ore, coke and pig-iron and three-quarters of its raw cotton import requirements. In 1950, the Soviet Union supplied to Poland 80 per cent of its cotton requirements, 65 per cent of its iron ore, 40 per cent of its chromium ore and 100 per cent of its manganese ore. Similarly, under the long-term agreement with Romania, signed in August 1951, the Soviet Union was to supply 56 per cent of Romania's requirements for cotton, 55 per cent of its iron ore and 90 per cent of its coke. In 1949, 97 per cent of Czechoslovakia's imports from the Soviet Union consisted of raw materials and semi-manufactures. Czechoslovakia was scheduled to receive about 1.5 million tons of iron ore from the Soviet Union in 1950.

In relation to their needs for an expanding heavy industry, eastern European countries (excluding the USSR) have sizable import requirements for iron ore, of which only 1.3 million metric tons¹⁴ were produced in these countries in 1950, while pig-iron output amounted to 4.4 million tons. Probably about two-thirds of iron ore import requirements are supplied by the Soviet Union. Most of the remainder is imported from Sweden. Swedish exports of iron ore in 1950 to Czechoslovakia amounted to 940,000 tons and to Poland 714,000 tons.¹⁵ The long established textile industries of eastern Europe (outside the USSR) depend on imports for their raw materials. Imports of raw cotton from western countries, as indicated in table 73, fell to 205,000 bales in 1950/51, or by more than one-third from the 1949/50 level. The total import requirements

of the area remained, however, of the order of one million bales. Most of this deficiency was covered by imports from the Soviet Union and was paid for with finished textiles.

With respect to imports, the Soviet Union is probably a significant importer of coal from Poland. Moreover, part of the output of the joint USSR-Romanian oil enterprise in Romania is exported to the Soviet Union. All other eastern European countries, with the possible exception of Hungary, import petroleum products from the Soviet Union as well as from Romania.

Apart from raw materials, most of the USSR non-food exports consist of agricultural and industrial equipment, the major part of which is supplied to Bulgaria, Hungary, Poland and Romania.¹⁶ On the other hand, the Soviet Union also imports capital goods from the rest of eastern Europe. During each year of the five-year trade agreement concluded with Czechoslovakia in November 1950, Czechoslovak exports of engineering products to the Soviet Union were scheduled to be larger than total Czechoslovak exports of these goods to all areas in any single previous year.¹⁷ Water and rail transport equipment, which is obtained from Hungary and Romania as well as from eastern Germany, is an important component of USSR capital goods imports from eastern Europe.

Table 73. Eastern European Production^a and Imports^b of Raw Cotton, 1949/50 and 1950/51

(Thousands of bales)

Item	1949/50	1950/51
Production ^a	55	60
Total imports ^b	585	205
Imports by eastern Europe (excluding the USSR)	330	205
Imports by the USSR	255	—

Source: International Cotton Advisory Committee, *Cotton Quarterly Statistical Bulletin* (Washington, D.C.), December 1951.

^a Estimated; excluding production of the Soviet Union.

^b Imports from major western exporting areas only.

Soviet Union exports of food have consisted primarily of grain and fats to Czechoslovakia, eastern Germany and Poland, but meat was also exported to Czechoslovakia. In order to alleviate the shortage of grain in 1950/51, the Soviet Union sent to Czechoslovakia 755,000 tons of bread grain and 308,000 tons of feed grain; this volume was larger than that following the poor Czechoslovak harvests of 1947/48. USSR imports of agricultural products have consisted mainly of meat from Romania, sugar from Czechoslovakia and Poland, and tobacco from Bulgaria.

¹⁶ The Soviet Union also exports capital goods to Czechoslovakia and eastern Germany.

¹⁷ See *Czechoslovak Economic Bulletin*, 15 November 1950.

¹⁴ Metal content.

¹⁵ Gross weight.

Table 74. Indices of Planned Increases in Trade between Countries of Eastern Europe, 1950 and 1951

(Preceding year = 100)

	<i>Eastern Germany</i>	<i>Czechoslovakia</i>	<i>Poland</i>	<i>Bulgaria</i>	<i>Hungary</i>	<i>Romania</i>
<i>USSR:</i>						
1950.....	135	..	134	120	120	130
1951.....	..	125	125	125	..	..
<i>Eastern Germany:</i>						
1950.....	150	160	500	..	400	..
1951.....	133	..	..	200	..	..
<i>Czechoslovakia:</i>						
1950.....	..	125	..	..	..	..
1951.....	..	..	..	140-150	..	..
<i>Poland:</i>						
1950.....	..	134 ^a	300	165-185	..	..
1951.....	..	..	120	..	..	..

Source: United Nations Department of Economic Affairs; based on official statements.

^a Polish imports.

Recent trade agreements between the Soviet Union and other countries of eastern Europe provide for large annual increases in the volume of trade, as indicated in table 74. In addition, the longer-term agreements contain targets for future trade at substantially increased levels. Thus the long-term agreement concluded with Poland in June 1950 provided that the average annual turnover of trade from 1951 to 1958 should be 60 per cent above the level of 1948 to 1950. Similarly, in August 1951, a long-term agreement between the Soviet Union and Romania provided for a rise in trade in the period from 1952 to 1955 to 50 per cent above the 1948-51 annual average. With Czechoslovakia, the average annual volume of trade in 1951 to 1955 was planned to exceed the average of 1948-50 by 50 per cent.

TRADE OF OTHER EASTERN EUROPEAN COUNTRIES

While the Union of Soviet Socialist Republics has become the leading trading partner of each of the other eastern European countries, the volume of trade among the latter countries has also been increasing year by year, and the composition of trade among them has become somewhat more diversified.

Trade in industrial raw materials and in the equipment required for the development of industry is particularly high in relation to the total trade of eastern European countries with one another, as is the case with eastern Europe's trade with the Soviet Union. The predominant industrial positions of Czechoslovakia, eastern Germany and Poland¹⁸ are reflected in the fact that probably over one-half of the trade of eastern European countries with one another (excluding the USSR) is carried on among these three countries, while the major

¹⁸ In 1950 over 80 per cent of the total industrial output of eastern Europe (excluding the USSR) was produced in these three countries.

part of the remainder is between these countries and the rest.

Czechoslovakia and eastern Germany, together with the Soviet Union, were the main sources of industrial machinery for the rest of eastern Europe during 1950 and 1951. Owing to the decline in east-west trade, Czechoslovakia has switched the emphasis in its export trade from consumer goods, which were the leading components of its exports to non-eastern European countries, to machinery, although it was planned to increase the volume of exports from both sectors of industry in 1951.

East Germany's exports have been of three main types—industrial equipment and machinery, optical and precision instruments and various chemicals and artificial fertilizers. The emphasis of its first five-year plan, like those of other countries in the area, is upon heavy industry. It is planned to increase the proportion of machinery in the total exports of eastern Germany from 19 per cent in 1950 to 53 per cent in 1955. The total volume of east German trade with the rest of the area has been increasing rapidly in recent years. In 1950, east German trade with Czechoslovakia rose to 171 per cent of its level in 1949, and in the first nine months of 1951 it increased to 214 per cent of that level. Czechoslovakia obtained from eastern Germany capital installations previously secured from the west. An increasing volume of trade has also developed between both these countries and Poland.

The predominance of coal in Polish exports is tending to decline as total exports increase (table 75). In 1950 and 1951, total exports of coal by Poland amounted to about 40 per cent of its production, and approximately the same proportion of total exports.¹⁹

¹⁹ In pre-war prices.

Table 75. Polish Exports of Coal and Coke, 1948 to 1951

(Millions of metric tons)

<i>Destination</i>	1948	1949	1950	1951 First half ^a
Western Europe.....	13.4	12.0	10.3	10.2
Eastern Europe.....	8.6	11.0	11.2	11.0
Eastern Germany.....	6.1	7.2	7.3	7.2
Czechoslovakia.....	2.1	3.5	3.6	3.5
Hungary.....	0.4	0.3	0.3	0.3
Other countries ^b	8.7	9.5	9.9	9.5
Total	30.7	32.5	31.4	30.7

Source: Economic Commission for Europe, *Monthly Bulletin of Coal Statistics* (Geneva).

^a At annual rate.

^b Including foreign bunker coal.

It appears that coal formed an even larger proportion of Polish exports to eastern Europe than of its total exports.²⁰ Polish production and exports of coal are not expected to increase as much as exports of other goods, however, and the share of coal in total exports is therefore likely to fall. Other Polish exports to eastern Europe include agricultural produce, non-ferrous metals, particularly zinc, and certain finished products, including chemicals, capital goods and textiles.

In 1950 and 1951, agricultural products continued to be of greater significance, in relation to total exports, for Bulgaria, Hungary and Romania than for the other countries within the area. Bulgaria is likely for some time to remain predominantly an exporter of agricultural products, though the emphasis is to be shifted from tobacco to other crops and livestock. Hungary, however, developed significant exports of machinery, tractors and transport equipment, and Romania ex-

ported industrial raw materials, notably timber and oil. The growing industrialization of Hungary, as in other countries in the area, resulted in heavy pressure upon food supplies with the result that the country has been led to re-examine the structure of its exports, of which over one-third in recent years has consisted of agricultural products.

Imports into the various countries of eastern Europe in 1950 and 1951 were geared to the requirements of the industrial development plans and the agricultural deficits caused by the growth of industry. Czechoslovakia and east Germany were the largest importers of food, and both countries also imported raw materials and capital equipment on a considerable scale. As much as 40 per cent of total Polish imports in 1950 was composed of capital goods, a large part of the remainder consisting of raw materials. Industrial raw materials and equipment comprised virtually the entire imports of Bulgaria, Hungary and Romania.

Trade of the Mainland of China²¹

The changes in the political and economic structure of the area controlled by the Central People's Government of the People's Republic of China are of more recent origin than those in eastern Europe, and its trade continued to reflect this fact until mid-1951 at least. In the first place, the Central People's Government had not, by mid-1951, established a complete government monopoly of its foreign trade, though the leading export commodities were traded by the government monopolies. In 1950, almost one-half of the exports and over one-quarter of the imports of the area were still traded by private concerns, which carried out such transactions subject to control by the Ministry of Trade through a licensing system. In addition, while the share

of eastern Europe in this trade increased rapidly in 1950, trade with the rest of the world still amounted to some three-quarters of the total. The geographical structure of this trade is set out in table 76.

In general, the share of the United States in the trade of mainland China with the west fell sharply, owing to controls on trade established by the United States. On the other hand, the share of the oversea sterling area, and particularly of Hong Kong, rose considerably. However, most of Hong Kong's trade consists of transit transactions.²² Its re-exports comprised a wide range of goods, of which rubber from Malaya was the most important; other leading items were chemicals, textiles and other manufactures. Hong Kong's exports increased sharply early in 1951, in anticipation of the extension

²⁰ It is probable that the larger part of the 9 million tons whose destination is not specified in table 75 went to the Soviet Union.

²¹ The trade of Taiwan is included in the scope of the analysis in chapter 6, above.

²² It appears that data in table 76 relate to imports from the country of primary origin, and for this reason imports from Hong Kong are stated to be only 1.5 per cent of total imports in 1950.

Table 76. Direction of Trade of Mainland of China, 1950
(Percentage of total)

Imports		Exports	
Country of origin	Per cent	Destination	Per cent
United States.....	29	USSR.....	27
USSR.....	20	Hong Kong.....	26
Malaya.....	12	United States.....	18
United Kingdom..	8	United Kingdom..	6
India.....	6	Other countries...	23
Japan.....	5		
Other countries...	20		
Total	100	Total	100

Source: *Hsin Hua Monthly* (Peking), April 1951.

of controls, which were tightened considerably in the second quarter of 1951, particularly on rubber.²³

The trade of Pakistan with the area controlled by the Central People's Government consists largely of the export of raw cotton and jute and the import of cotton twist and yarn. India's trade with the mainland was a negligible proportion of its total trade in 1950. In 1951, India imported 66,000 tons of rice and 360,000 tons of milo from the Chinese mainland, in exchange for jute manufactures, under agreements signed in January and May.

In 1950 Japan imported from the mainland certain foodstuffs, notably rice, ground-nuts, salt, and soya beans, and important industrial materials such as coking coal and iron ore; these are traditional items in Japan's trade with China. The composition of Japan's exports to the mainland differed somewhat from pre-war, consisting to a larger extent of machinery and metals and metal products. In December 1950 exports to the Chinese mainland of a wide range of goods, particularly machinery, were suspended by Japan, and as a result the Central People's Government curtailed exports to Japan.

In 1950 just over one-quarter of the total trade of the

²³ Net imports of rubber by the mainland of China were 27,000 long tons in 1949, 70,000 in 1950, 64,000 in January to March 1951 and 26,000 long tons in April to June 1951.

²⁴ The credit agreement signed in February 1950 provided for a loan of \$300 million extended over five years, at an interest

mainland of China was conducted with eastern Europe. The sharp reorientation of this trade in 1951 is reflected in the fact that while the volume of exports in the first ten months of the year was about 20 per cent higher than in 1950, the Central People's Government planned that more than three-quarters of total exports would be directed to eastern Europe. This plan implies a threefold increase in trade with eastern Europe in 1951, and a substantially reduced volume of trade with the rest of the world.

Trade with the Soviet Union began to increase rapidly in 1950 under the terms of trade and credit agreements²⁴ signed in February and April 1950. In addition, under agreements concluded in March 1950, provision was made for mixed corporations in civil aviation and in the mining of petroleum and non-ferrous metals in Sinkiang.

Under various trade agreements, trade with eastern European countries other than the Soviet Union was planned to compose over one-quarter of the total trade of the Chinese mainland in 1951, as against only 2 per cent in 1950. Large-scale shipments from these countries began to arrive towards the end of 1950.

The exports of the area controlled by the Central People's Government of the People's Republic of China continued to be composed of traditional agricultural items such as soya beans, which accounted in 1950 for 14 per cent of all exports, ground-nuts (5 per cent) and tea (3 per cent), and industrial materials such as tung oil (7 per cent), bristles (7 per cent), wool (4 per cent) and coal and mineral ores.

Changes in the geographical structure of trade have been associated with a shift away from imports of consumer goods to imports of raw materials and capital equipment.²⁵ In 1950 raw materials accounted for two-fifths of total imports from all sources—30 per cent consisting of raw cotton and rubber; and a quarter to a third of total imports comprised capital goods and chemicals. Imports from the Union of Soviet Socialist Republics consisted almost entirely of transport and other equipment and industrial raw materials.

rate of one per cent, to pay for imports of equipment and materials for industry. The loan is to be repaid over a period of ten years beginning at the end of 1954.

²⁵ A protective tariff was established to encourage this process.

**CHRONOLOGY
OF
MAJOR ECONOMIC EVENTS**

SOURCES

The following sources were employed in compiling the "Chronology"; as the list indicates, the information has not always been obtained from international or inter-governmental organizations. The accounts of economic events contained in the pages which follow are summaries of the principal facts as given in these sources.

Bank for International Settlements, Press reviews (Basle, Switzerland)	Keesing's Publications, Ltd., <i>Keesing's Contemporary Archives</i> (Bristol)
Economic Cooperation Administration, annual and periodic reports (Washington, D.C.)	<i>New Times</i> (Moscow)
Export-Import Bank of Washington, annual reports (Washington, D.C.)	Royal Institute of International Affairs, <i>Chronology of International Events and Documents</i> (London)
<i>Facts on File</i> (New York)	United Nations, <i>Treaty Series</i>
International Bank for Reconstruction and Development, annual reports (Washington, D.C.)	United States Department of State, <i>Department of State Bulletin and Treaties and Other International Acts</i> (Washington, D.C.)
International Monetary Fund, annual reports and Press releases (Washington, D.C.)	World Peace Foundation, <i>International Organization</i> (Boston)

ABBREVIATIONS

Bank	International Bank for Reconstruction and Development
Benelux	Belgium, the Netherlands and Luxembourg
ECA	Economic Cooperation Administration of the United States
ECAFE	United Nations Economic Commission for Asia and the Far East
ECE	United Nations Economic Commission for Europe
ECLA	United Nations Economic Commission for Latin America
EPU	European Payments Union
ERP	European Recovery Program
Export-Import Bank	(United States) Export-Import Bank of Washington
FAO	Food and Agriculture Organization of the United Nations
Fund	International Monetary Fund
GATT	General Agreement on Tariffs and Trade
ICAO	International Civil Aviation Organization
ILO	International Labour Organisation
IRO	International Refugee Organization
MSA	Mutual Security Agency of the United States
OEEC	Organisation for European Economic Co-operation
TCA	Technical Cooperation Administration of the United States ("Point Four")
UNESCO	United Nations Educational, Scientific and Cultural Organization
WHO	World Health Organization
WMO	World Meteorological Organization

CHRONOLOGY OF MAJOR ECONOMIC EVENTS

January to December 1951¹

JANUARY

- 1 *Austria*. Rationing of fats reintroduced.
China (People's Republic)-India. Barter agreement signed for exchange by 1 April of 50,000 tons of Chinese rice for 37,000 bales of Indian jute.
Belgium-Luxembourg - France. Trade agreement concluded with Belgium-Luxembourg economic union for first half of year, raising total goods exportable to France by 100 million French francs.
Germany (eastern). Rationing of bread, other cereal products and pulses abolished.
Japan-Pakistan. Trade agreement concluded for year ending 30 September 1951: Pakistan to supply raw cotton, jute and wool to value of £18.2 million, and wheat and rice to value of £3.7 million; Japan to deliver £29.8 million in cotton and woollen textiles, and machinery to value of £3.7 million; payments to be made on sterling basis.
- 2 *Saudi Arabia*. Agreement announced with Arabian-American Oil Company, under which Saudi Arabia will collect income taxes as well as royalties, increasing Saudi Arabia's income by one-third and bringing it to half of company's net earnings; agreement retroactive to beginning of 1950.
- 3 *Hungary*. Rationing of sugar, white flour and macaroni reintroduced.
- 4 *Uruguay*. System of priority import permits introduced to adjust purchases to sterling balances.
- 5 *Argentina-France*. One-year trade agreement signed for \$300 million exchange of Argentine grain, oil and wool for French steel, coal and luxury manufactures.
Thailand. Agreement reached to settle outstanding war claims of Australia, India and UK for £5.2 million.
- 6 *Argentina-Japan*. Agreement announced to prolong indefinitely trade agreement with original expiration date of 31 December 1950.

January (continued)

- 9 *Germany (western)-Sweden*. One-year trade agreement concluded for exchange of German coal, steel and iron products for Swedish iron ore, timber, pulp and paper.
UK. Abandonment announced of original east African ground-nut scheme; modified experimental project to be continued under Colonial Office; £36.5 million previously advanced to Overseas Food Corporation to be written off.
- 11 *Colombia-Export-Import Bank*. Credit of \$1.5 million authorized for purchase of locomotives.
Export-Import Bank-Liberia. \$5 million authorized for highway improvement and construction.
Costa Rica-US. Agreement signed for technical assistance under TCA.
- 14 *Yugoslavia*. Prices of rationed food, soap and fuel reduced by 38 to 40 per cent; prices of matches, salt, kerosene and tobacco doubled.
- 17 *Egypt-USSR*. Agreement reached for Egyptian purchase of 50,000 tons of wheat at £36.5 a ton.
- 18 *Bank-Brazil*. Additional loan of \$15 million granted to Brazilian company for electric power development, increasing original \$75 million loan of 27 January 1949.
- 19 *Norway-Poland*. Six months' trade agreement concluded, to 30 June 1951, for Polish exports of coal and coke and Norwegian exports of whale fat, herring, iron ore and pyrites.
- 20 *Israel-UK*. Agreement reached on release of Israeli blocked sterling balances in two years, in amounts of £7 million and £6.7 million a year.
- 22 *China (People's Republic)-Hungary*. Trade agreement for 1951 concluded for exchange of Chinese raw materials for Hungarian industrial raw materials and equipment.
Denmark-USSR. Agreement concluded for exchange, over approximately six months, of Danish pedigreed cattle for USSR potash.

¹ The following events in December 1950 were not included in the Chronology of the *World Economic Report, 1949-50*: 20 December *Norway-Spain*, trade agreement concluded; 21 De-

ember *UK* offered Yugoslavia £2 million credit for purchase of raw materials; 22 December *Ireland-Netherlands*, trade agreement signed, replacing that of November 1949.

January (continued)

- 23 *Australia*. Programme announced providing for assisted immigration of 200,000 in 1951.
Bank-Union of South Africa. Loan of \$50 million granted; \$20 million for transport and \$30 million to Electric Supply Commission for electric power.
Union of South Africa. Private loan of \$10 million and revolving credit of \$20 million obtained from US banks.
Nepal-US. Agreement signed for technical assistance under TCA.
- 26 *China (People's Republic)*. Dollar revalued at 23,000 to one US dollar.
Honduras and Peru-US. Agreements signed for technical assistance under TCA.
- 29 *Norway-Spain*. First post-war trade agreement concluded, to value of 74 million kroner.
- 30 *Argentina-Sweden*. Agreement concluded, supplementing 1948 trade pact and expanding exchanges.
Egypt-Poland. Agreement for 1951 concluded, providing for exchange of Polish agricultural products, chemicals, timber and minerals for Egyptian cotton and phosphates.
Iran. Decree announced providing all agricultural lands held by crown to be sold to peasants on long-term credits.
Israel-Yugoslavia. One-year trade agreement signed for exchanges to value of \$2.5 million.
Norway-UK. First post-war non-sterling area loan floated in the London market: £5 million to Norway to finance merchant ships.
Germany (western)-Uruguay. Trade with western Germany suspended by Uruguay because of \$10 million debit balance.

FEBRUARY

- 1 *Austria-Sweden*. One-year agreement for trade of 40 million to 50 million kronor became effective.
Belgium-Finland. Trade agreement concluded for 1951, providing for exchanges to value of 1,000 million francs in each direction.
Czechoslovakia-Sweden. One-year trade agreement, decreasing exchanges from 1950 total of 254 million kronor to 210 million kronor, became effective.
Syria. Law nationalizing electricity, tramway and water supply enterprises passed by Parliament.
- 2 *France-Indonesia*. One-year trade agreement announced for French exports of textiles, chemicals, steel products and machine tools to amount of 11,400 million francs, and Indonesian exports of copra, chocolate and sisal to amount of 9,800 million francs.

February (continued)

- 2 *Union of South Africa*. Relaxation of import controls announced as result of improved currency reserves.
- 3 *Bulgaria*. Development loan of 10,000 million leva oversubscribed by 5,000 million leva in two days.
Bulgaria-Hungary. Agreement for 1951 trade concluded, providing for Bulgarian exports of farm and chemical products, minerals and raw materials in exchange for Hungarian chemicals, machinery and industrial equipment.
- 4 *Italy*. Plans announced for distribution of 3.75 million acres of farmland to farmers between mid-1951 and 1953; present owners to receive \$40 to \$60 an acre; Government to spend \$130 to \$200 an acre on improvements; and purchasers to pay for farms of 20 to 50 acres in 30 annual instalments.
- 5 *Finland-Germany (western)*. Trade agreement of 1949 extended by protocol fixing 1951 trade volume at \$37 million.
- 7 *Afghanistan-US*. Agreement signed for technical assistance under TCA.
- 8 *Brazil-Export-Import Bank*. Credit of \$30 million authorized for Brazilian company for production of manganese ore.
- 9 *Argentina-Brazil*. Agreement reached for weekly shipment of 2,500 tons of Argentine meat to Brazil until domestic supplies in Brazil become normal.
Pakistan-US. Agreement signed for technical assistance under TCA.
- 10 *China (People's Republic)-USSR*. Transfer announced to People's Republic of China of a number of Manchurian industrial plants.
- 12 *UK*. All sterling area restrictions on oil imports from dollar area lifted; in return US firms agreed to obtain more oil from sterling area countries and to reduce "dollar content" of oil products sold in sterling area.
- 15 *Greece-Yugoslavia*. Railway freight service, interrupted during Greek civil strifes, resumed.
UK. Nationalization of firms accounting for 91.8 per cent of iron and steel production became effective.
- 19 *Bank-Ethiopia*. Loan of \$1.5 million granted for telecommunications.
Iraq-UK. Financial agreement concluded for meeting Iraq's currency requirements; Iraqi working balance to be increased from £2 million to £4 million.
- 20 *Japan-Sweden*. Agreement for 1951 trade concluded, providing for exchanges to value of 55 million kronor in each direction.

February (*continued*)

- 20 *Dominican Republic-US*. Agreement signed for technical assistance under TCA.
- 22 *Australia-Netherlands*. Five-year treaty signed, under which Australia to receive 25,000 immigrants from the Netherlands in 1951 (see 23 January).
- 23 *Austria-Denmark*. One-year trade agreement became effective for Danish deliveries of 37 million kroner and Austrian deliveries of 31 million kroner, permitting a 6 million kroner export surplus to cover Danish tourist expenditures.
- 25 *Czechoslovakia*. Reintroduction announced of bread and flour rationing, which had been abolished in October 1949.
- India-Pakistan*. Trade agreement to June 1952 concluded for exchanges of Pakistan raw jute, cotton and food grains for Indian coal, steel, textiles and cement; exchange transactions to be on basis of par value of Pakistan rupee.
- 26 *International Materials Conference*. International committee on copper, lead and zinc, first committee established under International Materials Conference, met in Washington; Australia, Belgium (for Benelux), Canada, Chile, France, western Germany, Italy, Mexico, Norway, Peru, UK and US participated in work of committee.
- 27 *Jordan-US*. Agreement signed for technical assistance under TCA.

MARCH

- 1 *Denmark-Hungary*. One-year trade agreement for exchange of goods to value of \$3 million became effective.
- USSR*. Reductions announced of up to 21 per cent in prices of food, furniture and other articles.
- 3 *Jordan-UK*. Agreement initialled for settlement of financial questions outstanding from Palestine mandate; £2.5 million from special account released to Jordan.
- 5 *Paraguay*. Guarani devalued from 3.09 to 6 to one US dollar.
- Colombia-US*. Agreement signed for technical assistance under TCA.
- 6 *Germany (western)*. Revision of occupation statute announced in three-Power declaration; Allied High Commission to relinquish powers in the field of internal action and retain only formal supervision over foreign trade and exchange.
- 7 *ECAFE*. Seventh session, from 28 February, concluded at Lahore, Pakistan.
- 8 *Export-Import Bank-Uruguay*. Credit of \$2.8 million authorized for electric locomotives and spare parts.

March (*continued*)

- 9 *Poland-USSR*. Agreement for 1951 trade signed, increasing reciprocal deliveries by 25 per cent.
- 13 *Czechoslovakia-USSR*. Supplementary trade agreement announced for exchange of 155,000 tons of USSR bread grains for Czechoslovak industrial products.
- Poland-Sweden*. Agreement reached to price Polish coal after 1 March 100 per cent higher than in June 1950.
- 14 *Bolivia-US*. Agreement signed with Bolivia for technical assistance under TCA.
- 17 *France-Hungary*. One-year agreement concluded for exchanges of 3,500 million francs of French industrial products for equal value of Hungarian agricultural produce.
- 18 *Germany (eastern)-USSR*. Trade agreement concluded.
- 21 *Bulgaria*. Manufactured goods derationed and prices reduced; wages, pensions and scholarship payments increased.
- United Nations Economic and Social Council*. Twelfth session, from 20 February, concluded at Santiago de Chile.
- 25 *Colombia*. Import controls imposed to combat black market in scarce commodities, following 20 March devaluation of peso to 2.5 to one US dollar on all foreign exchange, except for 2.31 rate on coffee exports.
- 28 *Germany (eastern)-Hungary*. One-year trade agreement concluded, providing for 100 per cent increase in exchanges over preceding year.
- Hungary*. Strict rationing of foodstuffs introduced.
- 29 *Cuba-Export-Import Bank*. Loan of \$12 million authorized for Cuban company for equipment, materials and services.
- 31 *Argentina-India*. Agreement concluded for exchange of 60,000 tons of Indian jute for 468,000 tons of Argentine wheat.

APRIL

- 1 *Denmark-Norway*. One-year agreement, increasing the volume of trade, became effective.
- Denmark-Portugal*. One-year trade agreement, for exchanges totalling 170 million kroner, became effective.
- Finland-Netherlands*. One-year agreement, for trade of 170 million guilders in each direction, became effective.
- Finland-Sweden*. One-year trade agreement, increasing exchanges from 65 million to 100 million kronor in each direction, became effective.

April (*continued*)

- 2 *Germany (western)*. Restrictions on shipbuilding and production of machine tools, synthetic oil and rubber lifted by Allied High Commission; prohibition of production of arms and munitions continued.
Pakistan-UK. Trade agreement signed.
- 5 *Australia-UK*. Agreement reached for increase in price of Australian butter, cheese and eggs.
Finland-Switzerland. Agreement ending 31 August modified, to double Finnish deliveries of cellulose, wood-pulp and paper, and to increase Swiss deliveries by one-third, thus permitting virtual redemption of Finnish clearing deficit.
- 6 *Bulgaria-USSR*. Agreement signed, increasing 1951 trade by 25 per cent.
- 9 *Federation of Malaya*. Controls imposed on destination of rubber exports.
- 10 *Bank-Colombia*. Loan of \$16.5 million granted for highway construction and rehabilitation.
Peru. Six-year plan announced for development of agriculture and roads.
- 12 *Export-Import Bank-Mexico*. Credit of \$1.87 million authorized for two Mexican companies for financing erection of sulphur plant.
Japan-Netherlands. Agreement signed for exchange of goods and services to value of \$7.3 million.
- 14 *Argentina-Finland*. One-year trade agreement concluded for Finnish deliveries of \$45 million in wood, cellulose and paper for Argentine deliveries of \$33.4 million in rye, hides, wool and oilcake.
Finland-Poland-USSR. Trilateral agreement signed providing for partial payment for Finnish exports to USSR by Polish imports.
Finland-Romania. Agreement signed providing for deliveries, by end of 1951, of 300 million markkaa in Finnish machines and wood products for Romanian deliveries of timber, chemicals and silver.
Finland-UK. Most comprehensive trade agreement ever concluded by Finland signed; Finnish deliveries to be increased by £20 million to £80 million; Finland to export pitprops, newsprint and other essential materials; UK to export coal, coke and steel.
France-Yugoslavia. Economic agreement signed, including provision for Yugoslavia to resume service on Yugoslav loans outstanding in France, one-year agreement for trade of 4,000 million French francs in each direction, and compensation over ten-year period for French assets and property affected by Yugoslav nationalization.
- 15 *Israel-UK*. Grant to Israel of credit of £2.5 million.
- 16 *UK*. London tea market, closed since August 1939, reopened.

April (*continued*)

- 17 *France-Germany (western)*. Pool of 100,000 railway goods wagons established, each country to contribute equally.
UK-Yugoslavia. Loan of £4 million granted by UK for purchase of UK raw materials, bringing total of UK credits extended to Yugoslavia to £9 million.
- 18 *European Coal and Steel Community*. Agreement pooling coal and steel industries signed by Belgium, France, western Germany, Italy, Luxembourg and Netherlands.
El Salvador-US. Agreement signed for technical assistance under TCA.
- 20 *Chile-US*. Agreement announced increasing the price of Chilean copper sold in US by 6 cents a pound to 30½ cents a pound; resultant increase in Chilean dollar reserve estimated at approximately \$77.5 million per year.
- 21 *Egypt-Germany (western)*. One-year trade agreement concluded for exchange of \$54 million in each direction; Egypt to deliver cotton in exchange for German industrial products, chemicals and textiles.
GATT. Conference, from 28 September 1950, extended to 1 January 1954 the agreements reached at Geneva in 1947 and Annecy in 1949; 147 new tariff concessions negotiated and accession of seven new members—Austria, western Germany, Korea, Peru, Philippines, Turkey and Uruguay—accepted.
- 23 *Argentina-UK*. One-year supplementary trade and financial agreement concluded, providing for shipment of 230,000 long tons of meat at £130 a ton, compared with £97 10s. in 1949/50, in exchange for UK oil, petroleum by-products, coal and tin-plate; UK to pay £10.5 million in settlement of Argentine claims following UK devaluation and £6.25 million to cover price adjustments on meat shipped between July 1949 and July 1950; Argentina to import £5 million in non-essential UK goods and receive sterling credits up to £20 million to rebuild trade.
Sweden-USSR. Trade agreement for 1951 signed, providing for exchanges of 40 million kronor in each direction; Sweden to deliver iron, steel and machinery for USSR asbestos, coal and manganese.
UK-Uruguay. One-year supplementary trade and financial agreement concluded, providing for shipment of 20,000 long tons of meat at prices similar to those paid Argentina; UK to pay £1.5 million as final adjustment on price of meat shipped during year ended December 1950 and buy any additional meat Uruguay may supply.
- 26 *Argentina-Export-Import Bank*. Credit of \$5 million authorized for Argentine company for purchase of equipment for production of tungsten and sulphur.

April (*continued*)

- 28 *WMO*. First congress, from 19 March, concluded in Paris.
- 30 *Iran*. Nationalization of oil industry voted by Parliament.

MAY

- 3 *Ecuador-US*. Agreement signed for technical assistance under TCA.
- 7 *Finland-Italy*. Trade and payments agreement concluded for exchanges of \$15 million in each direction.
- 8 *Czechoslovakia-Poland*. Five-year agreement, increasing trade, concluded for exchange of Czechoslovak equipment for steel, chemical and coal industries, for Polish coal, zinc and agricultural products.
- 10 *UK*. Rubber shipments to People's Republic of China suspended for remainder of year.
- 14 *Australia*. Shipments of strategic materials to Hong Kong and other Asian ports restricted.
- 18 *United Nations General Assembly*. Embargo voted on shipment of arms and other categories of goods to People's Republic of China and to north Korea.
- 21 *Germany (eastern)-Poland*. Trade agreement concluded for exchange of German machinery and industrial equipment for Polish coal and agricultural machinery.
- 24 *Export-Import Bank-Nicaragua*. Credit of \$600,000 authorized for improvement of electric utility plant.
- 25 *Germany (western)*. Decision announced by Allied High Commission to return blocked German foreign assets to countries of issue as German external assets on reparations account.
WHO. Fourth assembly, from 7 May, concluded in Geneva.
- 26 *France, UK and US-Germany (western)*. Commission formed by France, UK and US to work out settlement of German \$4,500 million foreign debt, of which \$1,000 million consists of pre-war economic aid, and remainder consists of aid since the war.

JUNE

- 1 *Finland-France*. One-year agreement signed, increasing trade from 14,000 million to 37,000 million francs—the rise caused chiefly by price increases.
Hungary-Netherlands. One-year trade agreement became effective, providing for exchanges totalling 25 million guilders of Netherlands chemical products and machinery for Hungarian wheat, timber and textiles.

June (*continued*)

- 1 *Netherlands-Spain*. One-year trade agreement concluded for exchange of 80 million guilders in each direction.
Sweden-Switzerland. One-year trade agreement concluded.
- 6 *Czechoslovakia-Germany (eastern)*. Agreement increasing trade by one-third signed; Germany to deliver raw materials in exchange for coke and heavy industry goods.
- 7 *Bank-Nicaragua*. Loan of \$4.7 million granted: \$3.5 million to Government for highway construction and \$1.2 million to National Bank for agricultural machinery.
- 8 *Nicaragua-US*. Agreement signed for educational projects under TCA.
- 10 *Indonesia-Italy*. First trade agreement, to value of 25,000 million lire, concluded.
- 11 *Czechoslovakia-Finland*. Agreement signed covering Finnish-Czechoslovak trade to end of 1951 under Czechoslovak-Finnish-USSR agreement of 1 December 1947; Czechoslovakia to export cars, sugar, machinery and chemicals to Finland and receive equivalent goods from USSR.
- 13 *ECE*. Sixth session, from 29 May, concluded at Geneva.
- 14 *Export-Import Bank-Liberia*. Credit of \$1.35 million authorized for construction of water supply distribution and sewerage system.
- 15 *Eritrea-US*. Agreement signed for technical assistance under TCA.
India-US. Loan of \$190 million granted to India for grain purchases to avert famine.
Libya-US. Agreement signed for technical assistance under TCA.
- 16 *Australia-Germany (western)*. Trade agreement for 1952 concluded, providing for Australian exports of £A 10 million and German exports of £A 15 million; no restrictions on German imports into Australia while Germany is in soft currency area.
ECLA. Fourth session, from 29 May, concluded at Mexico City.
Guatemala. Foreign debt eliminated with repayment of \$400,000 to US.
US. Reciprocal Trade Agreements Act renewed by Congress for two years.
- 18 *ICAO*. Fifth session of assembly, from 5 June, concluded in Montreal.
- 20 *Bank-Iceland*. Loan of \$2.45 million granted for electric power development.

June (continued)

- 20 *Belgium-US*. Loan of \$15.5 million granted to Belgium through Export-Import Bank from ECA special reserve for oversea development.
Cuba-US. Agreement signed with Cuba for technical assistance under TCA.
- 21 *China (People's Republic)-Czechoslovakia*. Trade agreement concluded for 1952, increasing exchanges fourfold.
Spain-Turkey. One-year trade agreement concluded for exchanges of goods to value of \$8.7 million in each direction.
- 25 *UK*. Export licence control imposed by UK on all goods for People's Republic of China and for Hong Kong.
- 26 *Mexico-US*. Agreement signed for technical assistance under TCA.
- 27 *Denmark-Netherlands*. One-year trade agreement concluded.
- 28 *Export-Import Bank-Union of South Africa*. Credit of \$35 million authorized for several firms in Union of South Africa for mining equipment, materials and services.
- 29 *Argentina*. Export of live cattle banned because of shortage.
ILO. Thirty-fourth International Labour Conference, from 6 June, concluded in Geneva.
- 30 *Colombo Plan*. British Commonwealth plan for six-year development programme of £1,868 million in British colonies and allied countries of southern and south-eastern Asia became operative.
Cuba. Peso declared sole currency, established at par with US dollar, which ceased to be legal tender.

JULY

- 1 *Belgium and Luxembourg-France*. One-year trade agreement concluded.
Brazil-France. One-year agreement concluded for French purchases of \$116.7 million in coffee, cotton and cocoa and Brazilian purchases of \$105.7 million in capital goods.
Czechoslovakia-France. Trade agreement renewed for one year for exchange of goods worth 13,000 million francs, providing for French import surplus to allow for settlement of certain French claims in Czechoslovakia.
Denmark-Finland. One-year trade agreement became effective, increasing Finnish exports from 190 million to 290 million kroner and Danish exports from 150 million to 250 million kroner; balance to be applied to redeem Danish balances in Finland.
Denmark-Spain. Trade agreement became effective for exchange of goods worth 135 million kroner.

July (continued)

- 1 *Egypt-UK*. Agreement concluded for release during 1951/52, from Egypt's £230 million blocked credit, of £25 million and the equivalent of \$40 million; from 1952 to 1960, UK to release £10 million annually and to supply £11 million annually in petroleum.
Germany (western)-Italy. One-year trade agreement concluded 8 June became effective.
- 2 *India-USSR*. Barter agreement concluded for immediate USSR shipments of 100,000 tons of wheat against freely exportable Indian goods, chiefly tea and jute.
Ireland-Norway. First trade agreement concluded.
Japan-Spain. Trade and financial agreement signed providing for substantial trade increase.
- 3 *Bank*. First public floatation in Switzerland announced of 50 million Swiss franc bond issue.
- 5 *Brazil-Czechoslovakia*. Two-year trade agreement concluded for exchanges of \$100 million.
Export-Import Bank-Peru. Credit of \$650,000 authorized for Peruvian company for expansion of tungsten production.
- 6 *Germany (western)-Pakistan*. Trade agreement to end of 1951 concluded.
- 7 *Mexico-Switzerland*. Trade agreement concluded covering period until September 1952.
- 10 *Egypt-USSR*. Agreement concluded for USSR deliveries of £E 6.5 million in wheat in return for Egyptian rice and cotton, to be delivered in USSR ships to Hungary and Romania.
- 11 *UNESCO*. Sixth general conference, from 18 June, concluded in Paris.
- 12 *Canada-Colombia*. Agreement concluded for technical and financial assistance in exploration of Colombian oil reserves by International Petroleum, Ltd., and by Canadian Government's National Petroleum Company.
- 13 *UK-US*. Agreement signed with UK for technical aid under TCA for development of certain UK overseas territories.
- 14 *Argentina-UK*. Canned and frozen Argentine meat shipments to UK reduced because of credit scarcity.
- 17 *United Nations General Assembly*. Acceptance of General Assembly ban on shipment of arms and other categories of goods to People's Republic of China and to north Korea reported by thirty-three Members and five non-members of the United Nations.
- 18 *Argentina-Hungary*. One-year trade agreement concluded for exchanges of \$19 million in each direction.

July (*continued*)

- 19 *Ecuador—Export-Import Bank*. Credit of \$1 million authorized for improvement and expansion of air-ports.
- 21 *Pakistan-UK*. Agreement reached for release, over six years, of £54 million of blocked sterling.
- 22 *USSR-UK*. Agreement concluded for £20 million purchase of timber by UK at delivered prices twice those of 1950.
- 23 *Germany (western)-Ireland*. Trade agreement, to September 1952, signed for Irish exports of \$3.5 million and German exports of \$5.2 million.
Mexico. Export taxes cut 50 to 83 per cent on many major products to offset rise in production costs.
- 24 *Canada-UK*. Wheat agreement concluded; UK to buy wheat to value of more than \$200 million in crop year beginning 1 August.
- 26 *Export-Import Bank—Panama*. Credit of \$1.5 million authorized for completion of financing of hotel.
- 27 *Germany (eastern)-Romania*. Trade agreement concluded.
Mexico-US. Agreement for stabilization of peso at 8.65 to one US dollar extended until 1953; US Monetary Stabilization Fund to buy up to 50 million pesos.
- 30 *Portugal and Sweden-US*. Decision announced of Portugal and Sweden to renounce further aid under ECA because of their progress in economic recovery.
Germany (eastern). Many food prices reduced by 20 to 50 per cent and prices of manufactured goods by 18 to 25 per cent.

AUGUST

- 1 *US*. Notices given of cancellation of tariff concessions to eastern European and certain Asian countries; effective dates: 17 October for Bulgaria and 1 November for Czechoslovakia; all others effective on or before 5 January 1952, except Hungary, where agreement requires one-year notice.
- 2 *Germany (western)-Japan*. Trade agreement of \$30 million concluded.
- 7 *Burma-Japan*. One-year trade agreement signed for exchanges amounting to \$280 million.
- 8 *Romania-Switzerland*. One-year trade agreement concluded for exchange of Romanian cereals and oil for Swiss machinery and electrical goods.
- 9 *Chile—Export-Import Bank*. Loans totalling \$11.1 million granted to two Chilean companies for expansion of steel mill facilities and of ferro-manganese production.

August (*continued*)

- 10 *Cuba-UK*. Three-year sugar agreement signed, providing tariff concessions to UK equal to those granted US.
Italy. Distribution of additional 158,000 acres, in implementing of land reform programme, approved by Cabinet; of 975,000 acres to be allotted in 1951, 383,000 acres have been apportioned.
- 13 *UK*. Rationing of coke introduced; rationing of coal continued.
- 14 *Indonesia-Portugal*. Trade agreement concluded for exchange of Indonesian raw rubber, tobacco and quinine for Portuguese cork, cotton prints and canned foodstuffs.
Sweden-Turkey. Trade agreement renewed for additional year.
- 16 *Export-Import Bank—Thailand*. Loan of \$1.07 million authorized for purchase of three cargo vessels.
- 17 *Thailand-US*. Agreement reached for sale of 125,000 tons of rubber to US to end of 1952.
- 21 *Argentina-Bolivia*. Agreement concluded for annual Argentine investment of \$3 million in Bolivian public works and \$7.2 million in new joint economic development project.
- 22 *Argentina-Austria*. One-year trade agreement concluded for exchanges to value of \$30 million in each direction.
- 23 *Export-Import Bank—Mexico*. Loan of \$350,000 granted to Mexican company for production of manganese concentrates.
- 24 *Denmark-Greece*. One-year trade agreement concluded.
Romania-USSR. Long-term trade agreement signed, increasing trade for 1952 to 1955 by 50 per cent, compared with 1948 to 1951.

SEPTEMBER

- 1 *Finland-Switzerland*. One-year trade agreement for exchanges to amount of 25 million Swiss francs in each direction became effective.
- 3 *France-USSR*. Commercial treaty signed.
- 8 *Japan*. Japanese peace treaty signed at San Francisco by delegates of 49 countries.
- 11 *France-Poland*. One-year trade agreement concluded for exchanges amounting to 6,500 million francs in each direction.
Iran-UK. Special financial and trading facilities accorded Iran withdrawn by UK.
- 13 *Afghanistan-Iran*. Agreement for purchase of Iranian oil and oil products signed.

September (*continued*)

- 13 *Bank-Belgium*. Loans of \$40 million and of \$30 million granted to Belgium for general development of Belgian Congo.
- 14 *Bank, Fund*. Sixth annual meetings of Board of Governors of Bank and of Fund, from 10 September, concluded at Washington.
- 17 *China (People's Republic)-India*. Agreement announced by India for purchase by People's Republic of China of 20 million pounds of cloth and 2 million pounds of yarn for delivery within one year.
- 20 *Export-Import Bank—Germany (western)*. Loan of \$50 million authorized for Bank Deutscher Laender for purchase of US raw cotton.
Germany (eastern-western). East-west trade agreement to value of \$100 million concluded.
- 21 *United Nations Economic and Social Council*. Thirteenth session, from 30 July, concluded at Geneva.
- 28 *Fund*. Rule requiring members to obtain approval before selling gold at more than \$35 per ounce abandoned, but members urged to take effective action to prevent external transactions in gold at premium prices.
Germany (eastern)-USSR. Trade agreement valid until 1955 signed, replacing one-year agreement announced 18 March and providing for exchange of German heavy machinery and industrial plants for USSR raw materials and semi-finished products.

OCTOBER

- 1 *Denmark-France*. One-year trade agreement became effective, providing for French purchases amounting to 12,000 million francs and Danish purchases to value of 26,000 million francs.
Denmark-Switzerland. One-year trade agreement became effective, providing for Swiss deliveries to value of 72 million francs and Danish deliveries to value of 43 million francs, the Danish deficit to be settled via EPU.
Germany (western)-Spain. One-year trade agreement became effective raising exchanges from previous total of \$48 million to \$62 million in each direction.
- 2 *Burma-India*. Trade agreement announced; Burma to supply 240,000 tons of rice from May to December 1951 and 350,000 tons annually to end of 1954, in exchange for gunny sacks, iron and steel products and cotton yarn.
- 4 *Export-Import Bank*. Bill signed increasing lending authority of the bank by \$1,000 million, to \$4,500 million and extending life of the bank five years beyond former expiration date of 30 June 1953.
Pakistan-UK. Financial agreement signed replacing India-UK agreement of 15 August 1947 in so far as

October (*continued*)

- it applied to Pakistan, providing release of £30 million from blocked account to be held as currency reserve, and six annual transfers beginning 1 July 1951 of £4 million from the blocked to the current account; UK to provide gold for Pakistan's gold reserve to value of £4 million against blocked sterling.
- Ceylon-US*. Technical assistance to Ceylon under TCA suspended because of latter's shipment of 5,500 tons of rubber to People's Republic of China on 2 October.
- 7 *Cuba-Germany (western)*. Three-year trade agreement concluded.
- 10 *Bank-Chile*. Loan of \$1.3 million granted to Chilean company for exploration and use of underground water resources.
Bank-Italy. Loan of \$10 million granted to Italian company for development of southern Italy.
US. Mutual Security Act signed, establishing Mutual Security Agency to replace ECA as administrator of economic aid and to co-ordinate economic, military and technical aid programmes.
- 11 *Australia-UK*. Fifteen-year meat agreement signed, effective July 1952, fixing minimum prices based on 1950/51 for beef and veal for six years, and for mutton and lamb for three years; actual prices to be related to production costs.
Bank-Yugoslavia. Loan of \$28 million granted to Yugoslavia for equipment for seven basic productive undertakings.
Export-Import Bank—Venezuela. Loan of \$4 million granted to Venezuelan company for expansion of cement plant.
- 12 *France*. Forward dealings in foreign exchange suspended by Bank of France.
India. Bill approved by Parliament giving Government control of major industries in interest of five-year national development plan.
- 15 *Egypt*. Anglo-Egyptian treaty of 1936 and 1899 Sudan condominium agreement abrogated by Egyptian Parliament.
- 19 *Germany (western)*. Limitation on powers of Ruhr Authority and eventual termination, upon coming into force of Schuman plan, agreed upon by signatories to London agreement of 28 April 1949 (Belgium, France, Luxembourg, Netherlands, UK and US).
UK-US. Repayment in full of 1941 loan of \$425 million from Reconstruction Finance Corporation announced, five years ahead of final settlement date.
- 22 *Argentina-Italy*. Measure to finance Italian emigration to Argentina from blocked balances of 250 million pesos in Argentina approved by Italian Parliament.

October (*continued*)

- 24 *Iran-USSR*. Agreement signed for exchange of 6,000 tons of USSR sugar for Iranian cotton.
- 26 *Argentina-Germany (western)*. One-year agreement, supplementing trade treaty of 1950, signed for exchanges to value of \$154 million in each direction.
- GATT*. Sixth session of contracting parties, from 17 September, concluded in Geneva.
- 27 *Turkey*. Law designed to encourage foreign investment adopted; transfer of interest, dividends and profits within certain limits guaranteed.
- 29 *Bank-Nicaragua*. Loan of \$550,000 granted for grain drying and storage plant.
- 30 *India*. Crop deficit, caused by drought, estimated at 5 million tons of grain, about the same as in 1950.
- Norway-Sweden*. Agreement concluded for 1952 trade, for exchanges to value of 300 million kroner in each direction.
- 31 *France-Poland*. Agreement concluded for settlement of French claims against Poland for deliveries, services and contracts prior to 1 September 1939.
- Spain*. Single exchange rate established for exports at 21.9 pesetas to one US dollar.

NOVEMBER

- 1 *Bank-Iceland*. Loan of \$1 million granted to increase agricultural production.
- Bolivia-Export-Import Bank*. Loan of \$1 million authorized for Bolivian company for production of tungsten.
- Colombia-Export-Import Bank*. Loan of \$20 million authorized for purchase of US raw cotton.
- Denmark-Yugoslavia*. One-year trade agreement became effective, providing for exchanges amounting to 26 million kroner each way; Danish seeds, chemical products and machinery for Yugoslav hemp, maize, timber and pyrites.
- France-Spain*. One-year trade agreement became effective, providing for French exports of 15,000 million francs and Spanish exports of 19,000 million francs.
- 6 *United Nations General Assembly*. Sixth regular session opened in Paris.
- 8 *Canada-UK*. Interest-free provisions and other arrangements for loan granted to UK in 1942 extended by Canada until 1 January 1954; principal of loan had been reduced from \$700 million to \$230 million by payments averaging approximately \$50 million a year over a nine-year period.
- 12 *France-Sweden*. One-year trade agreement concluded for exchanges to value of 3,500 million to 4,000 million francs in each direction.

November (*continued*)

- 13 *Bank-Colombia*. Loan of \$2.4 million granted to Colombian company for the Labrija electric power project.
- 15 *Export-Import Bank-Japan*. Loan of \$40 million authorized for Foreign Exchange Control Board of Japan for purchase of US raw cotton.

DECEMBER

- 1 *Czechoslovakia-Germany (eastern)*. Trade agreement for 1952 to 1955 signed, for exchange of German coal-mining equipment, machine tools and optical goods for Czechoslovak iron and steel, coke, seeds and hops.
- Iraq*. Increase announced in income from oil royalties, to 50 per cent of profits of Iraq Petroleum Company, in accordance with agreement negotiated in August.
- 3 *Kuwait*. Agreement announced by Kuwait Oil Company, jointly owned by Anglo-Iranian (UK) and Gulf Exploration (US) companies, to divide oil profits equally with Sheikh of Kuwait, to increase latter's revenues from \$28 million to \$140 million annually; increased facilities for training of nationals also agreed upon.
- 5 *Brazil-Export-Import Bank*. Loan of \$5 million granted to Brazilian company for construction of cement plant.
- Provisional Inter-governmental Committee for Movement of Migrants from Europe*. Committee established to supervise migration of 115,000 after termination of IRO in December; contributions of Australia, Austria, Belgium, Bolivia, Brazil, Canada, Chile, France, western Germany, Greece, Italy, Luxembourg, Netherlands, Switzerland and Turkey to total \$24 million; US to contribute \$10 million.
- 6 *FAO*. Sixth session of conference, from 19 November, concluded at Rome.
- 7 *Bank-Paraguay*. Loan of \$5 million granted for agricultural development.
- 9 *Poland-Sweden*. One-year trade agreement announced to increase considerably the volume of trade.
- 10 *Canada-Export-Import Bank*. Loan of \$700,000 granted to a Canadian company for completion of iron mine development.
- 11 *Israel-US*. Interim agreement announced, under which \$25.7 million would be made available to Israel for refugee relief and resettlement projects.
- 19 *Bolivia-Export-Import Bank*. Loan of \$1 million granted to an additional company in Bolivia for production of tungsten.

December (*continued*)

- 21 *Sweden-UK*. New trade agreement signed.
- 26 *Ireland-Switzerland*. Trade agreement signed, increasing volume of exports from each.
- 28 *Yugoslavia*. Devaluation of dinar to one-sixth of existing rate announced.
- 31 *ECA/MSA*. Total procurement authorizations under European programme as follows (in millions of US dollars, cumulative from 3 April 1948 to 31 December 1951): 12,281.0; total paid shipments 11,348.2 to following: Austria 573.2, Belgium-Luxembourg 520.5, Denmark 259.3, France 2,285.2, western Germany 1,277.2, Greece 500.6, Iceland

December (*continued*)

21.8, Ireland 146.1, Italy 1,140.1, Netherlands 958.3, Norway 221.1, Portugal 37.2, Sweden 110.5, Trieste 31.9, Turkey 127.8, UK 2,747.7, Yugoslavia 39.8; and EPU capital fund 350.0. Total procurement authorizations under Far East programme (from 5 June 1950) 246.8, total paid shipments 103.4, including Burma 5.8, China (Taiwan) 70.9, Indochina 14.0, Indonesia 2.8, Philippines 4.7 and Thailand 4.8; total procurement authorizations for India (from 15 June 1951) 131.4, total paid shipments 110.5. Approved loans under Spanish programme (from 6 September 1950) 48.5; loan agreements signed by Spanish signatories 34.6; expenditures 17.1.

INDEX

INDEX

- A
- African dependent territories, French investments in, 104
- Agrarian Reform Law, China (People's Republic) 1950, 35
- Agricultural employment, 17
- Agricultural equipment, USSR exports, 115
- Agricultural output, *see* Production, agricultural
- Agricultural products:
 exports from eastern Europe, 117
 exports from mainland China, 118
- Aluminium, consumption in US, 56
- Anticipatory buying, *see* Buying, anticipatory and speculative
- Argentina:
 agricultural production, 38, 44
 consumption, 41
 cost of living, 43, 45
 "dollar terms of trade", 45
 economic situation, 38
 foodstuff exports, 96
 gross national product, 44
 increase in investment, 44
 meat exports to UK, 96
 public investments, 41
 quantum balance of trade, 39
 terms of trade, 41, 45
- Armaments programmes, *see* Korean hostilities; Rearmament programmes
- Australia:
 balance of payments, 22n.
 consumption, 19, 23
 consumption equivalent of gross national product, 20
 decrease in food production, 15
 exports, 22
 flow of capital from UK, 104
 flow of long-term capital to, 103
 government expenditure rise, 22
 gross national product, 19
 imports, 22, 98
 imports of capital goods, 99
 private investments, 22
 quantum balance, 17
 quantum of exports, 22
 terms of trade, 23n; 63
 trade balance, 98n.
 wages, money, 26
 wages, real, 26
 wool trade, 25, 94
- Austria, deterioration of trade balances, 75
- B
- Bacon, UK imports from Poland, 113
- Balance of payments, 7, 65-89, 100-107
 Australia, 22n.
 Japan, 65-89
- Balance of payments (*continued*)
 private enterprise economies, 3
 United States, 65-89
 western Europe, 23, 65-89
- Balance of trade, 22
 factors affecting, 75
 Far East, 45
 India, 46
 Japan, 47
 Latin America, 44
 Philippines, 49
 quantum balance, definition, 17n.
- Belgium:
 agricultural production, 21
 consumption, 23
 cost of living, 25
 decline in exports to planned economies 111
 industrial production, 15
 private investments, 22
 restriction of imports from dollar area, 81
 rise of import unit values, 25
 surplus with European Payments Union, 80
 terms of trade, 23, 62n., 74, 75
 trade balances (1951), 75
 unemployment, 17, 22
- Belgium-Luxembourg, *see* Belgium
- Bolivia, tin exports, 94
- Brazil:
 agricultural production, 38
 coffee exports, 38, 95
 consumption, 42, 44
 economic situation, 38
 gross national product, 44
 industrial production, 44
 private investments, 41
 public investments, 41
 purchase of sterling from International Monetary Fund, 105
 quantum balance of trade, 40
 terms of trade, 40, 44
- Bulgaria:
 demand-supply situation, 30
 grain output, 29
 imports from USSR, 115
 intra-eastern European trade, 117
 trade, 114
- Buying, anticipatory and speculative, 3, 25, 56
- C
- Canada:
 agricultural output, 21
 balance of payments, 108
 consumption, 20, 23
 conversion of sterling, 86
 demand upon existing food supplies, 25
 exports of non-ferrous metals, 94n.
 flow of long-term capital to, 103
 food supply, 25
- Canada (*continued*)
 gold reserves, 105
 gross national product, 23
 imports, 98, 99
 increase in dollar supply, 68
 petroleum production, 103
 quantum balance, 17
 residential construction, 22
 rise of import unit values, 25
 timber exports, 94
 trade with US, 96
 unemployment reduction, 21
- Canals, USSR, 33
- Capital:
 flight from France and UK, 80
 inflow into UK, 83
 outflow from UK, 70
 outflow from US, 67, 68; *see also* Speculation
- Capital, long-term, flow from US to primary producing countries, 104
- Capital equipment, imports to Latin America, 44
- Capital goods:
 demand for, 98
 imports by primary producing countries, 99, 100
 imports by under-developed countries, 9
 increased exports from industrialized countries, 77
 reduction in imports, Latin America, 44
 supplies available for export, 11
 USSR trade with rest of eastern Europe, 115
- Capital movements, 102-107
- Capital movements, speculative, 86
- Central American republics, coffee exports, 95
- Central People's Government of the People's Republic of China, *see* China (People's Republic)
- Centrally planned economies, *see* Planned economies
- Ceylon:
 imports, 98
 sterling balances, 87
- Chile:
 accumulation of inventories of industrial goods, 44
 agricultural production, 38
 consumption, 41
 cost of living, 43, 45
 economic situation, 38
 gross national product, 44
 industrial production, 44
 mining output, 38
 public investments, 41
 quantum balance of trade, 39
 steel production, 44
 terms of trade, 41, 45

- China (People's Republic):
 economic policies, 35-37
 imports, 36n.
 trade, 117-18
 trade with eastern Europe, 118
 trade with USSR, 118
- China (Taiwan):
 economic conditions, 38, 50-51
 import surplus, 96n.
 inflation, 50
 sugar exports, 95
- Civilian goods, *see* Consumer goods
- Coal:
 demand for, in eastern Europe, 112, 115
 Polish exports, 116
 production, Taiwan, 51
 reduction of western Europe's imports, 112
 shortage in western Europe, 6, 78
 US exports to western Europe, 68, 69
- Cocoa, export earnings, 91
- Coffee:
 export earnings, 91, 95
 exports, Brazil, 38, 95
 exports, Colombia, 95
- Collective farms, amalgamation in USSR, 32
- Colombia, coffee exports, 95
- Commercial construction:
 Philippines, 49
 restrictions, 22
- Construction, *see* Commercial construction; Residential construction
- Consumer goods:
 decreased demand for 3, 9, 88
 Far East, 45
 imports, 99
 imports by primary producing countries, 98
 imports by under-developed countries, 9
 Philippines, 49
 production in private enterprise countries, 4, 25
 production in eastern Europe, 29
 USSR, 30, 32
- Consumption:
 Canada, 23
 decline, 19, 22, 29
 eastern Europe, 29
 Far East, 45
 increases, 10, 19
 India, 47
 Japan, 45, 47
 Latin America, 41, 44, 45
 Philippines, 49
 private enterprise economies, 23
 ratio to gross national product, 23
 USSR, 32
 United States, 23
 western Europe, 23
 Yugoslavia, 29
- Copper, consumption in US, 56
- Cost of living:
 Argentina, 43
 Chile, 43
 increase, 3, 25
 Latin America, 43, 45
 Mexico, 43
- Cotton:
 decline in exports to eastern Europe, 112
 export, 63
 export earnings, 91, 94
- Cotton cloth:
 production, India, 47
 production, Taiwan, 51
- Council of Mutual Economic Assistance, 113
- Credit controls, 22
 United States, 23
- Cuba:
 agricultural production, 38
 consumption, 42, 44
 decline in exports, 44
 economic situation, 38
 gross national product, 44
 industrial production, 44
 private investments, 41, 44
 public investments, 41
 quantum balance of trade, 40
 sugar exports, 95
 terms of trade, 40, 44
- Currency devaluation, *see* Devaluation
- Czechoslovakia:
 agricultural output, 29
 demand-supply situation, 30
 economic planning, 33
 exports of manufactures, 113
 food supply, 29
 imports from USSR, 115
 intra-eastern European trade, 116
 manpower shortages, 29
 rationing, 30
 trade, 114
 trade agreements with USSR, 115, 116
- D
- Deflationary policy:
 Denmark and the Netherlands, 22
 western Europe, 23
- Demand, pent-up, 9
- Demand and supply, eastern Europe, 29
- Denmark:
 coal imports from Poland, 112
 compulsory saving, 23n.
 consumption, 23
 deflationary policies, 75
 export profits, 25
 gross national product, 19, 21
 industrial production changes, 20
 investment in inventories, 22
 private investments, 22
 productivity, 21
 quantum balance increase, 22
 real wages, 25
 residential construction, 22
 taxation, 23
 terms of trade changes, 76
 unemployment, 17, 22
- Derationing:
 Hungary, 30
 Yugoslavia, 30
- Devaluation, 3, 25
 effect on trade balances of western Europe, 17
- Dollar area:
 trade with sterling area, 84-86
- Dollar area (*continued*)
 trade with western Europe, 78
- Dollar area commodities, prices, 61
- Dollar deficit, 65-71
 effect of trade with eastern Europe on, 113
 reduction, 3, 70
 western Europe, 77-79
- Dollar gap, 77
- Dollar imports, restrictions, 7, 69
- Dollar pool, *see* Sterling area, oversea-dollar pool
- Dollar reserves, *see* Gold and foreign exchange reserves
- Durable goods:
 consumption in Sweden, 23n.
 expenditures for, in United States, 23
- E
- Eastern Europe, *see* Europe, eastern
- Eastern Germany, *see* Germany, eastern
- East-west trade, 109-13
- Economic Cooperation Administration, 51
- Economic planning, eastern Europe, 31-34
- Egypt:
 cotton exports to UK and US, 94
 terms of trade, 63
- Electric power, production, Taiwan, 51
- Employment:
 eastern Europe, 29
 international conferences on, 10
 private enterprise countries, 17, 21
 USSR, 32
- Employment, non-agricultural, eastern Europe, 29
- Equipment, industrial, 116
- Europe, eastern:
 co-ordination of economies, 34
 demand for capital goods and raw materials, 109
 economic planning, 31-34
 economic trends, 23-34
 exports to rest of the world, 112-13
 exports to US, 113
 grain exports to Egypt and India, 113
 imports, 110-12, 117
 income, national, 28, 29
 intra-eastern European trade, 114
 quantum of trade, 9
 trade with western Europe, 109
- Europe, western:
 balance of payments, 7, 65-89
 coal shortage, 6
 consumption, 23
 decline in economic aid from US, 70
 definition, 65n.
 demand for agricultural products and raw materials, 109
 dollar deficit, 77-79
 exports, 71
 exports to primary producing countries, 98
 exports to US, 78
 internal payments relations, 79
 merchandise trade surpluses, 7
 non-dollar transactions, 78
 raw material imports, 58-59

- Europe, western (*continued*)
restriction of exports to centrally planned economies, 110-12
terms of trade, 62, 78
trade balance, 17
trade balance with Latin America, 101
trade balance with oversea sterling area, 101
trade balance with primary producing countries, 100
trade with eastern Europe, 109
US economic aid to, 70
- European Payments Union, 79-82
changes in surplus and deficit positions, 80
creditor position of Belgium, 80-82
creditor position of UK, 83
credit position of sterling area, 85
- Exchange rates, changes, 3
- Export Control Act of 1949 (US), 110n.
- Export earnings:
Indonesia and Malaya, 93
primary producing countries, 90-96, 108
- Export licences, 110
- Export profits:
reinvestment, Latin America, 44
western Europe, 25
- Export restrictions, 9
France, 73
- Exports, 71-73, 90-96
expansion, 25
private enterprise economies, 22
quantum in Australia, Sweden and United Kingdom, 22
under-developed countries, 3
United Kingdom, 22
- F
- Far East:
economic position, 38-51
terms of trade, 38
- Fats and oils, export earnings, 91
Philippines, 95
- Fertilizers, production, China (Taiwan), 51
- Fibres:
export earnings, 91
prices, 59
- Finland:
coal imports from Poland, 112
position in east-west trade, 110
timber exports, 94
- Foodstuffs:
export earnings, 95, 96
exports, 63
import by eastern Europe, 29
import by Latin America and India, 100
import by primary producing countries, 98
import by western Europe, 77
prices, 7, 25
production, Latin America, 44
stockpiling, 6
- Food supply:
Canada, 25
effect on real wages, 26
India, 47
- Food supply (*continued*)
Poland, 30
Romania, 30
- Foreign exchange:
primary producing countries, 90
under-developed countries, 3
- Foreign exchange reserves, *see* Gold and foreign exchange reserves
- Formosa, *see* China (Taiwan)
- France:
balance of payments, 9, 65, 80
consumption, 23
decline in exports to planned economies, 111
deficits (1951) with European Payments Union, 80
dollar deficit, 77
exports, 73
food supply, 26
import restrictions, 9
imports, 73
industrial production, 15, 20
intra-European surplus in favour of, 79
investments in oversea territories, 104
raw material imports, 55, 58, 59
residential construction, 17
rise in gross national income, 15
rise in profits, 27
wages, money, 26
wages, real, 26
trade balances, 75
- Frankfurt Agreement, 113
- Freight rates, 102
- G
- Germany, east-west trade, 113
- Germany, eastern:
agricultural production, 29
demand-supply situation, 30
food imports, 29, 115
intra-eastern European trade, 116
rise in investment, 29
trade, 114
- Germany, western:
coal imports from Poland, 112
consumption, 20, 23
cost of living, 25
decline in exports to planned economies, 111
deficit with European Payments Union, 79
export profits, 25
gross national product, 15, 19
import restrictions, 75
industrial production, 15, 20
payments agreements with sterling area, 87
private investments, 22
raw material imports, 58
residential construction, 17
rise in government expenditure, 22
rise of import unit values, 25
shift in income distribution, 20, 25
trade balances (1951), 75
unemployment, 17, 22
wages, real, 26
- Gold and foreign exchange reserves, 9, 67, 104
accumulation in western Europe, 77
- Gold and foreign exchange reserves (*continued*)
liquidation in payment for dollar deficits, 68
oversea sterling area, 104
rise, 96
sterling area, 85
under-developed countries, 10
UK, 80, 82
- Gold stocks, liquidation, Taiwan, 50
- Government expenditures, 17
India, 47
Philippines, 49
private enterprise economies, 22
- Grain:
demand for, in eastern Europe, 112
production in eastern Europe, 29
US exports to Europe and India, 68
western European imports, 113
- Gross national product:
changes in, 15, 17, 19, 25
consumption equivalent, 19
Far East, 45
increase in Latin America, 44
Japan, 47
Latin America, 38, 44-45
Philippines, 48
primary factors in increases, 20
private enterprise economies, 22
profit component, 27
rate of increase, 25
ratio of consumption to, 23
rise less than in industrial production, 21
United States, 23
- H
- Hard and soft currency countries, 82
- Hoarding:
effect on production, 4
of raw materials, 56
- Hong Kong:
export earnings, 91n.
exports, 117
trade with mainland China, 117
- Housing, *see* Residential construction
- Hungary:
demand-supply situation, 30
derationing, 30
economic planning, 33
food supply, 29
grain exports, 113
imports from USSR, 115
industrial production, 28
intra-eastern European trade, 117
investment rise, 29
manpower shortages, 29
output of bread grains, 29
rationing, 30
- Hydroelectric developments, USSR, 33
- I
- Import prices, effect on real wages, 26
- Import restrictions, 7, 9, 41, 69, 70, 98
France, 9
under-developed countries, 3
UK, 9, 80
western Germany, 75

- Imports, 70-73, 96-100
 Australia, 22
 China (People's Republic), 36n.
 composition of, 98-100
 demand for, by primary producing countries, 98
 increase in prices, 25
 private enterprise economies, 22
 quantum, 71, 96-98
 Sweden, 22
 unit values, 25
- Income:
 distribution, 23, 25
 proportion spent on consumption, 23
 rise, 25
- Income, national:
 eastern Europe, 28, 29
 Japan, 47
 Latin America, 45
 USSR, 31
- Income and demand levels, 82
- Income tax:
 effect on real wages, 26
 US, 26n.
- India:
 agricultural production, 45
 consumption, 47
 economic conditions, 45-47
 export earnings, 94
 food supply, 47
 foreign trade, 38
 imports of capital goods, 99
 imports of food, 100
 industrial production, 45, 46
 inflationary pressures, 45
 sterling balances, 87
 trade balance, 46
 trade with China mainland, 118
- Indonesia:
 export earnings, 93
 imports from US, 68
 imports of capital goods, 99
 terms of trade, 63
- Industrial equipment, USSR exports, 115
- Industrialization, USSR, 32
- Industrialized countries:
 increases in consumption, 10
 terms of trade, 7
- Inflation, Taiwan, 50
- Inflationary pressures:
 India, 45
 Philippines, 45, 50
- International Bank for Reconstruction and Development, 104
- International trade and payments:
 disequilibrium, 7, 10, 89
 effect of raw material boom, 55-64
 fluctuations between surpluses and shortages, 11
 increase, 3
- International Wheat Agreement, 7n., 63
- Intra-European balances, 79-82
- Inventories:
 accumulation, 4, 9, 56-59, 73, 88
 accumulation in eastern Europe, 29
 accumulation in US, 23
 changes in, 88
 effect of gains on profits, 26
- Inventories (*continued*)
 investment in, 22
 investment in, Latin America, 44
 investment in, Philippines, 49
 involuntary accumulation, 25
 valuation, 58n.
 western Europe, 82
- Investments:
 increase, 17
 Latin America, 44
 rise in eastern Europe, 29
 USSR, 32
 Yugoslavia, 34
- Investments, direct, decline in, 104
- Investments, foreign, 69
 in primary producing countries, 103
- Investments, private:
 effect of Korean hostilities on, 17
 Latin America, 41, 44
 rise, 22
 in primary producing countries, 104
- Investments, public:
 Latin America, 41
- Investment goods:
 UK, 22
- Investment in plant and equipment:
 India, 46
 Japan, 47
- Iran:
 trade balance, 98n.
 UK replacement of oil imports from, 85
- Ireland, coal imports from Poland, 112
- Iron ore:
 consumption in US, 56
 eastern European demand for, 115
 export from Sweden to eastern Europe, 112
- Italy:
 consumption, 20, 23
 cost of living, 25
 decline in exports to planned economies, 111
 export profits, 25
 private investments, 22
 residential construction, 17
 rise of import unit values, 25
 shift in distribution of income, 20
 surplus with European Payments Union, 81
 trade balances, 75
 unemployment, 17, 22
 wages, real, 26
- J**
- Japan:
 agricultural production, 45
 balance of payments, 65-89
 consumption, 45, 47
 decline in economic aid from the US, 70
 dollar deficit, 78
 economic conditions, 47-48
 export of textiles, 100
 exports, 71
 foreign trade, 38
 gross national product, 47
 imports from US, 68
 income, national, 47
 industrial production, 45
- Japan (*continued*)
 payments agreements with sterling area, 87
 quantum of exports to primary producing areas, 64
 raw material imports, 58
 sterling balance, 78
 terms of trade, 62, 74
 trade balance, 47, 74, 75
 trade with mainland China, 118
 US payments against special purchases, 68, 68n.
- Jute:
 decline in exports to eastern Europe, 112
 export earnings, 91
 export earnings by Pakistan, 94
- K**
- Korean hostilities, effect on:
 buying, 3
 dollar supply, 67
 industry, 4
 petroleum production, 94
 prices, 25
 private investment, 17
 production, 15
 raw material prices, 9
 US demand, 17
 US terms of trade, 62
 world demand, 71
 world trade, 55
- L**
- Labour supply:
 distribution in USSR, 32
 eastern Europe, 29
- Land redistribution, mainland China, 35
- Latin America:
 coffee exports, 95
 consumption, 41, 44, 45
 cost of living, 45
 economic position, 38-51
 export earnings, 96
 flow of capital to, 104
 gold reserves, 105
 imports, 98
 imports of capital goods, 99
 imports of food, 100
 imports of passenger cars, 100
 increase in dollar supply, 68
 payments to US, 102
 reduction in sterling holdings, 105
 terms of trade, 38, 40
 trade balances, 44
 trade surpluses, 101
 trade with US, 96
- Lebanon, terms of trade, 63
- Livestock:
 eastern Europe, 29
 USSR, 31n., 32
- Loans and grants, 10, 11n.
- Luxury goods, imports by under-developed countries, 9
- M**
- Malaya:
 export earnings, 93
 imports, 98

Malaya (*continued*)
 improvement in terms of trade, 63
 rubber and tin exports, 102
 trade balance, 98n.

Manganese ore, US imports from USSR, 113

Manpower shortages, eastern Europe, 29

Manufactures:
 imports by primary producing countries, 98
 inventories in US, 58

Meat:
 demand for, in eastern Europe, 112
 exports from Argentina to UK, 96
 production decline, Latin America, 44
 shortage in Poland, 30

Metals, non-ferrous:
 decline in exports to eastern Europe, 112
 exports from Canada, 94n.

Mexico:
 agricultural production, 38
 consumption, 42, 44
 cost of living, 43
 cotton exports, 94
 economic situation, 38
 gross national product, 44
 industrial production, 44
 private investments, 41
 public investments, 41
 quantum balance of trade, 40
 terms of trade, 40, 44, 63

Middle East:
 imports of passenger cars, 100
 petroleum production, 102

Military expenditures, increases, 22, 25

Monetary reform, Poland, 20

N

National Government of China, *see* China (Taiwan)

Nationalization of industry:
 China (People's Republic), 35
 Yugoslavia, 34

Netherlands:
 agricultural production, 21
 consumption, 19-20, 23
 deflationary policies, 75
 gross national product, 19, 21
 industrial production, 15
 investment in inventories, 23
 private investments, 22
 productivity, 21
 quantum balance, 17, 22
 reductions in subsidies, 25
 residential construction, 23
 shift in distribution of income, 20
 surplus with European Payments Union, 80
 taxes, 25
 terms of trade, 76
 unemployment, 22
 wages, real, 25

New Zealand:
 terms of trade, 63
 wool exports, 94

Norway:
 consumption, 23
 government expenditure, 17

Norway (*continued*)
 gross national product, 19
 imports, 73
 private investment, 17, 22
 terms of trade, 23, 62n., 74, 76
 trade deficit, 75
 wages, real, 25-26

O

OEEC, *see* Organisation for European Economic Co-operation

Organisation for European Economic Co-operation (OEEC):
 Coal Committee, 77
 quantum of exports to primary producing areas, 64
 restrictions relaxed on private trade in goods and services, 79
 trade balances, 74

Oversea sterling area, *see* Sterling area, oversea

P

Pakistan:
 jute exports, 94
 sterling balances, 87
 terms of trade, 63
 trade with mainland China, 118

Petroleum:
 Canada, 103
 export earnings, 91, 95

Petroleum producing countries, balance of payments, 108

Petroleum products:
 eastern Europe, 115
 US exports to western Europe, 68

Philippines:
 agricultural production, 45
 commercial construction, 49
 consumption, 49
 economic conditions, 38, 48-50
 fat and oil exports, 95
 gross national product, 48
 imports from US, 68
 imports of capital goods, 99
 industrial production, 45, 48
 inflationary pressures, 45, 50
 investment in inventories, 49
 trade balance, 49

Planned economies, 3, 28-37
 deterioration in trade relations, 3
 economic isolation, 64
 industrial production, 4
 international trade, 9
 trade balance, 109-18

Poland:
 agricultural production, 29
 bacon exports, 113
 coal exports, 112, 115
 demand-supply situation, 30
 food supply, 30
 imports from USSR, 115
 industrial production, 28
 intra-eastern European trade, 116
 investment rise, 29
 lack of fodder, 29
 manpower shortages, 29
 monetary reform, 30

Poland (*continued*)
 trade agreement with USSR, 116
 wages, real, 30

Portugal, surplus with European Payments Union, 81

Potatoes, production in eastern Europe, 29

Prices, 55
 Latin America, 44
 rise, 3
 rise in under-developed countries, 3
 rising trend, 25-27

Prices, retail:
 China (centrally planned), 36
 China (Taiwan), 51

Prices, wholesale, India, 47

Primary commodities:
 prices, 91
 techniques for stabilizing demand and prices, 11
see also Raw materials

Primary producing countries:
 balance of payments, 9, 64, 100-107
 commodity composition of imports, 98
 decline in foreign exchange reserves, 100
 dollar increase, 68
 gold, dollars and sterling reserves, 105
 imports, 64, 98
 international trade and payments, 90-108

Primary products, international conferences to stabilize demand for, 10
see also Raw materials

Private enterprise economies, 3
 economic changes, 15-27
 idle productive capacity, 10
 industrial production, 4
 reduction of trade with planned economies, 9

Production, gap between industrial and under-developed countries, 11

Production, agricultural:
 China, mainland, 36
 decline in eastern Europe, 29
 Far East, 45
 India, 45
 Latin America, 38
 Philippines, 48
 private enterprise countries, 15, 21
 USSR, 31
 Yugoslavia, 34

Production, industrial:
 China mainland, 36
 decline, 25
 eastern Europe, 28
 Far East, 45
 increase, 3, 4
 India, 46
 Latin America, 38, 44
 Philippines, 45, 48
 private enterprise economies, 15, 20
 USSR, 28, 31
 Yugoslavia, 28, 34

Productive capacity, excess, 3

Productivity:
 China mainland, 36
 effect of rise on real wages, 26
 increases in, 17
 private enterprise economies, 21
 USSR, 32

- Profits:
 corporate, 26
 effect of inventory gains, 26
 rise, 25
- Q
- Quantum balance, definition, 17n.
- R
- Rationing:
 eastern Europe, 30
 Romania, 30
- Raw material exporters, terms of trade, 7
- Raw materials:
 boom, 22, 25, 40, 55-64, 91
 exports, 9
 factors responsible for increased demand, 55-59
 fall in demand, 59
 hoarding, 4
 home-produced, 25
 imports by primary producing countries, 98
 imports by western Europe, 58-59, 77
 prices, 3, 4, 6, 19, 23, 25, 38, 55, 59-64, 82-88
 supply, 6
 trade between eastern European countries, 116
see also Primary commodities
- Rearmament programmes, 3
 effect on balance of payments, 65, 88
 effect on productivity, 10
see also Korean hostilities
- Reconstruction, post-war, 10
- Reconstruction Finance Corporation, buying of rubber and tin through, 59
- Residential construction, 17
 credit restrictions in US, 94
 increase in US, 17
 Latin America, 44
 reduction, 22
 restrictions on, 22
- Restrictions, import, *see* Import restrictions
- Restrictions on dollar imports, *see* Dollar imports—restrictions
- Retail prices, *see* Prices, retail
- Rice:
 production, China (Taiwan), 51
 trade, 63
- Romania:
 demand-supply situation, 30
 economic planning, 33
 food supply, 29, 30
 grain output, 29
 imports from USSR, 115
 industrial production, 28
 intra-eastern European trade, 117
 rationing, 30
 trade, 114
 trade agreement with USSR, 116
- Rubber:
 consumption in US, 56
 decline in exports to eastern Europe, 112
 export earnings, 91
 export earnings by Indonesia and Malaya, 93
- Rubber (*continued*)
 exports, 63
 prices, 6, 7, 25, 59, 91
- S
- Saving, compulsory, Denmark, 23n.
- Scandinavian countries:
 indirect taxes, 25
 reductions in subsidies, 25
- South Africa, Union of, *see* Union of South Africa
- Speculation, 73, 84, 89
see also Buying, anticipatory and speculative
- Steel:
 exports from Belgium, 23
 production, Chile, 44
 production, United Kingdom, 6
 shortage, 73
- Sterling area:
 decline in gold and dollar reserve, 86
 deficits with other European Payments Union countries, 85
 exports, 59
 gold and dollar deficit, 85
 loss of gold and dollar reserves, 68
 raw material prices, 82
 reduction of imports from dollar area, 86
 restriction of imports of dollar goods, 88n.
 trade with dollar area, 84-86
 trade with UK, 86-88
- Sterling area, oversea:
 deficits on current transactions with UK, 87
 dollar pool, 87
 export earnings, 96
 gold, dollar and sterling reserves, 104
 imports from continental western Europe, 80
 imports of capital goods, 99
 imports of passenger cars, 100
 payments to UK and US, 102
 restrictions on dollar imports, 67
 trade balance with US, 70n.
 trade balances, 87
 trade surpluses, 87, 100
 trade with mainland China, 117
 trade with western Europe, 96
- Sterling area commodities, prices, 59
- Sterling balances, 87
 held in US, 69
 Japan, 78
see also Gold and foreign exchange reserves
- Strategic materials, allocations in United Kingdom and United States, 22; *see also* United Kingdom—stockpiling; United States—stockpiling
- Subsidies, reduction in western Europe, 23
- Sugar:
 decline in exports, Cuba, 44
 export earnings, 91, 95
 production, China (Taiwan), 51
- Sugar-beets, production in eastern Europe, 29
- Sweden:
 agricultural production, 21
 coal imports from Poland, 112
 consumption, 19, 23
 consumption equivalent of gross national product, 20
 consumption of durable goods, 23n.
 exports, 22, 112
 gross national product, 19
 imports, 22, 73
 industrial production, 15
 iron ore production, 115
 terms of trade, 23, 62n., 74, 75
 timber exports to UK, 58n.
 wages, real, 26
- Switzerland:
 coal imports from Poland, 112
 deterioration of trade balances, 75
 raw material imports, 58
- Syria, terms of trade, 63
- T
- Taiwan, *see* China (Taiwan)
- Tariff concessions, to eastern Europe by US suspended, 113
- Taxation, increase:
 Canada, 23
 United States, 23
 western Europe, 23
- Tea, production, China (Taiwan), 51
- Terms of trade, 7, 22
 Argentina, 45
 Australia, 23n.
 changes in, 3, 23, 59-64, 73, 77, 96
 Chile, 45
 effect on gross national product, 19
 Far East, 38
 Latin America, 38, 40
 moderating factors, 76
 shift as result of Korean hostilities, 55
 Turkey, 74
 under-developed countries, 3, 62
 United Kingdom, 22
- Textile industries:
 eastern Europe, 115
 India, 46
- Textiles, imports by Middle Eastern countries and oversea sterling area, 100
- Thailand, imports from US, 68
- Timber:
 consumption in US, 56
 demand for, in eastern Europe, 112
 export earnings by Canada and Finland, 94
 exports from Norway and Sweden, 23
 exports from US to western Europe, 68
 imports by UK from USSR, 113
- Tin:
 export earnings, 91
 export earnings by Bolivia, 94
 export earnings by Indonesia and Malaya, 93
 exports, 63
 prices, 6, 7, 25, 59, 91
- Tourist trade, Mexico, 40n.
- Trade deficits:
 increase, 74
 reduction, 74

Transport of goods, payments for, 102

Turkey:

- terms of trade, 74
- trade balances, 75

U

Under-developed countries:

- adequate international flow of capital needed, 11
- capital goods import, 9
- financing development of, 10
- food imports, 6
- foreign exchange reserves, 10
- industrial production, 4
- international conferences on development of, 10
- need of capital, 10
- need of equipment, 11
- production, 3
- production and consumption, 10
- terms of trade, 3, 62
- see also* Primary producing countries

Unemployment:

- private enterprise economies, 17
- reductions, 21
- rise in some countries, 3

Union of South Africa:

- flow of capital from UK, 104
- flow of long-term capital to, 103
- imports of capital goods, 99
- terms of trade, 63
- wool exports, 94

Union of Soviet Socialist Republics:

- agricultural production, 29
- coal imports from Poland, 115
- collective farms, amalgamation, 32
- consumption, 32
- demand-supply situation, 30
- economic planning, 31-33
- exports to Poland and Romania, 115
- exports to rest of eastern Europe, 115
- five-year plan, 31-33
- five-year trade agreement with Czechoslovakia, 115
- food exports, 115
- food imports, 29, 115
- foreign trade, 114
- grain exports, 113
- income, national, 31
- industrialization, 32
- industrial production, 28, 31
- investments, 32
- iron ore production, 115
- timber exports, 113
- trade, 114
- trade agreements with other countries of eastern Europe, 116
- USSR-Romanian oil enterprise, 115

United Kingdom:

- bacon imports, 113
- balance of payments, 9, 65, 80
- capital account, 85
- changes in inventory policy, 88
- consumption, 23
- decline in dollar supply, 68
- decline in exports to planned economies, 111
- decline of surplus with rest of sterling area, 87
- deficits, 83

United Kingdom (*continued*)

- deficits with oversea sterling area, 78
- deficits (1951) with European Payments Union, 80
- dollar deficit, 70, 77, 87
- exports, 22, 73, 83
- foreign exchange position, 22
- government expenditure, 17
- gross national product, 19, 21
- import restrictions, 9, 80
- imports, 73, 83
- industrial production, 20
- intra-European surplus in favour of, 79, 83
- investment activity in oversea sterling countries, 104
- meat imports from Argentina suspended, 96
- payment on loans to US and Canada, 86
- private investments, 22
- raw material imports, 55, 58, 59
- relation of corporate profits to gross national product, 26
- restrictions on dollar imports, 67
- rise in export surplus with rest of sterling area, 87
- rise in gross national income, 15
- rise of import unit values, 25
- steel industry, 6
- stockpiling of strategic materials, 83
- surpluses with European Payments Union, 87
- terms of trade, 22, 76, 82, 83
- timber imports from Sweden, 58n.
- timber imports from USSR, 113
- trade balance, 74, 75, 82-88
- trade balance with Latin America, 101
- trade balance with oversea sterling area, 101
- trade balance with primary producing countries, 100
- trade balance with rest of sterling area, 87
- trade with dollar area, 84-86
- trade with rest of sterling area, 86-88

United Kingdom Timber Control, 58n.

United States:

- agricultural production, 21
- balance of payments, 65-89
- construction boom, 94
- consumption, 20, 23
- conversion of sterling, 86
- cost of living, 25
- cotton production, 94
- decline in exports, 3
- decline in personal income allocated to consumption, 20
- decrease in food production, 15
- deficits of rest of the world with, 7, 65, 70
- demand for imports, 20
- economic recovery, 17
- export of consumer goods, 99
- export of capital goods, 98
- export of goods and services, 69
- export of military goods and services, 67n.
- export of non-military goods, 68
- exports to primary producing areas, 64
- foreign financial assistance, 65-71
- government expenditure, 17

United States (*continued*)

- gross national product, 23
- import changes, 69, 70
- imports from eastern Europe, 113
- imports of merchandise for consumption, 68
- imports of raw materials, 82
- income tax increases, 26n.
- industrial production, 15
- inventory policy changes, 88
- investment in inventories, 23
- loss of gold and dollar reserves to rest of world, 67
- merchandise trade surpluses, 7
- military expenditures, 22
- military grants, 67n.
- outflow of long-term capital to primary producing areas, 104
- outflow of private capital and donations, 67
- private investments, 22
- quantum balance, 17
- raw material imports, 56, 59
- rearmament, 4
- relation of corporate profits to gross national product, 26
- residential construction, 17, 22
- restriction of exports to centrally planned economies, 110-12
- revival of business activity, 55
- rise in export prices, 67n.
- rise in prices of home-produced raw materials, 25
- stockpiling of strategic materials, 25, 56, 73, 93
- terms of trade, 62, 76
- tin imports, 94
- trade balance with Latin America, 101
- trade balance with oversea sterling area, 101
- trade balance with primary producing countries, 100
- trade balances (1951), 75
- trade with mainland China, 117
- unemployment, 21

United States armed forces:

- purchases of goods and services, 70

Uruguay:

- terms of trade, 63
- wool exports, 94

V

Venezuela, petroleum production, 102

W

Wages:

- increase, 3, 25
- Philippines, 50

Wages, money, effect of changes in, on real wages, 26

Wages, real:

- Poland, 30
- Yugoslavia, 30

Western Europe, *see* Europe, western

Western Germany, *see* Germany, western

Wheat, production in Argentina, 96

Wheat Board (Canada), 20

Wood-pulp:
consumption in US, 56
exports from Norway and Sweden, 23

Wool:
export earnings, 91, 94
exports, 63
exports from Argentina, 96
exports to eastern Europe, 112
prices, 6, 7, 22n., 23n., 25, 59, 91

World trade, *see* International trade and payments

World War, Second (*continued*)
effect on production and trade, 9
effect on production in under-developed countries, 6

Y

Yugoslavia:
consumption, 29
demand-supply position, 30
derationing, 30
economic planning, 34
export earnings, 91n.

Yugoslavia (*continued*)
grain output, 29
industrial production, 28, 34
investment, 29, 34
manpower shortages, 29
military expenditures, 29
nationalization of industry, 34
position in east-west trade, 110
wages, real, 30

Z

Zinc, consumption in US, 56

SALES AGENTS FOR UNITED NATIONS PUBLICATIONS

ARGENTINA

Editorial Sudamericana S.A., Alsine 500, Buenos Aires.

AUSTRALIA

H. A. Goddard, 255e George St., Sydney.

BELGIUM

Agence et Messageries de la Presse S.A., 14-22 rue du Persil, Bruxelles.
W. H. Smith & Son, 71-75 Boulevard Adolphe-Max, Bruxelles.

BOLIVIA

Librería Selecciones, Casilla 972, La Paz.

BRAZIL

Livraria Agir, Rua Mexico 98-B, Rio de Janeiro.

CANADA

Ryerson Press, 299 Queen St. West, Toronto.
Les Presses Universitaires Level, Quebec.

CEYLON

The Associated Newspapers of Ceylon, Ltd., Lake House, Colombo.

CHILE

Librería Ivens, Moneda 822, Santiago.

CHINA

Commercial Press, Ltd., 211 Honan Rd., Shanghai.

COLOMBIA

Librería Latina Ltda., Carrera 6a., 13-05, Bogotá.

COSTA RICA

Trejos Hermanos, Apartado 1313, San José.

CUBA

La Casa Belga, O'Reilly 455, La Habana.

CZECHOSLOVAKIA

Československý Spisovatel, Národní Třída 9, Praha 1.

DENMARK

Einer Munksgaard, Ltd., Nørregade 6, København, K.

DOMINICAN REPUBLIC

Librería Dominicana, Mercedes 49, Ciudad Trujillo.

ECUADOR

Librería Científica, Box 362, Guayaquil.

EGYPT

Librairie "La Renaissance d'Égypte," 9 Sh. Adly Pasha, Cairo.

EL SALVADOR

Manuel Navas y Cía., la Avenida sur 37, San Salvador.

ETHIOPIA

Agence Ethiopienne de Publicité, Box 128, Addis-Abeba.

FINLAND

Akateeminen Kirjakauppa, 2, Keskuskatu, Helsinki.

FRANCE

Editions A. Pedone, 13 rue Soufflot, Paris V.

GREECE

"Eleftheroudakis," Place de la Constitution, Athènes.

GUATEMALA

Goubaud & Cía., 5 Avenida sur 28, Guatemala.

HAITI

Librairie "A la Caravelle," Boite postale 111-B, Port-au-Prince.

HONDURAS

Librería Panamericana, Calle de la Fuente, Tegucigalpa.

INDIA

Oxford Book & Stationery Co., Scindia House, New Delhi.
P. Varadachery & Co., 8 Linghi Chetty St., Madras 1.

INDONESIA

Jajasan Pembangunan, Gunung Sahari 84, Djakarta.

IRAN

Ketab-Khaneh Danesh, 293 Saadi Avenue, Tehran.

IRAQ

MacKenzie's Bookshop, Baghdad.

IRELAND

Hibernian General Agency Ltd., Commercial Buildings, Dame Street, Dublin.

ISRAEL

Blumstein's Bookstores, Ltd., 35 Allenby Road, Tel Aviv.

ITALY

Colibri S.A., Via Chiossello 14, Milano.

LEBANON

Librairie universelle, Beyrouth.

LIBERIA

J. Momolu Kamara, Monrovia.

LUXEMBOURG

Librairie J. Schummer, Luxembourg.

MEXICO

Editorial Herms S.A., Ignacio Mariscal 41, México, D.F.

NETHERLANDS

N.V. Martinus Nijhoff, Lange Voorhout 9, 's-Gravenhage.

NEW ZEALAND

U. N. Assn. of New Zealand, C.P.O. 1011, Wellington.

NICARAGUA

Dr. Ramiro Ramirez V., Managua, D.N.

NORWAY

Johan Grundt Tanum Forlag, Kr. Augustsgt. 7A, Oslo.

PAKISTAN

Thomas & Thomas, Fort Mansion, Frere Road, Karachi, 3.
Publishers United Ltd., 176 Anarkali, Lahore.

PANAMA

José Menéndez, Plaza de Arango, Panamá.

PERU

Librería Internacional del Perú, S.A., Casilla 1417, Lima.

PHILIPPINES

D. P. Pérez Co., 169 Riverside, San Juan.

PORTUGAL

Livrerie Rodrigues, 186 Rua Aurea, Lisboa.

SWEDEN

C. E. Fritze's Kungl. Hovbåhandl A-B, Fredsgatan 2, Stockholm.

SWITZERLAND

Librairie Payot S.A., Lausanne, Genève.
Hans Raunhardt, Kirchgasse, 17, Zurich 1.

SYRIA

Librairie Universelle, Damas.

THAILAND

Pramuan Mit Ltd., 55 Chakrawet Road, Wat Tuk, Bangkok.

TURKEY

Librairie Hachette, 469 Istiklal Caddesi, Beyoglu, Istanbul.

UNION OF SOUTH AFRICA

Van Schaik's Bookstore (Pty.), Ltd., Box 724, Pretoria.

UNITED KINGDOM

H.M. Stationery Office, P.O. Box 569, London, S.E. 1 (and at H.M.S.O. Shops).

UNITED STATES OF AMERICA

Int'l Documents Service, Columbia Univ. Press, 2960 Broadway, New York 27, N. Y.

URUGUAY

Representación de Editoriales, Prof. H. D'Elía, Av. 18 de Julio 1333, Montevideo.

VENEZUELA

Distribuidora Escaler S.A., Manduce a Ferrenquin 133, Caracas.

YUGOSLAVIA

Drzavno Produzeca Jugoslovenske Knjige, Marsala Tita 23-11, Beograd.

U. N. publications can also be obtained from the following firms:

IN AUSTRIA

B. Wüllerstorff, Waagplatz, 4, Salzburg
Gerold & Co., 1, Graben 31, Wien 1.

IN GERMANY

Elwert & Meurer, Hauptstrasse 101, Berlin-Schöneberg.
W. E. Seabach, Frankenstrasse 14, Köln-Junkersdorf.
Alex. Horn, Spiegelgasse 9, Wiesbaden.

IN JAPAN

Maruzen Company, Ltd., 6 Tori-Nichome Nihonbashi, Tokyo.

IN SPAIN

Librería Bosch, 11 Ronda Universidad, Barcelona.

(52E1)

Orders and inquiries from countries where sales agents have not yet been appointed may be sent to: Sales and Circulation Section, United Nations, New York, U.S.A.; or Sales Section, United Nations Office, Palais des Nations, Geneva, Switzerland.