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ECONOMIC SURVEY OF EUROPE IN 1968

The European Economy in 1968

UNITED NATIONS

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OF EUROPE IN 1968

THE EUROPEAN ECONOMY IN 1968

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Prefatory Note

The present SURVEY is the twenty-second in a series of reports prepared by the secretariat of the Economic Commission for Europe to serve the needs of the Commission and to help in reporting on world economic conditions—a task which the Economic and Social Council of the United Nations has entrusted to the Department of Economic and Social Affairs.

This SURVEY is published on the responsibility of the secretariat, and the views expressed in it should not be attributed to the Commission or to its participating governments.

In general, information received up to the end of February 1969 has been included, although certain information received by the secretariat in March and April has also been included.

March 1969

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EXPLANATORY NOTES

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of the frontiers of any country or territory.

The following symbols have been used throughout this SURVEY:

.. = not available or not pertinent;

— = nil or negligible;

* = estimate by the secretariat of the Economic Commission for Europe.

In referring to combinations of years, the use of an oblique stroke—e.g. 1966/67—signifies a twelve-month period (say from 1 July 1966 to 30 June 1967). The use of a hyphen—e.g. 1965-1967—normally signifies either an average of, or a total for, the full period of calendar years covered (including the end years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition of "billion" used throughout is one thousand million. Minor discrepancies in totals and percentages are due to rounding.

References in tables or charts to the OECD (Organisation for Economic Co-operation and Development) refer to the western European members of that organization —i.e. excluding Canada, the United States and Japan.

CHAPTER I

RECENT ECONOMIC DEVELOPMENTS IN WESTERN EUROPE

1. OUTPUT RECOVERY AND BALANCE-OF-PAYMENTS DISEQUILIBRIA IN INDUSTRIAL WESTERN EUROPE [1]

If attention is concentrated on the expansion of total output, the record for 1968 appears good. Total gross national product of the industrial countries of western Europe increased by between 4½ and 5 per cent—a marked recovery after the expansion of less than 3 per cent now estimated for the "recession" year 1967, and not very different from the long-term growth rate.[2] The expansion in 1968 was indeed faster than was generally expected a year ago. The sum of national projections available when the last SURVEY was written indicated an increase of 4 per cent; but the SURVEY suggested that the uncertainties of the international economic situation in late 1967 and early 1968 might have influenced several official forecasts towards caution.

The dominant influence was the recovery of west German output, from stagnation in 1967 to an increase of about 7 per cent in 1968. In no other country was there such a marked change in the rate of economic activity. In other countries which had been seriously affected by the recession of 1967, however, there was a substantial recovery in the rate of growth—in Austria, Belgium, Sweden, Switzerland and the United Kingdom (although not in Finland). Thus the dispersion of growth rates in 1968 was relatively narrow: only in western Germany (7 per cent), the Netherlands (5½ per cent) and Italy (5.2 per cent), on present indications, was the growth of national output in excess of 5 per cent, and only in Finland (2 per cent) less than 3 per cent. (See table 1.)

While the record of output thus suggests a more satisfactory year than 1967, the hopes of an improvement in the balance-of-payments disequilibria were not realized. The last SURVEY emphasized the efforts made by the United States to defend the dollar by fiscal and monetary methods, in particular by the restriction of capital outflows, and the intention of the United Kingdom authorities to reinforce the devaluation of sterling by restriction of domestic demand and thus to move from deficit into substantial surplus. Both major changes in policy, it was pointed out, would have their main impact on the economies of continental western Europe. In the event, the domestic expansion in both of the key currency countries was greater than expected and the current balance in both countries worsened. Output volume in the United States again increased in 1968 by 5 per cent and, because of a growth of imports unprecedented since the early 1950s, the trade surplus *(f.o.b./f.o.b.)* came close to disappearing. The overall United States balance of payments improved, but only because of the great inflow of foreign funds—mainly from Europe. The British current deficit (in dollars) was no less in the year as a whole than in 1967. But in both countries, the current balance began to improve during the second half of the year and all forecasts for 1969 indicate continuing progress towards a more sustainable position. Meanwhile, however, the social conflicts in France came near to putting the French current balance into jeopardy, accentuated by the outflow of funds.

The counterpart of the balance-of-payments difficulties of the key currency countries and of France—in particular, of the massive imports into the United States—was, however, an unexpected impetus to exports, and to output expansion generally, in the rest of western Europe, especially in the first half of 1968. But this expansion did nothing to provoke, and indeed helped to prevent, any substantial reduction in the current account surpluses of western Germany and Italy.

Thus the problems of international adjustment, which were expected to mature in 1968, have in great part been postponed. The contrast between a healthy growth of output on the one hand, and the continued imbalances within the network of international transactions on the other, with all the risks to international stability that they have been shown to entail, remains the major issue for short-term policy in 1969.

[1] The expression "industrial western Europe" includes here the following thirteen countries: Austria, Belgium, Denmark, Finland, France, western Germany, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland and the United Kingdom. The southern European countries are separately reviewed in Part 7 of this chapter.

[2] The growth rate of industrial western Europe was 4½ per cent a year between 1954 and 1968, or, if a more recent period is considered more relevant, 4¾ per cent a year from 1958 to 1966.

TABLE 1

Supply and use of resources in certain western European countries

(Percentage changes over previous year, in volume)

Country and year		Resources			Utilization						
					Gross domestic fixed capital formation				Consumption		
		GNP at market prices	Imports of goods and services	Total	Total	Construction		Machinery and Equipment	Private	Public	Exports of goods and services
						Residential	Other				
Austria	1965	2.3	11.6	4.5	5.0	1.0	5.1	6.7	5.0	−1.2	6.4
	1966	4.6	10.5	6.2	7.1	7.1	6.0	7.6	4.7	3.6	6.6
	1967	2.5	2.7	2.5	0.4	−3.2	3.6	−0.1	3.3	3.3	5.7
	1968 F	4.1	8.2	5.2	1.2	−3.5		0.7	3.6	3.5	10.1
	1969 D	5.0	9-9.5 *	5.2	8.0	4.5		12.5	5.0	..	8-8.5
Belgium	1965	3.9	6.6	4.6	3.7	2.5	−0.2	7.8	4.6	5.6	7.7
	1966	2.8	8.4	4.4	6.6	−12.0	15.7	12.0	3.2	4.3	3.8
	1967	3.5	3.7	3.6	4.0	−3.3	4.9	7.2	2.8	7.0	6.4
	1968D	4-4.5	12.0	6.5	2.5	..	..	..	4.0	4.5	11.0
	1969D	4.5	9.5	6.0	5.0	..	..	..	4.5	3.5	10.0
Denmark	1965	4.9	6.9	5.5	3.9	10.3	4.5	—	3.7	3.5	7.9
	1966	2.2	5.7	3.3	4.1	0.8	—	7.2	4.0	5.4	3.7
	1967	4.0	6.2	4.7	7.4	14.1	5.8	3.6	3.7	6.5	5.9
	1968J	3.6 [a]	4.1	3.8	−0.2 [a]	−1.4 [a]		0.9 [a]	1.5	5.3	10.0
	1969F	5-6 [a]	5.5	5.5	7.0 [a]	..		..	5.0	2.5	8.5
Finland	1965	5.2	9.2	6.0	10.4	8.8	13.0	9.1	4.8	5.2	5.2
	1966	2.4	4.8	2.8	2.8	5.1	−0.4	5.5	2.6	5.1	7.0
	1967	2.0	−1.5	1.3	−4.6	4.2	−5.0	−9.4	1.9	2.8	4.5
	1968N	2.0	−1.0	1.5	−6.2	..	..	..	1.5	3.0	10.0
	1969N	6.0	9.3	6.6	13.0	..	..	..	3.0	3.0	10.0
France	1965	4.2	3.6	4.1	5.3	9.4	7.5	1.1	4.0	3.7	11.3
(Old series,	1966	4.9	11.1	5.8	6.1	0.2	8.5	8.6	4.8	3.4	7.0
SNA concept)	1967	4.4	4.9	4.5	5.9	0.1	9.0	7.4	4.1	6.0	4.5
	1968D	3.4	11.0	4.5	5.1	..	..	..	3.5	5.0	9.0
	1969D	5.5-6.5	9-14	6-8	7.0	..	..	..	5.5	2.5	11.0
France	1965	4.8 [b]	2.0 [c]	4.4	7.1	..	..	..	4.3	6.3	12.0 [c]
(New series,	1966	5.9 [b]	12.3 [c]	6.6	9.5	..	..	..	4.8	4.0	6.9 [c]
French concept)	1967	4.6 [b]	5.7 [c]	4.7	6.4	..	..	..	4.4	5.1	5.2 [c]
	1968S	4.0 [b]	11.5 [c]	4.8	5.9	..	..	..	4.0	6.9	9.8 [c]
	1969S	7.6 [b]	12.7 [c]	8.1	7.8	..	..	..	7.1	5.5	10.7 [c]
Western Germany	1965	5.6	15.2	7.4	6.6	3.0		9.5	6.4	6.9	7.7
	1966	2.3	2.7	2.4	0.2	4.2		−2.8	3.5	1.0	10.8
	1967	0.2	−0.4	0.1	−7.4	6.4		−8.2	0.6	3.4	9.6
	1968J	7.0	16.6	9.0	8.6	7.3		9.7	3.6	−0.8	15.4
	1969J	4.5	12.5	6.5	9.0	6.5		11.5	5.0	4.0	4.5
Ireland	1965	2.2	4.2	3.3	9.6	19.8	3.8	11.1	1.0	3.4	2.1
	1966	1.6	1.6	1.6	−4.8	−8.1	−2.5	−5.5	2.3	1.2	7.4
	1967	4.3	6.7	5.0	5.8	..	..	..	2.2	1.1	13.0
	1968J	4.9	12.5	7.0	11.0	..	..	..	5.7	2.1	5.9
	1969J	4.0	4.6	4.2	8.9	..	..	..	2.9	2.4	4.4
Italy	1965	3.6	1.9	3.4	−8.4	−6.2	−1.4	−15.1	2.7	3.7	20.1
	1966	5.7	13.7	6.9	3.4	−1.3	2.3	8.7	5.9	3.5	13.2
	1967	5.9	10.5	6.6	10.1	4.1	8.7	16.4	6.1	2.7	6.0
	1968N	5.2	7.5	8.0	8.5	11.0		4.0	4.5	3.7	12.5
	1969N	6-7	..	..	..	..	..	..	..	..	..
Netherlands	1965	5.0	6.6	5.5	4.9	11.5	0.2	5.8	7.0	1.6	7.4
	1966	1.9	7.4	3.8	6.2	7.0	6.7	5.5	2.9	2.2	5.4
	1967	5.6	6.7	6.0	7.2	15.2	11.2	0.8	5.1	3.9	6.6
	1968F	5.5	10.5	7.0	8.5	6.0	..	..	4.5	2.0	11.0
	1969F	4.5	8.5	6.0	5.0	2.0	..	..	4.0	2.0	9.0

TABLE 1 *(continued)*

Supply and use of resources in certain western European countries

Country and year		Resources: GNP at market prices	Resources: Imports of goods and services	Resources: Total	Utilization: Gross domestic fixed capital formation: Total	Construction: Residential	Construction: Other	Machinery and Equipment	Consumption: Private	Consumption: Public	Exports of goods and services
Norway [a]	1965	5.2	9.1	6.3	6.2 [d]	1.9		9.7 [d]	3.5	8.0	6.8
	1966	4.4	7.8	5.5	6.2 [d]	4.9		7.2 [d]	4.4	2.2	6.9
	1967	6.0	12.8	8.1	11.6 [d]	10.0		12.7 [d]	4.8	9.6	10.9
	1968J	3.5	−0.4	2.2	−7.5 [d]	2.1		−14.3 [d]	3.4	4.6	9.8
	1969S	4.0	−0.9	2.7	0.3 [d]	3.7		−2.9 [d]	3.0	3.8	3.1
Sweden	1965	4.3 [b]	11.5 [c]	5.8	4.9	5.2	4.5	5.0	5.1	6.8	4.0 [c]
	1966	3.3 [b]	3.4 [c]	3.3	6.5	−2.0	7.2	10.8	2.3	5.7	5.6 [c]
	1967	2.4 [b]	3.3 [c]	2.6	3.2	13.0	3.4	−2.1	2.4	8.1	5.5 [c]
	1968 D	3.5 [b]	8.5 [e]	4.5	1.5	1.5	9.0 [a]	1.5 [a]	4.0	7.5	6.5 [e]
	1969 D	4.0 [b]	7.0 [e]	4.5	4.0 *	3.0	4.5 [a]	3.0 [a]	3.0	6.0	7.0 [e]
Switzerland	1965	4.3	3.1	4.0	−1.4	−0.5	−4.4	1.3	3.7	1.0	12.0
	1966	2.9	3.5	3.0	−0.4	−2.3	−0.7	1.2	2.8	3.8	6.1
	1967	1.9	5.0	2.8	0.4	−2.6	0.7	2.2	2.8	3.2	4.3
	1968D	3.6	6.3	4.2	2.4	..	..	..	2.3	3.5	9.2
	1969D	3-4	..	..	..	..	..	..	..	..	..
United Kingdom	1965	2.7	1.4	2.4	4.0	1.8	4.5	4.6	1.8	4.0	5.5
	1966	1.9	0.7	1.6	1.6	−2.2	0.6	3.7	2.0	2.8	2.0
	1967	1.6	5.1	2.2	6.3	10.0	6.9	3.4	2.0	5.1	−0.1
	1968D	3.7	6.5	4.2	2.1	..	..	..	2.4	1.6	10.1
	1969F	2.8	1.9	2.6	4.3	..	..	..	0.4	1.9	6.8

Sources: Data for 1964 to 1967 are from replies to United Nations *Questionnaires on National Accounts* and:

Denmark: *Statistiske Efterretninger*, N.5., 27 January 1969
Finland: *National accounting, 1964-1968/I-II*
France: *Etudes et Conjoncture*, N.11A, 1968
Western Germany: *Wirtschaft und Statistik*, No. 2, February 1969
Norway: *Economic Survey*, 1968
Sweden: *Preliminary National Budget, 1969*, in *The Swedish Economy*, N.1, 1969.

Preliminary results for 1968 and forecasts for 1969 are from:

Austria: *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*. N.12, December 1968 and N.3, March 1969
Belgium: OECD: *Economic Outlook*, N.4, December 1968 and EEC: *The Economic Situation in the Community*, N.3-4, December 1968
Denmark: *Danish Economic Survey*, 1968
Finland: *Economic Survey*, 1968
France: *Comptes prévisionnels de l'année 1968 et principales hypothèses économiques pour 1969*, in *Statistiques et Etudes financières*, N.239, November 1968
Western Germany: *Wirtschaft und Statistik*, N.2, February 1969, and *Jahreswirtschaftsbericht 1969 der Bundesregierung*
Ireland: The Economic and Social Research Institute, T. J. Baker, *Quarterly economic commentary*, January 1969
Italy: OECD, *op. cit.* and *Congiuntura economica*, N.241, 30 November 1968
Netherlands: *Central Economisch Plan 1969*.
Norway: *Economic Survey 1968*, and *The National Budget of Norway*, 1969
Sweden: *Preliminary National Budget 1969*, in *The Swedish Economy*, N.1, 1969
Switzerland: *La situation économique suisse en 1968 et les perspectives pour 1969* Supplement to: *La vie économique*, N.12, December 1968
United Kingdom: *National Institute Economic Review*, February 1969.

NOTE. — Key to the months in which data were calculated:

S = September 1968 D = December 1968
O = October 1968 J = January 1969
N = November 1968 F = February 1969

a Gross-gross concept.
b Gross domestic product.
c Non-factor.
d Including ships. Data excluding ships are:

	Total GDFCF	Machinery and equipment
1965	2.8	4.0
1966	7.7	11.6
1967	8.8	7.1
1968	1.5	1.0
1969	3.0	2.5

e Goods only.

The forecasts of output and demand in 1969, as compiled by the national authorities, remain favourable. Taken together, they imply a growth of the combined gross national products of industrial western Europe by about 4½ per cent. But every such forecast must be qualified by the evident if unmeasurable risk that too slow a pace of adjustment towards a sustainable pattern of international payments balances will provoke monetary disturbances that will be even more difficult to contain than in 1968. (A fuller assessment of prospects follows in Part 6 of this chapter.)

Output growth and economic policy in 1968

The projections made each winter in most countries, for the coming year, may be taken, to varying degrees and with obvious qualifications, as interpretations of policy intentions at the time they are drawn up as well as assessments of the probable economic environment within which policy must operate. The table on page 4, comparing the national forecasts used in last year's SURVEY with the latest available estimate of developments in 1968, provides some guide both to the effectiveness of policy and to the strength of the independent forces influencing economic events.

Perhaps the most significant divergencies of experience from earlier expectations occurred in 1968 in western Germany and the United Kingdom. In western Germany, policy originally aimed at a 4 per cent growth rate of output in 1968; in the event the record shows 7 per cent. It was indeed clear quite early in the year that the 4 per cent growth rate would be exceeded, and, moreover, that it was not leading to overheating. The circumstances in the United Kingdom were very different; in spite of a

Growth of gross national product at constant prices

(Percentages)

Countries ranked by growth in 1968	*Projections for 1968 a*	*1968 / 1967*	*1967 / 1966*	*Growth rate 1958-1959 to 1965-1966 b*
Western Germany	4.	7.0	0.2	5.3
Netherlands . . .	3.5	5.5	5.6	5.1
Italy	5.5-6.0	5.2	5.9	5.6
Ireland	..	4.9	4.3	3.9
Belgium	3	4.5	3.5	4.6
Austria	2-3	4.1	2.5	4.5
France				
Old basis c . .	5	3.4	4.4	5.1
New basis d . .	..	4.0	4.6	..
United Kingdom.	2.5-3	3.7	1.6	3.3
Switzerland . . .	2-2.5	3.6	1.9	5.2
Denmark	3	3.6	4.0	5.0
Norway.	4-4.5	3.5	6.0	4.8
Sweden	4	3.5	2.4	4.7
Finland	3.5	2.0	2.0	5.3

a From the *Economic Survey of Europe in 1967*, chapter I, table 1.
b National sources.
c SNA concept.
d French accounting system.

major effort by budgetary and credit policy to keep down the rate of expansion for the sake of the balance of payments, output and demand growth in fact accelerated (to nearly 4 per cent instead of the budgetary objective of 2½ to 3 per cent).

In several other countries, the policy objective was either deliberately to stimulate output growth (Austria, Belgium, Ireland) or to permit but not deliberately to accelerate the growth (the Netherlands, Switzerland). In all these countries, the growth rate in fact accelerated (except for the Netherlands where it was already fast) and exceeded the projections. The hopes that the momentum of Irish expansion could be maintained after devaluation without risk to the balance of payments were disappointed; a second budget in the autumn of 1968 was necessary to correct a seriously worsening trade balance.

By contrast, Italy, France and Norway were the only countries in which the rate of expansion in 1968 was significantly less than in 1967, and, also, significantly less than was forecast. In Italy, the forces making for growth proved weaker than expected and the modest policy measures taken to stimulate growth proved ineffective. In France, the comparison is hardly relevant: before the May events, output was increasing in accordance with plan; in the second half, the rate of expansion was allowed —indeed encouraged by the budgetary consequences of the May events—to proceed rather faster (at least until November); much but not all of the output losses due to the May/June strikes was recouped.

In Denmark and Finland, as in the United Kingdom, policy aimed at restricting domestic demand after devaluation of their currencies; growth was restrained to below the normal rates (in Finland, very much below—a lower rate than expected).

Policy in Norway was somewhat restrictive, in expectation of a bigger rise in investment than in fact occurred, and in Sweden at permitting recovery—but in neither country did the rate of expansion (3½ per cent in both) quite reach expectations; in Norway new measures were taken in the autumn aimed at some re-expansion.

Thus 1968 was a normal year for total output growth in industrial western Europe as a whole (if the average experience of 1958 to 1966 may be allowed to represent "normality"). But this was entirely because of the more than average growth in western Germany. Elsewhere, the rate of expansion was either about equal to the average or (in the four Nordic countries, Switzerland and —but only because of the output loss in May/June— France) substantially less than average.

Variations in the rate of growth of industrial production are normally more marked than in gross national product (table 3). Where GNP increased fastest, as in western Germany and the Netherlands, the growth of industrial production accelerated still more rapidly. Thus, rates of growth of industrial production varied in 1968 from 11-12 per cent in western Germany and the Netherlands to 3½-5½ per cent in most other countries. The expansion of industrial output was also particularly marked in Austria (7 per cent) and Ireland (11 per cent), although in neither country was the growth of GNP abnormal; the main reason, most conspicuously in Ireland, was a very large increase in industrial exports after devaluation. Devaluation in Denmark was also followed by a large increase in industrial exports and in spite of restricted domestic demand there was a moderate rise in industrial output.[3]

During the year 1968, as the seasonally adjusted quarterly statistics of industrial output show (table 3), the growth of production was in most countries fairly continuous (temporary checks in a few countries in the third quarter may be due to inadequate correction for changing holiday patterns).[4] Where expansion accelerated in the year as a whole, as in most countries, the acceleration began about the fourth quarter of 1967 (third quarter in western Germany). A marked exception to the stability of the expansion is the striking spurt in France in the fourth quarter (even discounting the direct after-effects of the summer strikes), bringing the provisionally estimated level of output up to as much as 14 per cent above the 1967 average; this high level at the end of the year, although subject to qualification because of the uncertain reliability of the provisional production index, is important for assessing the significance of forecasts for 1969. In the Netherlands and Sweden, too, a certain acceleration is apparent towards the end of 1968. By contrast, Belgium and Ireland show some signs of hesitation in the second half. For Norway, the industrial production figures suggest very little expansion after the beginning of the year.

[3] There is no up-to-date index of the volume of industrial production for Denmark; it appears that the rise in total industrial sales was about 6 per cent in value, while producers' prices rose over 2 per cent.

[4] Quarterly data for GNP and its expenditure constituents are shown in Table 2 for western Germany and the United Kingdom.

TABLE 2

United Kingdom and western Germany: output and demand by quarters

(Index numbers of volume, 1964 = 100)

Period		GDP	Private consumption	Gross domestic fixed capital formation			Imports of goods and services	Exports of goods and services
				Total	Construction	Machinery and equipment		
				Western Germany				
1965	I	99	97	90	72	104	105	103
	II	103	104	110	110	109	115	105
	III	107	104	110	115	114	117	105
	IV	112	120	117	113	118	122	117
1966	I	102	103	96	82	107	115	110
	II	108	109	111	112	109	119	117
	III	109	107	108	116	101	119	120
	IV	114	121	113	117	110	121	130
1967	I	100	105	85	81	88	109	122
	II	106	109	98	102	94	118	133
	III	108	106	98	104	93	117	126
	IV	118	123	115	112	117	128	141
1968	I	106	106	87	80	92	125	138
	II	114	113	106	110	102	134	139
	III	117	110	111	116	106	143	151
	IV	126	129	124	121	125	150	175
				United Kingdom [a]				
1965	I	102	102	104	105	104	97	103
	II	101	100	103	103	104	101	102
	III	103	102	103	102	103	103	106
	IV	104	103	106	103	108	103	107
1966	I	105	105	104	100	107	104	108
	II	104	105	105	102	108	101	103
	III	104	103	107	104	111	105	108
	IV	105	103	107	106	107	99	112
1967	I	106	104	109	107	111	107	115
	II	105	104	114	112	117	110	110
	III	106	107	113	113	113	106	108
	IV	107	109	113	114	113	109	98
1968	I	110	112	116	115	116	116	119
	II	107	105	113	117	109	114	114
	III	110	108	115	114	115	116	121
	IV	111	109	116	..	..	117	112

Sources: Western Germany: D.I.W., *Vierteljahrshefte zur Wirtschaftsforschung*; United Kingdom: *Economic Trends*, and *National Institute Economic Review*, February 1969.

[a] Seasonally adjusted data.

Among the major manufacturing sectors (see table 4),[5] the striking features are: (*a*) the remarkably slow growth in 1968 of the *metal-using* industry; in nearly every country (except Ireland and Switzerland), contrary to the long-term trend in output patterns, metal-using output increased no more than total manufacturing output and in most it increased appreciably less or even fell (Finland, Norway). The reason for this weakness presumably lies chiefly in the general weakness of investment demand, especially in industry, which may be expected to be reversed in 1969 (see below). (*b*) By contrast, output of the *metal-making* industry (iron and steel predominantly)—normally among the most sensitive of industrial branches—rose very strongly in 1968: by 10-15 per cent in Austria, Belgium, western Germany, the

[5] The information on employment and productivity in table 4 is commented upon in Part 4 below.

TABLE 3

Industrial production: quarterly indices (1963 = 100) and annual percentage changes

(Seasonally adjusted)

Country or area	1966 I	1966 II	1966 III	1966 IV	1967 I	1967 II	1967 III	1967 IV	1968 I	1968 II	1968 III	1968 IV	Percentage changes over previous year: 1965	1966	1967	1968 a
Austria	116	117	116	118	116	118	116	117	120	125	127	126	3.8	4.1	—	6.5
Belgium	111	110	111	111	113	111	112	115	116	118	121	123	1.9	2.1	1.8	5.7
Denmark [b]	115	121	122	130	121	134	120	129	..	..	..	..	5.9	1.6	3.2	..
Finland	116	119	119	125	125	121	122	126	126	128	125	132	6.8	5.1	2.9	3.5
France	114	116	119	119	119	118	120	123	126	106	128	137	1.6	6.8	2.9	3.6
Western Germany	118	118	116	114	111	110	114	120	119	126	130	134	5.5	1.7	−2.1	11.9
Ireland	113	111	123	121	125	128	128	130	135	142	147	149	5.1	3.5	8.9	11.8
Italy	114	116	121	121	126	128	127	131	132	134	135	143	4.6	11.6	8.2	6.3
Netherlands	120	122	123	126	126	127	130	134	138	140	143	152	5.5	6.0	4.9	10.9
Norway	118	120	122	124	127	125	125	130	131	131	132	133	5.9	5.5	4.5	4.0
Sweden	123	123	123	125	125	125	128	130	129	132	134	140	8.2	3.9	2.4	5.2
Switzerland	112	113	112	115	117	116	116	117	120	119	123	127	3.3	4.6	2.5	4.9
United Kingdom	113	112	112	110	110	110	110	113	115	115	117	119	3.0	1.1	−0.4	4.8
EEC	116	117	118	117	117	116	119	123	124	122	130	137	3.9	5.0	1.7	8
EFTA	115	114	114	113	114	114	114	116	118	119	121	123	3.9	2.2	0.5	5
Industrial western Europe [c]	115	116	117	116	116	116	117	121	122	121	127	132	3.9	4.1	1.3	7

Sources: OECD, *Main Economic Indicators*; and national statistics.

a Provisional.
b Volume of sales in manufacturing, not adjusted for seasonal variations.
c Industrial Europe = EEC, EFTA (excluding Portugal) and Finland.

Netherlands and Norway, and by rather less in France, Italy, Luxembourg (steel output), Sweden and the United Kingdom. Total western European crude steel output increased by about 10 per cent—the first substantial increase in output in most countries since 1964 or 1965. Over a quarter of the increase represented increased exports to the United States;[6] but there was no significant increase in exports to other markets outside western Europe and the main support came from increasing domestic demand for construction, shipbuilding and the motor industry, together with some replenishment of stocks and, perhaps, increasing confidence in a coming revival of general investment demand. (*c*) In several countries—notably Belgium, western Germany, the Netherlands and the United Kingdom—there was a marked revival in *textiles and clothing* output, following a decline in 1967. Part of this revival in output, especially in the United Kingdom (where it was most marked in man-made textiles), is probably associated with the upturn in the inventory cycle rather than with expansion of sales, and cannot be expected to continue. (*d*) In accordance with the normal pattern, *food processing* expanded everywhere much less than average, and *chemicals output* significantly faster.

[6] Western European steel output rose in 1968 by about 12½ million tons (crude); additional exports to the United States were about 2.7 million tons (finished). Under the voluntary export arrangements recently agreed with the United States authorities, ECSC exports to the US in 1969 will be limited to 5¾ million tons against about 6½ million tons in 1968.

TABLE 4

Output, employment and output per man by major industrial branches

(O = Output E = Employment (wage- and salary-earners) P = Output per man)

(Percentage changes over previous year)

Country		Total manufacturing			Food, drink, tobacco			Textiles and clothing			Chemicals and products			Metal-making			Metal-using		
		O	E	P	O	E	P	O	E	P	O	E	P	O	E	P	O	E	P
Austria . . .	1964	8.0	0.1	7.9	1.9	−1.5	3.5	4.5	0.7	3.8	9.4	−0.1	9.5	10.3	0.0	10.3	7.8	−0.2	8.0
	1965	3.3	0.3	3.0	2.3	0.5	1.8	2.1	−2.0	4.2	8.0	1.6	6.3	−2.8	2.3	−5.0	4.1	1.0	3.1
	1966	3.9	−0.5	4.4	10.5	0.4	10.1	4.7	0.0	4.7	8.2	−0.6	8.9	3.1	−3.0	6.3	0.2	0.4	−0.2
	1967	0.0	−3.1	3.2	1.4	−0.9	2.3	−2.9	−4.6	1.8	5.6	−1.2	6.9	−6.3	−5.3	−1.1	0.1	−2.7	2.9
	1968	7.0	−1.2	8.3	2.3	−1.3	3.6	2.8	−1.4	4.3	12.0	0.3	11.7	10.3	−0.2	10.5	7.9	−0.9	8.9
Belgium . . .	1964	7.3	1.2	6.0	6.4	−0.4	6.8	3.1	−0.1	3.2	8.4	−1.8	10.4	12.4	2.1	10.1	3.9	1.4	2.5
	1965	2.5	−0.7	3.2	0.6	−3.1	3.8	0.5	−2.8	3.4	5.2	1.7	3.4	3.5	0.6	2.9	4.3	1.8	2.5
	1966	3.1	−0.6	3.7	4.7	−0.3	5.0	5.1	1.9	3.1	3.2	−1.8	5.1	−0.7	−3.9	3.3	3.5	0.5	3.0
	1967	0.9	−2.2	3.2	5.7	−0.8	6.6	−5.6	−4.7	−0.9	5.1	−1.7	6.9	3.3	−4.2	7.8	1.0	−3.2	4.3
	1968	6.4	−1.7	8.2	−2.0	−4.6	2.7	4.3	−2.1	6.5	11.5	2.7	8.6	14.0	−1.5	15.7	4.2	−1.9	6.2
Denmark . .	1964	11.4	1.7	9.5	7.0	0.3	6.7	10.2[a]	0.5	9.7	12.8	2.4	10.2	..	..	..	13.1[b]	1.7	11.2
	1965	6.6	1.7	4.8	3.2	−1.6	4.9	4.6	−2.0	6.7	5.4	2.2	3.1	..	..	..	7.9	3.1	4.7
	1966	1.6	−1.7	3.4	5.8	0.5	5.3	1.6	−3.8	5.6	4.3	−0.7	5.0	..	..	..	0.2	−2.6	2.9
	1967	3.2	−3.4	6.8	−2.3	−3.1	0.8	4.6	−4.0	9.0	8.2	−1.4	9.7	..	..	..	0.0	−4.3	4.5
	1968	..	−1.9	..	..	−2.5	..	..	0.5	..	..	0.0	..	..	..	..	..	−2.2	..
Finland . . .	1964	7.6	1.2	6.3	3.0	0.5	2.5	4.3	−2.4	6.9	17.3	3.6	13.2	19.5	10.7	7.9	4.3	2.1	2.2
	1965	6.9	1.5	5.3	7.4	2.0	5.3	−2.7	−7.0	4.6	10.9	7.0	3.6	20.1	9.7	9.5	7.6	5.0	2.5
	1966	4.8	0.8	4.0	6.5	2.4	4.0	11.2	1.3	9.8	5.4	0.7	4.7	−1.8	1.4	−3.2	0.6	2.1	−1.5
	1967	2.5	1.2	1.3	5.3	2.8	2.4	3.4	1.5	1.9	9.3	0.9	8.3	1.4	1.6	−0.2	2.6	0.9	1.7
	1968	2.4	..	..	3.4	..	..	−2.8	..	..	8.3	..	..	17.7	..	..	−1.9	..	..
France	1964	7.4	0.9	6.4	..	..	..	1.4	1.3	0.1	10.5	2.5	7.8	9.2	0.8	8.3	6.9	0.7	6.2
	1965	1.2	−1.5	2.7	..	..	..	−11.1	−5.2	−6.2	9.5	0.8	8.6	−0.9	−1.4	0.5	1.4	−1.3	2.7
	1966	7.6	0.1	7.5	..	..	..	10.2	0.4	9.8	9.8	1.2	8.5	1.3	−4.0	5.5	7.0	0.3	6.7
	1967	3.0	−1.2	4.3	..	..	..	−5.7	−3.7	−2.1	8.9	0.7	8.1	0.3	−4.1	4.6	3.5	−0.3	3.8
	1968	2.7	−2.4	5.2	..	..	..	−3.6	−6.9	3.5	8.3	−0.6	9.0	3.7	−4.5	8.6	2.1	−1.1	3.2
Western Germany . .	1964	8.8	0.7	8.0	5.3	−1.2	6.6	2.5	−1.8	4.4	12.9	2.1	10.6	15.3	0.5	14.7	7.7	1.6	6.0
	1965	6.1	2.3	3.7	4.3	−0.2	4.5	5.6	0.2	5.4	10.1	3.3	6.6	1.2	2.2	−1.0	6.9	3.5	3.3
	1966	1.7	−0.5	2.2	3.1	0.2	2.9	0.6	−0.3	0.9	10.1	1.4	8.6	−4.8	−4.1	−0.7	−0.4	−0.3	−0.1
	1967	−2.2	−6.1	4.2	2.2	−2.8	5.1	−7.9	−8.7	0.9	7.8	−1.0	8.9	0.6	−6.7	7.8	−7.1	−6.4	−0.7
	1968	12.3	1.3	10.9	5.4	−0.1	5.5	14.3	−0.5	14.9	15.4	0.6	14.7	14.9	0.0	14.9	12.2	2.4	9.6
Ireland . . .	1964	7.7[c]	2.3	5.3	4.0	0.0	4.0	8.6	1.4	7.1	6.3	1.6	4.6	..	..	..	12.0[b]	5.8	5.9
	1965	4.2	0.5	3.7	2.9	0.8	2.1	2.1	−1.5	3.7	16.0	2.3	13.4	..	..	..	5.4	1.4	3.9
	1966	4.9	1.2	3.7	2.8	0.7	2.1	1.8	0.0	1.8	16.3	11.2	4.6	..	..	..	1.5	2.1	−0.6
	1967	9.2	0.9	8.2	6.4	0.7	5.7	8.0	1.7	6.2	20.3	2.6	17.3	..	..	..	3.5	−0.8	4.3
	1968	11.0	1.5	9.4	6.8	0.0	6.8	11.0	1.0	9.9	14.7	2.0	12.5	..	..	..	14.7	1.0	13.6

TABLE 4 *(continued)*

Output, employment and output per man by major industrial branches

Country		*Total manufacturing*			*Food, drink, tobacco*			*Textiles and clothing*			*Chemicals and products*			*Metal-making*			*Metal-using*		
		O	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*
Netherlands [d] .	1964	10.0	1.2	8.7	6.0	0.0	6.0	5.0	−1.5	6.5	20.0	4.0	15.5	14.0	1.0	13.0	9.0	2.0	7.0
	1965	5.5	1.2	4.2	2.8	−2.0	5.0	−3.8	−3.5	−0.5	16.7	2.5	14.0	8.8	5.0	3.5	3.7	2.0	1.5
	1966	5.2	−0.3	5.5	0.9	0.0	1.0	2.2	−3.5	6.0	14.3	2.5	11.5	4.8	0.0	5.0	4.4	1.0	3.5
	1967	4.1	−3.2	7.5	6.4	−1.0	7.0	−7.5	−9.5	2.0	10.6	3.0	7.5	7.7	−4.0	12.0	2.5	−3.5	6.0
	1968	7.9	−1.0	9.0	1.7	0.0	1.7	6.1	5.0	1.0	20.1	2.0	17.5	10.8	2.5	8.0	4.8	0.0	5.0
Norway . . .	1964	8.2	1.2	6.9	0.0	−0.4	0.4	0.9	−1.3	2.2	6.9	2.8	4.0	19.8	3.5	15.7	8.1	2.7	5.3
	1965	5.9	1.7	4.1	5.0	1.3	3.7	−3.7	−4.6	0.9	13.7	4.9	8.4	11.0	3.8	6.9	6.0	3.9	2.0
	1966	6.3	1.8	4.4	8.4	2.9	5.3	2.3	−2.6	5.0	10.6	3.8	6.6	7.1	2.5	4.5	6.9	3.7	3.1
	1967	3.8	1.0	2.8	0.2	−1.0	1.2	−0.9	−2.0	1.1	2.6	0.8	1.8	5.3	2.4	2.8	5.4	3.6	1.7
	1968	3.0	−0.3	3.3	2.1	0.0	2.1	−7.4	−6.3	−1.2	1.3	−2.8	4.2	13.5	0.0	13.5	−0.7	0.4	−1.1
Sweden . . .	1964	9.8	1.7	8.0	4.5	1.3	3.2	3.0	−0.3	3.3	14.9	3.1	11.4	14.6	1.2	13.2	8.9	2.1	6.7
	1965	8.2	1.1	7.0	2.4	−1.2	3.6	−1.7	−0.4	−1.3	11.1	4.0	6.8	9.7	3.1	6.4	11.1	2.3	8.6
	1966	4.5	−0.7	5.2	5.4	0.1	5.3	−4.4	−9.1	5.2	11.1	2.4	8.5	0.6	−0.4	1.0	7.8	1.1	6.6
	1967	1.8	−3.9	5.9	3.6	−0.1	3.7	4.8	−5.3	10.7	12.5	−3.2	16.2	−0.6	−5.2	4.9	0.5	−4.3	5.0
	1968	5.4	−3.2	8.9	1.7	−7.0	9.4	−2.0	−5.4	3.6	11.6	−2.2	14.1	8.3	−2.4	11.0	4.9	−3.3	8.5
Switzerland. .	1964	5.0	0.5	4.5	3.9	1.3	2.6	6.4	−1.1	7.6	9.9	−3.0	6.7	..	..	..	4.0 [b]	0.9	3.1
	1965	3.8	−0.9	4.7	3.8	−1.3	5.2	1.7	−2.8	4.6	1.5	0.9	0.6	..	..	..	0.8	−0.8	1.6
	1966	3.7	−2.1	5.9	0.7	−1.1	1.8	2.1	−4.7	7.1	13.9	0.0	13.9	..	..	..	0.2	−2.1	2.3
	1967	1.8	−1.2	3.0	4.3	0.2	4.1	−1.1	−2.6	1.5	3.5	2.1	1.4	..	..	..	3.8	−1.9	5.8
	1968	5.2	−1.1	6.4	1.6	−1.2	2.8	0.4	−2.9	3.4	11.2	1.3	9.8	..	..	..	4.3	−1.2	5.6
United	1964	7.9	1.3	6.5	2.6	−0.6	3.2	5.5	−0.7	6.2	9.4	−0.4	9.8	13.4	4.5	8.5	7.4	1.9	5.4
Kingdom. ..	1965	3.3	2.5	0.8	2.5	0.7	1.8	2.2	−1.7	4.0	4.6	1.4	3.2	4.4	1.7	2.7	3.7	2.2	1.5
	1966	1.3	−1.2	2.5	2.5	0.2	2.3	−1.0	−1.8	0.8	3.8	1.5	2.3	−6.1	−2.2	−4.0	2.8	0.8	2.0
	1967	−1.0	−2.8	1.9	0.0	−0.7	0.7	−3.3	−6.1	3.0	3.6	−1.7	5.4	−5.9	−4.8	−1.2	−1.7	−2.1	0.4
	1968	5.5	−0.9	6.5	1.6	−0.9	2.5	8.6	−1.7	10.5	6.3	−0.5	6.8	5.9	−1.4	7.4	4.5	−1.0	5.6

Sources: For output: OECD, *Industrial production, quarterly supplement to main economic indicators*; and national statistics. For employment: national statistics.

NOTE. — Data for 1968 are provisional and are based on available months.

[a] Excluding clothing for all years.
[b] Metal-making and using for all years.
[c] Transportable goods for all years.
[d] Data for employment and productivity for the major branches are rounded to the nearest half-point.

2. DEMAND PATTERNS IN 1968

The changes in the composition of final expenditure which underlie these variations in output growth are, as is usual, highly diverse from country to country. But two rather common characteristics of development in 1968 stand out as determinants of the rate and pattern of expansion and as major influences on economic policy and its effectiveness: the importance of foreign trade which increased distinctly more than expected; and the weakness of investment demand, particularly private investment. To these may be added, for a number of countries, a substantial increase in the rate of stock-building, partly associated with increasing imports.

Basic data on the changes in the main categories of final demand are given in table 1, and the contributions of each category to the increase in GNP are shown in table 5.

(i) The impact of foreign trade [7]

For western Europe as a whole, exports to the rest of the world provided a substantial stimulus to faster expansion. These exports increased in dollar value by 13 per cent (table 14, covering the first eleven months of 1968), against 6 per cent in the full year 1967. The comparison understates the impact on western European output since the dollar values in 1968 were depressed by devaluations of European currencies: the acceleration in export volume was probably at least 2 per cent greater. The corresponding acceleration in the value of western Europe's imports from the rest of the world (a rise of 8½ per cent for the full year 1968 against virtually no increase in 1967) did not to any great extent offset the expansionary impact of the rise in exports.[8] The rise in imports, being predominantly primary products while exports are mainly manufactures, must be regarded mainly as the consequence not the cause of output expansion, and is rather a measure of the impact of western European expansion on incomes and output in the rest of the world. 1968 was the fourth successive year in which exports to the rest of the world increased more than imports.

Dominating the changes in the pattern of western Europe's trade with the rest of the world in 1968 was the unexpected increase of about 25 per cent in exports to the United States and Canada. In the previous year, the increase had been only about 5 per cent. The rise

[7] This section deals with the broad influence of foreign trade on output. A more detailed review of foreign trade developments and of payments balances follows in Part 5 of this chapter.

[8] Devaluation does not affect the relation between dollar values and volume for imports in the same way as for exports; dollar prices of imports into devaluing countries were not likely to be much affected by devaluation.

TABLE 5

Annual changes in GNP, imports and major sectors of demand

(As a percentage of GNP of previous year, at constant prices)

	1964	*1965*	*1966*	*1967*	*1968*	*1964*	*1965*	*1966*	*1967*	*1968*
	AUSTRIA					BELGIUM				
GNP at market prices	6.3	2.3	4.6	2.5	4.1	6.9	3.9	2.8	3.5	4.5
Goods and services [e]										
Exports	2.5	1.9	2.0	1.8	3.2	4.0	2.9	1.5	2.5	4.5
Imports	2.4	3.8	3.8	1.0	3.0	3.9	2.5	3.3	1.5	5.0
Balance	0.1	−1.9	−1.7	0.8	−0.2	0.1	0.4	−1.8	1.0	−0.5
Changes in stocks	1.1	−0.3	1.1	−0.9	1.4	1.4	−1.0	0.5	−1.2	1.2
Total fixed investment	1.9	1.2	1.8	0.1	−0.3	2.5	0.8	1.4	0.9	0.5
of which:										
Machinery, equipment	0.9	0.8	1.1	—	0.1	0.2	0.6	1.0	0.7	..
Construction	1.0	0.4	0.7	0.1	0.4	2.3	0.1	0.3	0.2	..
Consumption—Total	3.3	3.2	3.5	2.5	2.8	2.9	3.7	2.7	2.8	3.2
Private	2.6	3.3	3.2	2.2	2.4	2.4	3.0	2.1	1.9	2.6
Public	0.6	−0.1	0.3	0.3	0.4	0.5	0.7	0.6	0.9	0.6
Internal demand	6.3	4.1	6.4	1.7	3.0	6.8	3.5	4.6	2.5	5.0
Internal demand, excluding stock changes	5.2	4.4	5.3	2.6	2.5	5.4	4.5	4.1	3.6	3.8

TABLE 5 *(continued)*

Annual changes in GNP, imports and major sectors of demand

(As a percentage of GNP of previous year, at constant prices)

	1964	1965	1966	1967	1968	1964	1965	1966	1967	1968
	DENMARK [a]					FINLAND [b]				
GNP at market prices	8.9	4.8	2.5	4.0	3.6	6.4	5.1	2.4	2.0	2.0
Goods and services [c]										
Exports	3.4	3.0	1.4	2.4	4.5	1.4	1.1	1.5	1.0	2.3
Imports	7.8	3.0	2.5	2.8	1.6	4.6	2.1	1.1	−0.4	−0.2
Balance	−4.4	0.1	−1.1	−0.5	2.9	−3.2	−1.0	0.3	1.4	2.5
Changes in stocks	2.1	0.9	−0.9	−0.6	−1.0	5.0	−0.3	−0.9	0.3	−0.3
Total fixed investment	5.0	1.1	1.3	2.0	−0.1	0.8	2.6	0.7	−1.2	−1.5
of which:										
Machinery, equipment	2.8	0.2	1.1	0.7	0.1	0.4	0.8	0.5	−0.9	..
Construction	2.1	0.9	0.3	1.2	−0.2	0.4	1.8	0.2	−0.3	..
Consumption—Total	6.3	2.7	3.1	3.1	1.6	3.8	3.9	2.2	1.5	1.3
Private	5.4	2.3	2.5	2.4	1.0	3.2	3.1	1.5	1.1	0.9
Public	0.9	0.4	0.6	0.8	0.6	0.6	0.7	0.7	0.4	0.4
Internal demand	13.3	4.7	3.5	4.5	0.6	9.6	6.2	2.0	0.6	−0.5
Internal demand, excluding stock changes	11.3	3.8	4.5	5.1	1.5	4.6	6.5	3.0	0.3	−0.2
	FRANCE					WESTERN GERMANY				
GNP at market prices	5.9	4.2	4.9	4.4	3.4	6.6	5.6	2.3	0.2	7.0
Goods and services [c]										
Exports	1.2	1.9	1.2	0.8	1.6	2.5	1.9	2.8	2.7	4.7
Imports	2.0	0.6	1.9	0.9	2.0	2.8	4.1	0.8	−0.1	4.9
Balance	−0.7	1.2	−0.7	−0.1	−0.4	−0.3	−2.2	1.9	2.8	−0.2
Changes in stocks	0.5	−1.2	0.7	−0.2	−0.1	0.8	1.2	−1.9	−1.5	3.1
Total fixed investment	2.4	1.1	1.4	1.3	1.1	3.0	1.7	0.1	−1.9	2.0
of which:										
Machinery, equipment	0.6	0.1	0.8	0.7	..	1.6	1.4	−0.4	−1.2	1.3
Construction	1.8	1.0	0.6	0.6	..	1.4	0.3	0.5	−0.7	0.8
Consumption—Total	3.7	3.0	3.5	3.4	2.9	3.1	4.8	2.3	0.9	2.1
Private	3.1	2.6	3.1	2.7	2.3	3.3	3.9	2.2	0.4	2.2
Public	0.6	0.5	0.4	0.7	0.6	−0.2	1.0	0.1	0.5	0.1
Internal demand	6.6	2.9	5.5	4.5	3.9	7.0	7.8	0.4	−2.5	7.2
Internal demand, excluding stock changes	6.1	4.2	4.9	4.7	4.0	6.2	6.6	2.3	−1.0	4.1
	IRELAND					ITALY				
GNP at market prices	3.8	2.2	1.6	4.3	4.9	2.8	3.6	5.7	5.9	5.2
Goods and services [c]										
Exports	3.4	0.9	3.1	5.9	2.8	1.8	3.4	2.6	1.3	2.6
Imports	6.0	2.1	0.8	3.4	6.6	−0.9	0.3	2.2	1.9	1.4
Balance	−2.6	−1.1	2.3	2.4	−3.8	2.7	3.1	0.4	−0.6	1.3
Changes in stocks	0.9	0.4	−1.5	−1.0	2.1	−0.5	0.1	0.5	0.3	−0.9
Total fixed investment	1.9	1.9	−1.0	1.1	2.2	−1.5	−1.8	0.6	1.9	1.6
of which:										
Machinery, equipment	0.5	1.0	−0.5	..	..	−1.8	−1.3	0.6	1.2	0.3
Construction	1.4	0.9	−0.5	..	..	0.3	−0.5	0.0	0.7	1.3
Consumption—Total	3.6	1.1	1.8	1.8	4.4	2.1	2.2	4.2	4.2	3.2
Private	3.2	0.7	1.7	1.7	4.1	1.6	1.7	3.7	3.9	2.8
Public	0.4	0.4	0.1	0.1	0.2	0.5	0.5	0.5	0.4	0.5
Internal demand	6.4	3.4	−0.7	1.9	8.7	0.0	0.5	5.4	6.4	4.0
Internal demand, excluding stock changes	5.5	3.0	0.8	2.9	6.6	0.5	0.4	4.8	6.1	4.9

TABLE 5 *(concluded)*

Annual changes in GNP, imports and major sectors of demand

(As a percentage of GNP of previous year, at constant prices)

	1964	1965	1966	1967	1968	1964	1965	1966	1967	1968
	NETHERLANDS					NORWAY [a]				
GNP at market prices	8.9	5.0	1.9	5.6	5.0	5.5	5.2	4.4	6.0	3.5
Goods and services [c]										
Exports	5.8	3.8	2.8	3.6	4.6	4.3	2.8	2.9	4.7	4.4
Imports	7.4	3.4	3.9	3.8	5.3	3.3	3.9	3.5	5.9	−0.2
Balance	−1.5	0.4	−1.1	−0.2	0.4	0.9	−1.1	−0.6	−1.2	4.6
Changes in stocks	2.4	−0.9	−0.7	0.3	0.2	0.5	1.2	0.1	−0.8	−0.5
Total fixed investment	4.2	1.2	1.6	1.9	2.2	1.4	2.3	2.3	4.4	−3.0
of which:										
Machinery, equipment	1.0	0.7	0.6	0.1	..	0.7	2.0	1.5	2.8	−3.3
Construction	3.2	0.6	0.9	1.8	..	0.7	0.3	0.8	1.6	0.4
Consumption—Total	3.8	4.3	2.1	3.6	2.9	2.7	2.7	2.6	3.6	2.3
Private	3.6	4.1	1.7	3.1	2.6	2.1	1.8	2.3	2.5	1.8
Public	0.3	0.2	0.3	0.6	0.3	0.5	0.9	0.3	1.1	0.5
Internal demand	10.4	4.6	2.9	5.8	5.1	4.6	6.2	5.0	7.1	−1.2
Internal demand, excluding stock changes	8.0	5.5	3.6	5.5	5.3	4.0	5.0	4.9	8.0	−0.7
	SWEDEN [b]					SWITZERLAND				
GNP at market prices	7.6	4.3	3.3	2.4	3.5	5.1	4.3	2.9	1.9	3.6
Goods and services [c]										
Exports	2.8	1.1	1.5	1.6	1.8	2.3	4.1	2.2	1.6	3.1
Imports	2.5	3.1	1.0	1.0	2.4	3.4	1.2	1.4	2.0	1.9
Balance	0.3	−2.0	0.5	0.6	−0.6	−1.1	2.8	0.9	−0.4	1.2
Changes in stocks	1.4	1.2	−1.0	−1.6	0.4	0.1	−0.6	−0.1	—	0.6
Total fixed investment	1.8	1.3	1.7	0.9	0.4	2.4	−0.4	−0.1	0.1	
of which:										
Machinery, equipment	0.4	0.5	1.1	−0.2	0.3	0.4	0.1	0.1	0.2	..
Construction	1.4	0.8	0.6	1.1	0.1	2.1	−0.5	−0.2	−0.1	..
Consumption—Total	4.1	3.9	2.1	2.5	3.4	3.6	2.5	2.2	2.2	1.8
Private	3.4	3.0	1.4	1.4	2.3	3.2	2.4	1.8	1.8	1.4
Public	0.7	0.9	0.8	1.1	1.1	0.5	0.1	0.4	0.3	0.4
Internal demand	7.3	6.4	2.8	1.8	4.2	6.2	1.5	2.0	2.3	2.4
Internal demand, excluding stock changes	5.9	5.2	3.8	3.4	3.8	6.0	2.1	2.1	2.3	..
	UNITED KINGDOM									
GNP at market prices	5.7	2.7	1.9	1.3	3.7					
Goods and services [c]										
Exports	0.8	1.3	0.5	—	1.5					
Imports	2.1	0.3	0.2	1.2	2.0					
Balance	−1.3	1.0	0.3	−1.2	−0.5					
Changes in stocks	1.4	−0.7	−0.5	−0.7	0.8					
Total fixed investment	2.8	0.7	0.3	1.2	0.4					
of which:										
Machinery, equipment	1.2	0.4	0.3	0.3	..					
Construction	1.7	0.3	−0.0	0.7	..					
Consumption—Total	2.8	1.7	1.7	2.1	1.8					
Private	2.6	1.2	1.3	1.3	1.6					
Public	0.2	0.6	0.4	0.8	0.2					
Internal demand	7.0	1.7	1.6	2.5	3.0					
Internal demand, excluding stock changes	5.6	2.5	2.0	3.2	2.2					

Sources: As for table 1.

a Gross-gross concept (including repairs and maintenance).

b Gross domestic product; goods and services *excluding* factor income.

c Including factor income from or to abroad.

in 1968, of about $2 billion (annual rate), represented a contribution of half of one per cent to the growth of GNP in western Europe as a whole, but this relationship underestimates the impact in the early stages of industrial recovery.

This exceptional expansion of United States imports in 1968, not only from western Europe, owed much to special factors (the steel strike which did not happen, and the copper strike which did) but the main reason appears to have been the heavy pressure of domestic demand in the United States. The expansion spread to most commodity groups (table 6); basic metal imports from western Europe increased by over 70 per cent in the first half of the year but imports of all other products together increased more than 20 per cent, the biggest increase being in transport equipment. Moreover, most western European exporting countries benefited—the biggest proportionate increase being enjoyed by western Germany which is the largest European exporter to the United States.

The strong impact of increased United States imports on western European expansion was already weakening

TABLE 6

Commodity composition of United States imports from western Europe

(Value in millions of current dollars (f.o.b.) and percentage changes over corresponding period of previous year)

Commodity group and SITC code	*Period*	*Imports from:*							
		Belgium-Luxembourg	*France*	*Western Germany*	*Italy*	*Netherlands*	*United Kingdom*	*Rest of western Europe*	*Western Europe*
Food, beverages, tobacco (0,1) . .	1966 Value	16.3	74.9	32.7	61.8	76.8	269.9	418.3	950.7
	1967 Year	−6.8	15.2	0.3	7.1	16.3	3.5	12.3	9.3
	1968 1st half	−61.2	−7.5	40.7	19.8	14.0	10.9	—	4.1
Raw materials (2,4 less 24, 25) . .	1966 Value	19.9	24.7	35.7	25.9	32.1	51.5	152.1	341.9
	1967 Year	−12.1	−14.2	−1.1	7.3	−15.3	−29.7	−17.0	−14.8
	1968 1st half	−6.3	22.7	18.1	23.1	−19.3	45.7	1.8	10.3
Forestry products (24, 25, 63, 64)	1966 Value	2.6	4.4	10.0	6.3	1.2	7.1	124.0	155.6
	1967 Year	−15.4	13.6	−10.0	4.8	8.3	4.2	−9.5	−7.7
	1968 1st half	16.7	−36.7	4.2	10.3	20.0	−5.4	−5.0	−4.6
Fuels (3)	1966 Value	1.2	1.0	2.7	12.6	3.0	4.6	1.9	27.0
	1967 Year	−83.3	30.0	40.7	69.8	100.0	69.6	194.7	70.7
	1968 1st half	350.0	−100.0	11.8	233.3	103.2	84.3	423.1	153.0
Chemicals (5)	1966 Value	20.1	61.2	128.3	30.9	29.1	72.8	83.9	426.3
	1967 Year	−19.4	−3.9	−1.6	−2.9	2.4	−4.0	1.3	−2.4
	1968 1st half	21.1	−7.3	20.8	−5.3	37.6	0.5	19.4	11.9
Textiles (65)	1966 Value	35.1	26.3	27.5	48.1	16.2	59.3	70.3	282.8
	1967 Year	−11.4	3.4	8.0	−6.0	−39.5	−15.5	−21.3	−12.2
	1968 1st half	18.2	2.1	44.4	52.5	−6.0	11.8	24.1	24.0
Basic metals (67, 68 less 681) . . .	1966 Value	194.1	113.2	201.2	38.8	13.5	147.0	157.8	865.6
	1967 Year	8.0	−5.2	39.5	−11.1	189.6	2.9	9.3	14.9
	1968 1st half	59.4	55.2	115.3	70.7	107.2	71.5	41.3	71.9
Metal manufactures (69, 71, 72) .	1966 Value	72.0	86.6	422.5	134.1	85.3	394.9	277.6	1 473.0
	1967 Year	−25.4	−4.9	14.4	36.3	15.1	−2.3	18.9	9.7
	1968 1st half	−10.9	14.2	15.5	12.2	6.5	−3.2	19.9	9.3
Transport equipment (73)	1966 Value	22.7	74.4	644.5	40.8	2.3	288.5	72.7	1 145.9
	1967 Year	18.9	−15.7	−1.9	32.6	34.8	−24.3	24.3	−5.1
	1968 1st half	225.0	40.5	68.9	61.8	−17.7	22.5	24.3	54.7
Other commodities (8, 9, 61, 62, 66, 681)	1966 Value	197.8	231.4	291.5	343.7	60.0	490.0	426.2	2 040.6
	1967 Year	7.0	2.7	10.5	12.6	13.3	2.8	5.6	6.8
	1968 1st half	34.2	21.5	16.3	30.7	25.2	16.9	22.4	22.8
Total imports	1966 Value	581.8	698.1	1 796.6	743.0	319.5	1 785.6	1 784.8	7 709.4
	1967 Year	0.4	−1.2	8.8	15.2	16.4	−4.2	6.3	4.6
	1968 1st half	35.3	19.6	45.8	31.9	20.2	15.9	14.9	26.3

Sources: United Nations, Series D, *Commodity trade statistics*; and national trade statistics.

towards the end of 1968.[9] But it played a key role in the early stages of the recovery in Europe. An encouraging cyclical precedent may be found in the early stages of western European recovery from the recession of 1958. The revival of activity in the United States in 1959 was accompanied by an even greater expansion than in 1968 of imports from western Europe (whose total exports to the United States rose by 35 per cent in 1959). In 1960, western Europe's exports to the United States declined as the American expansion slowed down, but the impetus of recovery in western Europe was by then well supported by other forces, particularly by an increase of productive investment.

[9] Imports of North America (seasonally adjusted) (*$ million a month*):

	Total	*From OECD Europe*
1967	3 066	769
1968 1st Quarter	3 531	882
2nd Quarter	3 687	954
3rd Quarter	3 706	960
October/November	3 792	888

Source: OECD, *Main Economic Indicators*, January 1969, p. 110.

Share of western Germany and the United States in overall exports of selected western European countries, first half of 1968

Country	*Share of exports to western Germany and United States in total exports 1967*	*Increase in total exports*	*Increase in exports to western Germany*	*Increase in exports to United States*	*Percentage share of western Germany and United States in total export increase, first half 1968 on first half 1967*
		First half 1968 on first half 1967 (millions of dollars)			
Austria	26.5	71.9	29.0	6.8	49.8
Belgium-Luxembourg	28.2	444.0	137.3	107.1	55.0
Denmark [b]	19.3	30.5	11.3	11.6	75.1
France	23.1	208.2	91.1	49.0	67.3
Finland [b]	14.3	31.9	11.2	6.3	54.9
Ireland	11.6	1.4	−1.7	−1.1	..
Italy	27.6	554.8	137.8	118.9	46.3
Netherlands	30.8	397.3	155.6	38.5	48.9
Norway	20.5	89.1	23.3	8.9	36.1
Sweden	18.4	102.0	44.8	18.1	61.7
Switzerland	23.8	190.3	45.0	20.2	34.3
United Kingdom [b]	17.5	−280.9	53.3	128.6	..
Western Germany	9.0 [a]	860.5	..	403.0	46.8 [a]

[a] Exports to the United States only.
[b] Shares of different markets considerably influenced by devaluation.

A second important factor in western European trade was the rapid increase in western Germany's imports—larger than in any of the other industrial countries of western Europe; western Germany's imports rose in value by 16 per cent in 1968 (against a 4 per cent decline in 1967), and by 20 per cent from the rest of western Europe.[10] For most other western European countries (except the United Kingdom), the rise in exports to western Germany was indeed much more important than the expansion of the United States' market (see text table above). Together, western Germany and the United States accounted for half or more of the total export increase of nearly all the other western European countries. The direct expansionary stimulus from recovery in western Germany was, however, weaker than that originating in the United States, simply because western Germany's increase in imports, unlike that of the United States, was balanced by her increase in exports. The trade balance of most western European countries with the United States improved in 1968. But the trade balance of most countries with western Germany remained virtually unchanged; it improved only for Italy and Norway—countries where the expansion of domestic demand was weak. The small increase in United Kingdom imports from western Europe in 1968 (about 8 per cent) was only in part offset by the 4 per cent increase in the dollar value of exports to western Europe, and was fully offset by the changes in the volume.

The overall impact of foreign trade on the western European economies is summarized in table 7. In almost every country the growth of exports accelerated in 1968 and played a more than proportionate role in the expansion of output (and, generally, a more important role than the average of the last ten years). For imports, experience was less uniform. In many countries, the increases in import and export *volume* were approximately equal. The significant exceptions are the countries which devalued in 1967, and also Italy and Norway where domestic demand, expanding relatively little, led to only small rises in imports while exports increased fast. The impact of the export expansion on output was particularly marked in Norway which enjoyed its biggest export increase for many years. A more detailed analysis by the Norwegian authorities (applying input-output coefficients) shows

[10] An increase of about $2 billion (as was forecast in the *Economic Survey of Europe in 1967*, Chapter I, p. 11).

indeed that the direct and indirect effects of the increase in exports of goods and services account for effectively the whole increase in GNP in 1968. Moreover, shipping (freight earnings, etc. and exports of ships), and the exports of basic metals, alone accounted for nearly two-thirds of the expansion.[11]

[11] *Økonomisk utsyn over året 1968*, table 24. The "indirect" effects include the effects on private consumption and on imports.

Among the four devaluing countries (Denmark, Finland, Ireland and the United Kingdom) a marked contrast appears. In all four there was quite a strong increase in export volume contributing a large proportion of the output expansion. But while in Denmark and Finland the growth of import volume was effectively checked with the help of severe restraint of domestic demand, both Ireland and the United Kingdom experienced substantial increases in their imports—most striking in manufactured imports in both countries.

TABLE 7

Imports and exports of goods, and of goods and services

(Based on value at constant prices)

Country	*Commodity imports and exports, annual percentage changes*						*Percentage contribution of imports (or exports) of goods and services, to the increase of total resources (or total expenditure)*			
	Imports			*Exports*			*Imports*		*Exports*	
	Trend rate 1952-1965	*1967*	*1968 a*	*Trend rate 1952-1965*	*1967*	*1968 a*	*Average 1958-1967 b*	*1968*	*Average 1958-1967 b*	*1968*
Austria	10.4	1.4	13.6	8.6	7.4	13.2	39	44	29	36
Belgium	8.4	2.2	16.9	8.6	3.7	17.7	39	53	38	47
Denmark	9.0	4.4	1.4	7.9	5.8	11.1	44	..	31	..
Finland	7.9	—	−9.9	6.7	5.7	9.4	28	−13	21	126
France	8.2	3.8	10.6	8.3	5.6	11.5	20	36	20	29
Western Germany	12.1	−2.3	18.6	11.7	8.9	13.1	31	38	31	39
Ireland	6.5	5.1	11.7	6.9	17.5	8.5	52	57	37	25
Italy	11.2	12.1	4.5	13.7	8.1	17.6	23	20	28	40
Netherlands	9.1	6.2	11.9	9.1	8.3	14.7	47	49	43	53
Norway	7.2	8.1	5.6	8.0	6.8	11.9	44	−6	40	136
Sweden	7.9	3.2	7.1	8.4	5.6	8.9	28	41	27	31
Switzerland	10.2	5.0	7.9	8.2	4.6	14.4	39	35	33	56
United Kingdom	4.3	7.9	10.3	4.8	−0.9	9.1	22	29	18	44

Sources: For imports and exports of goods: OECD, *Main economic indicators*, February 1969; and national statistics; for imports and exports of goods and services and other national account data: same sources as for Table 1.

a January-September over corresponding period of previous year.
b Average of annual percentage contributions during the period 1958 to 1967.

(ii) Imports, stockbuilding and growth

Increases in import volumes were particularly marked in 1968, faster than the previous year in most countries (exceptions being Denmark and Finland as noted above, but also Italy and Norway where the growth of demand was restrained). The average propensity to import, in respect to changes in GNP, over the last 15 years, has been around 2 in western European industrial countries (see table 8). By comparison with this long-term tendency, the countries in which the increases in imports in 1968 were to a significant extent abnormally large were: Austria, Belgium, France, western Germany and the United Kingdom. In four of these countries, but not in the United Kingdom, the big increase in 1968 did little more than balance the abnormally small increases (a decline in western Germany) in the previous year.

Secondly, in Austria, Belgium, western Germany and the United Kingdom the big increases in imports were associated with a marked increase in stockbuilding. table 8 compares the *increase* in stockbuilding with the increase in GNP. The suggestion is that it was the desire to replenish stocks (together with increases in work-in-progress resulting from accelerating output) which was largely responsible for the fast increases in imports. Similarly, where imports increased relatively little—as in

Italy and Norway—the change in stockbuilding appears to have been negative.

For the United Kingdom, a different explanation must be sought; the increase in stockbuilding appears as an important, but not the dominant, factor in increased imports. The reasons seem to lie partly in anticipatory buying especially at the beginning of the year, partly in special factors (a carryover of imports from the dock strike in late 1967), but mainly in the unexpected strength of demand for imported manufactures despite the considerable rise in sterling import prices brought about by devaluation. It must be noted, however, that the growth in the volume of imports levelled out after the first quarter.

The big increase in French imports in 1968 probably owed little to stockbuilding. The rise in imports was concentrated in the second half of the year when the recovery in output lagged behind the expansion of domestic demand—at least until December. The gap was filled both at the expense of the trade balance and, in certain branches, by drawing down stocks. At the end of the year, stocks were not in general regarded as fully adequate.[12]

The import content of stocks is bound to vary from year to year, and from country to country, and is not in any case precisely ascertainable.[13] Nevertheless, a general association is clear. It must have, moreover, a certain bearing on future import prospects. However, the increase in stockbuilding in 1968, although very conspicuous in certain countries, was by no means universal; it was not nearly so widespread as in the " boom " years of 1960 and 1964 when in most countries output was expanding with particular rapidity (see table 8). Moreover, it is not certain that stockbuilding has yet reached its peak. Thus in western Germany, the stock/output ratio at the end of 1968 was still low in relation to earlier years; a further increase in stocks in 1969 of the same order of magnitude as in 1968—which is what most authorities forecast—would not bring the stock/output ratio up to the levels reached in previous years of expansion. Throughout 1968, too, IFO-tests showed a continuously diminishing proportion of managements assessing their stocks as " too high ".

So far as they go, these indications do not suggest more than a moderate slowing down in the rate of expansion of western European imports in 1969.

[12] INSEE, *Etudes et Conjoncture*, Supplément No 1, 1969.

[13] The influence of stocks on imports cannot be measured simply by changes in the stocks of directly imported commodities; account must also be taken of the imports embodied in stocks of semi-finished goods.

TABLE 8

Imports, stockbuilding, and GNP growth

Country	*Percentage increase in merchandise imports (volume)*		*Ratio of increase in imports to increase in GNP c*			*Change in stockbuilding a as percentage of the increase in GNP*			
	1967	*1968 b*	*1952-1966*	*1967*	*1968*	*1960 d*	*1964 d*	*1967*	*1968*
Austria	1.4	13.6	2.0	0.6	3.4	44	18	−38	10
Belgium	2.2	16.9	2.3	0.6	3.8	−9	20	−34	16
Denmark	4.4	1.4	2.0	1.1	0.5	26	23	−16	..
Finland	—	−9.9	1.7	—	−5.0	15	77	15	−14
France	3.8	10.6	1.6	0.9	3.1	26	8	−5	−3
Western Germany	−2.3	18.6	2.0	−11.5	2.7	18	13	..	44
Ireland	5.1	11.7	2.7	1.2	2.4	−38	22	−24	42
Italy	12.1	4.5	2.1	2.0	0.9	17	−18	6	−16
Netherlands	6.2	11.9	2.0	1.1	2.2	31	27	5	1
Norway	8.1	5.6	1.9	1.4	1.6	2	10	−14	−14
Sweden	3.2	7.1	2.0	1.3	2.0	85	18	−72	11
Switzerland	5.0	7.9	2.1	2.6	2.2	40	3	—	..
United Kingdom	7.9	10.3	1.6	4.9	2.7	35	24	−57	21

Sources: National statistics and, for national accounts, as for table 1.

a The change in the change of stocks, in volume.
b January-September over corresponding period of previous year.
c Ratios of trends of imports in *value* against GNP in volume; they thus slightly overstate, for the most part, the ratio in volume.
d Representing years of especially fast growth of output in most countries.

(iii) Fixed investment

In no country was private enterprise investment a major element in the expansion of demand in 1968, and in several it declined. An increase of no more than moderate proportions is usual in the early stage of an upturn (like the more than average increases in productivity which are normal in this phase); the recovery of output is derived from fuller use of the existing capacity and labour force.[14]

Only in five countries was the increase in investment faster than the rise in GNP (France, western Germany, Ireland, Italy and the Netherlands); in the rest, investment rose, but less fast than GNP (Belgium, Sweden, Switzerland, and the United Kingdom), or actually declined (Austria, Denmark, Finland, Norway). The implication is that a much more substantial wave of new investment may be coming this year, for which evidence is beginning to appear.

Where the increase in investment was relatively strong (in relation to GNP) it appears, from partial evidence now available, to have owed more to public than to private investment. This is almost certainly true in *Italy*, where the increase in investment in machinery and equipment was only 4 per cent. The smallness of the increase in enterprise investment was a disappointment; earlier forecasts had pointed to a rise of around 15 per cent (as in 1967). The main reason is probably to be found in the slow growth—relatively to earlier years—in the economy generally. The efforts of the Italian authorities, over a number of years, to promote both house construction and public investment kept going the expansion of construction activity but did not result in the expected stimulus to industrial investment. In the *Netherlands*, too, the increase in enterprise investment was about 8 per cent while public investment rose about 13 per cent—largely in construction and public works where a selective programme had been set up to stimulate employment. In France and Ireland the investment expansion was more balanced between the public and private sectors. Investment activity in *France* appeared to have been buoyant before the May/June strikes and again in the autumn. Private investment increased in the year by about 5½ per cent and public investment, mainly in enterprises, by about 8 per cent—substantial increases in view of the disturbances to output. In *Ireland*, the expansion in both 1967 and 1968 was considerably assisted by the enlarged capital budget of the government. The extent of the rise in private capital expenditure in 1968 is unknown but may have been significant; there was a big increase in both output and imports of engineering products, together with a marked rise in bank advances.

In *western Germany*, the early stages of recovery—in the second half of 1967—had been stimulated by the emergency programmes for public capital expenditure as well as by accelerated depreciation allowances. The expansion of total investment continued in 1968 when private investment began to take up slack. But the increase in total fixed investment in 1968 did no more than recover its decline in 1967 and its level in 1968 was no greater than in 1965 (although total output was nearly 10 per cent bigger). It has, however, been rising strongly during the course of 1968, especially for machinery and equipment. Order books for capital goods continue to rise and present forecasts for 1969 suggest nearly a 10 per cent increase in total investment, with a big recovery in private industry. Such a development—which would be normal in the second year of recovery of output—has some importance for international capital flows. It is clear that the weakness of west German private investment in 1968—when profits were rising strongly with increasing output and wage increases were only moderate—contributed heavily to the liquidity position of the banks and represented an important ultimate source for the outflow of capital. If the expectations for a substantial increase in private investment this year (and also for a larger increase in wages) are realized, it is hardly likely that the liquidity position will remain so strong.

Percentage increase in fixed investment over previous year

	1968	*1969 projections*
Austria	−1.2	8.0
Belgium	2.5	5.0
Denmark [a]	−0.2	7.0
Finland	−6.2	13
France [b]	5.9	7.8
Western Germany	8.6	9.0
Ireland	11.0	8.9
Italy	8.5	..
Netherlands	8.5	5.0
Norway	−7.5 [c]	0.3 [c]
Sweden	1.5	4.0
Switzerland	2.4	..
United Kingdom	2.1	4.3

Source: table 1.

a "Gross-gross" concept.
b New series.
c Investment excluding ships rose 1.5 per cent in 1968 and is projected to rise by 3.0 per cent in 1969.

In the remaining countries, private investment was either stationary or declining, but in several public investment provided some support. Thus in *Austria*, in spite of the contingency budget introduced in 1967 for stimulating recovery (of which about half was spent) there was a decline, although small, in total investment. In *Belgium*, the modest rise in total investment was probably due mainly to public outlays. Investments by foreign enterprises, which have played an important part in Belgian industry in recent years, appear not to have increased in 1968.[15] In *Sweden*, also, private industrial investments declined (in fact more than expected); but public capital outlays rose strongly—indeed much more

[14] For a demonstration of this point in France and western Germany, see C. Goux, "Productivité et investissement", in *Revue d'Economie Politique*, September-October 1967.

[15] See Communauté économique européenne, *La situation économique de la Communauté*, Nos 3-4, 1968, p. 108, December 1968.

than was forecast. *Norway* showed a big decline in total investment (7½ per cent) after several years of rapid increase. The main reason was a decline in ship purchases; other investment rose slightly. There was, however, a big fall in manufacturing investment associated with the completion of some major projects, especially for base-metal production; it was the consequent increase in capacity that allowed the big rise in metal exports noted above.

In the devaluing countries, some increase in productive investment might have been expected from a switch of resources into exports or import substitution (as may have happened in Ireland). In fact, in both *Denmark* and *Finland* both total investment and private investment declined in 1968 (in Finland, the total had fallen in 1967 also). In the *United Kingdom*, an increase of 5 per cent was officially expected for 1968, but the increase in fact was only about 2 per cent; much of this expansion was in publicly-owned industries, whose capital programmes have now been reduced (especially the heavy programme for electricity). But investment in private manufacturing, which was very flat from early 1967, began to revive in the second half of 1968.

The national projections for 1969 at present available, based largely on surveys of intentions for private industry and on spending programmes for public investment, show that in nearly all countries a considerable expansion in investment is expected this year.

(iv) Private consumption

Increases in private consumption fell behind the rise in output in many countries; in France and Norway it rose at the same rate as output; only in Austria, Ireland and Sweden does it appear to have risen somewhat faster than output.

The increase in private consumption was particularly modest in *western Germany*—only 3½ per cent against a rise in GNP of 7 per cent. The main reason lies in the very moderate rise in wages and salaries. The rise of 4½ per cent in tariff wages in 1968 was in accordance with the " orientation data " proposed by the government to unions and managements at the beginning of the year;[16] these data were, however, based on an output projection of only about 4 per cent for 1968. Effective average earnings rose rather more—just under 6 per cent, but still below the overall productivity increase of 6½ per cent.[17] There was a small increase in total employment and a more substantial increase in household incomes from property and self-employment (7 per cent). But disposable household incomes (allowing for increased tax incidence and social security contributions) cannot have risen more than 6½ per cent, in real terms perhaps 4 per cent, implying some increase in the household savings ratio. Since GNP at current prices rose by 9 per cent there was clearly a substantial rise in the share of enterprise profits—a normal development in the early stages of output recovery. The situation changed somewhat during the course of the year, as wage demands became more insistent and wage-drift may also have reappeared in some sectors. There was some corresponding acceleration in the rate of increase of consumers' expenditure. Official projections envisage a significantly larger increase in average hourly earnings (7½ per cent), household incomes and consumption in 1969.

In *Italy*, too, the rise in wages and salaries in 1968 was particularly modest (hourly wage rates in manufacturing rose by 3½ per cent, which was probably, again, less than the rise in industrial productivity). The moderate development of consumers' incomes and expenditure (rising 4½ per cent in volume), together with some rise in the savings ratio without much support from investment or public consumption, explains the mediocre development of output; in Italy, unlike western Germany, other expansionary forces were insufficient to take up the full slack.

In *France*, it seems probable that the rate of increase in real consumption was slow in the early part of 1968. In the six months ending April 1968 the hourly wage rate index (in industry) had risen only 3 per cent and consumer prices rose more than 2 per cent. But the rapid expansion of the economy after the May-June strikes appears to have owed its main force to the increase in consumer spending. The rise in nominal wages and salaries (for instance, the rise of 13 per cent between April and October in hourly wage rates in industry) went far ahead of the rise in the index of consumer prices (5 per cent over the same period).

Special interest attaches to the experience in the devaluing countries, since the success of the operation must depend upon the restraint of expenditure which may compete with exports or import substitution. In all four countries concerned (Denmark, Finland, Ireland and the United Kingdom) the volume of exports indeed rose impressively, as has been shown; the obvious difference between them lay in the behaviour of consumption and imports. At the one extreme is *Ireland*, where there was no effective restriction of the rise in incomes and consumption;[18] real consumption, despite a rise of nearly 5 per cent in consumer prices, increased by about 5½ per cent (both agricultural incomes and non-agricultural employment incomes rose by 9-10 per cent). It was only in November 1968, when the rise in imports was endangering the balance of payments, that fiscal action was taken to check consumption. The main effects will be felt in 1969.

At the other extreme is *Denmark*, where an austerity programme was introduced after devaluation (the amount

[16] See the *Economic Survey of Europe in 1967*, chapter I, p. 20.

[17] See *Jahreswirtschaftsbericht 1969 der Bundesregierung*, p. 19.

[18] It is true that since so large a proportion of Irish trade is with the United Kingdom the effects of devaluation might not have been expected to be very great. But the marginal effects were in fact sufficient to worsen the trade balance.

of devaluation was smaller than in other countries), accentuating an already somewhat restrictive policy. The growth rate was slowed down. The increase in the wage/salary bill was no less than in previous years and average earnings continued to rise; consumer prices were 8 per cent up in the year as a whole but the increase would have been only 3½ per cent apart from the increases in indirect taxes. The rise in the volume of consumers' expenditure was small (provisionally estimated at 1.5 per cent).

In *Finland*, also (with its much heavier devaluation), a severely restrictive policy held down the growth of output (for a second consecutive year) to a mere 2 per cent. The rise in disposable household income (10½ per cent) was larger than in the year before but nearly all of it was absorbed, as in Denmark, by an 8 per cent increase in consumer prices. The rise in real consumption was about 1½ per cent, and the volume of imports was stabilized. It must, however, be pointed out that most of the rise in wages/salaries, as in consumer prices, occurred at the beginning of 1968 and was due in part to long-term agreements made earlier. Since the beginning of 1968 the increase in wages and prices has been quite small: a system of statutory control was introduced. Moreover, an important series of agreements has been arranged during 1968 to bring to an end the network of "price-indexing" arrangements (affecting not only wages but also a whole range of income and capital transactions) which has built a particularly powerful inflation multiplier into the Finnish economy during recent years.

Finally, the *United Kingdom* has seen a continuous series of policy measures—fiscal, monetary and incomes policy—designed chiefly to restrain the rise in private consumption for the benefit of the balance of payments. The net result in the year 1968 as a whole was a rise in real consumption of about 2½ per cent, distinctly less than the increase of 3½ per cent in GNP. The policy was designed to keep private consumption in 1968 about equal to its average 1967 level.[19] This aim was not achieved. Before effective restraints were imposed, there was a certain spurt of anticipatory buying (in the first quarter); this was checked by the budget in March. A further increase followed in the third quarter but again appears to have been checked by a second budget, which included severe credit restrictions, in November. Provisional estimates suggest that in the second half of 1968 real private consumption was about 2 per cent greater than in 1967, against a hoped-for reduction of half of one per cent. The greater rise in consumption was no doubt one reason for the unexpectedly large increase in imports (merchandise imports increased in volume by about 10 per cent against an expectation of little change). But it does not seem to have been the major reason.[20] Lying behind the rise in consumers' expenditure was an increase of about 7-8 per cent (from end-1967 to end-1968) in the wage and salary bill (with no increase in employment), while consumer prices rose about 6 per cent (of which about half was due to the series of indirect tax increases and while the other half was no greater than the effects of devaluation on import prices). Although the government continued to operate an extremely active incomes policy, at the cost of a considerable loss of goodwill among unions and managements, the resulting increase in earnings was far in excess of what had been hoped.[21] As will be shown below, however, the increases in manufacturing earnings were not significantly in excess of the exceptionally large (and probably temporary) increase in manufacturing productivity.

[19] As set out in the budget statement of March 1968 (*Financial Statement*, 1968-1969).

[20] Imports of food, drink and tobacco did not significantly increase in volume. There was a large increase in imports of manufactures but only a small part of it appears to have consisted of consumer goods.

[21] All pay and price increases still require to be approved by the government and a number have been postponed or modified as a result. The formal criterion for pay increases during most of 1968 was that increases should not be made unless they contribute to increased efficiency and should not exceed 3½ per cent (annual rate since the previous settlement) unless justified by marked contributions to increased productivity or other special circumstances. In fact, the increase in basic *wage rates* has been about 7 per cent (which may rather overstate the apparent difference from the 3½ per cent criterion because of changes in pay structures).

3. THE ROLE OF FISCAL POLICY

The purpose of the present Part is to give some account of the impact of fiscal or budgetary policies on short-term changes in output and demand. A summary of the general direction of government policies was given in Part 1 of this chapter. A calendar of the principal policy measures—covering monetary and other measures as well as government budgets—will be found on page 25.

A special feature of 1968 was the enforced flexibility of policy management in response to changing circumstances. For different reasons, several governments found it necessary to introduce supplementary measures in the course of the year. In France, a second budget was necessary in the summer, partly to absorb the budgetary consequences of the disturbances and partly to promote re-expansion; furthermore, the original and rather expansionary budget proposals for 1969 put forward in October had to be radically revised following the November crisis. In Ireland, a second and restrictive budget was necessary in November to restrain the impact of domestic demand expansion on the balance of payments. In Norway, in contrast, a second set of measures in the autumn was designed to stimulate a rather flagging growth. And in the United Kingdom a second budget after the November monetary crisis imposed further checks on the rising trend of domestic demand.

Method of fiscal analysis

An effort has been made to trace, in approximate quantitative terms, the impact of changes in taxation and public expenditure on the economy as a whole. For this purpose, we have adopted the general technique of budgetary analysis developed in detail in a special report of the OECD on the use of fiscal policy as an instrument for maintaining economic balance.[22] The analysis in that report was applied to the years 1955-1965. So far as the information permits, the same principles have been applied to estimating the impact of fiscal policy in 1967-1968, and, further, the impact of budgetary decisions already taken, or proposals put forward affecting the prospects for 1969.

The following are the essential features of the analysis:[23]

(*a*) The general object is to show the effect on GNP, expressed as a percentage of the previous year's GNP, *at current prices*, of *changes* from year to year in general government revenue and expenditure.

(*b*) For this purpose, data are needed of revenue and expenditure in national accounting terms, so as to separate receipts from direct taxes on households, direct taxes on enterprises, indirect taxes, and other sources (property income, etc.) on the revenue side; and on the expenditure side to separate expenditure on goods and services (current and capital), transfers to households, including debt interest and other expenditure (loans, subsidies—treated in this analysis as negative indirect taxes—overseas payments, etc.). Thus the analysis can be applied only to countries for which up-to-date information in these terms is available.

(*c*) For a full analysis, such information must cover the whole of the national accounting concept of " General Government " (i.e. Central Government, social security and regional and local authorities).

(*d*) An increase in the level of government expenditure on goods and services has a double impact on GNP: (i) the direct increase in total final expenditure; (ii) the indirect effect on private spending resulting from the additional private incomes generated (and *mutatis mutandis* for a reduction in public spending). A change in tax revenue or in transfer payments affects GNP only through its effect on private spending. The influences on private spending are subject to " leakages " which determine the size of the " multiplier ". For instance, part of a given change in taxes affects private saving, and part of a change in revenue or expenditure affects imports, thus not—except in a still more roundabout way—influencing GNP. The parameters determining the size of the multipliers have mostly been taken from the OECD study.[24] The assumption of a constant multiplier over time is admittedly unrealistic; in particular, variations in the " leakage " through imports may well be significant.

(*e*) It has not been possible to calculate the indirect effects of changes in taxation of *enterprises* (following the OECD study). It is recognized that such effects, e.g. on investment, may be of considerable importance. But no satisfactory way has been found of measuring them.

[22] OECD, " Fiscal policy for a balanced economy ", Paris, December 1968. This is a report of a group appointed by the OECD under the chairmanship first of Professor J. Zijlstra and later of Professor Walter Heller. Much of the statistical analysis is based on special studies by Professor Bent Hansen, to be published by OECD under the title " Fiscal Policy in Seven Countries, 1955/1965 ". The limited information available has not permitted so profound or accurate an analysis for the more recent period. Hence the results are in some respects not fully consistent with those given by OECD for 1955-1965.

[23] For more detail of the method, see OECD, *op. cit.*, especially Annex A, and the footnotes to table 9.

[24] For countries not included in the OECD study (Austria, Denmark, Finland, Netherlands and Norway), the indirect effects have been approximated, using so far as possible the same techniques as OECD.

(*f*) Changes in revenue and expenditure have been classified as " discretionary " (i.e. resulting from policy decisions) or as " automatic " (e.g. changes in private spending resulting from changes in the revenue yield at existing tax rates). The division is necessarily arbitrary. Changes in *rates of tax* (direct or indirect) are always treated as " discretionary " but it has been possible to identify them only for central government taxes.[25] On the expenditure side, all increases in the level of expenditure on the volume of goods and services are treated as " discretionary " (although it is recognized that governments cannot in fact always vary such expenditure at short notice). All other changes in revenue and expenditure are treated as " automatic ", including increases in expenditure due to rises in pay or prices and all changes in social security contributions and benefits and other transfers with minor exceptions. Although it is recognized that changes in the standard rates of, for example, social security contributions and benefits should in most cases be regarded as " discretionary ", it has not been possible to identify all of them.

Apart from the difficulties of identifying and measuring " discretionary " effects, the concept is itself somewhat ambiguous. The absence of " discretionary " action does not necessarily imply the absence of policy. A decision *not* to take any of the types of action classed as " discretionary " is itself an act of policy: for example, it may be believed that the automatic effects of the existing budget structure provide an adequate fiscal impact.

The summary results of this analysis, for those countries for which data are available, are shown in table 9 and are further condensed in the text table below.[26] The approximate nature of all the calculations must be heavily emphasized. But it is believed that this type of systematic approach provides a less misleading assessment of the economic impact of budgetary policy than a simple statement of changes in the budget balance or in total revenue and expenditure.

[25] Using the estimates normally given in budget statements of the effect on revenue of a new or changed tax as distinct from the changes in revenue that would result from maintaining the existing tax rates. In general, the impact of a discretionary change in tax rates has been spread over the 12 months following its enactment (having regard, however, where practicable to the system of assessment and collection). Thus the tax changes made at the end of 1968 are treated as having their major impact on GNP in 1969. However, indirect effects are, for the present purpose, treated as falling within the same calendar year as the direct effects.

[26] Very rough estimates for France, for Central Government operations only, are included in the text table, but sufficient data are not available for table 9.

Percentage change in GNP [a] over previous year

	At constant prices			*At current prices*					
	1967	*1968*	*1969*	*1967*		*1968*		*1969*	
				A	*B*	*A*	*B*	*A*	*B*
Austria	3.1	4.1	5.0	6.5	2.0	5.7	0.2	8.5	0
Denmark	3.9	3.6	5.5	9.6	2.4	10.0	−0.6	..	−0.7
Finland	2.0	2.0	6.0	8.4	−0.1	11.8	1.3	8	−0.9
France [b]	4.6	4.0	7.5	7.1	3.4 [b]	8.0	0.8 [b]	12	−1.7 [b]
Western Germany	0.2	7.0	4.5	0.6	2.5	8.9	−0.1	7	1.0
Netherlands . . .	5.5	5.5	4.5	10.0	0.8	9.6	0.1	10	−0.5
Norway	6.0	3.5	4.0	10.0	−0.4	7.1	1.2	7 *	−0
Sweden	2.1	3.5	4.0	7.2	2.5	6.7	2.5	6.5*	0.7
United Kingdom.	1.6	3.7	2.8	4.5	3.5	5.5	−0.3	7 *	−2.0

A = actual or (1969) forecast change in total GNP.
B = impact of fiscal policy on GNP.
a GNP on national definitions.
b Central Government only.

The fiscal impact in 1967/69

A certain uniformity of pattern emerges. In 1967, public finance was markedly expansionary in most of the countries studied (although not in Norway or Finland). The biggest effects were in France and the United Kingdom. In the United Kingdom, in spite of the efforts made to restrain growth of domestic demand, the additional budgetary impulse appears to have exceeded 3 per cent of GNP; the reason lies chiefly in the increased volume of public expenditure. But also in Austria, Denmark, western Germany and Sweden, the expansionary budgetary impact was as much as 2 to 2½ per cent of GNP. Moreover, the expansionary impact resulted in most countries from " discretionary " changes: generally, in fact, it derived from the rise in the volume of public expenditure, although largely offset in Denmark by increased taxes.

The picture for 1968 is very different. The impact of public finance switched from expansionary to restrictive (or neutral) in Austria, Denmark, western Germany, the Netherlands and the United Kingdom—most strikingly in the United Kingdom. The reasons were diverse. The faster rise in incomes brought into play an automatic restrictive effect by increasing the tax yield. In the United Kingdom, in addition, one main reason was discretionary increases in tax rates, both direct and indirect, but a considerable slowing down in the increase of the volume

of public expenditure was at least as important. In Austria, the stimulating effects of increased expenditure appear to have been offset by increased rates of indirect taxes required to finance the budget deficit. In France, the small net positive effect of public finance masks a substantial restrictive impact at the beginning of the year, followed by an expansionary impact after the May/June disturbances.

Only in Sweden was a strong expansionary impulse maintained in 1968 as in 1967, arising, in both years, from the increasing volume of public expenditure. In Finland, policy appears rather expansionary in 1968 after the restrictionary impact of the 1967 budget; but this ignores the continued effect of the increases in taxes on company profits in 1967 and of the export levy which accompanied devaluation. Norway, on the other hand, switched from restrictive to expansionary policy in 1968.

An important feature of the picture for 1969 is that although expansionary policy measures are important in all countries except France and the United Kingdom, automatic effects come fully into play with the expected rise in incomes. The result is to render the total impact of public finance negative or zero everywhere except in western Germany and Sweden.

The budget estimates and proposals put forward for 1969, together with the continuing effects of earlier tax changes,[27] appear to be more expansionary than in 1968 in western Germany where the expansionary impact may amount to about 1 per cent of GNP (against almost zero in 1968). The main reason is the planned acceleration in the growth of public expenditure, on transfer payments as well as on goods and services; this could more than offset a contractionary influence arising from the border tax changes made at the end of 1968.

[27] The estimates for 1969 are based on 1969 budget proposals, except for the United Kingdom, for which the 1969 estimates incorporate tax changes made in November 1968.

TABLE 9

The impact of public finance, 1967-1969

(Percentage of GNP in previous year at current market prices)

		Direct taxes on households	*Net indirect taxes*	*Expenditure on goods and services*				*Transfers to households*	*Total*	*Taxes on corporations (Direct impulse only)*
				Volume	*Price*	*Volume*	*Price*			
Austria										
Multiplier for total budget changes .		1.27	1.59	2.27		1.27		1.27	..	..
Multiplier for discretionary budget changes		0.80	1.00	1.72		..		..	..	..
Impact of total budget changes	1967	−2.0	−1.4		+3.7			+1.7	+2.0	+0
	1968	−1.1	−3.1		+2.6			+1.8	+0.2	0
	1969	−2.5	−2.4		+2.9			+2.1	0	−0.1
of which:										
Impact of discretionary budget changes	1967	+0.3	0		+1.1			..	+1.4	0
	1968	+0.6	−0.9		+1.0			..	+0.7	0
	1969	−0.3	−0.3		+0.9			..	+0.3	−0.2
Impact of automatic budget changes	1967	−2.3	−1.4		+2.6			+1.7	+0.6	+0
	1968	−1.7	−2.2		+1.6			+1.8	−0.5	0
	1969	−2.2	−2.1		+2.0			+2.1	−0.3	+0.1
Denmark										
Multiplier for total budget changes .		0.92	1.54	1.92		0.92		0.92	..	..
Multiplier for discretionary budget changes		0.59	0.98	1.44		..		..	..	..
Impact of total budget changes	1967	−2.0	−2.1		+4.2			+2.2	+2.4	+0.1
	1968	−3.3	−3.2		+3.4			+2.4	−0.6	−0.2
	1969	−2.4	−2.6		+4.2			+0.1	−0.7	−0.1
of which:										
Impact of discretionary budget changes	1967	+0.5	−1.1		+2.2			..	+1.5	..
	1968	0	−1.8		+1.4			..	−0.4	..
	1969	0	−0.9		+1.2			..	+0.4	..
Impact of automatic budget changes	1967	−2.5	−1.0		+2.0			+2.2	+0.9	..
	1968	−3.3	−1.4		+2.0			+2.9	−0.2	..
	1969	−2.4	−1.7		+3.0			+0.1	−1.1	..

TABLE 9 *(continued)*

The impact of public finance, 1967-1969

(Percentage of GNP in previous year at current market prices)

		Direct taxes on households	*Net indirect taxes*	*Expenditure on goods and services*		*Transfers to households*	*Total*	*Taxes on corporations (Direct impulse only)*
				Volume Price	*Valume Price*			
Finland								
Multiplier for total budget changes .		0.92	1.15	1.92	0.92	0.92	..	..
Multiplier for discretionary budget changes		0.72	0.89	1.64	..	..	..	..
Impact of total budget changes	1967	−2.2	−1.6	+2.4		+1.2	−0.1	−0.4
	1968	−1.7	−1.2	+2.9		+1.2	+1.3	−2.0
	1969	−1.1	−1.6	+1.2		+0.6	−0.9	+1.2
of which:								
Impact of discretionary budget changes	1967	−0.4	−1.1	+0.8		..	−0.7	−0.1
	1968	−0.1	−0.3	+0.8		..	+0.4	−1.9
	1969	0	+0	+0.5		..	+0.6	+1.7
Impact of automatic budget changes	1967	−1.8	−0.5	+1.6		+1.2	+0.6	−0.3
	1968	−1.6	−0.9	+2.1		+1.2	+0.9	−0.1
	1969	−1.1	−1.6	+0.7		+0.6	−1.5	−0.5
Western Germany								
Multiplier for total budget changes .		1.27	1.82	2.27	1.27	1.27	..	..
Multiplier for discretionary budget changes		0.80	1.14	1.66	..	..	..	..
Impact of total budget changes	1967	−0.5	−0.3	+1.3		+1.9	+2.5	−0.3
	1968	−2.4	−0.3	+1.8		+0.8	−0.1	−0.3
	1969	−2.0	−1.9	+3.6		+1.3	+1.0	−1.0
of which:								
Impact of discretionary budget changes	1967	−0.2	0	+0.5		..	+0.3	+0
	1968	−0.3	−0.6	+0.7		..	−0.2	+0.8
	1969	−0.2	+0.3	+1.9		..	+2.0	−1.1
Impact of automatic budget changes	1967	−0.3	−0.3	+0.8		+1.9	+2.2	−0.3
	1968	−2.1	+0.3	+1.1		+0.8	+0.1	−1.1
	1969	−1.8	−2.2	+1.7		+1.3	−1.0	+0.1
Netherlands								
Multiplier for total budget changes .		0.43	0.72	1.43	0.43	0.43	..	..
Multiplier for discretionary budget changes		0.31	0.52	1.25	..	..	..	..
Impact of total budget changes	1967	−1.6	−1.1	+2.7		+0.7	+0.8	−0.3
	1968	−1.4	−1.5	+2.0		+0.9	+0.1	−0.2
	1969	−1.6	−1.6	+1.8		+0.9	−0.5	−0.1
of which:								
Impact of discretionary budget changes	1967	+0.1	−0.2	+1.9		..	+1.8	..
	1968	+0.1	−0.5	+1.3		..	+0.9	..
	1969	+0.1	−0.3	+0.9		..	+0.7	..
Impact of automatic budget changes	1967	−1.7	−0.9	+0.8		+0.7	−1.0	..
	1968	−1.5	−1.0	+0.7		+0.9	−0.8	..
	1969	−1.7	−1.3	+0.9		+0.9	−1.2	..
Norway								
Multiplier for total budget changes .		0.72	1.03	1.72	0.72	0.72	..	..
Multiplier for discretionary budget changes		0.58	0.83	1.53	..	..	..	..
Impact of total budget changes	1967	−2.9	−1.1	+2.3		+1.3	−0.4	−0.2
	1968	−1.1	−0.9	+2.1		+1.1	+1.2	−0.1
	1969	−1.5	−1.2	+1.6		+1.1	−0	−0.2

TABLE 9 *(concluded)*

The impact of public finance, 1967-1969

(Percentage of GNP in previous year at current market prices)

		Direct taxes on households	Net indirect taxes	Expenditure on goods and services				Transfers to households	Total	Taxes on corporations (Direct impulse only)
				Volume	Price	Volume	Price			
of which:										
Impact of discretionary budget changes	1967	+0.1	−0.2		+1.4			..	+1.4	..
	1968	+0.1	−0.3		+1.3			..	+1.2	..
	1969	+0	+0.1		+1.1			..	+1.2	..
Impact of automatic budget changes	1967	−3.0	−0.9		+0.9			+1.3	−1.8	..
	1968	−1.2	−0.6		+0.8			+1.1	0	..
	1969	−1.5	−1.3		+0.5			+1.1	−1.2	..
Sweden										
Multiplier for total budget changes		0.92	1.15	1.92		0.92		0.92	..	..
Multiplier for discretionary budget changes		0.63	0.79	1.45		..		0.63	..	..
Impact of total budget changes	1967	−3.4	−0.9		+5.5			+1.3	+2.5	+0.2
	1968	−2.6	−1.1		+5.5			+0.7	+2.5	−0
	1969	−3.2	−0.5		+3.9			+0.6	+0.7	−0.1
of which:										
Impact of discretionary budget changes	1967	−0.1	−0.3		+3.0			+0	+2.7	..
	1968	−0.1	−0.5		+3.2			+0.2	+2.8	..
	1969	0	−0.2		+2.0			+0.2	+2.0	..
impact of automatic budget changes	1967	−3.3	−0.6		+2.5			+1.3	−0.2	..
	1968	−2.6	−0.6		+2.3			+0.5	−0.3	..
	1969	−3.2	−0.3		+1.9			+0.4	−1.3	..
United Kingdom										
Multiplier for total budget changes		0.96	1.41	1.96		0.96		0.96	..	..
Multiplier for discretionary budget changes		0.70	1.03	1.56		..		..	..	..
Impact of total budget changes	1967	−1.2	−1.2		+4.9			+1.0	+3.5	−1.1
	1968	−1.8	−2.7		+2.5			+1.7	−0.3	−0.4
	1969	−1.3	−1.8		+0.6			+0.5	−2.0	−0.2
of which:										
Impact of discretionary budget changes	1967	−0.1	−0.1		+3.2			..	+3.0	−0.1
	1968	−0.7	−1.0		+0.9			..	−0.8	−0.2
	1969	−0.2	−1.1		0			..	−1.2	−0.1
Impact of automatic budget changes	1967	−1.1	−1.1		+1.7			+1.0	+0.5	−1.0
	1968	−1.1	−1.7		+1.6			+1.7	+0.5	−0.2
	1969	−1.1	−0.7		+0.6			+0.5	−0.8	−0.1

For a general explanation and description of the model used, see OECD, *Fiscal Policy for a Balanced Economy*, December 1968, particularly Annex A. Direct taxes on households also include total contributions to social security. Net indirect taxes = indirect taxes — subsidies. Transfers to households also include domestic interest payments and—as a negative item—government income from property and entrepreneurship. The figures presented comprise both direct and indirect (multiplier) effects. *This does not apply to taxes on corporations:* here, only the direct impulse is presented and no account is taken of leakages and multiplier effects.

GNP figures in most cases have been taken from national sources and correspond to national definitions. The main sources for total budget changes and for discretionary measures are the publications listed below, but estimates of certain items are based on other national sources, in particular statistical publications. Further information on discretionary policy measures has been obtained from various national publications, from IMF, *International Financial News Survey*, Vols. XVIII, XIX and XX and other sources. For estimates of multipliers for those countries for which no estimates were made by the OECD, mainly United Nations national accounts have been used.

Austria: *Amtsbehelf zum Bundesfinanzgesetz*, 1968 and 1969.

Denmark: *Economic Survey of Denmark*, 1967, 1968 and 1969.

Finland: *Regeringens proposition till Riksdagen angående statsförslaget*, 1968 and 1969. Particularly the Annex, *Ekonomisk Årsöversikt*. Export levies included in taxes on corporations.

Western Germany: *Jahreswirtschaftsbericht 1969 der Bundesregierung. Jahresgutachten 1967* and *1968 des Sachverständigenrates*. Various issues of *Wirtschaft und Statistik*. Import levies included in indirect taxes, export levies in taxes on corporations. The whole effect of the second contingency budget of 1967 allotted to 1967.

Norway: *St. meld nr 1 Om nasjonalbudsjettet*, various issues. *Økonomisk utsyn øver året*, 1966, 1967 and 1968.

Sweden: *Preliminär Finansplan* and *Reviderad Finansplan*, particularly Appendix, *Nationalbudget*. Residential construction included in government investments. Release of private investment funds not included.

United Kingdom: *National income and expenditure, 1968. Financial statements*, 1966-67, 1967-68 and 1968-69.

The comments on France, included in the text but not in the tables, are based on figures of various issues of *Etudes et Conjoncture*, 1968 and *Le Monde*, 28 November 1968.

By contrast, in Finland automatic effects—especially a slower increase in pay and prices affecting public expenditure and transfer payments—may more than offset the expansionary discretionary effects, so as to render the total impact negative. In Norway, automatic effects of rising incomes on tax receipts may also reduce the expansionary impact, while in Sweden a slowing down in the volume of public expenditure is expected. A distinct deflationary impact is also expected in the Netherlands—partly due to indirect tax increases and a slowing down in expenditure.

In France, the original budget proposals for 1969 (put forward before November 1968) implied an expansionary impact of policy, although more than offset by automatic effects. So far as they can at present be calculated, the revised budget proposals imply a significant restrictionary effect—perhaps amounting to 1-2 per cent of GNP. Increases in indirect taxes in the United Kingdom, made in November 1968, will continue into 1969 the restrictive impact of the 1968 budget. Expenditure estimates already announced show a further slowing down in the increase of public expenditure (total public expenditure in real terms is planned to increase by only 1 per cent in 1969/70); proposals for tax changes will not be made until the budget, in March or April.

Some general features of fiscal policy

A few points of general applicability emerge from this analysis:

(*a*) The net effects of " discretionary " fiscal measures (bearing in mind the rather arbitrary definition) have been more often positive, or expansionary, than negative in their impact on GNP. Substantial negative effects are limited to Finland (1967, and the possible impact of taxes on enterprises in 1968), France (the present budget proposals for 1969) and the United Kingdom (1968 and 1969).

(*b*) The reason is that discretionary changes in tax rates have generally, in the period analysed, had a restrictionary effect, but a rather small one—in very few cases amounting to as much as 1 per cent of GNP. And it is noticeable that the larger discretionary tax changes have been in indirect, not direct, tax changes during the last two or three years. There has been a distinct tendency to use indirect taxes as an important instrument of management, possibly because of its quicker impact. On the other hand, changes in the *volume* of public expenditure on goods and services—treated here as " discretionary "—have in every case been increases; and the impact of these increases has in most cases exceeded 1 per cent of GNP a year.

(*c*) Among the countries investigated here, variations in taxes on enterprises have played an important role only in Finland, western Germany and the United Kingdom.[28]

(*d*) By contrast to the discretionary policy effects, the " automatic " fiscal effects have more often been restrictionary. In almost every case shown in table 9, the automatic effects of taxes have been negative (meaning that the actual yields have almost always increased, because private incomes and expenditure have always increased in money terms). But this restrictionary influence of tax systems as incomes grow is countered by the automatically expansionary effects of rising pay and prices in public expenditure and the common tendency of transfer payments to rise year by year.[29]

(*e*) An important element in the impact of fiscal changes is the size of the multipliers (given in table 9). The size of the multiplier within the OECD model depends upon (*a*) the marginal propensity to consume, (*b*) the marginal rates of taxation, and (*c*) the marginal propensity to import. Differences in the marginal propensity to consume and in marginal tax rates are of comparatively small importance; the big differences between the national multipliers arise from the marginal propensity to import. This is taken to vary from 0.15 in France to 0.4 or 0.5 in Finland, the Netherlands, Norway and Sweden. The larger propensities to import in the smaller and more import-dependent countries (representing a large " leakage " in the impact of fiscal change) is one reason for the rather small economic impact of fiscal policy on GNP in relation to the actual amount of the budgetary changes.

(*f*) Finally, it may be observed that the general pattern of fiscal changes in the period covered could be broadly described as " counter-cyclical ", in the sense that the big expansionary fiscal impacts mainly occurred in the years, and countries, of slowest growth (generally 1967), and the contractionary impacts when growth increased. It is, however, the automatic interaction between tax ratios and incomes that has been the main built-in stabilizer. This is not to say that the " counter-cyclical " fiscal impact has always been intended or required: it may be questioned, for example, whether the expansion of the volume of public expenditure in the United Kingdom in 1967 was appropriate at that time, when other policies were directed towards restraining demand; again, when a stimulatory policy might have been thought appropriate, as in western Germany in 1967, the ' discretionary ' action taken was in fact extremely modest, and the total fiscal impact, although expansionary, was almost wholly automatic.

It is clear that the last few years have seen a much wider appreciation of the possibilities, and also of the limitations, of fiscal policy as an instrument for short-term economic management. As knowledge and experience have accumulated, it has also become increasingly evident that the fiscal system is not a single instrument of policy but a diversified tool-kit; the component tools vary greatly in the size and nature of their impact on the economy and, equally important, in the speed with which they can get

[28] The enterprise taxes include not only taxes on business profits but also the Finnish export levies and the imposition of added value tax in western Germany.

[29] It is recognized that increases in transfer payments should in in reality be described as " discretionary " when increases in benefit rates are the cause.

the desired results. There is, therefore, a growing need for appreciating the importance of selectivity in their use.[30]

A calendar of economic policy measures in industrial western European countries: 1968-early 1969

Austria

Fiscal policy

January 1968: Half of contingency budget adopted in November 1967 released.

September 1968: Increase in tobacco tax; introduction of a 10 per cent tax on alcoholic beverages and new cars.

November 1968: Budget for 1969 presented. Previously expected deficit for 1969 cut by half.

January 1969: 10 per cent surcharge on wages, income and company taxes; 50 per cent surcharge on property tax implemented.

Belgium

Fiscal policy

January 1968: Abolition of additional profits tax for 1968. Increase in pensions from January 1968; increase in dependency allowance and unemployment benefit. Abandonment of temporary income-tax relief for 1968.

Recovery measures for public works, housing programme and easing of hire-purchase regulations (announced).

October 1968: Budget for 1969 proposed including a contingency budget. Restrictive tax measures and TVA postponed until January 1970.

Monetary and credit policy

March 1968: Official discount rate lowered from 4 to 3.75 per cent.

April 1968: Tighter hire-purchase regulations.

December 1968: Official discount rate increased from 3.75 to 4.5 per cent.

March 1969: Official discount rate increased from 4.5 to 5 per cent.

Denmark

Fiscal policy

February 1968: New budget proposals: TVA rate increased from 10 to 12.5 per cent from 1 April. Increased depreciation allowances on industrial and farm buildings.

November 1968: Budget for 1969 presented. Aims at reducing the rate of increase in government expenditure.

Monetary and credit policy

February 1968: Official discount rate lowered from 7.5 to 7 per cent.

May 1968: Easing of borrowing facilities for low-income housing and investment in agriculture and industrial construction.

June 1968: Official discount rate lowered from 7 to 6.5 per cent.

Price and incomes policy

February 1968: Price freeze on all goods and services until 1 November.

October 1968: Prolongation of prices and profits control in modified form when price freeze ended on 1 November 1968.

Finland

Fiscal policy

February 1968: Reduction of export levy, highest rate 12 per cent. Then further reductions in rates in August, December and January 1969, and abolition of the export levy in spring 1969.

October 1968: Budget for 1969. Lowering of corporate taxation rates. Small permanent export levy introduced (0.25 per cent).

Exchange control, etc.

January 1968: Increase in foreign currency travel allowance.

Monetary and credit policy

March 1968: Eased financing for industrial activity and housing. End of index-tied deposits and government bonds.

Price and incomes policy

April 1968: Stabilization programme introduced. Limits to increases in wages, rents and agricultural products. All other prices frozen at 15 March level. Abolition of most price-index clauses in contracts. Government undertakes not to raise taxes and to avoid supplementary budgets in 1969.

France

Fiscal policy

January 1968: First supplementary budget for 1968 with reductions in revenue and increases in transfer and investment expenditure.

August 1968 (and earlier): Second supplementary budget. Increase in direct taxes on households, increased consumption and transfer expenditure.

November 1968: Third supplementary budget for 1968. Budget 1969: increase in direct taxes on corporations, increase in TVA rate. Abolition of pay-roll tax and meat tax. Reduction in consumption and investment expenditure and in transfers to households and public enterprises.

Monetary and credit policy

April 1968: Hire-purchase regulations eased until June 1968.

June 1968: Special bank advances, partially state-guaranteed, for small- and medium-sized firms to meet expenditure caused by the wage increases.

Extension of export credits and subsidies for exports not covered by insurance against increased costs.

July 1968: Discount rate raised from 3.5 to 5 per cent.

November 1968: Discount rate raised from 5 to 6 per cent. Increases in banks' compulsory reserves and holdings of medium-term securities. Increase in bank credits limited.

December 1968: Further measures to check lending of commercial banks by means of various limits and reserve regulations.

Price and incomes policy

May/June 1968: Adoption of Grenelle agreement as a basis for subsequent discussions to determine pay increases, working hours and social benefits.

June 1968: Guideline for prices: 3 per cent rise until end of year allowed.

November 1968: Prices of services frozen at 20 November level.

December 1968: Minimum wages (SMIG) raised by 2.7 per cent.

Exchange control, etc.

May/June 1968: Exchange control re-established.

June 1968: Import quotas for certain products to be in force until end of year. Subsidies to stimulate exports.

July 1968: Exchange control tightened.

September 1968: Exchange control abolished.

November 1968: Import quotas on cars and tractors lifted. Export subsidy (6 per cent of the wage cost of exported goods) halved.

Exchange restrictions on non-commercial transactions re-established.

Western Germany

Fiscal policy

January 1968: TVA introduced at a rate of 10 per cent in general.

July 1968: Increase in TVA rate to 11 per cent.

[30] For a more profound and detailed assessment of fiscal policy, and of the ways in which it could be improved, see the OECD report to which reference has already been made: " Fiscal policy for a balanced economy ".

October 1968: The budget estimates for 1969 presented. No new measures.

November 1968: Charges on exports and tax relief for imports implemented.

January 1969: Decision to use additional tax revenue for increased spending, particularly by states and local governments.

Monetary and credit policy

November 1968: Increase in minimum reserve ratio for savings deposits. Measures against foreign bank deposits.

Ireland

Fiscal policy

April 1968: Budget for 1968/69 presented. Higher social benefits and increase in surtax allowance. Increased indirect taxes.

November 1968: Increased indirect taxes and wholesale tax; new hire-purchase restrictions.

Monetary and credit policy

May 1968: Central bank requests the banks to restrict increase in credits.

December 1968: Further request to banks to restrict credits.

Italy

Fiscal policy

July 1968: State budget for 1969 (calendar year) presented with moderate increases in deficit.

August 1968: Package of expansionary measures approved with a reduction in electricity rates, certain tax allowances on fixed investment, allocation of new funds for low-cost credit to enterprises, and a reduction in social security contributions for industrial enterprises operating in southern Italy.

January 1969: Increase in old-age pensions to a minor extent financed by an increase in tax on gasoline.

Netherlands

Fiscal policy

June 1968: TVA from 1 January 1969 approved. General rate to be 12 per cent.

September 1968: Budget proposal for 1969: basic income-tax allowance for lower-income groups raised as compensation for TVA. Excise duty on tobacco and postal rates raised.

January 1969: Restrictive measures announced: investment allowances to be reduced by 50 per cent, strengthening of hire-purchase rules, cuts in expenditure and increase in certain consumer taxes.

Price and incomes policy

January 1968: General wage control abolished but Government retains power to veto specific increases.

Monetary and credit policy

December 1968: Official discount rate increased from 4.5 to 5 per cent. Quantitative restrictions on bank lending imposed.

Norway

Fiscal policy

October 1968: Budget for 1969 presented. Liberalization of income-tax allowances, easing of progression, and increases in indirect taxes. Levying of foreign-aid tax. Reimbursements of sales tax on dwellings.

December 1968: Special tax on motor-vehicles raised.

Sweden

Fiscal policy

January 1968: Motor-vehicle tax increased by 50 per cent. Budget for 1968/69: 10 per cent tax-free allowance for investment in machinery 1968 (in connexion with transition to TVA 1969) and increase in indirect taxes from February.

February 1968: Supplementary budgets for employment creation and education approved.

March 1968: Acceleration of government orders to industry and public building.

April 1968: Increase in housing and other building starts 1968 decided on. The period allowed for use of investment funds extended.

January 1969: Budget for 1969/70. Somewhat less expansionary design than previous year. No substantial tax increases. TVA system introduced.

Monetary and credit policy

January 1968: Some 2 per cent of bank deposits in the Riksbank frozen on non-interest accounts.

February 1968: Official discount rate lowered from 6 to 5.5 per cent.

October 1968: Official discount rate lowered from 5.5 to 5 per cent.

February 1969: Official discount rate increased from 5 to 6 per cent.

Switzerland

Fiscal policy

April 1968: Special petrol levy raised by 1 centime to the permissible maximum of 15 centimes per litre.

October 1968: Budget proposal for 1969 with some increase in the deficit.

November 1968: Railway tariffs raised by 11 per cent for passengers and 6-7 per cent for goods.

Monetary and credit policy

December 1967: Remainder of blocked giro accounts of commercial banks released.

United Kingdom

Fiscal policy

January 1968: Measures to reduce public expenditure and to increase taxes announced, to take effect during two financial years.

March 1968: Budget for 1969. Allowances for income tax purposes to be reduced, increase in corporation taxes, special charge on individual investment income. Rates of certain indirect taxes increased. Selective employment tax raised from September 1968.

Economies in defence expenditure, introduction of a National Health prescription charge, increase in health insurance contributions.

Approvals for new local authority houses reduced, road expenditures and assistance to public transport reduced.

November 1968: New policy package; increase of 10 per cent on most indirect taxes, temporary import deposit scheme introduced.

December 1968: Terms of deposit scheme tightened: importers may not pay interest to foreign lenders.

Monetary and credit policy

March 1968: Bank rate lowered from 8 to 7.5 per cent.

May 1968: Credit conditions tightened, bank lending limited to 4 per cent above November 1967.

September 1968: Bank rate lowered from 7.5 to 7 per cent.

November 1968: Terms for hire-purchase and rental contracts tightened. Ceilings for bank lending lowered, 2 per cent reduction required by March (with certain exceptions).

February 1969: Bank rate increased from 7 to 8 per cent.

Price and incomes policy

March 1968: Incomes policy: no increase in wages unless justified by special factors. Maximum increase in all forms of remuneration to 3.5 per cent, unless exceptional productivity increases. Government approval of pay and price increases maintained.

Exchange control, etc.

October 1968: New exchange control measures.

4. EMPLOYMENT, LABOUR PRODUCTIVITY AND PRICES

The year 1968 has seen in most countries (but not in all) rather small increases in wages and prices. Conforming rather closely to the standard pattern of a cyclical upturn, labour productivity increased strongly in the re-expanding countries. Between 1967 and 1968 (taking average figures for the two years) unemployment rose and total employment was either virtually stable or actually declined. But in the second half of 1968, unemployment started to fall and employment, as far as can be judged from the fragmentary data available, showed a clear tendency to

TABLE 10

Employment and unemployment

(Change over previous year in thousands)

Country and year		Change in: Employment	Unemployment	Active population
Austria	1962	−2	1	−1
	1963	−12	6	−6
	1964	5	−5	—
	1965	−3	—	−3
	1966	−6	−4	−10
	1967	−48	3	−45
	1968	−38	6	−32
Total in 1968		*3 198*	*71*	*3 269*
Belgium	1967	−15	24	9
	1968	..	18	..
Total in 1968		..	*103*	..
Denmark	1967	..	4	..
	1968	..	17	..
Total in 1968		..	*39*	..
Finland[a]	1962	25	1	26
	1963	−12	5	−7
	1964	25	—	25
	1965	18	−2	16
	1966	9	4	13
	1967	−34	28	−6
	1968	−38	27	−11
Total in 1968		*2 108*	*90*	*2 198*
France	1967	54	49	103
	1968	—	59	59
Total in 1968		*20 145**	*255*	*20 400**
Western Germany	1962	192	−27	165
	1963	97	32	129
	1964	99	−17	82
	1965	174	−22	152
	1966	−71	14	−57
	1967	−790	298	−492
	1968	20	−136	−116
Total in 1968		*26 312*	*323*	*26 635*
Ireland	1967	−3	4	1
	1968	..	1	..
Total in 1968		..	*37*	..
Italy	1967	223	−80	143
	1968	−38	5	−33
Total in 1968		*19 069*	*694*	*19 763*
Netherlands[a]	1962	87	−2	85
	1963	58	1	59
	1964	79	−4	75
	1965	49	5	54
	1966	43	10	53
	1967	−26	41	15
	1968	27	−5	22
Total in 1968		*4 560*	*81*	*4 641*
Norway[a]	1967	18	—	18
	1968	3	5	8
Total in 1968		*1 548*	*16*	*1 564*
Sweden	1967	−51	26	−25
	1968	53	−1	52
Total in 1968		*3 782*	*86*	*3 868*
United Kingdom[b]	1962	156	117	273
	1963	3	89	92
	1964	274	−144	130
	1965	242	−47	195
	1966	137	−17	120
	1967	−404	213	−192
	1968	−200	40	−158
Total in 1968		*24 726*	*506*	*25 233*

Sources: OECD, *Labour force statistics 1956-1966, Main economic indicators*; and national statistics.

[a] Thousands of man-years. [b] Excluding Northern Ireland; changes from June of previous year. Total in 1968 refers to June.

increase. These developments, again, conform rather closely to expectation; it is normal that at the beginning of a cyclical upturn expanding production should be based on fuller use of the existing capital stock and of the already employed labour force. In 1968, non-labour incomes (or gross profits) in the enterprise sector rose more than labour incomes in the majority of countries here examined.

Unemployment

Taking annual averages, unemployment rose between 1967 and 1968 in nine out of the twelve countries examined in this chapter (table 10). It declined only in western Germany and the Netherlands—the two countries exhibiting the highest rate of growth of output. It remained negligible in Switzerland, where there was no significant increase in the number of foreign workers.

Changes in open or recorded unemployment reflect only in part the changes in the level of employment.[31] Hence the real impact of a change in the demand for labour can be measured only when account is also taken of withdrawals from, or accessions to, the total active population. There are at least five countries where considerable short-term deviations from the general trend of the active population—which is principally determined by demographic factors, migration, and the long-term tendencies in participation rates—may be regarded as indicating significant changes in the amount of unrecorded, or concealed, unemployment during recent years. These countries are Austria, Finland, western Germany, the Netherlands and the United Kingdom, for which the point is demonstrated in table 10 by the annual variations in the active population during the years 1962-1968.

In these five countries the rise in open unemployment in 1967, when the trend of output had slowed down, accounted for only a part of the decline in employment: less than one-tenth in Austria, little more than one-third in western Germany, about one-half in the United Kingdom and about 80 per cent in Finland.[32]

In all four countries, the rest of the decline in employment was reflected in marked downward deviations from the trend of active population, implying substantial cyclical withdrawals from the active population—for example, earlier retirements, failure of potential young entrants to find work, unregistered unemployment, or, in western Germany and the United Kingdom, cessation of the inward flow of migrants. The rate of withdrawal from the active population diminished in 1968, in western Germany where the level of employment stabilized, and in the United Kingdom where employment declined less rapidly, but it continued in Austria and Finland. In western Germany, changes in the net inflow of foreign workers have greatly contributed to smoothing the demand for German labour, as the following figures show:

Western Germany, change in the active population

(Thousands)

	Total	of which: West Germans	Others
1962	165	6	159
1963	129	−4	133
1964	82	−60	142
1965	152	−63	215
1966	−57	−157	100
1967	−492	−250	−242
1968	−128	−135	7

The development in the Netherlands was different only in detail. Demographic factors normally produce a substantial annual increase in the active population. In 1967, and 1968, the increase occurred but on a much smaller scale than normal; the reversal in 1968 of the downward trend in employment stemmed the rise in open unemployment but the increase in active population was still much less than normal.

At least in these five countries, it appears that the average recorded unemployment level of 1968 must understate by a large margin the labour reserve likely to be available for later expansion.[33]

Employment and productivity

The examination of changes in output per man and per man-hour is here restricted to the manufacturing sector: not only because manufacturing industry can be regarded as the " motor " of the whole economy but also because of the doubtful significance, for many purposes, of the concept of " productivity " for the economy as a whole.[34]

[31] See, for instance, the SURVEY for 1967, chapter I, pp. 45 ff.

[32] The different relationships between changes in recorded unemployment and in employment are also affected by the methods of recording both variables.

[33] One estimate suggested that there was an " effective labour reserve " of 450 000 in 1968 in western Germany, excluding a reasonable allowance for frictional unemployment and for those considered not readily employable for lack of skill. See *Institut für Arbeitsmarkt- und Berufsforschung Erlangen, Mitteilungen*, n. 4, October 1968. To this might be added a continued net shift of around 100,000 a year from agriculture. Even without any net immigration, the " reserve " appears to represent 2-3 years increase in non-agricultural employment at the 1961-1965 rate (275,000 a year).

[34] Calculations of " labour productivity " yield substantially different results according to the statistical series used. For instance, for manufacturing industry, one or another combination of the following statistical series is often used for calculation of productivity changes.

A. *For output:*

1. Value added in constant prices at factor cost, as given in national accounts; or

2. Short-period indices of production generally based on less comprehensive data than A.1.

B. *For employment:*

1. Total employed labour force, whatever the status of the person engaged (wage-earners, salary-earners, self-employers, employers, unpaid family helpers, but excluding unemployed); or

2. Total wage- and salary-earners; or

3. Wage- and salary-earners excluding handicrafts and small enterprises; e.g. enterprises with less than 4, or 5 or 10 employees according to the countries (this is the series perhaps most widely used for several countries); or

Annual percentage changes in manufacturing output and in manufacturing employment are shown in chart 1 for thirteen industrial western European countries for the period 1957 to 1968. The chart brings to light the following major points:

(i) a close association between annual rates of change in output and in productivity. Higher rates of growth of output than the trend rate are nearly always associated with higher than average rates of growth of labour productivity;

(ii) the cyclical behaviour of productivity changes. The beginning of a cyclical upturn appears to be the most favourable period for productivity growth. After the initial phase of an upturn, labour productivity continues to grow, but the growth rate slows down. The phase of weakest productivity growth generally coincides with the beginning of a recession (or with a marked slowing-down in output). If, however, the period of decline in output continues for a sufficiently long period, output per man starts to increase again. But the productivity growth in periods of recession always remains well below the level reached in periods of rapid expansion. Part of the reason for this " cyclical " pattern lies in the usual time lag between a change in growth of output and a corresponding change in employment (investigated further below); part lies in the fact that faster growth of output is more conducive to fuller use of labour and to improvements in techniques and organization.

In most western European countries, during the years 1957-1968, the most rapid increases in productivity took place in 1959, 1960, 1964 and 1968, that is at the upturn of the cycle. In 1962 and 1963, when output growth decelerated, productivity growth decelerated even more. The year 1964 saw in most countries a revival in output and a similar revival in productivity growth. Output decelerated in 1965, 1966 and 1967. In 1967 there was an actual decline in some countries. Yet the worst year for productivity growth was not 1967 but rather 1965 or 1966. These developments confirm the tendency for productivity growth to decelerate most at *the beginning* of a period of a slowing-down, when employers have not yet adjusted employment to the new market conditions.

However, in 1968, the increase in output per man appears to have been particularly large, although the output expansion, with a few exceptions, was not exceptionally fast. In Austria, western Germany, Ireland and Sweden output per man rose in 1968 more than in any other year since 1957, and in Belgium, the Netherlands and the United Kingdom it rose as much (or almost as much) as in any other year. Only in western Germany and Ireland was the output expansion remarkably fast. The productivity advance was much more modest in Italy and Norway, where the output expansion was not only moderate in 1968 but did not represent any acceleration over the previous year.[35]

No attempt is made here to assess the contributions of the various manufacturing branches to the overall productivity increase in industry. Reference may, however, be made to table 4 (see Part I of this chapter). For some industrial branches, the table confirms the usual close relations between changes in output and in productivity; but other branches—for example the food, drink and tobacco industry and metal-making—sometimes exhibit a strong productivity increase even in years of slow growth. This suggests, although further investigation is required, that structural and technological factors have been playing a particularly prominent role in productivity changes in these (and, possibly, other) industrial branches.

(iii) The chart also conveys the impression of an " autonomous " productivity increase—an increase, that is, that occurs even when output stagnates. A regression of the annual percentage changes in annual output per man on annual percentage change in output gives the following results for (*a*) the " autonomous " productivity increase and (*b*) for the elasticity of productivity in respect of output changes (i.e. the percentage increase in productivity associated with 1 per cent additional increase in output).[36] The value of the two parameters is given below for nine countries exhibiting a reasonably high correlation coefficient.[37] The text-table also shows: (*c*) the average level of output increase which is associated

	Autonomous productivity increases	*Elasticity of productivity in respect of output*	*Growth of output associated with constant employment*	*Growth of output 1957 to 1968*
	Per cent per year		*Per cent per year*	
Austria	1.21	0.72	4.32	4.5
Belgium	1.48	0.69	4.77	5.2
Finland	2.18	0.37	3.46	5.2
Western Germany	1.79	0.59	4.36	6.3
Ireland	0.64	0.55	1.42	6.3
Italy	2.28	0.44	4.07	7.6
Netherlands	1.27	0.64	3.53	6.1
Norway	0.53	0.70	1.77	4.5
United Kingdom	1.03	0.65	2.94	3.1

4. Wage-earners only (often with the restrictive coverage of B.3); or

5. Man-hours worked for wage-earners. Hours worked by salary-earners are available only for western Germany.

In this part of the chapter two estimates of labour productivity are given:

First: Value added in manufacturing has been compared with employed labour force for the period 1957 to 1968. (Chart 1.) However, for 1968, the index of manufacturing output has been taken since the value added figure is not yet available.

Second: Man-hours worked by wage-earners have been compared with the index of industrial production for 1967 and 1968 (text-table p. 32) since over a *short* period the ratio of wage-earners to salary-earners may not change much, and up-to-date figures of employment and hours of wage-earners only are generally more easily available.

It should be noted that employment, man-hours and output may not always refer to precisely the same time period.

[35] A word of caution is necessary when comparing 1968 and the previous years. For previous years, manufacturing output has been measured for most countries by the value added at constant prices; for 1968 by the index number of industrial production.

[36] The " autonomous " productivity increase is the constant in the equation relating annual changes in labour productivity to annual changes in output.

[37] Denmark, France, Sweden and Switzerland have been left out because the correlation coefficient was too low. For the other countries, the correlation coefficient is as follows: Austria, 0.80; Belgium, 0.82; western Germany, 0.88, Ireland, 0.79; Italy, 0.63; Netherlands, 0.80; Finland, 0.83; Norway, 0.90; United Kingdom, 0.80.

CHART 1

Manufacturing output, employment and output per man, 1958 to 1968

(Percentage changes over previous year)

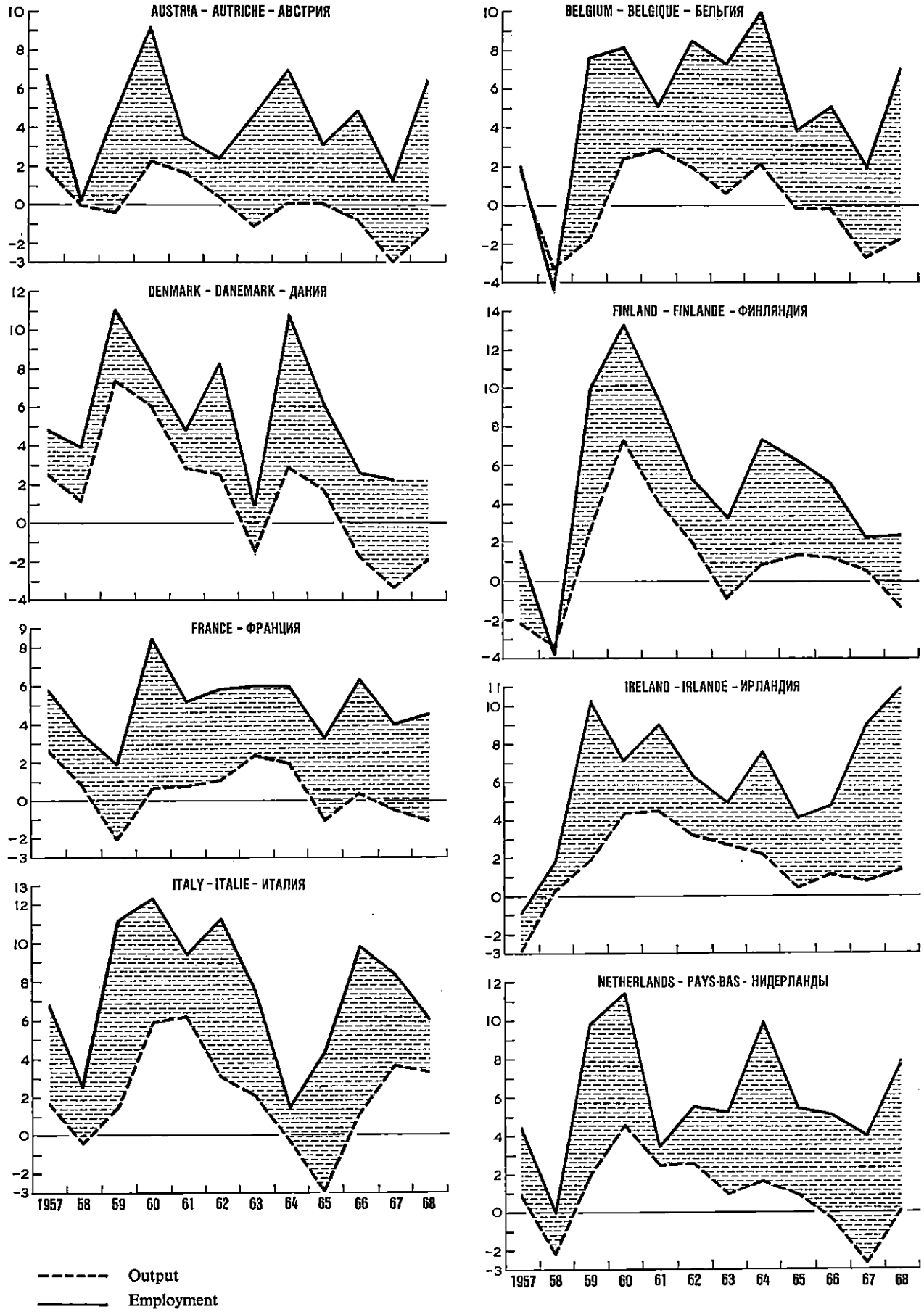
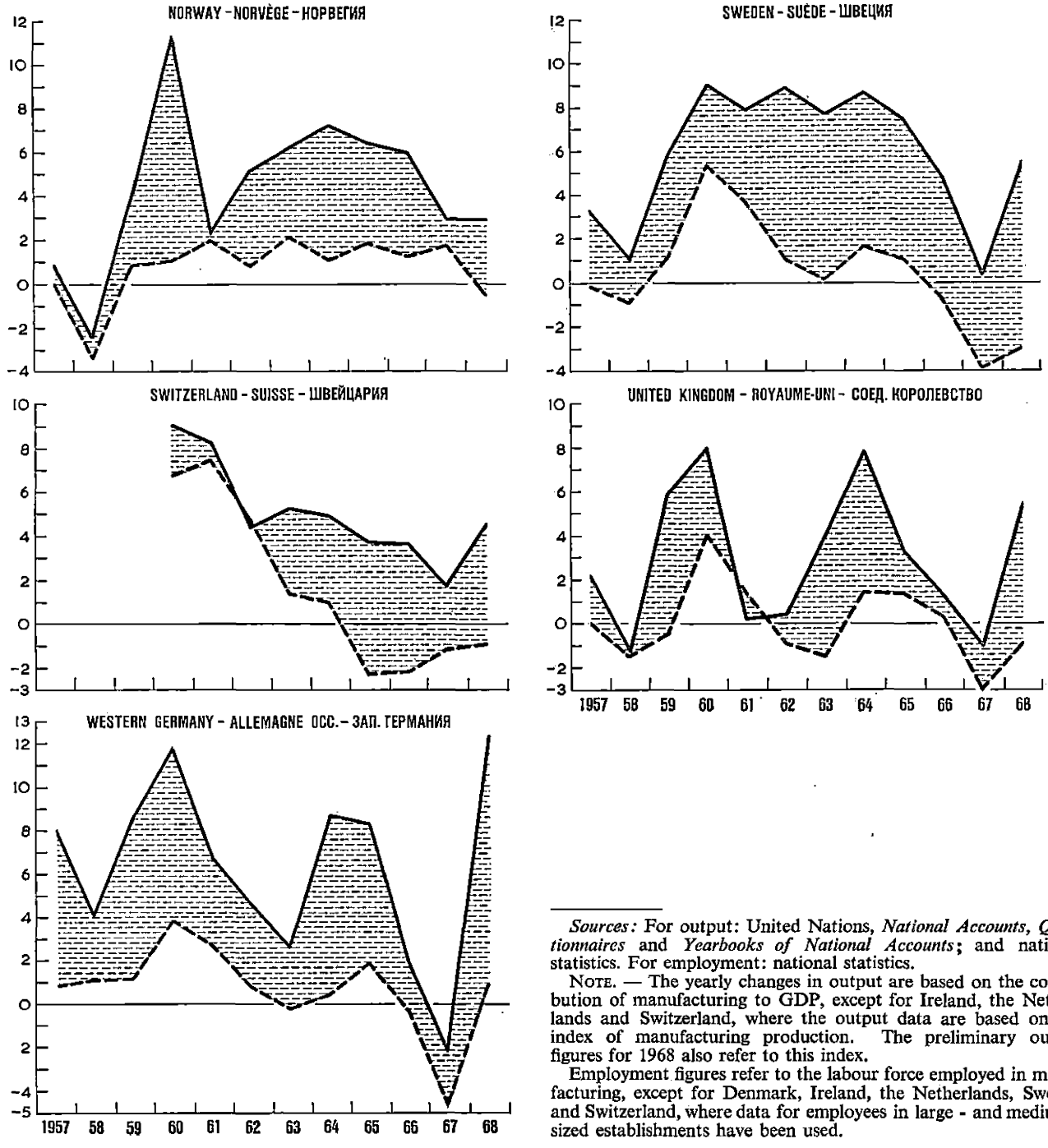


CHART 1 *(continued)*

Manufacturing output, employment and output per man, 1958 to 1968

(Percentage changes over previous year)



Sources: For output: United Nations, *National Accounts, Questionnaires* and *Yearbooks of National Accounts*; and national statistics. For employment: national statistics.

NOTE. — The yearly changes in output are based on the contribution of manufacturing to GDP, except for Ireland, the Netherlands and Switzerland, where the output data are based on the index of manufacturing production. The preliminary output figures for 1968 also refer to this index.

Employment figures refer to the labour force employed in manufacturing, except for Denmark, Ireland, the Netherlands, Sweden and Switzerland, where data for employees in large - and medium - sized establishments have been used.

with no change in employment, and (*d*) the average rate of growth of manufacturing output in the period 1957 to 1968.

It has been seen that output per man in manufacturing rose strongly in 1968 in most countries. The general pattern is not altered if the increase in output is compared with man-hours (for wage-earners). The differences between the two series of productivity are not of the same order of magnitude or in the same direction for all countries. However, broadly speaking, output per man-hour rose more than annual output per man in 1967 and somewhat less in 1968. This is because man-hours fell steeply in most countries in 1967 while they fell less (or rose more) than employment, in 1968.

Percentage changes in man-hours worked and in output per man-hour (for wage-earners) in manufacturing in 1967 and 1968 are given in the following text-table:

	Man-hours worked by wage-earners		*Output per man-hour a*	
	1967	*1968*	*1967*	*1968*
Austria [b]	−5.4	−1.9	5.7	8.5
Belgium	−4.6	−2.2	6.7	9.4
Denmark	−4.6	−4.7	7.9	. .
Finland	−5.1	−1.7	8.0	5.3
France	−2.2	−3.0	5.3	5.9
Western Germany	−9.4	2.4	8.1	9.0
Ireland [b]	0.4	1.5	8.8	9.4
Italy	4.8	2.0	3.3	4.1
Netherlands . . .	−5.1	−1.1	9.7	8.3
Norway.	−1.0	−0.3	4.8	3.7
Sweden	−5.8	−1.9	8.1	7.5
Switzerland . . .	−1.4	−1.0	3.2	5.6
United Kingdom.	−5.0	−1.7	4.2	7.2

Sources: OECD, *Main Economic Indicators — Supplement, Industrial Production*; and national statistics.

NOTE. — For Austria and western Germany, the series of output per man-hour have been taken directly from national publications, and the figures for man-hours worked have been obtained by dividing the change in output by the change in output per man-hour.

For the other countries the series of man-hours have been taken from national sources, while those for output per man-hour have been derived.

Where data for 1968 are not available, the series of man-hours worked have been calculated by multiplying the change in employment by the change in average hours worked per man.

a For wage-earners.
b Including mining.

A question deserving closer scrutiny concerns the time-lags between variations in output and in employment, which are not revealed by annual data. Some light on the lags between variations in output and those in different measures of labour input is thrown by chart 2 (referring, again, only to manufacturing); the relevant data could be found for ten countries.

On the chart, the following quarterly index numbers (1963 = 100), seasonally adjusted, have been plotted: (i) manufacturing production; (ii) employment in manufacturing, for wage- and salary-earners, and for wage-earners separately; (iii) total man-hours worked by wage-earners only.

The chart also shows quarterly figures for manufacturing output as deviations from the trend. This device has been adopted simply to facilitate comparisons between output and employment changes. The chart brings to light the following major points:

(i) In seven out of the ten countries shown in the chart, there has been a net decline in manufacturing employment between 1963 and 1968. The major exception is Norway, where there was no sizeable and lasting deceleration in industrial output growth between 1963 and 1968. But even in Norway, employment of wage- and salary-earners ceased to increase after 1966, when manufacturing output lost its previous impetus. In western Germany and Italy (in Italy the major cyclical downturn occurred in 1964) industrial employment regained the peak level of 1963 only in 1968.

(ii) The three curves showing, respectively, wage- and salary-earners taken together, wage-earners only, and man-hours worked display a similar picture in all countries; man-hours exhibit the biggest decline, and employment for wage- and salary-earners taken together, the smallest one. Undoubtedly, the relationship between these curves reflects structural as well as cyclical factors. The deeper fall in employment for wage-earners than for salary-earners partly reflects the gradual shift in the composition of employment: the share of salary-earners shows a gradual (but slow) tendency to increase. Similarly, the fall in the number of hours worked reflects a trend reduction in the length of the working week. But the cyclical component of the variations displayed by the chart seems prominent in the majority of countries. First, the gap between the curve of wage-earners and that of man-hours is biggest in the trough of the recession (generally 1967). Second, where cyclical variations in output have been relatively mild—as in France (disregarding 1968) and Switzerland—the two curves move very much in parallel. Third, a vigorous process of recovery, as in western Germany in 1968, brings up the curve of man-hours worked faster than that of wage-earners employed, as average hours worked increase.

(iii) A decline in employment of wage- and salary-earners, and of wage-earners taken separately, started towards the end of 1964 or in the course of 1965, according to country. It was associated with a decline in labour productivity as output growth decelerated. The decline in man-hours worked started, in general, about one-quarter before the decline in employment, and it was much steeper.

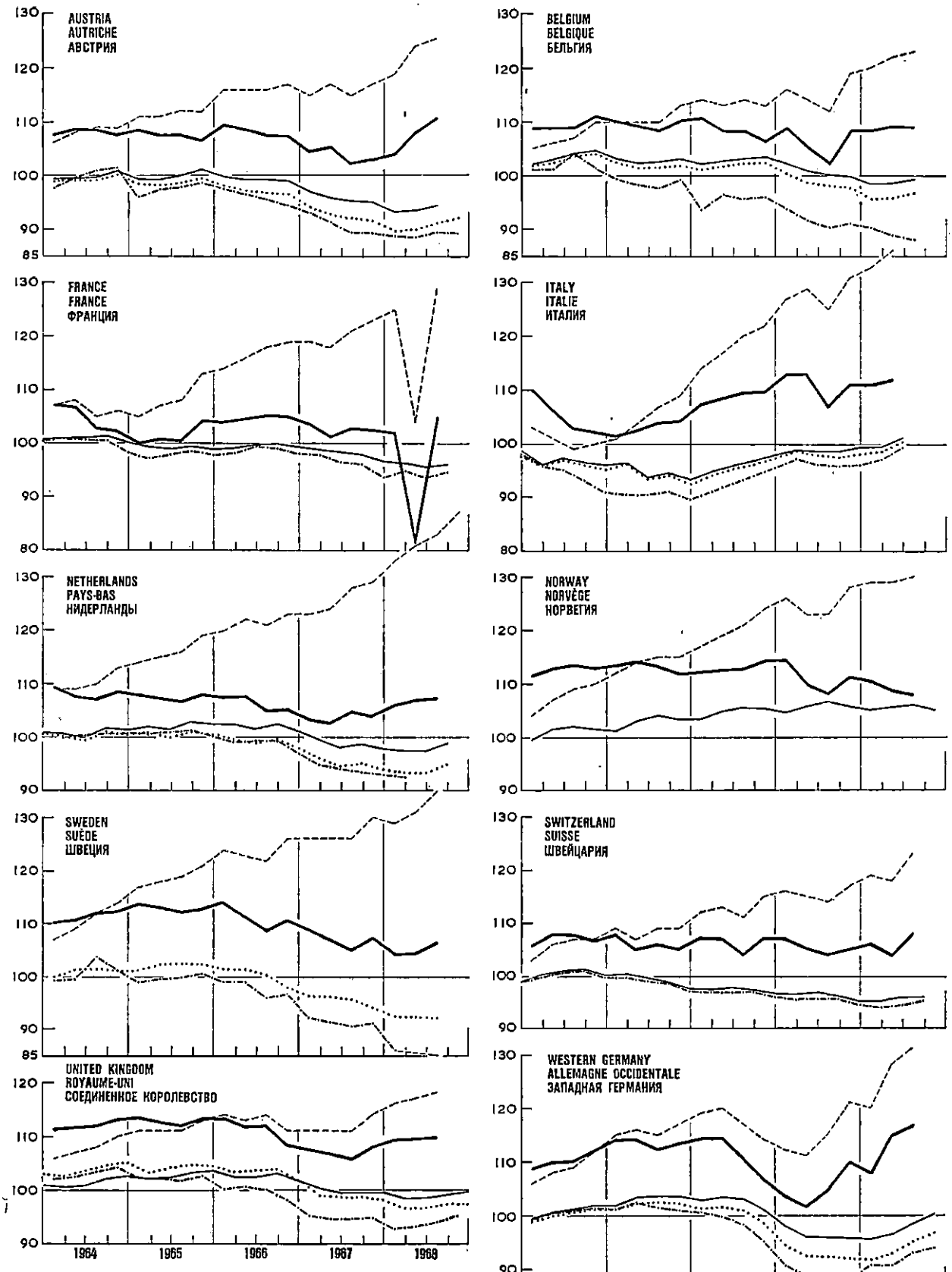
(iv) The recovery, or acceleration, in output was followed only with a certain time-lag by an increase in employment of wage-earners, and of wage- and salary-earners taken together; thus " productivity " rose strongly. The following figures, derived from the chart, show for each country the quarter when industrial output started to re-expand (or to accelerate its expansion) and the quarter when employment started to increase again. The time-lag is between 6 and 12 months according to country.

	Revival in output	*Increase in employment*	*Time-lag*
Austria	IV quarter 1967	II quarter 1968	two quarters
Belgium	IV quarter 1967	III quarter 1968	three quarters
France	III quarter 1967	III quarter 1968	one year
Italy	II quarter 1965	I quarter 1966	three quarters
Western Germany	III quarter 1967	II quarter 1968	three quarters
Netherlands . . .	III quarter 1967	III quarter 1968	one year
Sweden	II quarter 1968	not yet	
Switzerland . . .	IV quarter 1967	II quarter 1968	two quarters
United Kingdom.	IV quarter 1967	III quarter 1968	three quarters

CHART 2

Output and employment in manufacturing

(Quarterly index numbers, 1963 = 100)



------ Output, seasonally corrected

——— Output, seasonally corrected: deviations from the 1963-1967 trend

——— Wage and salary earners employed

..... Wage earners employed

_._._. Man-hours worked, seasonally corrected

Sources: OECD, *Main Economic Indicators, Quarterly Supplement*; and national statistics.

(v) In western Germany, working hours started to increase about one-quarter before the revival of employment. In most other countries, the periods of re-expansion for employment and for man-hours seem virtually to coincide; and, except in a few countries, they rose *pari passu*. In 1967, by contrast, hours worked dropped more than employment. In 1968 man-hours worked declined considerably only in Belgium and Sweden (because of a statutory reduction in the working week).

Costs and prices

The major developments in wages, other incomes and prices in 1968 have already been examined in Part 2 of this chapter, in connexion with the development of household consumption. Only a few additional features will be brought out here.

On the whole, hourly earnings in manufacturing rose rather moderately in 1968 (table 11); and the wage and salary bill rose even less in most countries because of the dampening effect of a reduction in hours worked. But there are substantial differences between countries.

Hourly earnings in manufacturing rose considerably, in 1968, only in Finland, France and Denmark. In *Finland* wage rates had already risen rapidly in 1967 and were further increased by almost 6 per cent at the beginning of 1968 in accordance with the long-term collective agreements for the period 1966 to 1968. However, in March 1968 a series of stabilization measures was adopted by the government and supported by the trade unions and employers' organizations. The government was authorized by a Stabilization Law to control prices and wages and to revoke existing indexation clauses linking wages with the price indices. In *France*, the strong wage increase is linked with the May-June strikes and the subsequent "Grenelle Agreements". The agreements provided a framework for individual settlements, incorporating an average increase of 10 per cent (7 per cent for July and an additional 3 per cent for October) over the December 1967 wage levels. Increases were substantially larger in the minimum wage (30 per cent increase in the SMIG), in civil servants' pay, and for workers in public enterprises (up to 15 or 20 per cent). It has been estimated that the Grenelle Agreements (together with previous settlements) brought the rise in wage rates in 1968 as a whole up to 12.5 per cent, against 6.5 per cent forecast at the beginning of the year. In *Denmark* the second stage of the collective agreements for the private sector, concluded in 1967, became effective in March 1968. Another wage increase took place in spring 1968 under the cost-of-living sliding scale. These two increases, taken together, represented a rise of 5 per cent in hourly wages. A second wage increase under the sliding scale took place in August 1968.

In most countries, hourly earnings in manufacturing (generally restricted to wage-earners) rose, in 1968, less than output per wage-earner. This was so in Austria, Belgium, western Germany, Ireland, Italy, the Netherlands and Switzerland, where unit labour costs probably declined.[38]

Table 12 shows annual percentage changes in industrial producers' prices and in consumers' prices. In 1968, producers' prices rose by less than 2 per cent in eight countries (Austria, Belgium, France—where they declined for the year as a whole [39]—Italy, Netherlands, Norway, Sweden and Switzerland). In western Germany, they rose by 4 per cent but most of the increase was due to the introduction, in January 1968, of the value-added tax. Not surprisingly, producers' prices rose somewhat more in the four devaluing countries—Denmark, Finland, Ireland and the United Kingdom—although the increases ranged from only 2.3 per cent in Denmark to 12 per cent in Finland. (In Denmark, the large gap between a modest increase in producers' prices and a big increase in consumers' prices is to a large extent due to the sharp increase of indirect taxes in 1968.)

[38] Direct estimates are available for only a few countries in table 11. A very rough indication can be obtained by comparing the increase in hourly earnings of wage-earners shown in table 11 with the changes in productivity per wage-earner/hour shown in the text table above. But a calculation of unit labour costs ignoring changes in the *salary* bill, for which data are not always available, may be quite erroneous.

[39] Mainly as a result of the shift of the Added Value Tax to sectors other than manufacturing.

TABLE 11

Changes in hourly earnings, wage and salary bill and unit labour costs in manufacturing

(W = Wage-earners WS = Wage- and salary-earners)

(Percentage changes over previous year)

Country		Hourly earnings					Wage and salary bill					Unit labour costs				
		1964	1965	1966	1967	1968 a	1964	1965	1966	1967	1968 a	1964	1965	1966	1967	1968 a
Austria [b]	W	8.9	10.8	8.1	6.4	6.2	8.4	8.0	10.2	2.8	3.6	1.1	3.9	4.8	1.4	−2.9
	WS						9.1	9.0	11.4	4.0	4.6	1.8	4.9	5.9	2.6	−2.0
Belgium	W	10.8	9.7	10.3	6.7	5.4	13.7	7.5	7.7	1.7	..	3.4	3.6	2.5	−0.3	..
	WS						13.7	8.9	8.8	3.7	..	3.4	4.9	3.5	1.7	..
Denmark	W	8.6	12.0	11.8	9.1	9.6	11.7	12.8	8.6	10.0	5.0	0.7	6.2	5.8	7.6	..
Finland	W	13.2	9.0	7.3	8.5	11.0	13.7	10.9	7.6	6.4	10.8	5.9	4.3	2.4	4.0	8.2
	WS						14.8	12.0	9.2	8.4	10.4	6.9	5.4	3.9	6.0	7.8
France	W	6.8	5.6	5.8	6.4	11.1 [c]										
	WS						11.3	3.8	6.9	7.0	..	3.6	2.6	−0.7	3.9	..
Western Germany [b]	W	8.4	9.8	6.6	3.2	4.1	9.6	10.9	4.2	−6.3	9.3	1.3	3.2	2.4	−4.3	−2.1
	WS						9.9	11.7	6.0	−3.5	8.7	1.6	3.9	4.1	−1.4	−2.7
Ireland	W	11.5	3.7	9.2	7.7	8.0										
	WS						14.5	4.1	9.9	7.7	9.7	6.0	−0.8	7.3	−0.6	−1.2
Italy	W	11.1	3.9	3.9	6.5	3.2 [c]										
	WS						13.0	1.1	6.9	14.6 [d]	..	11.3	−3.2	−2.7	5.7	..
Netherlands	W	15.1	9.6	8.6	7.3	7.4										
	WS						17.0	12.9	10.6	8.5	6.5	6.4	7.0	6.0	2.0	−1.0
Norway	W	6.5	9.4	7.4	7.9	8.3	8.7	9.8	10.3	8.1	7.0	1.3	3.1	4.0	5.0	3.9
	WS						9.1	9.8	10.4	9.1	..	1.7	3.1	4.1	5.9	..
Sweden [b]	W	6.4	10.5	7.7	9.9	6.3	12.1	10.2	7.0	2.2	..	2.9	2.5	2.5	1.9	..
	WS						11.7	10.6	8.0	3.4	..	2.6	2.9	3.4	3.1	..
Switzerland	W	7.9	7.5	7.7	6.4	5.0	8.1	5.5	5.1	4.9	..	3.0	1.6	1.4	3.0	..
United Kingdom	W	7.3	8.6	7.7	3.7	6.8	9.4	8.3	5.0	−1.1	..	1.4	4.8	3.7	0.1	..
	WS	7.1	7.4	6.5	3.3	7.5 [e]	9.4	9.1	6.2	1.4	7	1.4	5.6	4.8	2.4	1.5

Sources: United Nations and OECD, *National Accounts Questionnaires*, and *Yearbooks of National Accounts*; and national statistics.

NOTE. — Hourly earnings refer to manufacturing for Belgium, Finland, Ireland, Italy, Sweden and the United Kingdom (April and October surveys); for Denmark to manufacturing including construction, transport and some services; for France to industry including construction, transport, commerce and some services (March and September surveys), and for the remaining countries to industry.

Unit labour costs are derived from the wage and salary bill divided by the contribution of manufacturing to GDP (for Ireland and Switzerland the basic output data are related to the index of manufacturing production).

Figures for the wage and salary bill have been taken directly from national publications, except for Switzerland where the wage bill = changes in man-hours worked × changes in hourly earnings).

Employers's social security contributions (contributions to social insurances, pension schemes) are included for Italy and the Netherlands.

a Provisional.
b Unit labour costs relate to industry.
c Wage rates in manufacturing.
d An estimated 4 per cent refers to the defiscalization of social security contributions.
e Weekly earnings.

TABLE 12

Producer prices for industrial goods, and consumer prices

(Percentage changes over previous year)

Country	Producer prices (industrial goods)			Consumer prices				
	Yearly averages			Yearly averages			December over previous December	
	1966	1967	1968	1966	1967	1968	1967	1968
Austria	1.9 [a]	2.4 [a]	0.9 [a]	2.2	4.0	2.8	3.9	3.0
Belgium	0.4	−1.9	0.5	4.2	2.9	2.7	3.2	2.5
Denmark	3.5	1.7	2.3	6.7	6.9	8.0	10.3 [b]	4.3
Finland	3.2	1.9	12.0	3.9	5.6	8.3	6.7	5.7
France	2.9	−0.6	−1.9	2.6	2.8	4.5	3.4	5.3
Western Germany	1.7	−0.9	4.0 [c]	3.5	1.4	1.5	0.4	2.7
Ireland	4.4	3.9	4.0	3.0	3.2	4.7	2.6 [d]	5.4 [d]
Italy	1.4	0.0	0.0	2.0	2.0	1.2	1.8	1.0
Netherlands	5.2	1.1	1.9	5.7	3.4	3.7	4.3	4.2
Norway	3.0	1.5	1.4	3.3	4.4	3.5	4.3	3.7
Sweden	3.8	2.4	1.5	6.6	4.2	1.9	2.9	2.4
Switzerland	1.7 [a]	0.5 [a]	0.0 [a]	4.7	4.0	2.4	3.5	2.2
United Kingdom	2.7	1.1	4.9	3.9	2.5	4.7	2.5	5.9

Sources: ECE, *Statistical indicators of short-term economic changes in ECE countries*; and national statistics.

[a] General wholesale prices.
[b] October over October.
[c] Including value-added tax.
[d] November over November.

5. INTERNATIONAL TRADE AND PAYMENTS

Although at the beginning of the year it was generally expected that world economic growth in 1968 would be faster than in the preceding year, there was less certainty about the development of world trade. Devaluation and concomitant policies of restraint in the United Kingdom and some other countries, as well as the measures taken by the United States to rectify its balance-of-payments position, induced many governments to view the prospective growth of world trade in 1968 with considerable caution.

In the event, the dollar value of total world trade increased in 1968 by some 11-12 per cent,[40] the highest rate recorded in the 1960s apart from that in 1964; total world trade in manufactures increased by 12-13 per cent (7 per cent in 1967);[41] total exports by western European countries increased in dollar value by 12 per cent, compared with an increase of only 5 per cent in 1967. Behind this acceleration in trade expansion was a fairly widespread acceleration in economic growth (it is estimated that world commodity output in 1968 was up by about 6 per cent as against 4 per cent in 1967) coupled with a very high elasticity of foreign trade with respect to economic growth.

[40] GATT Press Release, 26 February 1969.

[41] *Board of Trade Journal*, 14 February 1969: total exports by principal exporting countries.

The most spectacular import increase in 1968 was displayed by the United States, where an acceleration of real GNP growth from 2½ per cent in 1967 to 5 per cent in 1968 was associated with an acceleration of import growth from 5 per cent to 24 per cent (of which part, however, was due to special and temporary factors). But in western Europe import growth was also substantially faster than GNP growth: 9½ and 4½-5 per cent respectively (compared with about 3 per cent for both in 1967). And for the fourth year running, aggregate exports from western Europe increased in 1968 faster than imports into the area.

The tentative forecasts in the *Economic Survey of Europe in 1967* (chapter I, p. 11) proved correct in respect of the development of western Europe's imports from the rest of the world (a 5-10 per cent increase was suggested; the actual increase was probably 8½ per cent) and the growth of intra-western European trade (10-15 per cent increase expected: actual rise about 12 per cent). But the strength of extra-western European demand was badly underestimated (no forecast was made in the SURVEY but it was not expected that the increase would be as great as that of about 13 per cent which in fact occurred). In addition, the SURVEY overestimated the speed at which the trading position of the United Kingdom would improve and the surpluses of some other western European countries would be reduced.

(i) Trade of individual western European countries

For explaining import growth two factors only need consideration: the growth of GNP and the effects of devaluation. Among the non-devaluing western European countries, an acceleration of GNP growth led to a still sharper acceleration of import growth in Austria, Belgium-Luxembourg, western Germany, Sweden and Switzerland, while in the Netherlands, which maintained fast GNP growth in 1968, import growth also accelerated. Three non-devaluing countries (France, Italy and Norway) recorded a slower GNP growth in 1968 than in 1967. In Italy and Norway, the slowing down in domestic demand was accompanied by a smaller import growth (table 13 includes ships which exaggerates the effect on Norwegian imports); but in France output was lost in 1968 as a result of strikes while demand remained buoyant, resulting in accelerated import growth. All these countries achieved faster export growth in 1968 than in 1967.

TABLE 13

Western Europe's total trade by individual countries and groups of countries

(Millions of current dollars and percentage changes from corresponding period of previous year)

Country or area	Imports c.i.f.						Exports f.o.b.						Balance exports f.o.b. minus imports c.i.f.		Change in balance over corresponding period of previous year		
		Percentage change						Percentage change									
	Value in 1968	1966	1967	1968	1st half 1968 a / Year 1967	2nd half 1968 a / Year 1967	Value in 1968	1966	1967	1968	1st half 1968 a / Year 1967	2nd half 1968 a / Year 1967	1967	1968	1967	1st half 1968 b	2nd half 1968 b
Belgium-Luxembourg	8 195	12	—	14	10	17	8 176	7	3	16	11	20	−128	−19	212	39	69
France	14 009	15	4	13	1	26	12 720	8	4	12	1	22	−1 024	−1 289	−45	51	−341
Western Germany	20 171	3	−4	16	10	22	24 844	13	8	14	6	21	4 385	4 673	2 273	−297	452
Italy	10 248	17	13	6	−1	11	10 178	12	8	17	12	20	−995	−70	−455	456	440
Netherlands	9 298	7	4	12	7	16	8 343	6	8	14	4	19	−1 050	−955	217	48	44
EEC	61 921	9	2	13	6	19	64 261	10	7	14	7	21	1 188	2 340	2 202	297	664
Austria	2 496	11	−1	8	6	12	1 989	5	7	10	6	13	−501	−507	142	6	−28
Denmark	3 215	6	5	3	−1	4	2 571	6	3	4	1	6	−660	−644	−72	39	22
Finland	1 592	5	−2	−6	−6	−9	1 636	6	1	7	10	6	−163	43	58	93	119
Norway	2 663	9	14	−3	−3	−1	1 878	8	11	8	8	14	−1010	−785	−170	105	135
Portugal	1 043	13	—	3	2	11	734	10	9	7	1	16	−329	−309	56	15	−30
Sweden	5 123	4	3	9	4	12	4 945	8	6	9	6	14	−175	−178	126	−105	100
Switzerland	4 502	7	5	10	4	14	4 022	10	7	15	9	19	−606	−479	42	105	22
United Kingdom [c]	18 959	3	6	7	5	10	15 346	7	−2	7	2	11	−3 342	−3 612	−1 331	−720	306
EFTA	39 593	5	5	6	3	9	33 121	7	2	8	4	12	−6 786	−6 471	−1 149	−463	646
Greece	1 091 [d]	8	−3	18 [d]	5	26	351 [d]	24	22	−7 [d]	−12	19	−691	−741 [d]	126	−45	−137
Iceland	145	17	2	−11	−19	−6	89	8	−31	−8	..	..	−66	−55	−47	—	3
Ireland [c]	1 173	—	3	9	4	13	796	9	15	1	−1	2	−293	−377	68	−15	−65
Spain	3 505	19	−3	1	−4	5	1 589	30	10	15	7	24	−2 100	−1 916	237	186	5
Turkey	708 [d]	26	−5	13 [d]	16	11	439 [d]	7	7	−1 [d]	−8	−5	−168	−269 [d]	66	−75	−41
Yugoslavia	1 796	22	8	5	−5	8	1 260	12	2	1	−6	8	−455	−537	−102	−33	29
Rest of western Europe	8 418	16	—	5	—	10	4 524	17	8	4	−2	11	−3 773	−3 895	348	18	−206
Total western Europe	109 932	8	3	10	4	15	101 906	9	5	12	6	17	−9 371	−8 026	1 401	−148	1 104
United States [e]	33 033	19	5	24	20	25	33 916	11	4	9	5	13	4 415	883	−118	−2 136	−1 254
Canada [e]	11 446	17	8	14	11	16	12 558	18	11	19	18	19	494	1 112	260	330	333
Japan	12 990	17	22	11	6	16	12 980	16	7	24	17	30	−1 221	−10	−968	351	838

Sources: OECD, Series A, *Overall trade by countries*; and Main Economic Indicators: *ECE, Statistical indicators of short-term economic changes in ECE countries*; Bank for International Settlements; and national statistics

a Seasonally adjusted at annual rate; second half partly estimated. *b* Seasonally adjusted; second half partly estimated. *c* General exports including re-exports. *d* 10 months only for Greece and 11 months for Turkey. *e* Imports *f.o.b.*

TABLE 14

Western Europe's trade by area of origin and destination

(Millions of current dollars and percentage change over corresponding period of previous year)

Area of origin for imports and of destination for exports	Imports c.i.f.					Exports[a] f.o.b.				
	Value in 1967	Percentage change				Value in 1967	Percentage change			
		1966	1967	1968			1966	1967	1968	
				First half	Second half[d]				First half	Second half[d]
Western Europe[b]	59 499	10	5	6	15	58 416	9	5	6	16
of which:										
EEC	38 544	11	5	7	17	33 335	10	4	9	21
EFTA and Finland	17 977	8	3	3	11	20 205	6	6	2	10
Rest of western Europe	2 978	12	8	8	8	4 876	13	6	−2	11
Rest of the world	41 185	7	1	5	12	32 899	10	6	6	20
of which:										
United States and Canada	12 743	6	−1	3	15	9 332	19	5	21	29
Eastern Europe[c] and Soviet Union	4 484	13	4	8	2	4 389	13	17	3	9
Japan	1 359	16	10	10	11	1 073	22	40	2	6
Australia, New Zealand, South Africa	2 924	3	−6	2	10	3 142	−3	4	−9	13
China (mainland)	390	25	−7	−24	19	622	36	29	−32	−1
Developing countries	19 211	6	2	7	12	13 942	5	1	4	21
of which:										
America	5 263	5	1	−7	1	3 867	14	4	9	20
Africa	6 604	7	—	9	20	4 618	−2	3	1	18
Asia	7 260	5	5	14	12	5 354	7	−2	3	24
Total World (including unspecified)	100 684	8	3	6	14	91 315	9	5	6	18

Sources: OECD, Statistics of Foreign Trade, Series A, *Overall trade by countries*; and national trade statistics.

[a] For the United Kingdom and Ireland, general exports, including re-exports.
[b] Including Gibraltar and Malta.
[c] Excluding the trade between eastern and western Germany.
[d] Provisional, based on five months only.

The devaluing countries had very different experiences. In Denmark and Finland, devaluation was accompanied by effective restraint of domestic demand; consequently they succeeded in improving their trade balances in terms of dollars: Finland (which devalued by 24 per cent) by a reduction in the dollar value of its imports together with an increase in the dollar value of its exports, and Denmark (which devalued by only 8 per cent) by a slight deceleration in import growth and a slight acceleration in export growth (in terms of dollars). Export growth was especially fast in Spain, while the dollar value of imports increased very little, GNP growth being relatively small in 1968. In Ireland and the United Kingdom, by contrast, devaluation was followed by a faster GNP growth in 1968 than in 1967 and also by a faster import growth (in terms of dollars). However, devaluation did strengthen the United Kingdom's international competitiveness and the dollar value of exports increased in 1968 by 7 per cent in spite of the fall in dollar prices. The terms-of-trade effects of devaluation (import prices in terms of national currency responding earlier than export prices), coupled with the delay in diverting capacity to exports, meant that the trade balance continued to deteriorate in the first half of the year; the second half, however, showed a considerable improvement, with export expansion accelerating.

Exports and devaluation

Some of the factors underlying the differences in export behaviour of the devaluing countries are explored a little further in the table on page 42.

TABLE

Commodity composition of western Europe's[a]

(Value in millions of current dollars and indices

SITC Code	Commodity group	World		Western Europe[b] Total		of which: EEC		EFTA and Finland		Total	
		Value 1968	1968/1967	Value 1968	1968/1967	Value 1968	1968/1967	Value 1968	1968/1967	Value 1968	1968/1967
		IMPORTS									
0,1 4	Food and live animals; beverages and tobacco; animal and vegetable oils and fats	12 668	98	5 825	103	3 613	113	1 228	91	6 843	94
2	Crude materials (inedible) except fuels	9 420	106	3 655	109	1 587	106	1 767	110	5 765	104
3	Mineral fuels, lubricants and related materials	8 468	116	2 120	118	1 663	116	338	116	6 348	116
5	Chemicals	5 453	115	4 112	115	2 975	117	1 068	110	1 341	113
6	Manufactured goods[d]	16 086	113	11 482	112	7 502	112	3 618	110	4 603	117
	of which:										
65	Textiles	3 096	113	2 549	113	1 829	115	634	107	546	110
67	Iron and steel	3 120	107	2 809	106	2 165	105	601	110	312	109
68	Non-ferrous metals	3 994	124	1 645	122	940	122	625	120	2 350	125
7	Machinery and transport equipment	15 239	110	11 810	108	8 450	110	3 253	102	3 429	117
	of which:										
732	Road motor-vehicles	3 109	114	2 903	114	2 363	118	530	101	205	108
735	Ships and boats	606	88	431	86	179	98	246	80	185	93
8	Miscellaneous manufactured articles	5 612	111	4 322	112	3 032	113	1 144	109	1 290	110
0-9	TOTAL (including unspecified)	73 832	109	43 745	110	29 056	112	12 577	106	30 087	107
		EXPORTS									
0,1 4	Food and live animals; beverages and tobacco; animal and vegetable oils and fats	6 822	108	4 905	106	3 279	112	1 429	97	1 916	114
2	Crude materials (inedible) except fuels	3 964	105	3 277	108	2 125	110	950	105	687	98
3	Mineral fuels, lubricants and related materials	2 404	116	1 982	116	1 094	114	790	117	422	115
5	Chemicals	7 314	113	4 404	114	2 427	118	1 478	110	2 910	111
6	Manufactured goods[d]	18 001	110	11 772	110	7 338	114	3 616	105	6 230	109
	of which:										
65	Textiles	3 732	109	2 602	110	1 565	116	857	102	1 130	105
67	Iron and steel	4 681	104	2 937	104	1 920	108	808	103	1 744	105
68	Non-ferrous metals	2 420	122	1 653	119	1 117	125	458	112	767	127
7	Machinery and transport equipment	23 545	110	13 317	108	7 158	113	4 665	104	10 228	112
	of which:										
732	Road motor-vehicles	5 835	117	3 282	114	1 985	121	1 053	106	2 553	121
735	Ships and boats	1 095	105	628	108	107	108	438	100	466	102
8	Miscellaneous manufactured articles	6 839	110	4 409	111	2 672	114	1 510	106	2 430	110
0-9	TOTAL (including unspecified)	69 667	110	44 474	109	26 320	113	14 578	105	25 193	111

Source: OECD, Statistics of Foreign Trade, Series B, *Trade by Commodities.*

[a] Excluding Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia. [b] Including Gibraltar and Malta. [c] Excluding Gibraltar and Malta. [d] Classified chiefly by material.

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trade, January to September 1968

over corresponding period of previous year)

Eastern Europe		*North America*		*Japan, Australia, New Zealand and South Africa*		*Rest of the world*							
						of which:							
						Developing countries c and mainland China							
								of which:					
						Total		*In Africa*		*In America*		*In Asia*	
Value 1968	*1968/1967*	*Value 1968*	*1968/1967*	*Value 1968*	*1968/1967*	*Value 1968*	*1968/1967*	*Value 1968*	*1968/1967*	*Value 1968*	*1968/1967*	*Value 1968*	*1968/1967*
IMPORTS													
605	89	1 539	96	1 015	99	3 668	93	1 235	103	1 690	86	678	97
578	100	1 634	113	863	102	2 690	99	1 154	103	711	101	682	101
693	121	220	65	5	82	5 414	119	1 866	127	469	90	3 078	120
151	107	908	117	81	89	198	112	35	99	123	119	20	116
502	118	1 348	108	618	116	2 135	123	933	120	489	110	632	146
88	182	134	116	59	91	290	111	18	114	2	180	239	112
152	136	82	91	65	123	33	114	2	70	2	147	1	144
166	133	585	107	176	140	1 412	133	742	130	453	109	206	313
158	118	2 794	119	387	108	90	111	16	99	18	117	56	116
55	236	123	99	61	146	2	73	1	70	—	150	1	56
32	309	12	189	140	79	6	149	3	200	2	230	1	70
137	113	560	106	229	117	363	111	7	101	6	76	330	113
2 846	106	9 345	108	3 238	105	14 611	108	5 261	114	3 516	93	5 502	116
EXPORTS													
165	127	652	120	126	115	950	109	389	102	211	107	305	109
173	89	224	105	77	90	211	100	70	111	45	111	74	109
13	119	65	195	15	103	129	111	79	117	14	108	33	96
427	113	419	124	446	103	1 607	110	412	112	522	112	566	110
736	103	2 338	133	598	83	2 551	101	860	105	503	95	1 022	107
139	111	291	121	186	92	513	106	246	103	65	108	189	113
246	88	740	147	54	54	676	93	188	109	155	89	261	103
94	119	428	168	52	76	192	96	32	99	43	105	67	84
1 186	111	2 921	128	1 524	100	4 590	109	1 327	107	1 381	117	1 798	110
44	106	1 251	151	333	95	924	104	376	108	210	100	316	104
81	64	27	86	9	17	350	142	129	177	114	164	103	166
163	95	1 177	117	277	110	811	103	266	105	220	101	299	107
2 881	107	7 877	126	3 100	97	11 057	107	3 474	107	2 942	109	4 186	109

Five devaluing countries: exports, prices and labour costs in 1968

(Percentage changes from corresponding period of 1967)

	Denmark	*Finland*	*Ireland*	*Spain*	*United Kingdom*
Full year					
Export value in dollars	3.9	7.1	1.5	14.8	6.8
January-September [a]					
Export value in dollars	3.9	3.9	−0.1	14.5	0.5
Export volume	10½	10	8½	29	9
Export unit values					
— National currency	2	24	8	3-4	8
— In dollars	−6 [b]	−5 [b]	−7 [b]	−10	−7
Full year					
Industrial producer prices	2	12	4	2	5
Consumer prices	8 [c]	8	5	3	5 [c]
Hourly wage-earnings [d]	10	11	8	9½	7½
Unit labour costs [d]	..	7	−1	5	1½
Extent of devaluation [e]	7.9	23.8	14.3	14.3	14.3

[a] January-September 1968 compared with January-September 1967 (since full year estimate for volume and unit values not available in all cases).
[b] The reduction in average unit values expressed in foreign exchange, and taking into account the relative importance of devaluing and non-devaluing markets, would be substantially less than the figures given.
[c] Of which about half due to increased indirect taxes (both in Denmark and the United Kingdom).
[d] In manufacturing.
[e] November 1967 except Finland (October 1967).

The most obvious test of the effectiveness of a devaluation, on the export side, is that the fall in export prices, in foreign exchange, should lead to a more than proportionate increase in export volume and therefore to some increase in foreign exchange earnings. By this test, all five devaluations were effective, if figures for 1968 as a whole are taken, but only by a very narrow margin in Denmark and Ireland, and—in view of the fast growth of world trade last year—by a rather small margin in Finland and the United Kingdom. In Denmark and Ireland, however, so large a proportion of trade is conducted with the United Kingdom that the *effective* or average devaluation was extremely small (less than 5 per cent in both countries).[42] In these circumstances, the 8-10 per cent increase in the volume of their total exports in the first nine months of the year was surprisingly large.

The rise in export volume in January-September 1968 —again about 10 per cent—was no greater in the United Kingdom or Finland. Hence in this period there was only a small gain in export earnings by Finland, and almost no gain by the United Kingdom. The potential response of Finnish exports to devaluation was necessarily limited by the rather low price and supply elasticities for many forest products.[43] Hence there was only a small decline in foreign exchange prices (only 5 per cent, on average, for a devaluation of 24 per cent), supported by the export tax imposed at the time of devaluation in order to cream off some of the anticipated export profits. This price policy helped to secure the foreign exchange gain.

It was only in the last part of 1968 that a substantial foreign exchange gain accrued to the United Kingdom. In the fourth quarter of 1968, the volume of British exports was up by 13 per cent (over the first three quarters of 1967) while export unit values, in foreign exchange, were still 4 per cent down. The long delay in the response has been explained in various ways, including the slow reaction of industry to the opportunities offered by devaluation and the long delivery dates of exports at prices fixed in sterling (according to frequent British practice) before devaluation. Whatever the reason, the expected reaction on foreign exchange earnings—until about a year after devaluation —was much weaker in the United Kingdom than in any of the other devaluing countries.

The most rapid, and largest, response to devaluation came in Spain—where there was a 15 per cent gain in the dollar value of exports in the first nine months of 1968.[44] The reason appears to lie partly in a ready supply elasticity in Spanish industry, associated with a rather low pressure of domestic demand; export prices in pesetas increased very little so that a far greater proportion of the devaluation than elsewhere was reflected in lower foreign exchange prices.

It also emerges from the table above that differences between the devaluing countries in domestic wage and cost increases, or in domestic prices, bore little apparent relationship to the difference in export performance. The figures further suggest—although differences in the composition of the price indices render comparison hazardous

[42] i.e. weighting the extent of devaluation by the markets. It is also true that Denmark and Ireland gained a competitive advantage in the United Kingdom against non-devaluing competitors, but for their principal agricultural exports the immediate advantage was reduced by long-term contracts determining both quantities and prices of some of their exports.

[43] The existence of long-term contracts was probably not very important, since many of the pre-devaluation contracts governing 1967-1969 deliveries contained devaluation clauses.

[44] For more details see Part 7 of this chapter.

—that export prices in domestic currency rose significantly more than prices for the home market,[45] pointing to the desired increase in profitability of exports.[46]

[45] On the figures above, this is not true of Denmark; but the smallness of the rise in total export prices is probably due to the weakness of agricultural export prices.

[46] The increase in export profitability should serve to attract additional capacity, and sales effort, into exports. In the United Kingdom, there is a suggestion that it has, in part, been used to keep down home market prices.

It has been pointed out that export gains from devaluation for some countries were limited by the importance of agricultural products in their exports, and also by the importance of the United Kingdom as a market. In the following table, the rise in exports to markets other than the United Kingdom is shown for Denmark, Ireland and Finland, for which the British market is particularly significant; and exports are divided between manufactures and other products.

Exports of five devaluing countries in current dollars; January-September 1968

(Percentage changes from corresponding period of 1967)

	Exports to all markets other than United Kingdom			*Total exports*		
	Denmark	*Finland*	*Ireland*	*Finland*	*Spain*	*United Kingdom*
Total	6.5	3.0	5.5	3.9	14.5	0.5
of which:						
Non-manufactures[a]	0.8	−15.7	−3.4	−1.6	2.3	−0.4
Manufactures[b]	11.3	6.2	24.9	6.8	29.0	1.1
Percentage of exports to United Kingdom	24	20	73	20	10	..
Percentage of manufactures in exports	54	70	35	65	46	88

[a] SITC Sections 0-4. [b] SITC Sections 5-8.

It is apparent, first, that both Denmark and Ireland made more impressive gains in the non-devaluing markets than in their overall export performance. Secondly, Ireland (in the non-devaluing markets) and Spain both enjoyed very substantial gains in their exports of manufactures—increases of 25 per cent and 29 per cent respectively in dollar values. The gains made by Denmark and Finland were less substantial, but more than offset the loss (for Finland) and stability (for Denmark) in exchange earnings for primary products. (For Finland, a large proportion of the exports classed here as " manufactures " is forest products with a market more closely resembling that for primary products.)

Iceland (which devalued by 24.6 per cent in November 1967, and by a further 35 per cent in November 1968) has not been included in the analysis above because the major reason for the fall of her exports—by 8 per cent in 1968 after a fall of 30 per cent in the previous year—was the collapse of the herring catch (down by about two-thirds in 1968 after a fall of 40 per cent in the previous year).

(ii) The market and commodity pattern

The most dynamic external market for western European exports in 1968 was North America. Exports to eastern Europe, Japan, and the group Australia, New Zealand and South Africa, increased less fast than in 1967 and exports to mainland China fell. But trade with developing countries recovered sharply from the near-stagnation in 1967, the value of western Europe's imports from these countries growing by nearly 10 per cent in 1968 while exports to them rose by 12 per cent. On the import side this expansion was concentrated on petroleum (although such imports from Latin America fell) and non-ferrous metals (reflecting higher copper prices), whereas the value of western Europe's imports of food and crude materials (other than fuels) from developing countries declined. This latter change does not appear to have been connected with price developments (although prices of some commodities supplied largely by certain sterling devaluing countries fell in terms of dollars, the reduction in western European imports related largely to Latin America) but rather with a decline in import volumes, presumably of cereals and meat.

The expansion of exports to the developing countries applied to most commodity groups apart from base metals, with a particularly sharp increase for ships (reflecting not only deliveries to international shipping companies registered in Liberia and Panama etc. but

TABLE 16

Trade of individual western European countries with eastern Europe

(Value in millions of current dollars and percentages)

Country of origin for exports and of destination for imports	Imports c.i.f. 1967 Value in millions of dollars	Imports c.i.f. 1967 Percentage share of country's total imports	Imports c.i.f. Percentage change over corresponding period of previous year 1966	1967	January-November 1968	Exports f.o.b. 1967 Value in millions of dollars	Exports f.o.b. 1967 Percentage share of country's total imports	Exports f.o.b. Percentage change over corresponding period of previous year 1966	1967	January-November 1968	Trade balances Exports minus imports (imports reduced by 10 percent) 1966	1967	January-November 1968
Belgium-Luxembourg	136	1.9	12	1	9	155	2.2	23	36	−6	−7	33	12
France	361	2.9	28	4	3	438	3.8	29	13	30	74	113	215
Western Germany [a]	666	3.8	10	2	15	883	4.1	18	27	7	110	284	225
Italy	686	7.1	17	34	−3	445	5.1	8	25	21	−106	−172	−48
Netherlands	159	1.9	—	5	11	180	2.5	11	54	−1	−19	37	21
Total EEC	2 008	3.7	14	12	6	2 101	3.7	18	26	13	52	295	425
Austria	209	9.1	−2	−6	17	293	16.2	6	13	—	59	105	67
Denmark	121	3.9	10	−4	−3	100	4.1	2	2	−14	−15	−9	−21
Finland	326	19.4	10	−1	2	318	20.9	−6	16	−6	−22	25	8
Norway	82	3.0	4	15	−5	49	2.8	−23	1	7	−16	−25	−17
Portugal	11	1.1	13	−14	34	8	1.1	8	16	−19	−5	−2	−7
Sweden	205	4.4	12	2	13	190	4.2	6	16	20	−17	6	13
Switzerland	90	2.2	19	−6	—	127	3.6	34	13	11	26	46	51
United Kingdom [b]	698	3.9	9	3	3	463	3.3	31	13	13	−198	−165	−105
Total EFTA	1 742	4.7	9	1	5	1 548	5.1	10	8	5	−188	−19	−11
Greece	91	7.6	−2	−10	34 [d]	90	18.1	24	−4	−26 [d]	2	8	−38 [d]
Iceland	19	11.5	−18	5	−14	17	17.2	12	—	−29	1	—	−3
Ireland [b]	26	2.4	−1	61	−1	1	0.2	−67	−16	108	−13	−23	−18
Spain	62	1.8	−32	32	11	73	5.3	133	28	−3	15	17	6
Turkey	91	13.2	46	8	7	87	16.7	12	17	7	−1	5	3
Yugoslavia	445	26.0	34	−10	10 [c]	453	36.2	−2	1	−9 [c]	1	53	−29 [c]
Total rest of western Europe	734	8.8	20	−4	12	721	16.0	7	4	−9	5	60	−79
WESTERN EUROPE	4 484	4.5	13	4	6	4 370	4.8	13	17	7	−131	336	335

Sources: OECD, Foreign Trade, Series A, *Overall Trade by Countries* and national trade statistics.
[a] Excluding trade with eastern Germany. [b] Excluding re-exports. [c] Ten months only. [d] Provisional.

TABLE 17

Western Europe's trade with individual eastern European countries

(Value in millions of current dollars, percentage change over corresponding period of previous year and trade balances)

Country of origin for imports and destination for exports	Imports c.i.f. Value in 1967	Imports c.i.f. Percentage change over corresponding period of previous year 1966	1967	January-November 1968 [a]	Exports f.o.b. Value in 1967	Exports f.o.b. Percentage change over corresponding period of previous year 1966	1967	January-November 1968 [a]	Trade Balances Exports minus imports (imports reduced by 10 per cent) 1966	1967	January-November 1968 [a]
Albania	7	27	21	21	12	7	—	49	6	6	8
Bulgaria	200	25	−7	9	325	54	−5	−8	148	145	99
Czechoslovakia	533	10	4	10	483	21	−13	16	92	3	24
Eastern Germany	373	14	—	5	380	12	−5	−16	62	44	−30
Hungary	373	16	3	3	396	13	14	—	21	60	36
Poland	674	9	−4	4	668	16	13	5	−40	61	43
Rumania	405	19	20	3	607	19	63	2	71	243	218
Soviet Union	1 920	12	7	8	1 503	−1	34	17	−491	−225	−49
Total eastern Europe	4 485	13	4	6	4 374	13	17	7	−131	337	349

Sources: OECD, Foreign trade, Series A, *Overall trade by countries*, and national trade statistics.
[a] For United Kingdom and Ireland, general exports; for Yugoslavia, ten months only.

also deliveries—presumably of second-hand ships—to developing countries following the modernization of European fleets).

The development of *east-west European trade* in 1968 is shown by individual western and eastern European countries in tables 16 and 17, both based on western European trade statistics (for January to November). The acceleration in western European import growth in 1968 (from 4 per cent in 1967 to 6 per cent) benefited all the eastern European countries other than Rumania and Hungary. There was a continued strong expansion of imports from Albania (now about $10 million) and imports from Czechoslovakia, Bulgaria and the Soviet Union increased by 8-10 per cent. The biggest contributions to import acceleration in 1968 were made by western Germany, Yugoslavia, Austria, Sweden and the Benelux countries. Western Germany (even excluding its trade with eastern Germany), already the biggest western European exporter to eastern Europe, has now become the major importer, surpassing both the United Kingdom and Italy. The west German import expansion was concentrated on fuels and base metals. Imports from eastern Europe into Italy, on the other hand, which had increased by one-third in 1967, fell somewhat in 1968, partly because new EEC rules on agricultural imports hindered the expansion of imports of livestock and meat. Western Europe's exports to eastern Europe increased by only 7 per cent in 1968, the lowest rate registered in several years (in 1967 the increase had been 17 per cent). The deceleration in 1968 affected exports to all eastern European markets except Albania and Czechoslovakia. It did not, however, affect all western European countries, the significant exceptions being France, Norway, Sweden and the United Kingdom.

One significant change in 1968 was the emergence of a French net export balance in trade with eastern Europe almost as large as that of western Germany. French imports from eastern Europe increased very little in 1967 or 1968, but French exports expanded very fast. In 1968 both Italy and the United Kingdom greatly reduced the trade deficits accumulated in the previous two years. In total, the trade surplus of western Europe with eastern Europe was probably almost the same in 1968 as in 1967.

In 1968 the *f.o.b.*-value of *intra-western European trade* was about $7 billion above the 1967 level ($58 billion). Among intra-western European trade flows, intra-EEC trade was the most dynamic in 1968 with an expansion of about 17 per cent. Apart from the fact that Italy's imports from its EEC partners grew very moderately (by about 5 per cent), there was little difference in the growth rates for the individual trade flows. It appears, however, that Italy and Belgium-Luxembourg had the fastest export increases, and France and western Germany the fastest import increases, in intra-EEC trade.

Because of its size both as an exporter and importer, western Germany's trade expansion accounted for a fairly high proportion of the increase in total intra-western European trade in 1968; of the total increase of almost $7 billion, west German imports accounted for $2 billion and west German exports for $1.6 billion, thus providing a "net expansionary stimulus" of about $400 million (in 1967 that effect had been negative to the extent of about $1.3 billion). Among the EEC countries, France also exerted some "net expansionary stimulus" on intra-western European trade in 1968 while Belgium-Luxembourg and Italy increased exports more than imports.

Among the EFTA countries, the United Kingdom in 1968 as a whole—as in 1967—increased imports more than exports (in terms of dollars) in trade with the rest of western Europe, while the Nordic countries other than Sweden had the opposite experience. The dollar value of intra-EFTA trade increased in 1968 by only 6 per cent (partly due to the price effects of the devaluation); this was about the same rate as for the area's imports from EEC, whereas EFTA'S exports to EEC grew somewhat faster (by about 10 per cent).

(iii) Trade policy changes

In the field of policies affecting trade, 1968 was marked by two contrasting developments. One was the imposition of varying forms of restrictions on trade—and sometimes on capital movements—by certain countries for balance-of-payments reasons. Of these the most notable were the French measures in mid-1968 and the United Kingdom import deposit scheme introduced in November. The other development was the implementation of two previously agreed and substantial sets of tariff cuts: the abolition of the last 15 per cent of intra-EEC tariffs on industrial goods on 1 July 1968, and the first stage of the Kennedy Round; the countries which made their first cut on 1 January 1968 (all the overseas developed countries and, in western Europe, Austria, Ireland, Portugal, Switzerland and Turkey) made their second reduction of one-fifth on 1 January 1969.

That part of the Kennedy Round conditional on United States abolition of the American Selling Price system of tariff valuation on chemicals[47] is still in doubt. Following the failure of Congress to repeal ASP by the deadline of 1 January 1969, a year's extension was agreed by the countries principally concerned (EEC, United Kingdom, Switzerland and Japan). Until it has been abolished, the other countries will restrict their own tariff reductions on chemicals to 20 per cent.

In spite of a number of suggestions put forward by different governments for various forms of interim arrangements and commercial and other co-operation between the EEC and the countries seeking membership, no progress has been made on the central issue of the

[47] See *Economic Bulletin for Europe*, Vol. 19, No. 1, p. 22.

United Kingdom's full membership of the EEC. Until this issue has been resolved, western Europe is likely to remain split into two trading blocs, with non-member countries either enjoying associate status or seeking some sort of agreement with one or the other bloc. Meanwhile, the *Nordic countries* have reactivated the old programme of establishing a customs union among themselves. Iceland submitted an application for membership of EFTA in January 1969; in April 1968, it became a full contracting party to GATT. Negotiations for a commercial agreement between Yugoslavia and the EEC opened in October 1968.

In July 1968 the EEC signed an association agreement with *East Africa* (Tanzania, Uganda and Kenya). However, it will run only until the end of May of this year, being timed to expire at the same time as the Yaoundé Convention between the EEC and the 18 African and Malagasy countries.[48]

Policy developments within the field of east-west European trade were marked by the conclusion of a number of new long-term trade agreements of which there are now about 80 in force; and by the continued removal of quantitative restrictions. In spring 1968 Sweden removed all restrictions on exports to east European countries apart from east Germany, including strategic materials, and licences will now be required only for sales of arms and ships; France effected a partial liberalization of imports from east Germany. On 1 January 1968 Finland removed all customs duties on non-agricultural products imported from the Soviet Union.

In 1968 new agreements for scientific, technological and industrial co-operation continued to stimulate the development of economic relations between eastern and western European countries.

In 1968 Austria signed agreements on scientific, technological and economic co-operation with the Soviet Union, Bulgaria and Rumania; similar agreements already existed with Hungary and Poland. The Benelux countries have such agreements with Czechoslovakia, Hungary, Poland and Rumania; and Denmark with Bulgaria, Poland and Rumania. Finland's long-term trade agreements with Bulgaria (1968-1973) and with Hungary (1969-1973) contain special clauses on industrial, scientific and technological co-operation.

France has such agreements with every east European country, except east Germany; the latest of them was signed with Rumania in January 1969. In January 1969 the joint Franco-Soviet Commission decided on French delivery to the Soviet Union of equipment for the cellulose industry; in payment for this equipment, France will purchase cellulose from the Soviet Union. France will supply the Soviet Union with equipment for the gas industry. Special provisions are included to expand trade on consumer goods. Co-operation between the Soviet Union and Austria in the gas industry, based on the agreement signed in June 1968, began to yield results in September 1968 in the form of deliveries of gas from the Soviet Union to Austria. These deliveries will continue until 1990. The Austrian counterpart is the delivery of 520 thousand tons of steel tubes.

Technological co-operation between organizations, and especially industrial co-operation between western firms and east European enterprises, also continued actively in 1968. Direct agreements for technological co-operation exist between Soviet organizations and 18 Italian firms; ten of these which expired in 1968 were extended for further five-year periods. A new development appeared in the form of financial co-operation: Czechoslovakia and Yugoslavia decided to establish a banking consortium to finance long-term industrial projects and other joint business by firms in both countries. The partners of the consortium will be state and commercial banks (central and regional).

Hungary was very active in the drive for closer industrial co-operation with the west. By mid-1968, 16 agreements of this kind had been signed with western firms (MAN, Renault, Berliot, Ericsson, Findus, Rheinstahl, Volkswagen, etc.). According to a statement by the Hungarian Minister of Foreign Trade, co-operation was particularly successful with France, Sweden, Austria, west Germany and the United Kingdom.

It is understood that some sixty agreements for industrial co-operation between Czech and British enterprises are in existence or under discussion, and some twenty agreements between Czech and French enterprises. In 1968 agreements were reached among others with Pechiney, Sogreah, Bull and Francois-René Bonhomme.

[48] See *Economic Bulletin for Europe*, Volume 20, No. 1, p. 19, for further details of this agreement and other trade policy changes up to September 1968.

(iv) Balance-of-payments developments and international liquidity

Despite the revival of economic activity in western Europe in 1968, the current surplus vis-à-vis the rest of the world increased by about an estimated $1.8 billion, of which $1.3 billion was accounted for by a favourable swing in the region's trade balance (*f.o.b.-c.i.f.*) and the rest by an increase of net invisible earnings. The latter largely reflected higher net earnings from shipping, mainly benefiting Greece, Norway and the United Kingdom.

The overall improvement in the current balance conceals divergent experiences of the individual countries and significant movements within the region (table 18). By far the most important swings occurred in Italy, Norway, western Germany and France. Italy and Norway, where output growth slowed down, recorded considerable improvements. In France, the current account deteriorated—despite the deceleration in its rate of growth—

TABLE 18

Current balances and changes in official monetary reserves

(Millions of current dollars)

Country or area	1967		1968		Total reserves at the end of 1968
	Current balances	Changes in official reserves	Current balances	Changes in official reserves	
Belgium-Luxembourg	202	240	90 *	−403	2 187
France	205	261	−100 *	−2 793	4 201
Western Germany	2 428	124	2 925	1 777	9 929
Italy	1 723	553	2 500 *	−126	5 337
Netherlands	−97	171	69	−156	2 463
EEC	4 461	1 349	5 484	−1 701	24 117
Austria	−111	151	−84	26	1 510
Denmark	−273	−63	−213	−85	449
Finland	−151	−5	60 *	170	354
Norway	−203	150	126	25	702
Portugal	187	156	150 *	129 [a]	1 362 [a]
Sweden	−144	−186	−250 *	−26	815
Switzerland	240	231	465	377	3 932
United Kingdom	−1 111	−405	−1 000 *	−273	2 422
EFTA	−1 566	29	−746	343	11 546
Greece	−222	13	−250 *	32 [a]	318 [a]
Iceland	−56	−23	−48	−6	29
Ireland	42	−55	−50 *	106	545
Spain	−461	−156	−280 *	46	1 095
Turkey	−45	−12	−140 *	4	123
Yugoslavia	−60	−35	−110 *	35	115
Rest of western Europe	−802	−268	−878	217	2 225
TOTAL WESTERN EUROPE	2 093	1 110	3 860	−1 141	37 888

Source: International Monetary Fund, *International Financial Statistics*, February 1969.
[a] End of November.

after the standstill in domestic production during the strikes in May and June. The trade balance, which early in the year appeared to be improving, grew progressively worse. The deficit in the fourth quarter (seasonally adjusted) was twice as large as the quarterly average for the year. Western Germany's current surplus increased —despite a marked acceleration in the country's rate of growth—as exports, especially to the United States, recorded a fast growth. The surplus ($2.9 billion) was somewhat larger than in 1967 and twice as great as in any previous postwar year ($1.4 billion in 1957 and in 1958). Moreover, the surplus was increasing during the course of 1968. (These comments remain true even if the big surplus of November/December 1968 is discounted for anticipation of the border tax adjustments.)

The United Kingdom's current deficit, in terms of dollars, failed to show the expected improvement in 1968. Although the visible trade balance worsened, there was an improvement in the invisible surplus from about $650 million in 1967 to about $900 million in 1968. Over half this improvement was the result of reduced government expenditure overseas; the travel account swung from deficit into balance for the first time for about 15 years and important contributions came from shipping and aviation. The yearly figure conceals, however, the marked improvement that took place—albeit more slowly than expected—in the course of the year, mainly in visible trade. In four other countries that devalued in 1967—Denmark, Finland Iceland and Spain—there was an improvement in the current account, particularly in Finland and Spain. In Ireland, however, there was a deterioration, associated with an acceleration in the rate of growth of output; it also reflected the relatively large dependence of Irish trade on the United Kingdom.

The improvement in western Europe's current account was to a large extent the counterpart of a marked deterioration in the current account of the United States, reflecting partly the inflationary pressures that developed in the American economy in the course of 1968 and partly some special non-recurrent factors that contributed to the exceptional increase of United States imports. There was some improvement during the course of the year. A small surplus on goods and services reappeared in the third quarter along with an improvement in the trade balance; but the trade deficit worsened again in the fourth quarter.

Changes in 1968 in the pattern of capital movements between the United States and western Europe appear

largely to have offset developments in their respective current accounts. The favourable swing in the United States capital account was mainly accounted for by: (i) foreign purchases of United States private securities, which amounted to $3.7 billion during the first nine months of 1968, at an annual rate, compared with $1.4 billion in 1967. Out of the total of $3.7 billion, $2.1 billion consisted of bonds issued by United States corporations to finance their investments abroad, in response to the Foreign Direct Investment Programme; (ii) a reduction in United States bank claims of more than $400 million (seasonally adjusted annual rate based on data for three quarters) compared with an increase of some $460 million in such claims in 1967; (iii) a sizeable repatriation of funds in the fourth quarter of 1968 by United States corporations, partly in response to the tightening of domestic credit conditions in December and partly in order to meet the temporary ceilings imposed by the government.

The result of these changes was that the United States in 1968 reached a balance-of-payments surplus of $187 million (liquidity basis) compared with a deficit of $3,571 million in 1967. However, the country's official reserves increased by $880 million, which was partly offset by a rise in liquid liabilities held by foreigners. The increase in reserves was the net effect of a rise in the foreign exchange holdings (reflecting the assistance given to foreign central banks) and a change in the Reserve Position in the IMF (as the dollar was used in drawings from the Fund in the course of the year) which more than offset the decline in the country's gold holdings by almost $1.2 billion. (Table 19.)

The counterpart to the net inflow of capital into the United States was an outflow of capital from western Europe, notably from western Germany, which was a net capital exporter for the second year running. West German capital exports in 1968 consisted entirely of capital classed as " long term "—mainly portfolio investment and bank credits—and amounted to $2.9 billion compared with $0.8 billion in 1967. This was by far the largest net outflow of " long-term " capital from western Germany in the postwar period and was probably associated with the highly liquid position of the banks—the result of rising enterprise profits and savings, which may not now continue to increase so fast. It was partly offset, however, by a net inflow of short-term capital of $1.2 billion and a positive residual item of $0.6 billion. This reflected, to some extent, the inflow of hot money in November in anticipation of a revaluation of the Deutschmark; but the greater part of these funds left the country in December following the announcement of the measures agreed to by the German Government on 22 November at the Ministerial Meeting of the Group of Ten in Bonn.[49]

[49] The measures announced consisted of (i) the introduction of an immediate tax relief on imports of 4 per cent and a tax burden on exports of 4 per cent of their value, (ii) the decision of the Federal Bank to raise to 100 per cent the reserve requirements on additions to banks' liabilities to foreigners and (iii) an announcement of the German Government's intention to restrict certain short-term transactions of German banks with non-residents.

The net effect of these movements on long-term and short-term capital was that only a part of the huge surplus on current account was offset and official monetary reserves increased by as much as $1.8 billion (in 1967 there had been a very modest increase in reserves).

The inflow of short-term capital to western Germany originated partly in France after the May and June strikes and again in November. The speculative movements were superimposed on the deterioration of the French current account, and led to a decline in the country's official monetary reserves by $2.8 million in the year as a whole (from $7 billion at the end of 1967 to $4.2 billion at the end of 1968). (Table 18.) The temporary exchange controls which remained in force between 31 May and 4 September 1968 were reimposed in November. In addition to the drawing of $745 million from the IMF in June under the gold tranche, the transfer of France's claim on the Fund under the General Arrangements to Borrow, equivalent to $140 million, to four other participants in return for foreign exchange and the $1.3 billion of swap facilities granted in June, further central bank credit facilities of $2 billion were made available to France in November. Moreover, France is still in a position to make a further drawing from the IMF amounting to almost $1 billion. The exact amount by which net French drawings from these facilities affected the changes in the country's official monetary reserves in the course of 1968 is not known.

Italy remained a major net exporter of capital—mainly private—in 1968 reflecting the relatively low interest rates, and the limitations of the Italian capital market as an outlet for domestic savings. The capital outflow offset part of the country's sizeable surplus on current account; the fall in the central bank's reserves reflected the increase in the commercial banks' foreign exchange holdings.

The gradual improvement of the United Kingdom's current account in the course of 1968 was accompanied by an estimated reduction in the net outflow of long-term capital from $320 million in 1967 to less than $100 million in 1968. The big change was the move from deficit to approximate balance in the Government account—mainly because of the postponement of the normal end-year repayments on the North American postwar loans.

In the first three quarters of the year, net liabilities to sterling area countries declined by $478 million, which was partly offset by an increase of such liabilities to non-sterling areas by $295 million, in line with the pattern of recent years. On 9 September 1968 a $2 billion medium-term facility by the BIS and a number of foreign central banks enabled the United Kingdom to effect reductions in balances held by sterling area countries.[50] There was in the course of the year a net recourse to the credit facilities available to the Bank of England, the exact amount of which is unknown, and the official monetary reserves declined less than in the previous year.

As a result of these various movements the official monetary reserves of western Europe declined by $1.1 billion in 1968 compared with an increase of similar

[50] See also *Economic Bulletin for Europe*, Vol. 20, No. 1, pp. 15-16.

TABLE 19

Change in official monetary reserves by main regions

(Millions of current dollars)

Country or area	Position at end 1966	1967			1968		
		First half	Second half	Year	First half	Second half	Year
United Kingdom: Total	3 100	−266	−139	−405	−12	−261	−273
of which:							
Gold	1 940	−232	−417	−649	183	−261	−273
Foreign exchange	1 160	−34	278	244	−195		
Fund reserve position	—	—	—	—	—	—	—
Continental western Europe:							
Total	34 819	−400	1 915	1 515	−1 085	217 [a]	−868 [a]
of which:							
Gold	20 810	27	138	165	−430	−226 [a]	−656 [a]
Foreign exchange	9 474	56	1 939	1 995	−1 094	984 [a]	−110 [a]
Fund reserve position	4 535	−483	−162	−645	439	−541	−102
United States: Total	14 881	−607	556	−51	−767	1 647	880
of which:							
Gold	13 235	−66	−1 104	−1 170	−1 384	211	−1 173
Foreign exchange	1 320	−582	1 607	1 025	134	1 049	1 183
Fund reserve position	326	41	58	94	483	387	870
Canada and Japan: Total	4 812	−83	10	−73	−35	1 243	1 208
of which:							
Gold	1 375	21	−43	−22	−72	−62	−134
Foreign exchange	2 668	−49	95	46	317	1 202	1 519
Fund reserve position	769	−55	−42	−97	−280	103	−177
Oceania and South Africa:							
Total	2 494	−151	−2	−153	563	186	749
of which:							
Gold	861	−164	118	−46	418	268	686
Foreign exchange	1 413	−26	−126	−152	19	−6	13
Fund reserve position	220	39	6	45	126	−76	50
All developed countries:							
Total	60 106	−1 507	2 340	833	−1 336	3 032	1 696
of which:							
Gold	38 221	−414	−1 308	−1 722	−1 285	3 159	1 055
Foreign exchange	16 035	−635	3 793	3 158	−819		
Fund reserve position	5 850	−458	−145	−603	768	−127	641
Developing countries: Total	11 660	955	−160	795	940 *	205 [b]	1 145 [b]
of which:							
Gold	2 555	80	260	340	390 *	115 [b]	505 [b]
Foreign exchange	8 624	852	−417	435	451 *	90 [b]	541 [b]
Fund reserve position	481	23	−3	20	99	—	99

Sources: International Monetary Fund, *International Financial Statistics*, February 1969.

[a] For Greece and Portugal, end of November. [b] End September estimated.

magnitude in the previous year. Of this, $868 million was accounted for by continental western Europe, which thus recorded a decline in its reserves for the first time in the postwar period. This was more than accounted for by a decline in the region's gold holdings. (Table 19.)

The decline in western Europe's reserves was smaller than the increases in those of the United States and the other overseas developed countries; total reserves of all developed countries increased by $1.7 billion in 1968 compared with 0.8 billion in the previous year. The increase was in foreign exchange holdings and the Fund Reserve Position, whereas gold holdings declined by $1.3 billion in developed countries, except the United Kingdom. This followed mainly from the speculative private purchases at the end of February and in the first half of March 1968 which led to the closing of the London gold

market on 15 March and the creation of a two-tier gold market.

In the first nine months of 1968 the official reserves of the developing countries increased by $505 million almost half of which was accounted for by the oil-producing countries: Iran, Iraq, Libya, Kuwait, Saudi Arabia, Venezuela. In 1967, the reserves rose by $800 million ($270 million in the oil-producing countries) reflecting the reduction by about $1 billion in the trade deficit of the developing countries in this period.

6. SHORT-TERM PROSPECTS FOR WESTERN EUROPE

Once again, projections for the current year have been made by the national authorities in an atmosphere of caution and uncertainty, the uncertainty arising especially from the international environment. It is true that the projections for both France and Italy envisage some acceleration of output growth; but both must be regarded as somewhat uncertain. That for France was made before the November monetary crisis and in any case the acceleration shown by the projected annual growth rate for 1969 is mainly due to the interruption of output for several weeks in the spring of 1968; moreover, the output projection for 1969 as a whole represents little gain over the level reached at the end of 1968. For Italy, there is some uncertainty about the real strength of the forces making for acceleration—private investment in particular.

The projections for western Germany and the United Kingdom imply a slowing down in output growth. In western Germany, some slowing down from the very high rate of growth (7 per cent) reached in 1968 is probably inevitable; but the expected rate for 1969 (4½ per cent) incorporates a very cautious expectation for exports. The expected slowing down in the United Kingdom is only very moderate. Among the smaller economies, in five some acceleration is expected (Austria, Denmark, Finland, Norway and Sweden—but significant only in Denmark and Finland); in two some moderate slowing down appears to be imposed by the need for policy restraint (Ireland and the Netherlands); and in two, about the same rate of growth as in 1968 appears to be expected (Belgium and Switzerland).

Taking the sum of these national projections at their face value, the overall growth of national products in western Europe in 1969 would be 4½ per cent, virtually the same as that at present estimated for 1968. It may be observed that 4 to 4½ per cent is the modal projection; for seven of the thirteen industrial countries the 1969 forecast falls within this range.

The projections are shown in detail in table 1 of this chapter. It must be emphasized that these projections represent the official views (or in some countries the view of authoritative independent research institutes), taken in late 1968 or early 1969.[51] The projections should be regarded in part as "forecasts"; but in part also as expressions, or interpretations, of government policies and short-term objectives. The national projections are discussed below, country by country.

Because of the considerable extent nowadays of intergovernmental consultations, for example in the Common Market and the OECD, the national projections rest on a certain amount of common knowledge of expectations and intentions in other countries, even though the extent of such co-operation is more limited than it might be.

Two common elements appear in most of the projections. First, nearly all forecasters appear to expect that growth of international trade will be a less powerful impetus to general expansion in 1969 than was the altogether exceptional growth of international trade in 1968. Thus nearly every projection incorporates a certain slowing down in the rate of expansion of the volume of exports (although France is an exception). Similarly, nearly all incorporate a slowing down in the growth of imports (although Italy may be an exception). To this extent at least, the forecasts are mutually consistent.

One factor underlying this expectation is the view that the growth rate in the United States will slow down in 1969, at least in the early part of the year. It is not proposed to enter here into the plausibility of this important assumption. The general view among American authorities has been that the growth of United States national product, in real terms, will slow down from 5 per cent in 1968 to 2 or 3 per cent in 1969,[52] moving slowly in the early part of the year but recovering later. It must be added that some experts contest the probability of any substantial slowing down with existing fiscal and monetary policies, and that few clear signs of it have so far appeared. However, it can be taken as virtually certain that the growth of United States imports from western Europe (an increase of over a quarter in 1968) will play a far less significant role as a stimulus to expansion in western Europe than it did in 1968 (as described in Part 1 of this chapter).

A lesser growth in expansion of exports to the United States is, however, only one factor. In addition, as has been pointed out above, the growth of imports in several western European countries in 1968 owed much to high rates of stock accumulation which are unlikely to be repeated. This, too, may underlie some of the modest projections of import growth.

But if expansion in western Europe is less likely to be "export-led" in 1969, it is expected—as a second rather common element in the projections—that the growth of private investment will revive or accelerate. This would be a normal development, as a delayed response to the recovery in output growth in 1968, assisted by the accompanying growth of enterprises' profits and liquidity. But it cannot everywhere be counted upon with confidence, especially where (for example, in Italy) there are at present few signs of pressure on productive capacity.

[51] The sources for the national projections used, and their dates of issue, are shown in the notes to table 1.

[52] This is, for example, the estimate for the Federal Reserve Board, *Wall Street Journal*, 27 February 1969.

(i) The larger economies

France

Before last November's monetary crisis, the government put forward its economic programme and fiscal budget for 1969.[53] The programme envisaged a rise in domestic product of 7 per cent in 1969 as a whole (following 4 per cent in 1968). This was based on increases in private consumption and in both total fixed investment, and investment by enterprises, of about 7 per cent. The budget itself, under the proposals then put forward, would have had a slight restraining effect in relation to 1968. The forecasts incorporated increases in the volume of imports by 12 per cent and of exports by 10 per cent, with a corresponding increase in the trade deficit in current value.

The consequent increase in the current deficit on the balance of payments was " accepted by the government as one element of the phase of transition that the economy will experience in 1969 to restore its equilibrium and its dynamism ".[54]

Since this economic programme was drawn up, two new developments have occurred. In the first place, the French economy appears to have proved more dynamic in the closing months of 1968 than may have been expected. Thus the average level of *industrial* production in 1969 implied by the rise in domestic product must have been closely approached by the fourth quarter of 1968 (seasonally adjusted). In view of the provisional nature of the index of industrial production, and because of the fluctuations that must occur, especially in a period of disturbances, in the relative increases of industrial production and total product, no very firm conclusion can be reached. Nevertheless, the increase in total output implied by the projection during the course of 1969 is probably not nearly so great as the figure of 7 per cent suggests. Similarly, the 12 per cent increase in import volume projected for 1969 as a whole represents a level very little above that reached in the last quarter of 1968 (seasonally adjusted). On the other hand, the projection for the volume of exports implies a further increase of at least 5 per cent for average 1969 over the fourth quarter 1968 level (that is, an increase of about 10 per cent during the course of 1969).

Secondly, the *Plan de redressement* adopted after the November crisis incorporated considerable revisions in the budget proposals—substantially increasing its contractionary impact on the economy as a whole. Very roughly, it appears that the total effect of the Central Government's budget would be a contractionary impact of perhaps 1-2 per cent of GNP (in current prices) compared with an expansionary impact of about 1 per cent in 1968.[55] The border tax adjustments, at the same time, could be expected to strengthen the rise in exports and reduce that in imports. It has been suggested that the effect would be to raise the increase in the *value* of exports in 1969 by about 1 per cent over the previous forecast (and presumably the volume of exports by slightly more) and to reduce the increase in the value of imports by about 2 per cent.[56] This could still imply a certain increase over 1968 in the trade deficit. No new official forecast for developments in the economy as a whole has been put forward, but the Minister of Finance has stated that the expected growth of output, according to the information available in February 1969, will be closely in line with the predictions made before November.[57]

The probable outcome is further complicated by the uncertainties surrounding wage negotiations. The official view—that additional pay increases should at present be limited to maintaining purchasing power—is contested by the unions who wish to improve on the increase in real wages gained in the summer of 1968 (an increase which is by March 1969 of the order of 6-7 per cent, when account is taken of the rise in the cost-of-living index since that time).

Two general observations may be ventured. First—as the experience of other countries has shown—considerable wage increases, even if they seriously raise unit labour costs, take a considerable time before they affect exports (although the effect on imports may be more immediate).

The second observation is that French experience in 1968 (as well as experience in other countries) demonstrates the narrowness of the limits within which the instruments of short-term economic policy can affect pay-bargaining, and the ordinary instruments of economic analysis succeed in predicting its outcome. The French wage explosion of 1968—however precipitated—occurred at a time when economic policy was not particularly expansionary, when output was below capacity, and when unemployment was higher than at any time in the previous decade. An adequate explanation—which will certainly not be attempted here—must lie in a deeper analysis of longer-term developments, and one not confined to economic events.[58] In these circumstances, it would be gratuitous to propose any alternative forecasts for 1969. If the immediate impact of the pay dispute and of the monetary disturbances can once again be surmounted, without a radical change in economic policy, the most probable outcome appears a slightly slower growth rate of output than the pre-November forecasts

[53] " Rapport économique et financier du projet de loi de finances pour 1969 ", *Statistiques et Etudes Financières*, November 1968.

[54] *Ibid.*, p. 1, 198.

[55] See Part 3 of this chaptet. Total Central Government revenue in 1969, under the new budget proposals, will increase by about 15 per cent on 1968 (instead of 12 per cent in the pre-November proposals) and total expenditure by about 8-9 per cent (instead of over 10 per cent).

[56] Statement by M. Ortoli, Minister of Economy and Finance, to the Finance Ministers of OECD countries, *Agence Economique Financière*, 15 February 1969.

[57] *Ibid.*

[58] On the economic side, a hint might be taken from the results of the recent radical revision by the INSEE of the French national accounts since 1962. A significant feature of the revision is that " the evolution of wage and salary incomes, which are fairly well known, has been modified little, while the increase of enterprise income appears to have been clearly underestimated ... in the old series ". " La nouvelle série des comptes nationaux ", *Etudes et Conjoncture*, Supplément, No. 11A, 1968.

quoted above, implying very little increase in either output or imports from current (end-1968) levels, but some continued rise in exports.

Western Germany

The Federal Government's projection issued in January 1969 envisages a growth of real GNP of 4½ per cent in 1969.[59] This compares with an increase of 7 per cent in 1968. The whole reason for the slowing down of output increases is the expected slowing down in the expansion of exports (on which more will be said below). The implied current balance on goods and services is put at DM 12½ billion (DM 18 billion in 1968).

The projected percentage increases in expenditure are:

	1969		1968
	in current prices	*in constant prices*	*constant prices*
Private consumption	7½	5½	3½
Fixed investment	10½	8½-9½ [a]	8
Public consumption	9½	4½	—
Exports of goods and services	6½	4½ [a]	15½
Imports of goods and services	12½	12½ [a]	17
Stockbuilding (as percentage of GNP)	1	1	1
GNP	7	4½	7

[a] The basic forecasts are made—rather exceptionally in western Europe—in current prices, and price projections are given only for GNP, consumers' expenditure and total domestic demand. For other items, price increases in 1969 have been assumed by the secretariat to be 1-2 per cent for investment, about 4-5 per cent for public consumption (mainly from pay increases), 2 per cent for exports (in view of added-value tax changes) and 0 for imports (which would not include added value tax).

These projections incorporate a government policy element. It appears that with unchanged policy, the increase in GNP would have been only 3½ to 4 per cent. The increases in public consumption (against effectively no change in 1968) and in public investment include an additional budgetary stimulus; it is proposed that a large part of the automatic increase in tax revenue should be applied to increasing public expenditure, especially by the Länder and local authorities. (The net impact of public finance on the economy, as estimated in Part 3 of this chapter, is put at 1 per cent of GNP in 1969 against zero in 1968.)

These official projections do not differ very seriously from those put forward by other forecasters, including the autumn report of the Council of Experts,[60] taking into account the revised public expenditure targets and the repercussions of the border tax adjustments (made at the end of 1968) on foreign trade.

The expected acceleration in private consumption derives from faster increases in employment (a 1½ per cent rise in wage- and salary-earners employed, with a ½ per cent fall in average hours worked) and from a faster increase in average earnings. Average earnings increased by 6 per cent in 1968 (hourly tariff rates by 4½ per cent); the "guideline" for increases in new contracts for 1969 is put at 5½ to 6½ per cent which is expected to result in a 7½ per cent rise in effective hourly average earnings.

Expectations of accelerating private investment, based on business tests, seem to imply a substantial increase in the financing requirements of enterprises; at the same time the expected development of prices (plus 2 per cent for overall GNP prices), taking into account the excess of the 7 per cent rise in average earnings over the projected 4½ per cent rise in hourly productivity in the whole economy (although bigger in industry), leaves little room —if in fact these forecasts are realized—for any further increase in profit margins. The differences are not significant enough to suggest any very severe strain on the liquidity of enterprises; but the big rise in the savings ratio of enterprises which accompanied the fast rise in profits in 1968 can hardly be repeated. This may have implications both for the trend of interest rates in western Germany, and for the availability of capital for the international capital market.

Comments may be made on two aspects of these projections. First, the projected increase in real output by 4½ per cent in the full year 1969 appears to imply (though perhaps less strongly than for France) very little increase over the level reached at the end of 1968. If the expected increase in GNP were to bear a normal relationship to the increase in industrial production, then the increase in industrial production in 1969 could be expected to be about 5-6 per cent.[61] In fact, industrial production, rising rather steadily from quarter to quarter during 1968 at an annual rate of about 11-12 per cent, was already in the fourth quarter about 5 per cent above the average for the year. On this method of calculation—which must be highly uncertain—the implied increase in industrial production from end 1968 to end 1969 can hardly exceed 1 or 2 per cent. This does not, however, preclude a certain further rise in GNP, especially since the expected increases in expenditure in 1969 are concentrated on private and public consumption which have a smaller industrial content than the increase in exports which led the expansion of 1968.

The second comment concerns the foreign trade projections. The rather slower rise in imports than in 1968 implies a propensity to import of about 2½ to 3 in respect of GNP, which is slightly more than normal. The difference can be explained by the effect of the border tax adjustments which—if fully shifted into final prices which may not occur—would in themselves reduce prices of imported goods by about 3 per cent. The import projections appear to have been calculated in this way and cannot be said to be inconsistent with the output projections. The very modest increase expected in exports of goods and services—6½ per cent in value and presumably about 4-5 per cent in volume (compared with a 15 per cent rise in volume in 1968)—is much more surprising. Again, it means that the current level of exports in 1969 is expected to be little above that reached in the closing months of 1968 (even if the high export figures for

[59] *Jahreswirtschaftsbericht 1969 der Bundesregierung.*

[60] *Jahresgutachten 1968/69 des Sachverständigenrates*, December 1968.

[61] In 1961-1966 the ratio of industrial production growth to GNP growth was 1.10. Over the longer period 1952-1966 it was 1.15.

November/December are discounted for the big outflow in anticipation of the border tax adjustment).

It is true that about one-third of the increase in exports in 1968 was the result of the exceptional expansion of exports to the United States; and some other important markets for German exports are also likely to slow down. The calculated effect of the imposition of the added value tax on exports will raise their prices but should not greatly reduce their volume.[62] Meanwhile there do not appear to be serious capacity limitations on exports, and the rise in unit labour costs in manufacturing has been, and may well continue to be, relatively favourable to west Germany. It may be noted that the Council of Experts, writing before the tax adjustments, forecast the rise of exports in 1969 (goods and services, in value) at 10½ per cent.

With limited knowledge of the special reasons which have prompted the cautious official forecasts of exports, it must be said that a substantially greater increase seems more probable on general grounds and in the light of recent trends. Such a larger increase would, of course, have its repercussions on other elements in the official forecast. For example, a rise in the value of exports of about the order foreseen by the Council of Experts (but a smaller rise in volume in view of the tax adjustments) would in itself increase the expected rise in real GNP to 5-6 per cent instead of 4½ per cent. Bearing in mind that the average rate of growth in the three years 1966 to 1968 was kept down to 3 per cent, it seems probable that an increase of 5-6 per cent would not involve excess pressures on costs, prices or capacity. It might increase imports, if only slightly, above the official projection, but would still leave a balance-of-payments surplus on goods and services of the order of 2-3 per cent of gross national product.[63]

Italy

In 1968, domestic demand rose less than output, and output (increasing by 5.2 per cent) rose much less than domestic resources or the balance-of-payments situation would have permitted. For 1969, the Italian authorities regard as possible and desirable a rate of growth of output of about 6 to 7 per cent. Recent estimates by the Commission of the European Economic Community and by the OECD take a somewhat less optimistic view, suggesting, respectively, a rate of growth of 6 per cent and of 5.5 per cent.[64]

For 1968, the Italian authorities expected a rate of growth of no less than 6 per cent. In fact, provisional estimates suggest a rise in gross national product of about 5.2 per cent. The three major discrepancies between forecasts and actual results concerned imports, enterprise investment and industrial production. For imports, no slowing down was forecast; in fact, commodity imports, which had increased by 14 per cent in 1967, rose by no more than 5 per cent in 1968, partly owing to the small increase in stocks. A reduction was foreseen in the surplus of the current balance of payments; in fact the surplus widened. Investment in machinery and transport equipment, which had risen by 16 per cent in 1967, rose (probably) by no more than 4 per cent in 1968, although no slowing down was foreseen (but in 1968, contrary to 1967, investment of public enterprises rose fast). Industrial production rose by about 6 per cent in 1968, against an expected 8 per cent (the average of the two previous years).

The main expansionary impulse in 1968 came from the acceleration of export growth, but was offset by a deterioration of domestic demand. Household consumption was restrained by an only moderate increase in incomes and a higher propensity to save. Most wage contracts still in force in 1968 had been agreed at the end of 1966; they will expire at the end of 1969. They were agreed under the shadow of the 1964-1965 recession, and allowed for only modest pay increases; indeed the increases turned out to be somewhat smaller in 1968 than in 1967. Taking the view (rightly or wrongly) that the period of rapidly increasing output and productivity was over, the unions shifted attention to the improvement of social benefits and the strengthening of union rights within the enterprise. Household savings had been abnormally low in 1966 and 1967 (the beginning of the upturn) and probably resumed a more normal level in 1968. In 1968 there was also a change in the pattern of household expenditure in favour of dwellings, as indicated by the rapid revival in dwelling constructions.

The weakness of private consumption resulted in higher margins of unused capacity for enterprises, and reduced the propensity to invest. According to a recent business test, at the end of October 1968 only 5 per cent of the industrial enterprises reported that orders exceeded capacity.[65] Aggravating factors hampering industrial investment were probably the delay in approving certain reforms in the capital market, and in particular the delay in the creation of investment funds. Meanwhile, there was a considerable outflow of capital, mainly in liquid form.

The role of fiscal policy is particularly difficult to assess. The official policy was to allow for only a moderate increase in public consumption (of about 3 per cent) and a vigorous expansion of public investment. Payments for public investment rose in fact by 20 per cent in 1968 but the programme of public investment still remained, for technical and administrative reasons, considerably behind the targets fixed in the 1966-1970 national plan. A number of measures are at present under discussion to overcome such obstacles, but are unlikely to have quick results. Thus fiscal policy in 1968 was not sufficiently expansionary to offset the weakness of private demand.

[62] See IFO, *Schnelldienst*, 6 December 1968. The tax rate of 4 per cent, which applies to most exports, is likely in part to be absorbed by exporters. It is also possible—as the case of some devaluing countries has shown, as well as experience after the revaluation of the Deutschmark in 1961—that the response to price elasticities can be very limited for a year or so. For the 1961 developments see OECD, *Economic Outlook*, December 1968, p. 54.

[63] After this SURVEY went to press, the Government introduced (in March) limitations on public borrowing and certain other measures to restrain demand.

[64] See Communauté économique européenne, Commission, *La situation économique de la Communauté*, 1968, no. 3-4, Brussels, December 1968; and OECD, *Economic Outlook*, Paris, December 1968.

[65] See ISCO, *Inchiesta congiunturale*, No. 17, 4 December 1968.

The slowing down in the expansion of industrial production, of private consumption, of enterprise investment, and of imports led the government to adopt a series of re-expansionary measures in the summer of 1968. These measures, approved at the end of August, were essentially aimed at fostering enterprise investment by allowing fiscal and other facilities. The increase in investment was considered by government authorities as the first step in a cyclical revival, leading to an increase in employment and household consumption. Of the two factors generally considered to be the most important explanatory variables for enterprise investment—the level of profits and the level of demand—the emphasis was put on profits.

Yet the experience of many countries suggests that the expansion of enterprise investment is in only very special circumstances the first step in a process of re-expansion. In the Italian case, an immediate increase in enterprise investment could hardly be justified by competitive considerations. Italian exports have continued to be highly competitive. The more direct method of seeking to increase consumers' expenditure was not favoured and such a shift in the direction of policy would have been difficult for a caretaker government. A change of view appeared with the new government.[66] In January 1969 it was decided, after a period of social unrest, to increase substantially the level of old-age pensions. The increase granted for 1969 should be equal to more than 1 per cent of disposable incomes of households; it will be financed to the extent of 18 per cent by an increase of gasoline pr ces and for the rest by a widening of the budget deficit.

It is necessarily doubtful, on present information, whether the target of a 6-7 per cent growth rate in 1969 will be reached with present policies. The year 1969 will see the renewal of a large number of wage contracts for about 5 to 6 million workers. Most of these renewals, however, will take place only towards the end of 1969 and will not affect the wage bill until 1970. The extent of trade union claims is not yet known; nor has the government provided (at least in public) any form of guidance to the contracting parties about the desirable rates of increase.[67] This very uncertainty may lead the government to adopt in the meantime a cautious fiscal policy.

There is, at present, a fairly general consensus that the Italian economy can expand—not only in 1969—at a faster rate than 5 per cent. This is fully justified by the balance of payments and seems essential if the elimination of the present disparity in real per capita income between Italy and the other industrial countries of western Europe is not to recede into the remote future. From the beginning of the nineteen-fifties until 1968, national products of industrial western Europe as a whole increased at a trend rate of 4½ per cent; that of Italy at a rate of about 5.3 per cent. In terms of income per head, the relative improvement in Italy has been no greater. A necessary condition for the fuller development of the Italian economy now appears to be the use of a wider range of instruments of government policy, based on a deeper appreciation and analysis of the operation of market forces.

For 1969, it is clearly domestic demand that has to be fostered—both for investment and consumption. It now seems to be recognized that there is no way of increasing investment by enterprises without a faster expansion of consumers' expenditure. This might call, for example, for a selective reduction in taxes, especially in some indirect taxes bearing on commodities for mass consumption. Such a selective reduction in indirect taxes would, indeed, be in line with long-term policy which aims at a gradual shift away from indirect and towards direct taxation. It seems almost certain that, with present policies, the balance-of-payments surplus on current account will be only slightly reduced in 1969. In 1968, it was probably about $2½ billion, or about 3 per cent of GNP—a remarkably high level for a country with the Italian average income per head, but a level that has now been maintained since 1965. Forecasts for 1969 suggest that it will not be much reduced, even though there may well be a rather larger rise in imports this year than last, in view of some need for restocking, and a somewhat smaller rise in exports.[68]

The United Kingdom

No official projection for the British economy in 1969 has yet been published. Policy—to be defined in the budget for 1969/70 in mid-April—will continue to be dominated by the balance of payments and by the necessity of achieving a surplus sufficient to preserve confidence in the pound, to protect the reserves and to repay maturing debt.[68a]

Gradual improvement in the current balance of payments has been recorded above. By the fourth quarter of 1968 the current deficit had been reduced to an annual rate (seasonally adjusted) of about $700 million compared with over $1,100 million in 1967—by far the greater part of the improvement having taken place on invisible account and particularly in government overseas expenditure.

The record for 1968 as a whole is generally, and rightly, regarded as disappointing. But two separate facets of this performance should be distinguished.

In the first place, the usual prescriptions for a government policy intended to " shift resources into the balance

[66] " The level of investment is considered to have been too low in recent years, but it is not feasible to increase investment without adequate measures in favour of consumption. As long as there is considerable unused capacity, there is little likelihood of a recovery of investment ", M. Tanassi, Minister for Industry and Trade, *Il Sole - 24 Ore*, 3 January 1969.

[67] In the meantime, another important type of pay claim has become prominent. At present, the country is divided, for collective wage bargaining, into seven areas. Area 0 includes the most industrialized provinces (Milan, Turin, Genoa) and Rome; Area 7, the least developed provinces, all located in the south. Statutory wage levels between areas 0 and 7 differ by nearly 20 per cent. Discussions (and strikes) are going on for a gradual elimination of the regional differentials.

[68] The OECD, *Economic Outlook*, December 1968, suggests a current account surplus of $2¼ billion in 1969.

[68a] Since this SURVEY went to press, the Government has announced further increases in taxation. The official forecast for 1969 is an increase in GDP of 2½ per cent (instead of 3 per cent). See *Financial Statement and Economic Report 1969-70.*

of payments" were largely followed, if not with the full severity and speed that may now seem to have been necessary. Private consumption increased in 1968, by about 2½ per cent year on year, whereas the optimistic projection made with the budget of March 1968 aimed at a rise of only half of one per cent, with an actual reduction below the 1967 level, which did not occur, in the second half of 1968.[69] At the same time, total fixed investment rose by only about 2 per cent—a smaller increase than officially projected; however deleterious in the longer term, this shortfall may have been more helpful to exports in the short run than excess consumption was damaging. Public consumption was held down to an increase of about 1½ per cent—well within the limit laid down in the budget. At the same time there was no general problem of excessive pressure on capacity. The increase in real GNP—probably just over 3½ per cent in the year as a whole, and perhaps running at about that rate during most of the year—was well within the normal increase in productive potential; in each of the three previous years output had been increasing by only between 1½ and 2½ per cent a year. The expansion of output in 1968 was predominantly "export-led": increased exports of goods and services accounted for more than half of it.

Moreover (as shown in Part 4 of this chapter), although the increase in pay greatly exceeded the guide-lines of incomes policy, there was also a very marked rise in productivity. Unit labour costs in manufacturing increased slightly in sterling terms, but in foreign exchange terms—which is more relevant—were considerably reduced. These may be once-for-all advantages, but they were important in 1968. Meanwhile the influence of public finance as a whole was certainly not expansionary: on balance it added nothing to the growth of GNP (see Part 3 of this chapter). By early 1969, the public sector as a whole was moving from overall deficit towards a surplus (after meeting the financing requirements for the capital expenditures of the nationalized industries).[70]

The second facet of the British experience of 1968 is that in spite of these favourable developments the current balance of payments—and also the balance of merchandise trade—did not improve faster. It is true that the volume of exports rose more than official expectations—but that may have been due to the exceptionally fast expansion of total world trade in manufactures.[71]

An interpretation offered by the National Institute is that the propensity to import has been rising, and the corresponding propensity to export (or "competitiveness" in the widest sense) had been falling sharply—more so than the average of previous years—in 1967 and 1968. It may also be suggested that the experience of 1968 demonstrates not so much a change in the underlying competitiveness of British industry—in the sense of technical and organizational efficiency and of relative costs—as an exceedingly slow and hesitant reponse to the opportunities offered by the change in relative prices and profitability brought about by devaluation, both in export markets and—of almost equal importance—in the home market.

If the explanation is to be sought in the slow response of industry, rather than in underlying lack of competitiveness, then the prospect for 1969 is for a continuing improvement in the current balance. The conditions remain reasonably favourable, even if there is a slowing down in the growth of world trade in manufactures. Policy towards domestic expenditure is still one of restraint: the indirect tax increases made in November 1968, together with the very small increases in public expenditure decided for 1969-1970, imply a significantly greater contractionary influence from public finance than in 1968 (see Part 3). To this is now added a very rigid restriction of bank credit (which the banks are finding it difficult to observe). Even if productivity growth in industry slows down somewhat, the increase in unit labour costs should not, on present indications, be large in relation to competitors, and much of the gain in relative prices should remain.

Taking these factors into account, the National Institute tentatively forecasts for 1969 a rise in the volume of merchandise exports of about 7 per cent over the 1968 level against a rise in the volume of merchandise imports of about 2 per cent. Allowing for a further rise in export prices (3½ per cent) and in import prices (1 per cent) the deficit on visible trade should then be reduced from its 1968 level by about $1 billion. With a modest further improvement in the invisible surplus, the result would be a current surplus in 1969 of about $500 million.[72] The trend is taken to be gently upwards throughout the year and into 1970.[73]

Taking into account the expected increases in domestic expenditure, the National Institute puts the growth rate of real GNP in 1969 at about 3 per cent year on year (or a little under 3 per cent from end 1968 to end 1969), marking a distinct slowing down.

It can hardly be supposed that the direct advantages afforded by the devaluation adjustment will continue to be felt after 1969. Thus in later years the increase in import volume must be expected to revert to nearer the past ratio to the growth of GNP (which has been 1½ to 2 in the United Kingdom, as in most western European

[69] Estimates based mainly on the *National Institute Economic Review*, February 1969 (National Institute of Economic and Social Research, London). Official estimates of the national accounts after the third quarter of 1968 were not available at the time of writing.

[70] A net borrowing requirement of £1,300 million in 1967-1968 was replaced by approximate balance in 1968-1969; at present tax rates, there should be net repayment of government debt in 1969-1970—for the first time in at least fifteen years.

[71] Estimates by the National Institute suggest that the increase in export volume *in the year 1968 as a whole* was very little greater than might have occurred without devaluation. This conclusion, however, does not necessarily apply to the export figures for the end of 1968. On similar calculations, the rise in the volume of imports, however much allowance is made for special factors such as stockbuilding and anticipatory buying, was about as great as could have been expected, from previous experience, without devaluation. *National Institute Economic Review*, February 1969, p. 18.

[72] This figure excludes payments for United States military aircraft which are included as current debits in the official balance-of-payments estimate (about $250 million in 1968).

[73] After allowing for a temporary reduction of imports in the first half of 1969, offset in the second half, as a result of the import deposits scheme introduced in November 1968.

countries). Thus to preserve the current surplus at its projected 1969 value presupposes a continuing increase in exports at a considerably faster rate than that in GNP (unless it is arbitrarily assumed that the terms of trade will continuously improve in favour of the United Kingdom). A new official assessment of medium-term prospects, while in no sense a "plan", suggests a possible strategy and pattern of growth based on an average increase in real output from 1968 to 1972 of between 3 and about 4 per cent a year (depending, *inter alia*, on the rate of productivity growth and on progress in the balance of payments).[74] For illustrative purposes, the central figure is taken as 3¼ per cent in the official assessment.

A current surplus of $500 million in 1969 is far from that originally envisaged after devaluation. The target for the *basic* balance (current and "long-term capital" account) was $1,200 million (£500 million). No target for the current account was specified, but the authorities appear to have in mind at least a small continuing net outflow of long-term capital as well as repaying official debt; the target for the current account thus appears to be in excess of $1,200 million.[75] This implies, as the official "assessment" recognizes, a continuing improvement in competitiveness in respect both of imports and exports, in addition to the once-for-all impetus imparted by devaluation.

[74] See Department of Economic Affairs, "The Task Ahead; Economic Assessment to 1972", February 1969. The target of £500 million for the overall balance is repeated, but for 1972. A gradual approach to it is apparently envisaged.

[75] *Ibid.*, pp. 25-26.

(ii) The smaller economies

Austria, Denmark, Finland, Norway and Sweden all expect a somewhat more rapid expansion in 1969 than in 1968. But the difference in GNP growth rates exceeds 1 per cent only in Denmark and Finland—the two devaluing countries where output growth was severely restricted in 1968 and where return to a more normal growth rate is now believed possible.

In *Austria*, the major impetus to the acceleration of output, from 4 per cent in 1968 to 5 per cent in 1969, is expected to come from fixed investment: an increase of 8 per cent is foreseen after two years of no increase at all. Investment in machinery and transport equipment, an indicator of enterprise investment, should expand by more than 12 per cent—a bigger increase than at any time since the investment boom in 1960. Investment in construction is expected to expand by 4 per cent following virtual stagnation in 1967 and 1968. Although both direct and indirect taxes will be increased in 1969, and although consumption in 1968 was to some extent stimulated by anticipatory buying in advance of the increase in indirect taxes, private consumption is expected to accelerate further in 1969 (5 per cent as against 3½ per cent in 1968).

Thus, in 1969, investment—particularly in machinery and equipment—is expected to replace exports and stock-building as the major expansionary force. In total, public finance is not intended to play a significant expansionary role (nor did it in 1968). The expansionary effects of increases in public expenditure can be expected to be fully counteracted by the "discretionary" tax increases as well as by the automatic effects of the tax system. Return to a more normal output growth is thus based wholly on the expected strength of market forces. Imports of goods are expected to increase somewhat more than exports (exports increasing less than in 1968). If services yield the same surplus as in 1969, the deficit on the balance of goods and services would slightly increase (to about 2 per cent of gross national product).

Denmark and Finland devalued in 1967, Denmark by only 8 per cent and Finland (a month earlier) by 24 per cent. In *Denmark*, the rate of growth of output was low in 1968, but there was a considerable improvement in the balance of the economy, both external and internal. Although there was a substantial increase in the volume of public expenditure on goods and services the net effect of public finance was restrictive, mainly because of tax increases, and should remain so in 1969. A severe price control was imposed after devaluation and has been prolonged, with modifications, to mid-1969. Nevertheless consumer prices increased by 8 per cent (half of the rise being due to the tax increases), while wages appear to have risen slightly more. However, there must have been a significant fall in industrial unit labour costs in terms of foreign exchange, assisting the considerable increase in exports of industrial products after devaluation.

For 1969, total output is expected to increase by 5 or 6 per cent (compared with 3½ per cent in 1968). The volume of imports of goods and services is expected to accelerate with rising demand, but that of exports to slow down slightly. A reduced deficit on the current account, continuing the improvement (in foreign exchange terms) of 1968, appears probable (a deficit of about $170 million in 1969 compared with the exceptionally heavy deficit of $273 million in 1967).

For *Finland*, return to a fast rate of growth is now expected—a rise of 6 per cent in 1969 after three years of output increases restricted to about 2 per cent. The devaluation strategy was indeed to restore fast growth, while recognizing the need for an intervening period of restraint. The main element in the faster growth rate is expected to be a revival in investment; after three years of stagnation or decline, investment is expected to rise by 13 per cent, with an even larger increase in investment in machinery and equipment, stimulated by tax incentives.

This optimistic outlook appears to rest on two major premises:

(*a*) The major factor appears to be maintenance of the very fast expansion of exports, especially of engineering products, which began after devaluation. A further rise

of engineering exports of about 24 per cent is expected. Only a small increase (4-5 per cent) is expected in exports of forest products. Thus the expansion in output, and to some extent in investment, is to remain export-led; the increase in the volume of exports of goods and services for 1969 is put at 10 per cent, as in 1968.

(*b*) It is hoped that the Finnish economy may now have escaped from the vicious circle of cumulative inflation imposed by wage pressures and intensified by the wide use of indexation clauses in pay and many other contracts. At the same time, some confidence is placed in a rise in the household savings ratio, and the impact of public finance is also to some extent restrictionary. Hence the increase in private consumption is put at only 3 per cent in 1969.

The expected increase in import volume—also consistent with the investment expansion but allowing also for some restocking—is put at 10 per cent. This also assumes a certain degree of import substitution. On this basis, the current balance should remain in small surplus.

In *Norway*, 1968 has been a year of pause. The increase of gross national product of 3.5 per cent appears as the first break in a 5-year trend of rapid growth at an average close to 5 per cent (a higher rate than forecast in the medium-term plans). The whole of the expansion in 1968 derived from exports and for the first time in 10 years in 1968 Norway had a surplus in its current balance of payments.

The expansion in 1968 was, indeed, less than had been expected and some re-expansionary measures were taken in the autumn. For 1969, only a modest recovery in output growth is expected—to 4 per cent. It derives chiefly from a small recovery in investment (excluding ships, investment is expected to increase 3 per cent against only 1½ per cent in 1968). No significant expansionary impulse can be expected from public finance, because the effect of the tax concessions is likely to be counterbalanced by the automatic fiscal impact. The volume of imports of goods and services should rise by 4 per cent (excluding ships) and exports by 3 per cent—compared with their 10 per cent rise in 1968. Taking ships and shipping income into account, another surplus is expected on the current balance.

In *Sweden*, also, the official forecast for 1969 is one of still somewhat restrained growth—GNP increasing by 4 per cent against 3½ per cent in 1968. Such a growth rate is regarded as well within the capacity limits. Although the impact of public finance is slightly expansionary, it appears to be less so than in 1968, especially when account is taken of the disappearance of the stimulating effects of the release of investment funds. Moreover, there has recently been evidence of a more restrictive monetary policy, contrary to the tendency of recent years.

The minor acceleration in output growth is, however, expected to derive once again from a faster growth of investment, but in the commercial sector (as a result of the abolition of a temporary tax on commercial building) rather than in manufacturing. Private consumption, which grew rather fast in 1968 for special reasons, is expected to slow down, and consumer prices are expected to rise by only about 2 per cent—which is unusually small in Swedish conditions.

The growth in volume of both imports and exports is forecast to slow down slightly; an expected fall in net income from services, although offset by an improvement in terms of trade, is expected to keep the current account in deficit (to the extent of between 0.5 and 1 per cent of GNP).

Ireland and the Netherlands are the two smaller countries in which the growth rate is expected to slow down in 1969—in both partly as a result of government policies, directed in Ireland mainly towards improving the balance of payments but in the Netherlands towards the offsetting of domestic cost pressures.

In *Ireland*, it was hoped early in 1968 that the impetus of expansion could be maintained in spite of devaluation and budget policy was directed accordingly. In fact, the worsening of the current balance as the year went on —notwithstanding considerable success in increasing exports of industrial products—forced the government to introduce restraining measures in November 1968: increases in indirect taxation were supported by an attempt to maintain restrictions on bank credit.

It is expected that the increase in real national product will decelerate from 5 per cent in 1968 to about 4 per cent in 1969,[76] with both private consumption and total investment slowing down. The increase in total investment is still, however, put at 9 per cent for 1969 (11 per cent in 1968). Private consumption increased particularly fast in 1968—by 5½ per cent—under the impetus of an increase of about 7 per cent in average industrial wage-earnings. Although the rapid expansion of output and productivity offset the pay increase in manufacturing industry, so that unit labour costs probably did not increase (fell in terms of foreign exchange), consumer prices in total rose by 4-5 per cent. One of Ireland's problems (not unique to Ireland) is, indeed, that industrialization tends to produce wage pressures which—even if they can be absorbed by productivity in industry—are bound to press up prices in the greater part of the economy where productivity is unlikely to rise so fast.

Slower growth of output and real demand in 1969 should produce a much slower increase in imports: a rise of 4-5 per cent in the volume of imports of goods and services is suggested in contrast to the 12½ per cent rise in 1968. Although the rate of expansion of exports is not expected to be maintained, there should be a substantial lessening of the current account deficit (about $50 million in 1968 but a much heavier rate in the second half of the year).

In the *Netherlands*, too, some slowing down of output growth (from 5½ per cent in 1968 to 4½ per cent in 1969) is forecast by the Central Planning Bureau. This springs partly from an expected slowing down in investment, not least in public investment and dwellings, and partly from a forecast reduction in export growth from

[76] Forecasts based mainly on T. J. Baker, *Quarterly Economic Commentary of Economic and Social Research Institute*, Dublin, January 1969.

the very fast expansion in 1968. On the other hand, some stimulus is expected from stockbuilding.

The original budget proposals for 1969 were only mildly restrictive. But the autumn wage negotiations in the engineering industries resulted in a bigger increase (6½ per cent in tariff rates) than the government regarded as appropriate; increases of about the same amount were also agreed in textiles and construction. The government has retained only limited powers to disapprove pay increases and instead decided on tax increases: some indirect taxes were increased and investment allowances halved; at the same time hire—purchase regulations were tightened.

In spite of the slowing down now expected, it is felt that there will be more pressure from the labour market (partly from reductions in working hours). For 1969, an 8½ per cent increase in earnings is incorporated in the projections. The rise in industrial productivity is expected to slacken off, so that unit labour costs in manufacturing—which hardly rose in 1967 and 1968—are forecast to increase by 4 per cent. This is one reason for a weaker development in exports in 1969. Nevertheless. with a certain slowing down in output growth, it is expected that a small surplus on the current balance of payments—achieved in 1968 after some years of deficit—will be retained in 1969.

For Belgium and Switzerland, very much the same rate of expansion of output can be expected in 1969 as in 1968. In *Belgium* provisional estimates show a growth of GNP of 4½ per cent in 1968 and the same figure (or possibly as much as 5 per cent) appears to be expected in 1969. (No official forecast is at present available.) Growth in 1968 was largely due to the 11 per cent increase in export volume of goods and services and only a slight slowing down is expected in 1969. Acceleration in investment, which was very weak last year, is expected to sustain expansion. This increase in investment rests largely on a forecast rise in public investment (by as much as 20 per cent), and in house construction assisted from public funds. Prospects for a growth in enterprise investment are, however, uncertain; although the rate of capacity utilization has increased, investment decisions may be delayed by doubts about the method of application of the value-added tax. In general, the expansion remains rather hesitant and appears still to rely more on the stimulus of public expenditure than in most countries.

The surplus on the current balance was reduced in 1968, largely because of the strong rise in imports, which was influenced by re-stocking and may be slower in 1969. Some increase in employment is expected which should result in a rather faster increase in private consumption.

In *Switzerland* the recovery of 1968 was largely export-based and was only to a minor extent reflected in a corresponding re-expansion of domestic demand. Consequently, in 1968, imports rose considerably less than exports. As in Belgium, the export expansion has not yet had a sizeable impact on enterprise investment; only a weak expansion of these investments is foreseen for 1969, although the shortage of manpower must lead enterprises to concentrate on rationalization. A small acceleration is foreseen for private consumption assisted by the fairly widespread increase in pension schemes. Thus a rate of GNP growth of 3-4 per cent is expected for 1969, as in 1968.[77] The foreign trade deficit may widen somewhat, and the surplus of the current balance may be slightly smaller than in 1968. However, it would still remain substantial, amounting to about 3 per cent of gross national product, as against 3.5 per cent in 1968. Thus, Switzerland belongs to the group of countries where a more rapid expansion of domestic demand would not be hampered by balance-of-payments considerations.

Hitherto, the weakness of the federal authorities' powers for management of the economy have hampered the execution of economic policy. New measures have recently been taken to strengthen the authority of the National Bank, although the use of monetary and credit policy may be rendered difficult by the high liquidity of the banking system. The use of fiscal policy is also limited by the high degree of financial independence of the cantons. The Federal government has, however, recently put forward a policy statement including forecasts of public revenue and expenditure for the period up to 1971. Awareness is increasing of the need for more comprehensive policy guidance for the economy.

Prospects for balanced growth

National forecasts and policies for 1969, so far as they have at present been defined, emphasize what was said at the outset: a cautious outlook has been adopted, and there are few countries in which the national projections can be said to incorporate growth rates at the limits of physical capacity or of manpower resources. If the forecasts are realized, 1969 will be a reasonably satisfactory year for output growth in western Europe, with no islands of recession or of excessive expansion. The implications for the growth of world trade are also encouraging, even though the forecasts imply a more normal rate of expansion than the altogether exceptional increase of 1968. Whether this relatively calm development will in fact occur depends, however, upon the absence of disturbances and particularly upon a sufficient improvement in the pattern of national payments balances. It remains true that crises of confidence are not always very closely related to the real trend in payments balances; they can be precipitated, for example, by a random deviation from the trend, unpredictable by economic analysis.

The national forecasts as they stand in fact indicate some improvement in the pattern of balances. The current account deficit of the United Kingdom is expected to swing into current surplus in 1969, although a surplus much smaller than was hoped for as a result of devaluation. The improvement between 1968 and 1969 is put at about $1.2 billion. The current surpluses of both western Germany and Italy are expected to be reduced. It has been suggested above, however, that the official forecast for western Germany includes a remarkably

[77] *La situation économique suisse en 1968 et les perspectives pour 1969*, Commission de recherches économiques. Supplément de *La Vie Economique*, December 1968.

cautious estimate of export growth: the expected reduction of the west German surplus could well be much less than the $1 billion suggested. A reduction (of the order of $500 million) in the Italian surplus is more probable, because of the exceptionally slow development of imports last year. Finally, the development of the French current account must be regarded as highly uncertain; it is impossible yet to judge how soon the measures taken at the end of 1968 will correct the worsening trend. Taking these four leading countries together, their total surplus is thus likely to decline but not by very much.

A bigger change is expected for the United States, where an improvement in the current account of at least $1 billion and perhaps $2 billion is looked for in 1969.[78] The altogether exceptional $6 billion rise in imports that occurred in 1968—imparting so strong a stimulus to world trade—can hardly be repeated.

The effect of an improvement of this order of magnitude in the United States surplus, coupled with the not very large reduction in the aggregate surplus of the four leading western European economies, and assuming no great change in the net balances of other industrial countries, suggests (apart from any other reason) the need for a somewhat increased outflow of long-term capital to the rest of the world. The alternative could be an enforced correction of the current deficits in other regions by further restrictions on trade.

If the forecast convergence of balances in fact occurs, it could help in the restoration of a more secure pattern of long-term capital flows. It would become less necessary for the United States to balance so large a part of its outward flow of long-term capital by the inflow of less firmly committed funds from Europe. It has indeed been pointed out above that one source of the outflow of capital from Europe—the liquidity of the western German economy—may in any case become weaker in 1969. At the same time, even a small surplus in the United Kingdom, and the consequent repayment of a part of the debt acquired in recent years, could release funds for other purposes. The geographical concentration of surpluses and deficits seen in the last two years or so has not been conducive to the most effective long-term use of western European savings; the countries with an adequate mechanism for the effective use of long-term capital in other parts of the world have been able to finance such investment only by short-term borrowing or by using reserves. This indirect channelling of international funds has its disadvantages. Nevertheless, present prospects suggest that it must continue, if in modified form, for some time yet. The improvement in the pattern of balances to be expected in the next year or so is significant, but will remain incomplete.

[78] The OECD suggested in December 1968 an improvement in the current account of $2.2 billion (OECD, *Economic Outlook*, December 1968). A recent forecast by the Federal Reserve Board suggests an improvement of over $2 billion in merchandise trade alone (*Wall Street Journal*, 27 February 1969).

(iii) Trends and fluctuations in payments balances

Much economic analysis and policy discussion has inevitably been preoccupied with the conspicuous imbalances that have arisen in the last two or three years among the major industrial countries. It may be worthwhile to make some attempt to distinguish the longer-term trends from the violent annual fluctuations. The discussion of the appropriate remedies, including proposals for increasing the supply of international liquidity, must be concerned with separating the alleviation of temporary difficulties from the correction of underlying, or " structural ", imbalances.

It is not suggested that this distinction is an easy one to make. The following simple approach offers no more than a few preliminary indications.

It may be assumed, although with many qualifications, that year-to-year variations in the balance of payments depend largely on variations in the rate at which domestic incomes and expenditure increase. (Such variations are influenced, of course, by government policies, but also by many independent causes.) A rough and ready method is therefore adopted for " correcting " the annual payments balances for the assumed effects of such short-period fluctuations in domestic expenditure.

The countries considered are five leading countries which play major roles in the functioning of international trade and payments: France, western Germany, Italy, the United Kingdom and the United States; and the analysis is restricted to the 1960s.

The two variables considered for each of these countries are:

(*a*) the excess of domestic expenditure, in current prices, over the GNP, also in current market prices, of the previous year. This may be described as the " expansionary impulse " or the pressure of domestic demand. (Domestic expenditure is consumption and domestic investment, including stockbuilding.)

(*b*) The balance of payments on current account in goods and services (plus factor income) in current prices. The current account is clearly more appropriate than the basic balance, or overall balance, since the influence of variations in domestic demand on capital movements (whether monetary or non-monetary) presents a different set of problems.[79]

Each variable is expressed as a percentage of GNP in the previous year.

[79] In fact, it would be still more appropriate to remove from the current account such elements as military expenditure, development aid grants, certain private transfers and perhaps investment income and payments, which are only indirectly if at all influenced by variations in domestic demand. Government transfers are already excluded by confining the current account to transactions in goods and services.

Variations in the expansionary impulse must by definition be balanced by a change in the volume of output plus a change in prices plus a change in the current account; these different effects (if they may for the moment be regarded as effects) are variously distributed in different countries at different times.[80]

To " correct " the annual fluctuations in the current balance for variations in the expansionary impulse requires some measure of the degree of association between them. No very systematic relationship can be expected, partly because time lags must be significant but can hardly be detected from annual data, partly because the sensitivity of the balance of payments to demand pressure must depend on the current rate of utilization of production capacity and labour, and partly because the impact on the balance of payments must depend on the corresponding demand pressures in competing and customer countries.

As an arbitrary guide, it has been assumed that the following proportions of each annual deviation from the average expansionary impulse experienced in 1960-1967 will be reflected in the current account:

Italy and United Kingdom	one-half
France and western Germany	one-third
United States	one-tenth.

These proportions are based partly upon the level of foreign transactions in goods and services in relation to GNP in each country, and partly upon the extent to which annual variations in the current balance appear to be associated with variations in domestic demand.

It appears from Table 20 that the association is much closer in Italy and in the United Kingdom than in the other three countries. For France and western Germany, the fluctuations in the expansionary impulse appear to be associated, within the same year, as much with the growth in output volume (in both countries) and with the rise in prices (especially in France) as with the current balance. In the United States, with its low degree of trade dependence, a close association can hardly be expected.

The actual current balance for each year for each country (as a percentage of GNP in the previous year) is then adjusted by these proportions to yield a " corrected " current account. (It should be noted that the effect of taking moderately different proportions from those suggested would not much affect the general trend of the corrected balances.)

The corrected balances are shown, and compared with the actual balances, in table 20 (and chart 3). Preliminary estimates for 1968 have been included.

The " corrected " balance may thus be regarded as an indication of how the current account might stand in conditions of *constant pressure of domestic demand* (a constant rate of expansionary impulse) equal to that experienced on average in the years 1960-1967. It will be realized that the relationships between domestic demand and the balance of payments may well be changed in the future—for example by the devaluation in the United Kingdom and by the border tax adjustments made in France and western Germany at the end of 1968. The following tentative conclusions may be drawn from past experience:

(i) For France, the current account surplus has been rather steadily declining after variations in the expansionary impulse have been discounted in the way described. This downward trend may be interpreted as the gradual disappearance of the gains from the devaluation of 1958.

(ii) For western Germany, the " correction " of the current balance does something to remove the effect of weak expansion in 1966 and 1967 as a generator of the very large current surplus. But the implications of the experience of 1960-1967 are that a rate of domestic demand expansion not very different from the 1960-1967 average would still hold the current balance well above 1 per cent of GNP (a balance of 1½ per cent of GNP is the official " target " of medium-term policy). The evidence of 1960-1962, when the surplus was reduced from around 4 per cent to not much over 1 per cent of GNP, may, however, be relevant.[81]

Experience in 1968 appears at first sight disquieting, since even the corrected current surplus rose to over 3 per cent of GNP; the expansionary impulse was still somewhat less than the 1960-1967 average (the bigger than average increase in output was derived from the increase in exports). But it is clear that very strong special factors were at work to increase the surplus—the big increase in exports to the United States, and the favourable effects on costs and prices of a sharp recovery in output volume after two years of low utilization of capacity. Disappearance of these special circumstances may somewhat reduce the surplus but a reduction to 1½ per cent of GNP does not seem likely for this reason alone.

(iii) In Italy, the fluctuations of demand pressure were particularly violent during the 1960s. When these are discounted, the corrected current surplus has remained rather stable at around 1 per cent of GNP. The Italian surplus can indeed be regarded as " persistent ", and, moreover, has not been covered by an outflow of long-term capital. This surplus is associated, on the average experience of 1960-1967, with an average growth rate in real GNP of 5½ per cent.

(iv) Until 1967, the United Kingdom showed a " corrected " current surplus never exceeding 1 per cent of GNP and only once (1965) reaching that level. At the same time, the average outflow of long-term capital has averaged about 1 per cent of GNP in 1960-1967. The deficit in 1967—larger on the " corrected " basis because of the relatively weak pressure of domestic demand in that year—may represent in part a worsening of the trend, but in part was also due to special factors. The effect of devaluation, in adjusting the relationship to a

[80] The distribution of these effects in 1960-1966 in 12 western European countries was analysed in the *Economic Survey of Europe in 1967*, chapter I, pp. 40-42. It should be noted that the causal chain may work both ways, e.g. a rise in output volume generates incomes which add to the expansionary impulse.

[81] This includes the effect of the 5 per cent revaluation in March 1961.

given level of domestic demand pressure, remains to be seen.

(v) The current surplus of the United States when corrected for demand variations has fluctuated around 1 per cent of GNP but with a declining tendency from 1964, falling dramatically, for reasons given elsewhere in the SURVEY, in 1968 (the corrections cannot much affect the United States balance since it cannot be expected to be highly responsive to fluctuations in domestic demand). The problem of the United States balance lies in the very small gap between, on the one hand, a current surplus of which the level may be put at well below 1 per cent of GNP in conditions of constant pressure of domestic demand at the 1960-1967 level and, on the other, an outward flow of direct investment and public loans and transfers which has been steadily between 1½ and 2 per cent of GNP.

TABLE 20

Deviations in the expansionary impulse and implications for the current account

	1960	*1961*	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*	*Average 1960-1967*	*1968*
France										
1. Expansionary impulse	8.9	6.3	10.5	10.7	10.0	5.7	7.4	7.1	8.3	8.3
2. Deviation from average	0.6	−2.0	2.2	2.4	1.7	−2.6	−0.9	−1.2	—	0.0
3. Assumed effect on current balance	0.2	−0.7	0.7	0.8	0.6	−0.9	−0.3	0.4	—	0.0
4. Current balance	1.9	1.6	0.9	0.5	−0.1	1.1	0.4	0.3	0.8	0.1
5. Corrected current balance	2.1	0.9	1.6	1.3	0.5	0.2	0.1	−0.1	—	0.1
Western Germany										
1. Expansionary impulse	8.3	7.6	7.6	5.1	8.1	9.5	4.7	−2.5	6.1	5.2
2. Deviation from average	2.2	1.5	1.5	−1.0	2.0	3.4	−1.4	−8.6	—	−0.9
3. Assumed effect on current balance	0.7	0.5	0.5	−0.3	0.7	1.1	−0.4	−2.9	—	−0.3
4. Current balance	3.3	2.3	1.1	1.4	1.4	−0.1	1.4	3.4	1.8	3.8
5. Corrected current balance	4.0	2.8	1.6	1.1	2.1	1.0	1.0	0.5	—	3.5
Italy										
1. Expansionary impulse	8.3	10.4	12.9	17.3	8.9	4.2	4.9	6.6	9.2	..
2. Deviation from average	−0.9	1.2	3.7	8.1	−0.3	−5.0	−4.3	−2.6	—	..
3. Assumed effect on current balance	−0.4	0.6	1.9	4.0	−0.1	−2.5	−2.1	−1.3	—	..
4. Current balance	0.1	0.4	−0.3	−2.6	0.6	3.5	3.0	2.2	0.9	..
5. Corrected current balance	−0.3	1.0	1.6	1.4	0.5	1.0	0.9	0.9	—	..
United Kingdom										
1. Expansionary impulse	6.6	6.2	4.1	5.2	8.9	6.0	5.2	4.5	6.0	7.1
2. Deviation from average	0.6	0.2	−1.9	−0.8	2.9	0.0	−0.8	−1.5	—	1.1
3. Assumed effect on current balance	0.3	0.1	−0.9	−0.4	1.4	0.0	−0.4	−0.7	—	0.5
4. Current balance	−0.5	0.6	1.1	1.1	−0.6	0.5	0.9	−0.1	0.4	−0.2
5. Corrected current balance	−0.2	0.7	0.2	0.7	0.8	0.5	0.5	−0.8	—	0.3
United States										
1. Expansionary impulse	3.3	2.3	6.7	4.4	5.8	7.2	8.5	5.1	5.4	8.7
2. Deviation from average	−2.1	−3.1	1.3	−1.0	0.4	1.8	3.1	−0.3	—	3.3
3. Assumed effect on current balance	−0.2	−0.3	0.1	−0.1	0.0	0.2	0.3	−0.0	—	0.3
4. Current balance	0.8	1.1	1.0	1.0	1.4	1.1	0.7	0.6	1:0	0.3
5. Corrected current balance	0.6	0.8	1.1	0.9	1.4	1.3	1.0	0.6	—	0.6

Sources: United Nations, *Yearbook of National Accounts Statistics*; OECD, *Statistics of National Accounts;* national accounts questionnaires; national statistics.

NOTE. —

Line 1: *Expansionary impulse* equals national expenditure (i.e. consumption *plus* gross domestic fixed capital formation *plus* change in stocks) of the current year at current market prices *minus* gross national product of the previous year at current market prices, expressed as a percentage of the latter.

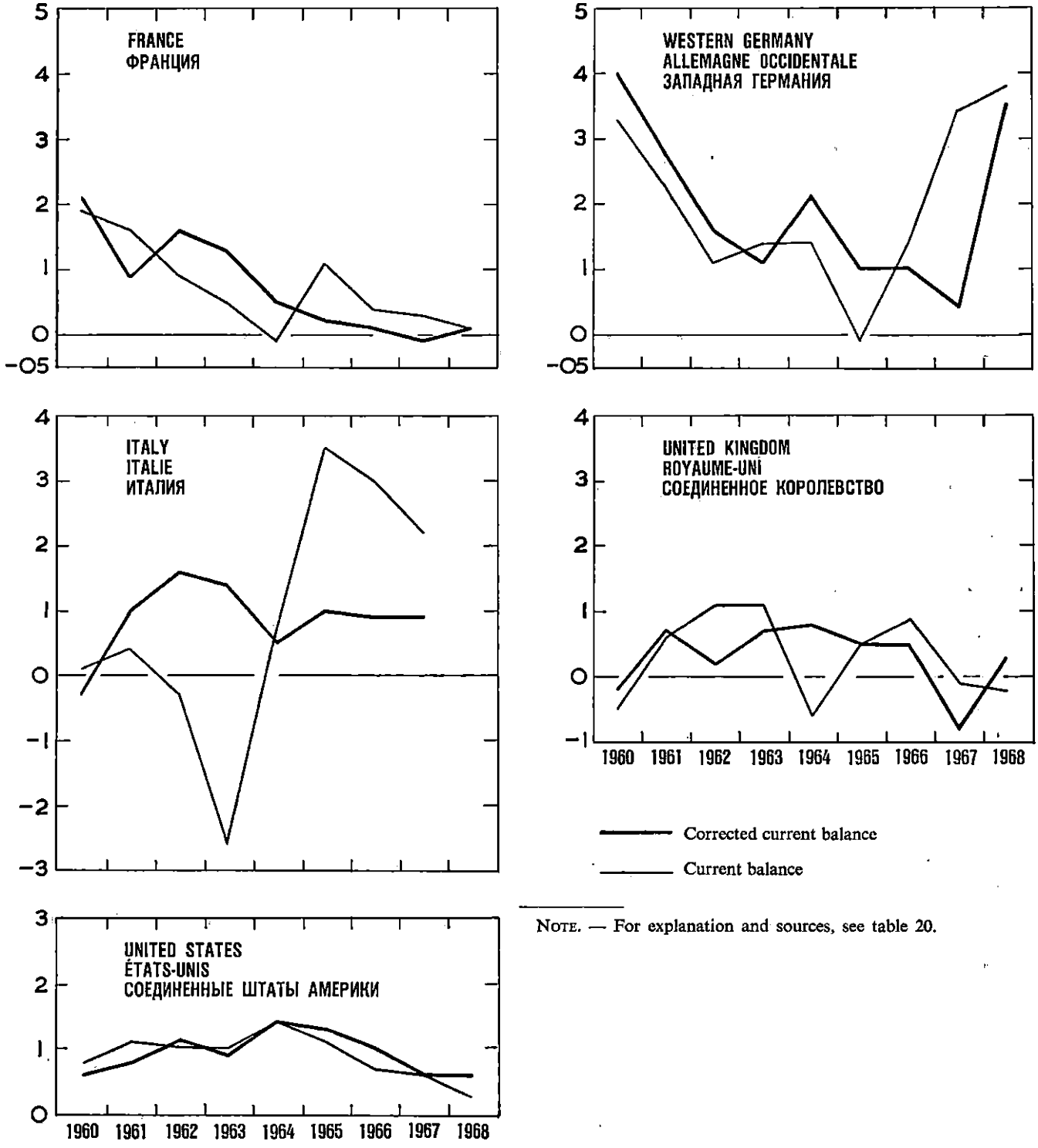
Line 3: Deviation of expansionary impulse from average (line 2) divided by assumed impact on current balance (France: 0.3, western Germany: 0.3, Italy: 0.5, United Kingdom: 0.5, United States: 0.1).

Line 4: Current balance on goods and services *plus* net factor income from abroad (as in national accounts), at current market prices expressed as a percentage of GNP of previous year at current market prices (plus = surplus).

Line 5: Current balance (line 4) *plus* assumed impact of deviation in expansionary impulse (line 3).

CHART 3

Deviations in the expansionary impulse and implications for the current account



NOTE. — For explanation and sources, see table 20.

7. SOUTHERN EUROPE

The southern European economies did not fully reflect in 1968 the recovery in economic activity experienced in the industrialized countries. In terms of real output, the expansion was about 4 per cent in Greece and Yugoslavia,[82] 4½ per cent in Spain, and in Portugal and Turkey it was nearly 6 and 7 per cent, respectively (table 21). But these growth rates (except in Turkey) were distinctly less than those envisaged in the medium-term plans (6 to 8 per cent a year) or than the average growth rates of the first half of the 1960s (also between 6 and 8 per cent a year).[83] Indeed, in both 1967 and 1968 there was a

[82] The rather different circumstances of Yugoslavia are discussed separately in section (iv) below.

[83] See *Economic Survey of Europe in 1967*, chapter I, table 20.

TABLE 21

Changes in output by sectors, and in prices, in selected southern European countries

(Percentage change over previous year)

	1965	1966	1967	1968	1965	1966	1967	1968
Change in output		*Greece*				*Portugal*		
Total GDP	7.4	7.1	3.8	4.0	7.0	3.3	7.3	5.7
Agriculture	2.6	2.1	4.2	−3.0	6.3	−9.7	9.8	3.8
Industry	9.4	11.9	2.2	8.0	9.9	6.9	7.6	5.4
Construction	9.7	7.4	5.3		13.0	25.0	10.3	7.2
Services	8.7	7.3	4.1	4.6	3.8	3.5	5.2	6.7
Distribution of GDP in 1965 and contribution to increase in GDP in 1966, 1967 and 1968								
Agriculture	23.3	6.9	24.6	−17.0	20.1	−58.9	23.7	11.8
Industry	21.2	35.5	12.9	59.0	36.7	77.3	40.0	36.2
Construction	7.5	7.8	10.5		5.4	41.0	9.2	8.5
Services	48.0	49.8	52.0	58.0	37.8	40.6	27.1	43.5
Price changes								
GDP deflator	4.7	2.8	2.8	0.5 [a]	3.3	5.9	4.4	2.7
Wholesale prices	4.5	3.4	−1.0	3.6	3.3	4.0	3.8	3.0
Consumer prices	3.0	5.0	1.7	1.6	3.4	5.1	5.5	4.2
of which: Food	4.6	5.8	0.7	3.2	4.2	7.3	1.7	2.9
Change in output		*Spain*				*Turkey*		
Total GDP	7.6	7.9	3.7	4.7 [b]	3.6	10.1	6.5	6.8 [b]
Agriculture	1.9	7.6	2.4	6.2	−3.3	11.6	1.4	1.9
Industry	9.4	9.7	3.9	4.3	8.9	10.6	12.5	10.5
Construction	9.6	6.9	4.8	5.8	6.0	12.7	8.2	10.1
Services	8.4	6.7	4.0	4.3	7.8	8.0	8.2	8.8
Distribution of GDP in 1965 and contribution to increase in GDP in 1966, 1967 and 1968								
Agriculture	18.4	16.8	11.3	22.6	36.2	41.6	8.0	9.8
Industry	32.0	40.1	34.5	28.2	17.8	18.8	34.5	29.2
Construction	5.4	4.9	7.1	8.7	6.3	8.0	8.2	9.8
Services	44.2	38.2	47.1	40.4	39.7	31.6	49.3	51.3
Price changes								
GDP deflator	9.8	6.2	5.6	2.5 *	2.6	4.9	4.3	2.5
Wholesale prices	10.1	2.6	0.5	1.8	8.9	4.4	5.2	5.3
Consumer prices	13.2	6.2	6.4	2.9	6.8	5.3	6.4	7.2
of which: Food	15.8	4.3	3.9	3.2	9.4	5.8	4.2	4.4

Sources: O Ekonomikos Tachydromos, 30 January 1969 and Greek Ministry of Co-ordination: *Economic News*; Portugal: United Nations questionnaire; Spain: United Nations questionnaire and national press; Turkey: State Institute of Statistics: *National Income 1938, 1948-67* and *Resmi Gazette*, 12.XII.1968.

[a] GNP deflator at factor cost.

[b] Figures for 1968 not strictly comparable with those for 1965-1967.

certain slowing down in most of the area which has temporarily retarded progress towards reaching the per capita income levels of the industrialized economies.

Prospects for 1969 may, however, be viewed with a certain optimism. In three of the southern European countries—Greece, Spain and Yugoslavia—1967 was a year of radical readjustment, the results of which began to appear during the course of 1968. An improved trend in exports (most notable in Portugal and Spain) and a still more general improvement in industrial investment are the most encouraging signs pointing towards a superior economic performance in 1969.

(i) Output and demand

Following a slow-down in 1967, the level of economic activity of *Greece* gained momentum throughout 1968. In spite of the adverse effects of a bad agricultural year, total production in real terms increased by 4 per cent—as much as in 1967, although still well below the target of the 1968-1972 development plan. There were, however, differences in the pattern of growth. In 1967, foreign demand, public consumption and public investment counterbalanced the slow-down resulting from a decline of total private investment and less buoyant consumer demand. In 1968, public investment continued to expand faster, while growth of public consumption was held down; but private consumer expenditure accelerated and private investment in total expanded at a rate well above the planned rate for 1968-1972. Stocks, which had increased in 1967, declined in 1968. Exports increased little above the level of 1967.[84]

The recovery in the growth of GDP was achieved without strains on either internal or external equilibrium. The internal price level remained on the whole stable and the minor deterioration of the current balance was more than offset by a higher inflow of capital; thus, total foreign reserves increased more than in 1967.

Agricultural production was affected by unfavourable weather; total output probably declined (at constant prices) by about 3 per cent from the 1967 level. The decline affected mainly wheat and barley, tobacco, cotton and olive production, and was not fully compensated by the modest increase in the output of animal products.

The unfavourable harvest results were reflected in the small increases in output of the food- and tobacco-processing branches of manufacturing; but other manufacturing and industrial branches in general expanded at an accelerated pace until the last quarter of 1968. The index of total industrial production (including mining, electricity and gas) for the third quarter of 1968 showed an increase of over 10 per cent compared with the same period of 1967, and for the first three quarters of the year the average increase was of the order of 6 per cent. The most dynamic industrial branches have been those producing intermediate products for industry and construction, such as chemicals and oil refining, rubber, paper, basic metals, cement and electricity generation, while the consumer-goods branches expanded more slowly.

Although at present there is no separate estimate available of the increase in construction, it is obvious that, under the stimulus of public investment and a new residential housing boom, it has expanded (in real terms) at a faster rate than that for the industrial sector as a whole (8 per cent).

In contrast with the strong acceleration in industry, estimated output in services (of great importance in the Greek economy) increased only moderately—by some 4½ per cent against 4.1 per cent in 1967. The value of retail sales during the January-October period was some 10 per cent above that for the same period of 1967, and although the number of tourist arrivals has remained virtually stable, neither transport activities [85] nor other services of a social or administrative kind seem to have suffered a slowdown; thus, the services sector as a whole might have expanded somewhat faster than preliminary estimates show.

Total fixed investment, which hardly rose in 1967, probably increased (in real terms) by about 15 per cent in 1968. The main stimulus originated in the public sector, especially from public enterprises. The main increase in private investment in 1968 appears to have been in residential and other building [86] in response to the credit measures taken; it is less satisfactory that manufacturing investment has so far proved slow to respond to the stimuli applied in November 1967 [87] and renewed and extended (to mining and handicraft activities) in November 1968. This is reflected in the stagnation of capital goods imports (taking January-October payments figures) but may have changed towards the end of 1968; advance approvals for the import of mechanical equipment during the January-July period of 1968 were 5 per cent up.

The increase in private consumption in real terms in 1968 is put at some 6½ per cent. The scant indicators of employment and incomes refer mainly to manufacturing, thus excluding the greater part of earned income. According to these data, average weekly receipts of male workers in May 1968 were over 7 per cent greater than in May 1967. Average hourly earnings rose by 6 per cent, which implies a certain lengthening of working hours. Real incomes of those employed in manufacturing and

[84] The use of the SITC classification in table 22, covering only three quarters of 1968, may result in an apparent discrepancy with some statements in the text based on the latest national statistics available, generally covering a more extended period but not available in a SITC form.

[85] Tonnage of laid-up merchant ships increased considerably in 1968, but partial balance-of-payments figures show a great improvement in maritime transport earnings.

[86] Building permits during the first eight months of 1968 were 41 per cent above those for the corresponding period of 1967 and 27 per cent above those for 1966, which was also a boom year for building.

[87] Twenty-nine enterprises investing about 0.9 billion drachmas have benefited from the November 1967 measures. This represented roughly one-third of total private enterprise investment in 1967.

handicrafts increased considerably from May 1967 to May 1968, since during this period consumer prices remained completely stable; but manufacturing employment declined during the first half 1968 and in June was some 3.5 per cent less than a year before. The wage bill in industry and handicrafts may therefore have increased by about 3 per cent in the first half of 1968. Thus the stimulus to consumer demand must have come from higher employment and wages in construction and services, since agricultural incomes were affected by the bad agricultural year. These data seem to be confirmed by the very rapid decline in total unemployment during the second and third quarters of 1968; emigration seems to have contributed to the decline in unemployment only very marginally in 1968—in the first half of the year net permanent emigration amounted to less than 7,000 persons. Consumers' incomes should thus have continued to increase in money terms during most of 1968.

The first 7.5 per cent rise of the two-stage increase in the minimum salary was enacted in October 1968 (the second stage to be implemented in May 1969), and most affects the branches in which employment in 1968 grew most rapidly (construction and services). It should be pointed out, however, that the increase in the consumer price index (2.5 per cent, December 1968 over December 1967) took place during the second half of 1968; this increase, which originated mainly in the food component (and also in " housing " and " personal care ") might imply that the rate of growth of real earned income and consumption hardly accelerated in the second half of 1968.

After recovering in 1967 more vigorously than expected, the rate of expansion in *Portugal* slackened again in 1968. All sectors, except services, experienced a slowdown in output growth. On the demand side, commodity exports and consumption were the main supports to output while a decline in fixed investment followed the near stagnation of 1967. The slowdown in total output, which occurred in a year in which agricultural production expanded beyond the planned target, did not produce a radical improvement in the overall equilibrium of the economy; internal prices continued to increase, although at a slower place than in 1967, and the current account deficit probably rose from the abnormally low level of 1967.

Agricultural production probably increased in 1968 by nearly 4 per cent, with a good cereal harvest, a partial recovery in wine production, a considerable growth in the output of animal products (particularly meat), and a favourable reversal of the cycle of cork production. Particularly significant is the recent improvement in the yields of cereals: in 1968, 73 per cent above the average of 1958-1967 for wheat, 47 per cent for rye and 118 per cent for barley. This increase is partly due to the abandonment of marginal lands (an 18 per cent decline in the area sown under wheat in 1967-1968 against the 1958-1967 average), but also to the more intensive use of inputs, seed selection, and modern techniques in general. Further factors in the increased agricultural output were the cattle-breeding development plan introduced in 1965, subsidies to mechanization (1968), and the improvement (since 1964) of the terms of trade of agriculture. The most important policy changes were the new higher price support for olive oil (December 1968) and new rules regarding price protection of animal products aimed at increasing the supply of non-bovine meat and reducing that of bovine meat.

The official forecast of October 1968 for the industrial sector (excluding construction and including public activities) puts its growth in 1968 at 5.4 per cent, against 7.6 per cent in 1967. The forecast was made when data for only January-May were available, showing the index of industrial production was 8 per cent above the corresponding period of 1967. The estimate might be somewhat optimistic since the index of industrial production during the June-August period (latest available) was only 2.6 per cent above that for the same months of 1967 and in its last industrial inquiry (September 1968), the Industrial Corporation noticed " a slack in the movement of industrial recovery ". Only two sectors show a clear expansion for the first eight months of 1968: non-metallic minerals and electricity generation; in most manufacturing branches and in mining, a slowing down occurred in the second or third quarter of 1968, and the levels of production were unsteady. However, some acceleration of output in the latter part of 1968, as reflected in the official forecasts, is not impossible. The forecasts show that the paper and printing, footwear and clothing, and food-processing industries expanded most in 1968.

After the extraordinary expansion of 1966, construction has slowed down during the last two years. The fact that only one-third of the ambitious public investment programme foreseen for 1968 in the Third Development Plan was carried out during the first three quarters of the year was one element in the slower growth, but the main cause was the slow-down in the expansion of residential building.

Running surprisingly against the trend in industry, the services sector increased its rate of expansion in 1968; this was mainly due to the expansion of trade which had suffered a contraction during the previous two years, but transport activities and financial services also contributed substantially.

The available data do not allow a complete account of the changes in demand in 1968. According to the official forecast, total fixed investment was expected to decline rapidly in 1968 due to a very severe fall in private investment, which (if confirmed) is all the more serious since it affects mainly productive investment in industry, which had already declined in 1967. Investment in manufacturing in 1968 is put at little above one-half of the 1966 level (1963 prices). Assuming a certain deterioration in the current deficit, and a likely moderate reversal of the stock cycle, the most dynamic sectors of total demand in 1968 must have been public investment (which partially recovered from the low level in 1967), private consumption and merchandise exports, especially industrial products. Current public expenditure, which in 1967 had been the most dynamic sector of total demand, increased in 1968 very moderately (by about 4 per cent).

The official estimate of falling industrial investment is, however, difficult to reconcile with earlier expectations. An inquiry carried out by the Industrial Corporation in March 1968 (covering industrial units accounting for 90

per cent of value added) suggested that industrial investment outlays in 1968 should exceed those of 1967 by about 15 per cent at current prices. Investment plans may have been revised downwards in the face of a certain slack in foreign and domestic demand for industrial products; however, the increase of 8 per cent in imports of machinery and transport equipment (shown by national statistics, sections XVI and XVII of the Brussels Custom Classification) in 1968 (January to November) is also hardly consistent with a violent fall in private investment.

Consumers' expenditure probably increased by well over 5 per cent in volume, against little more than 2 per cent in 1967, since real salaries and wages increased considerably in 1968.[88]

1968 was a crucial year for *Spain*; it was the test period for the new set of policies introduced in November 1967 together with the peseta devaluation. In the *Economic Survey of Europe in 1967*, the question was raised as to whether the new policies would be conducive to deeper structural qualitative changes or whether the new stabilization programme was only to be a temporary remedy for short-term problems. It is perhaps too early to give a final answer to such a question; however, the indicators so far available indicate that the economic policy has, to a certain extent, been successful in its immediate aims, but somewhat less successful in its objectives for deeper structural reform.

According to a first estimation of the National Institute of Statistics, real GDP at factor cost increased in 1968 by 4.7 per cent. The most dynamic sectors were construction and agriculture, which both substantially accelerated their rate of expansion over that of 1967, while the increase in the gross product of manufacturing (including public utilities), and of services, did not differ significantly from the rates prevailing in 1967. These data, however, mask an important difference in the pattern of general economic activity, which tended to slow down throughout 1967 and to recover gradually in 1968; an indicator of this recovery is the reduction in the proportion of unused capacity in industry which fell from 21 per cent in the first quarter to 20 per cent in the second quarter, 19 in the third and 17 in the fourth. No estimates have yet been released on the change in the supply and use of resources but, from the partial data available, it seems clear that the most dynamic sectors of final demand in 1968 were commodity exports and public sector expenditure, particularly current expenditure. Total fixed investment, which had stagnated in 1967, probably increased by about 2 to 3 per cent (in real terms) in 1968 under the combined influence of an increase in industrial investment (including mining and public utilities) of less than 2 per cent, a recovery in agricultural investment (after a decline in 1967) and an increase in residential construction. Under the conflicting influences of a good agricultural year and a slow growth in industrial output, stock changes have probably been small. It seems reasonable to suppose from the trade and partial payments data available for 1968 that there was a shift of resources towards the balance of payments, causing a reduction in the current deficit equivalent to nearly 1 per cent of GNP; private consumption probably increased (in real terms) *pari passu* with total use of resources, or by about 3½ per cent.

Net value added in the agricultural sector (at constant 1967 prices) increased in 1968 by 6.2 per cent.[89] A better balance was achieved between the supply and demand of certain products (animal products, feedstuffs) with a consequent decline in imports and in surpluses. The main increases in production occurred in barley (+44 per cent), maize (+20 per cent), olive oil (+52 per cent), cotton and wine (+7 per cent) and meat of all kinds (+5 per cent). The assimilation of more modern techniques is reflected in the increase of 24 thousand (6 per cent) in tractor registrations and in the increased use of fertilizers, selected seed, etc. The terms of trade of the agricultural sector improved in 1968 and agricultural wages increased by about 8 per cent. Several important new laws were enacted in 1968 (mainly streamlining legal procedure on land improvement, and internal settlements increasing subsidies for mechanization—especially to co-operatives —and setting up the much-awaited organization centralizing price and market balance policies in agriculture: the Fund for the Guidance and Regulation of Agricultural Production and Prices). Agricultural prospects for 1969 seem good, sowings have been carried out under favourable conditions and there has been a new and desirable decline in the area under wheat and greater fodder-crop sowings.

Industrial output (including mining, construction and public utilities) increased in Spain in 1968 by 4.5 per cent in real terms.[90] Construction increased by nearly 6 per cent and public utilities output by some 8.5 per cent. This implies that the output of manufacturing increased by less than 4 per cent for the second consecutive year. The increase in total industrial output was entirely due to productivity, since the number of man-hours worked did not change and total employment increased in 1968 by less than 1 per cent. Wages per man-hour (according to the Ministry of Industry's statistics) increased in 1968 by 9.5 per cent.[91] Thus, labour costs per unit of output increased in 1968—the first post-devaluation year—by 4.8 per cent in pesetas, representing, however, a significant fall in terms of foreign exchange. The recovery in the level industrial output[92] was probably strongest in the last quarter of 1968.

For the year as a whole, the greatest increases in production occurred in the intermediate and capital-goods industries, while the output of some consumer-goods

[88] In the third quarter of 1968 the average level of wages in industry and transport was 10.5 per cent higher (in current prices) than in the same period of 1967 in Lisbon and 7.6 per cent higher in Porto. In September 1968 male rural workers' wages were about 18 per cent above the level of September 1967.

[89] According to a recent statement by the Minister of Agriculture (Spanish Press, 22 January 1969). Gross value added probably increased by nearly the same amount.

[90] Statement by the Minister of Industry of 28 January 1968.

[91] Among the November 1967 measures, a wage freeze was imposed, although wage increases associated with productivity bonuses were permitted.

[92] According to the seasonally adjusted index, the greatest slowdown occurred in the second quarter of 1968 when capacity utilization started to recover.

sectors declined severely. The best results in 1968 were obtained by the basic metal industries, petroleum refining, chemicals, electricity generation and ship-building, but the output of textiles declined drastically. The consumers' durables branches showed a mixed result with a decline of 34 per cent in the production of motor-cycles, but an increase of 12 per cent in the number of cars and a considerable rise in the production of washing machines and television sets.

One of the most salient factors of the evolution of industrial output in 1968 was the great increase in foreign demand for industrial products, of which exports increased in 1968 by almost 30 per cent in dollar terms.

According to the estimates of the State Planning Organization, real gross domestic product (at factor cost) increased in *Turkey* in 1968 by 6.8 per cent, close to the 7 per cent target set in the 1968 programme and a little more than in 1967. This increase, in spite of little growth in agricultural output, was due to the continued strong expansion of manufacturing and construction (which achieved a rate of expansion well above that set in the annual programme for 1968). Downward revision of the harvest data available at the time when the official estimate was made, particularly for wheat, suggests that agricultural output may have been somewhat lower than expected.

In the industrial sector (including public utilities) there were important increases in the output of iron and steel (particularly steel plate), lignite and iron ore extraction, cement and electricity production and in the output of crude petroleum and fertilizers. In general, the branches associated with investment activities developed more rapidly than branches producing consumer goods, a result not surprising considering the general demand trends.

The construction sector accelerated its rate of expansion due to a considerable increase in residential building, and even more in industrial and commercial construction. It may be noted that increases in the estimated real output of services, of 8 to 9 per cent a year, continue to account for half the increase in total national output.

Except for public consumption, which increased at a slightly slower pace than in 1967, all sectors of demand developed faster than in 1967, but the fact that fixed investment grew considerably more rapidly than consumption implies an increase in the share of investment in total resources from 20.3 to 21.2 per cent. The proportion of private to public investment also increased. It should be pointed out, however, that although total investment, including a moderate increase in stocks, increased in real terms by 12 per cent, the increase was well below the planned target of 16 per cent. The underfulfilment of the target affected exclusively public investment projects and was due to failure to obtain sufficient external finance.

While all sectors of domestic demand expanded rapidly, as did imports, merchandise exports failed to increase. The current deficit on the balance of payments was thus much greater than in 1967. The general price level, as measured by the GDP deflator, shows a slow-down of inflationary pressures, but this was not reflected in the index of consumer prices (for Ankara) or by the evolution of the wholesale price index.

(ii) Trade and payments [93]

Preliminary balance-of-payments data for 1968 show for *Greece* a moderate increase in the current deficit. This is accounted for by the deterioration in the trade balance; net invisible receipts increased under the influence of greater shipping receipts (benefiting from the closing of the Suez Canal), but net tourist earnings declined marginally and emigrant remittances hardly changed.

The deterioration in the trade balance of some $75 million was the net result of an increase in imports of about 11 per cent combined with a rise in exports of only 3 per cent. The increase in imports originated mainly from rapid increases in the imports of fuels, agricultural products (partially as a result of the poor crops) and manufactured consumer goods. The increase in imports of consumer goods (roughly one-third of total imports) was largely financed by an increase in medium-term foreign suppliers' credits, and led the Government to introduce certain restrictive measures, such as lengthening the repayment period of import deposits, raising the share of obligatory prior deposits on imports of luxury goods and reducing certain import quotas.

The small growth of exports resulted from a sharp decline in food and tobacco exports (see table 22), offset by a rapid increase in exports of manufactured goods (textiles and metals), mineral ores (magnesite), and raw materials and semi-manufactured products (cotton and hides). Trade diversion towards the European Economic Community has continued in 1968.

The deterioration in the current deficit (by some $25 million) was financed by a greater net inflow of long-term capital (an increase of about $89 million). Direct foreign investment is slowly beginning to respond to the stimulus of government measures, but still remains low in absolute terms. The total net inflow of private capital, excluding supplier credits, increased in 1968 by about only 15 per cent; out of the total of about $130 million, only a small share was accounted for by direct foreign investment in industry incorporating foreign know-how.

For *Portugal*, information on foreign payments refers only to the first half of 1968. During this period, a reduction of the merchandise deficit of metropolitan Portugal was counterbalanced by a larger decline in the invisible surplus; thus, the deficit in the current balance

[93] The *Economic Bulletin for Europe*, Vol. 20, No. 2 contains a study of "Foreign trade developments in southern European countries" which examines the trade problems of the less developed countries of the ECE region in detail. This section is therefore limited to a summary description of recent developments which, in general, confirms the trends noticed in the above-mentioned study.

TABLE 22

Foreign trade of selected southern European countries

(Values in millions of current dollars and indices (1967 = 100))

Commodity group (SITC code in brackets)	1966	1967	1968	1966	1967	1968
	Values		Index a	Values		Index a
Imports (c.i.f.)		**Greece**			**Portugal**	
Food, beverages, tobacco (0, 1, 4)	167.2	173.0	94.2	150.6	167.8	92.7
Crude materials and semi-manufactured products (2, 5, 6 (less 65))	423.1	409.1	105.3	411.2	420.3	104.3
Fuel and lubricants (3)	90.3	94.1	79.4	77.1	90.7	107.4
Machinery and transport equipment (7)	450.8	414.3	132.5	311.6	303.3	99.9
Textiles and other manufactured articles (8, 9, 65)	91.5	95.8	104.5	72.3	77.1	123.6
TOTAL	1 222.9	1 186.3	112.3	1 022.8	1 059.2	102.7
Exports (f.o.b.)						
Food and beverages (0, 11, 4)	141.9	164.5	95.5	153.1	173.1	110.3
Tobacco and tobacco manufactures (12)	112.0	137.7	58.8	0.3	0.4	100.0
Fuel and lubricants (3)	3.5	4.9	122.6	10.3	9.9	92.5
Metallic ores and scrap (28)	13.8	12.5	115.8	5.2	6.8	107.4
Raw materials and semi-manufactured products (2 (less 28), 5, 6 (less 65))	105.4	144.8	122.2	245.6	256.6	102.7
Textiles and clothing (65, 84)	17.1	20.2	109.9	153.3	188.8	117.0
Machinery and transport equipment (7)	7.0	5.6	56.5	26.8	35.8	123.3
of which: transport equipment (73)						
Other manufactures (8 (less 84), 9)	5.5	5.1	122.9	24.9	29.9	125.7
TOTAL	406.0	495.3	96.0	619.5	701.3	110.3
Imports (c.i.f.)		**Spain**			**Turkey**	
Food, beverages, tobacco (0, 1, 4)	612.0	571.3	85.4	39.8	10.1	74.6
Crude materials and semi-manufactured products (2, 5, 6 (less 65))	1 397.4	1 253.1	99.5	280.5	288.3	103.7
Fuel and lubricants (3)	344.7	425.8	132.0	55.6	54.2	121.9
Machinery and transport equipment (7)	1 004.3	1 000.5	86.7	307.4	295.0	118.9
Textiles and other manufactured articles (8, 9, 65)	213.9	219.3	89.1	41.3	43.3	112.0
TOTAL	3 572.4	3 470.0	96.5	724.7	690.9	111.6
Exports (f.o.b.)						
Food and beverages (0, 11, 4)	544.9	619.1	88.9	158.0	198.9	87.3
Tobacco and tobacco manufactures (12)	1.1	1.5	127.3	107.6	118.0	74.6
Fuel and lubricants (3)	56.1	79.9	207.7	4.4	0.5	80.0
Metallic ores and scrap (28)	7.1	10.9	108.1	12.8	10.5	135.0
Raw materials and semi-manufactured products (2 (less 28), 5, 6 (less 65))	265.8	302.8	118.6	204.3	190.7	116.6
Textiles and clothing (65, 84)	62.4	58.6	151.4	2.7	3.0	254.5
Machinery and transport equipment (7)	205.4	179.3	139.0	0.2	0.2	50.0
of which: transport equipment (73)	125.4	71.2	143.9			
Other manufactures (8 (less 84), 9)	110.8	132.0	122.4	0.6	0.6	100.0
TOTAL	1 253.6	1 384.1	114.5	490.5	522.4	97.5

Sources: OECD, Foreign Trade, Series B, *Commodity Trade.*

a Based on first nine months.

increased. This deficit was, however, more than balanced by an increase in the current surplus of the Overseas Escudo Area; the current surplus of the Escudo Area as a whole therefore increased and although the outflow of capital also rose, the increase did not fully offset the improvement in the current balance, so that foreign currency reserves continued to grow.

More recent data regarding currency reserves and foreign trade suggest that the general features of the second half of 1968 were similar to those of the first. In all probability the current balance of metropolitan Portugal deteriorated more markedly than in the first half, since tourist receipts have probably declined *pari passu* with the number of tourists, emigrant remittances

changed little (since exchange regulations of the countries in which emigrants work made transfers more difficult) and the trade balance is likely to have deteriorated due to the acceleration of imports which seems to have taken place in the last quarter of the year. The rising level of foreign currency reserves (unless capital movements altered significantly) indicates that the current surplus of the Overseas Escudo Area again more than compensated the deterioration in the current balance of metropolitan Portugal.

Trade data for the first eleven months of 1968 show a 7 per cent increase over the same period of 1967 in the current value of imports and exports. The increase in imports occurred mainly during the second half of the year and was largely accounted for by textile fibres (mainly cotton), chemicals and plastics, and machinery and transport equipment.

Portuguese exports increased in 1968 by 7.2 per cent: excluding trade in Angolan diamonds, the growth was considerably greater (10 per cent). This expansion was mainly attributable to manufactured products and was particularly large for footwear (39 per cent), ceramics (20 per cent) and textiles (13 per cent).

While the share of EFTA countries in Portuguese exports had increased considerably in 1967, last year it declined, mainly due to the stagnation of exports to the United Kingdom. Portuguese imports from its EFTA partners increased slightly more slowly than total Portuguese imports.

Spain's visible trade balance (*f.o.b.-c.i.f.* basis) improved in the full year 1968 by $167 million as a result of an increase of 15 per cent in the dollar value of exports while imports in dollar terms increased by only 1 per cent. The following data show the changes in prices and volume for the first nine months of 1968 compared with the corresponding period in 1967.[94]

	Percentage change	
	Exports	*Imports*
Peseta value	33.6	12.6
Volume	28.7	4.6
Dollar value	14.5	−3.5
Implied dollar price	−11.0	−7.7

The table shows that in Spain about three-quarters of the price effect of devaluation was reflected in lower export prices, by contrast, for example, with the United Kingdom where less than half of the devaluation was reflected in lower dollar prices. This may be explained by the higher elasticity of supply in the Spanish economy where productivity gains have tended to increase considerably faster than in the United Kingdom.[95]

The balance on services probably improved only moderately: gross tourist receipts increased *pari passu* with the number of tourists (a rise of 7½ per cent) but other services—with the possible exception of shipping—probably continued, as in 1967, to show an increase in the net negative balance. Income from private transfers has probably declined slightly. The net inflow of long-term capital increased substantially in spite of the recorded [96] decline in foreign direct and portfolio investment, because of greater official foreign borrowing. Reserves, which had declined by $125 million in 1967, increased by $61 million in 1968.

Exports of manufactured goods (excluding refined petroleum products) rose in dollar terms by 29 per cent. The biggest increases were in footwear (76 per cent), machinery (33 per cent), textiles (56 per cent) and chemicals (23 per cent). An important share (29 per cent) of the increase in total exports was due to the $60 million rise in exports of petroleum products.

With the important exceptions of chemicals and crude oil, practically every main import category declined (in dollar values) in 1968; in particular, imports of machinery fell by 10 per cent in the full year, but the trend was reversed in the last quarter—suggesting a favourable change in the investment trends of the Spanish economy.

Turkey's exports, in value, fell in 1968 by 5 per cent while imports increased by 12 per cent. The decrease in exports was due to declines in exports of tobacco, hazel-nuts, olive oil and of copper, which were not fully offset by increases in exports of cotton and cotton textiles (an increase from $0.5 million in 1967 to $3.4 million in 1968), citrus fruits and some ores. The increase in imports was more general, but was particularly important for petroleum, chemicals, fertilizers and capital goods, especially transport equipment.

These trends are reflected in the deterioration in the trade balance during the first eleven months of 1968 of $87 million. The invisible surplus increased slightly as a result of greater emigrants' remittances; thus, the deterioration in the trade balance was reflected in a widening of the current deficit by about the same order of magnitude. The improvement in the capital account (of about $61 million even after the postponement of debt service) was insufficient to offset completely the worsening of the current balance.

[94] OECD for volume index, and national statistics for value data.

[95] While the volume increase in *total* Spanish exports in 1968 was of the order of little over 20 per cent, it appears from statistics of quantity that the volume of *manufactured* exports (SITC sections 5 to 8) increased by perhaps twice as much.

[96] Only data on foreign direct investments with over 50 per cent foreign participation are currently available for the whole of 1968.

(iii) Prospects and policies

In the light of present trends, it seems likely that the level of economic activity in *Greece* will expand more rapidly in 1969 than in 1968. According to the official forecast, GNP (at market prices) should grow in volume terms by about 10 per cent and all sectors of demand and output are expected to expand more than in 1968. The

official forecast assumes a recovery in agricultural output and a further significant expansion in the industrial sector (13 per cent). The latter may be more difficult to attain in view of the weak trend in industrial investment in the last two years.

Economic policy in 1968 was successful in generating an acceleration of economic activity, based on a revival of construction; but at the end of 1968 the problem of the stimulation of productive investment seemed almost as acute as it was at the end of 1967. The recent increases in interest rates and the raising of the credit ceilings may prompt a shift of savings to productive investment.

At the end of 1968, the main problem facing the *Portuguese* economy hinged on the need to reactivate total demand, particularly investment demand, without causing undue strains on prices. As has been mentioned in previous SURVEYS, it has been a major problem for Portugal to reconcile rising military expenditure with the investment effort necessary for the economic development of the country (current military expenditure amounted in 1963 to 6.6 per cent of national expenditure; in 1967 its share had increased to 7.8 per cent). In recent years the Portuguese economy has been characterized by an alternation of years of satisfactory economic growth with others of insufficient expansion. The investment ratio reached a maximum in 1966, but it declined rapidly during 1967 and 1968, although domestic savings increased substantially. This increase in the domestic savings ratio, which has coincided with a decline in the investment ratio, is reflected in the dwindling participation of external savings in domestic investment; this participation fell from 24 per cent in 1965 to 9 per cent in 1967.

Economic policy continues to be somewhat pragmatic. In the industrial sector, for example, a special law (approved on 8 January 1969) has been enacted to solve the financial crisis in the cotton textiles industry (which in the nineteen-sixties has financed its investment by short-term credits) by promoting mergers, debt funding and faster depreciation allowances. But the financial problems which have beset the cotton textiles industry have also affected many other branches, and a more general solution seems to be required. The new Government has introduced certain corrective measures, such as simplifying interest rates and reshaping the export credit mechanism; incentives for new industrial investments have been announced, and certain public investment outlays earmarked for the near future (such as the new railway programme) will benefit industrial branches which have been particularly depressed recently. However, present difficulties in the supply of credit, the existence of many administrative restrictions on industry and agriculture, and uncertainties about the fulfilment of public investment programmes, have all been obstacles to the smooth operation of the economy. The recent deterioration of entrepreneurial expectations, and the expected decline in industrial investment forecast for 1969, shown by the latest enquiry of the Industrial Corporation, are not promising for the evolution of total demand in 1969. More decisive stimulative action by the Government, even at the risk of losing reserves, seems to be called for if the GNP output target (7 per cent a year) in the Third Development Plan is to be realized.

Little doubt remains about the continued recovery of the *Spanish* economy, originating in exports and reinforced later by increased agricultural output and incomes and by the flow of public contracts. Recent business inquiries show increasing orders, including orders for capital goods, declining stocks of finished products, and a rise in capacity utilization and in industrial output, which are beginning to produce effects on employment. Moreover, entrepreneurial expectations are improving and a strengthening of demand is expected.[97] The latest data on imports of capital goods indicate that private investment, which hardly increased at all during the greater part of 1968, is picking up strongly. The policy problems for 1969 may thus shift from emphasis on stimulation to the need for control of demand.

The record of economic policies in 1968 is rather mixed. The following points are worth underlining:

(*a*) The devaluation has clearly been effective. Exports of manufactured goods increased (in dollar terms) by almost 30 per cent and tourist earnings increased, although only moderately, in a particularly difficult year.

(*b*) Progress was made towards eliminating some important structural weaknesses in the economy: improvements in the structural demand-supply balance in the agricultural sector; the rather encouraging response to the incentives to industrial concentration (necessary to reduce costs in the long run) and to industrial investment in 1968;[98] and the considerable increase in the propensity to save, which was reflected in the higher rate of growth of savings accounts of all kinds and in the seven-fold increase in the capital of the recently created investment trusts.

(*c*) Prices were on the whole kept remarkably stable after devaluation. But this was largely due to the re-imposition of a great number of direct controls, which had proved a major obstacle to the effective working of market forces during the years before 1959, and which may lose their effectiveness if maintained for long. These controls were reactivated in the period November 1968 to January 1969 to cover 1969.[99]

The wage and price controls have not escaped criticism from entrepreneurs, who object to Government intervention, and in particular to the weaknesses of the present system of wage settlement.

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[97] Industrial inquiries by the Ministry of Industry (November 1968), the Barcelona Chamber of Commerce (December 1968) and the Bilbao Chamber of Commerce.

[98] Enterprises with a capital of nearly 26 billion pesetas merged in 1968 (but entrepreneurs in January 1969 requested an extension of these incentives). Investments under the special incentives to accelerated depreciation allowances, etc. amounted to 50 billion pesetas. (*Economia Mundial*, Madrid, 11 January 1969.) The incentives to concentration were extended to export enterprises by the Decree of 4 July 1968.

[99] The Decree of 7 November 1968 extended the price freeze of 1967; that of 17 December 1968 set up machinery to authorize increases in prices to a maximum of 2 per cent in 1969; and the most recent Decree, 18 January 1969, extended the rent freeze. The minimum wage was raised by 6.2 per cent from 1 January 1969. The wage freeze was relaxed on 1 October 1968, but wage settlements in 1969 are limited to an average increase of 5.9 per cent.

At the same time, the stimulus intended from increased public investments did not take effect when it was most needed. In the first three quarters of 1968, investments increased by only 1 per cent in value; only towards the end of 1968, when total demand was already picking up, did the flow of public contracts begin to accelerate.

The public investment programme for 1969, approved in December 1968, foresees total outlays of 129.4 billion pesetas, a 12.5 per cent increase on the 1968 programme. Together with a considerable planned increase in current budget expenditure, this prompted the introduction in November 1968 of a new and wide range of indirect taxes (on tobacco, quality wine, liqueurs, etc.) since budgetary receipts (up to the end of October) had increased by only 5.5 per cent; however, when the preliminary 1968 budget results were released, in January 1969, it was shown that total budget receipts had increased in 1968 by over 12 per cent.

The 1969 budget was approved by the Council of Ministers in mid-January 1969. For the first time, an estimate of the increase in total general government expenditure for the current year (490 billion pesetas, or 9 per cent) was given which can be compared with an estimated increase of 11 per cent in 1968. The Central Government's budgetary expenditure in 1969 (272 billion pesetas) is expected to increase by 14 per cent, current expenditure (180 billion pesetas) rising by 12 per cent and capital expenditure (92 billion pesetas) by 19.7 per cent on the initial credits of 1968. The discrepancy between initial credits, final appropriations, and actual expenditure in previous years makes it difficult to judge the probable impact of the 1969 budget, but, on balance, it seems likely that its effect will be as expansionary as that of 1968.

The risk now is that increasing economic activity, with a further stimulus from the public sector, will lead to greater strains on the price and wage controls and to some loss of the improvement in the current account brought about by devaluation. Total output, as measured by GDP, will in all probability increase in real terms by more than the modest (5.2 per cent) target foreseen by the recently approved (February 1969) Second Development Plan (for 1968-1971) but it is doubtful whether inflationary tensions will hold prices within the 2.7 per cent limit foreseen in the Plan (GNP deflator) and even less within the 2 per cent limit set for 1969.

For *Turkey*, the programme for 1969 foresees a further increase in real national product of 7 per cent and a new and substantial increase in the current account deficit. Total demand is expected to increase somewhat faster than in 1968 and, as in previous years, it is expected that investment will accelerate as a result of greater public investment outlays. As in 1968, the main source of uncertainty at present lies in the possible evolution of the foreign balance which has been a persistent constraint on the development of the Turkish economy. The planned target for imports in 1968 had been set in 1967 at a level of $835 million, but actual results show a shortfall of imports by about $50 million, due chiefly to difficulties in financing the foreign exchange element in public investment programmes—some of which are of strategic importance for general development. For 1969, an import target of $860 million has been set but it is doubtful, again, whether foreign financial resources will be forthcoming to fulfil it. The other major source of uncertainty lies in the somewhat optimistic expectations of the revenue to be obtained from taxes. These difficulties may not, however, prevent the achievement of the output objective, particularly since recent policy directives in the field of public investment have led to a greater priority for projects with a higher and faster maturing yield and those aimed at breaking the foreign exchange bottleneck or creating new export possibilities (e.g. forestry products). While the problem of improving the productivity of public enterprise remains as important as ever, the greater emphasis on investment by private (or mixed) enterprises in manufacturing sectors of high priority may mark an important step towards greater cost efficiency.

(iv) Yugoslavia

For two years (1966-1967), the growth of demand and output in Yugoslavia was progressively restrained by economic policy. The trough was reached in 1967, when total output hardly increased. In early 1968, it became possible to relax the restraints and output growth was resumed, accelerating as the year progressed.

The main reason for the enforced stagnation was the need to adjust the working of the economy to the new conditions imposed by the economic reforms started in 1965.[100] Excessive increases in incomes, too much liquidity and too liberal a credit policy had endangered the balance of payments, the stability of costs and prices, and the more efficient allocation of resources which it was the purpose of the reforms to promote. By the end of 1967, with the help, particularly, of severe credit controls, these growing pains of the reforms had been largely overcome and the longer-term benefits could begin to emerge.

Re-expansion in 1968

Total output (gross material product) increased in 1968 by 4 per cent, against only 1 per cent in 1967 (see table 23). The main impetus came from industry, where production rose by 6½ per cent (almost zero in 1967). By the end of 1968, industrial output was rising at an annual rate of as much as 12 per cent, and total output by 8-9 per cent a year—approaching the rates of expan-

[100] The problems of adjustment were more fully described in last year's SURVEY (chapter I, p. 93 ff).

TABLE 23

Yugoslavia: selected indicators, 1956 to 1968

	1956-1963 annual compound increase	1964	1965	1966	1967	1968
		Percentage increase from preceding year				
Output (volume)	9.6 [a]	12.7	3.4	8.6	1.0	4
Industrial production	12.0	16.0	8.0	4.0	0.5	6.6
of which:						
consumers' goods	13.5	16.0	9.0	6.0	−1.0	6.0
capital goods	12.0	19.0	10.0	2.0	−1.0	7.0
intermediate goods	11.2	15.0	7.0	4.0	0.0	6.2
Output per worker in industry	5.8	6.9	4.2	5.2	1.6	7.7
Construction—effective hours worked	6.3	10.9	−14.0	−11.0	−2.0	4.0
Agricultural output	6.0 [a]	5.9	−9.1	16.6	−1.4	−3
Expenditure (volume)						
Gross fixed investment	14.0 *	18.0	−10.0	−2.8	−10	11
Personal consumption	7.7	9.4	2.4	10.0 *	5.6	4
Foreign trade (value)						
Exports	13.9	12.4	20.0	12.3	2.7	1.0
Imports	12.2	23.8	−5.7	21.0	6.0	5.0
Exports of commodities and services	..	..	..	16.0	5.7	4.5
Imports of commodities and services	..	..	..	22.6	7.9	5
Gold and foreign exchange reserves ($ million)					80 [b]	115 [b]
Exployment						
Non-agricultural employment	6.3	6.4	1.5	−3.0	−0.7	0.0
Registered unemployed [c] (thousands)	..	228.0	267.0	265.0	291	310 [d]
Vacancies (thousands)	..	83.0	53.0	44.0	34.0	38.0 [d]
Prices						
Retail price index	4.3	8.7	29.0 [e]	23.0 [e]	6.4	4.0
Producers' prices of industrial products	1.1	4.8	15.0 [e]	11.0 [e]	2.0	0.0
Producers' prices of agricultural products	7.8	23.0 [e]	44.0 [e]	17.6 [e]	−3.0	−6.0
Wages						
Real earnings per head	6.7	14.4	2.3	12.4	6.4	4.0
Nominal earnings in socialist sector	13.3	26.8	38.5	38.0	13.6	9.0
Disposable income of population [f] (in current prices)	..	..	..	27.4	14.1	9.0

Sources: National statistics.

[a] Based on 1955-1956 average.

[b] End of period. In addition, there is about $100 million surplus on clearing accounts.

[c] End of the year including those seeking their first employment.

[d] September.

[e] Periods when a price reform was carried out.

[f] Including net addition to hire-purchase credit outstanding.

sion in 1963-1964 before the pause. In other non-agricultural sectors, output rose by between 4 and 11 per cent in 1968, the fastest rise being in services and particularly in tourism. But agricultural output once again declined.

Increase in industrial output

(Percentage change from corresponding period in previous year)

	Quarters				
	I	*II*	*III*	*IV*	*Year*
1964	19	18	14	14	16
1965	13	8	7	5	8
1966	6	5	4	3	4
1967	1	−1	−1	0	0.5
1968	1	6	7	12	6.6

Most of the increase in material product was due to a rise in productivity. Non-agricultural employment remained unchanged, following a 3 per cent decline in 1966 and another 1 per cent in 1967. Although employment in the services was rising, it declined in industry for the third consecutive year. The impact of the reforms, and particularly the present remuneration policies, have maintained the pressure for economy in the use of labour.

Average annual unemployment increased from 291,000 in 1967 to 310,000 in 1968 (representing 7.5 per cent of the labour force outside agriculture), of whom 142,000 were seeking their first employment. The difference between the increase in the labour force of about 100,000 (roughly 40,000 outside agriculture) and the increase in unemployment of only 20,000 was accounted for by fewer departures from agriculture, by a further return of unskilled workers to full-time farming, and by emi-

gration; with the recovery in western Germany and elsewhere, net emigration increased to about 60,000 a year in 1968.

It is hoped that the resumption of faster output growth will check any further growth in unemployment. But, in addition, the government has instituted the acceleration of capital formation in labour-intensive housing and services, re-training of unskilled personnel, and reclassification of jobs in enterprises to absorb new university graduates. The implementation of this policy will not, however, be a smooth process because labour mobility in the country is insufficient (as indicated by the increase in vacancies, which at the end of 1968 amounted to 40,000), and, because of high social contributions, even unskilled labour is expensive in the less productive services.

A main purpose of the reforms in *industry* was to stimulate specialization and thus to exploit comparative advantages and the benefits of an increasing scale of production. The continuing shifts in the pattern of output reflected the varying success with which enterprises were able to adapt to the changes in prices and costs and the reduced protection of the home market. The best output result in 1968 was achieved by shipbuilding—a rise of 44 per cent—followed by non-ferrous metals and the chemicals industry, with increases of 15-16 per cent. Good results were also reported in electro-engineering, building materials and printing, with output increases of 9-10 per cent. In iron and steel, non-metallic minerals and paper, the rate of growth was close to the 6-7 per cent average. In all other branches results were mediocre; output of fuels, leather, and food processing was unchanged. In total, capital-goods output rose 7 per cent and consumer-goods 6 per cent. Growth was also resumed in construction, which benefited from the revival of investment and the boom in tourism.

The 3 per cent decline in *agricultural output* was due only in part to adverse weather conditions. The more important reason was a decline in markets which began in the summer of 1967. First, there was a decline in agricultural exports of 20 per cent in 1968: agriculture represents about a sixth of total Yugoslav exports and the decline was associated with the effects of the EEC's agricultural trade policies, especially on Yugoslav exports of livestock products and processed food (which in total declined by some 25 per cent). At the same time, domestic demand was affected by relatively high prices; these are, in fact, support prices that guarantee little more than minimum profitability and cannot be much reduced without affecting incentives to farmers. However, retail trade margins for many food products are too high, and efforts were made in 1968 to reduce them—for example, for meat. A further obstacle to agricultural expansion is the deterioration in the terms of trade for agricultural products; producers' prices declined in 1968 by 6 per cent (partly because the official support prices do not cover all sales) while prices of most current inputs were increasing. This adversely affected both the incomes of farmers and their incentives for investment, which in fact declined in 1968.

Yugoslav agriculture may face serious problems in the years to come. Livestock numbers, for instance, have already fallen from the 1968 level, which will affect future meat output. The choice of measures to help agriculture is, however, rather limited. For instance, any increase in food prices would further limit the growth of demand, while a sufficient increase in the deficiency payments, which might appear to be the easiest method of assistance, would be extremely expensive to public funds. For the present, concessions on the capital tax and cheaper credits are the only available instruments.

Factors of economic recovery in 1968

Recovery in output in 1968 (outside agriculture) can be attributed in part to the adjustment of enterprises to the new conditions under the economic reforms, in part to the switch of credit policy from restriction to re-expansion.

In 1965-1967 enterprises spent much of their efforts on restoring their competitiveness, which had been affected by the new cost and market structures resulting from the change in prices and from the devaluation in 1965, by the liberalization of imports and by changes in income distribution. Excessive increases in wages not only threatened stability but also tended to erode the liquidity of enterprises. The credit squeeze, applied in late 1966 and in most of 1967, restored a measure of stability but limited demand and, together with mounting stocks and excessive trade credits, further weakened enterprise liquidity. By contrast, in 1968 with stability and wage discipline already achieved, enterprises were able again to accumulate liquid resources.

In 1968, too, the liquidity of enterprises, and the expansion of demand generally, was assisted by short-term credits, which were allowed to increase faster than GNP (see table 24). In the first ten months of 1968, the banking system granted 3.5 billion new dinars of short-term credits against only 0.8 billion in the same period of 1967. Credits to enterprises were increased by 3.1 billion (against 2.0 billion). The reversal from deficit to surplus in the balance of payments also added to liquid resources. Thus in total, in the first ten months of 1968, liquidity increased by 5.4 billion dinars against a decline of 1.2 billion in the corresponding period of 1967, and mainly benefited enterprises. Liquidity was further assisted by a decline in stocks and by compulsory offsets of credits and debits arising in inter-enterprise operations (short-term credits were also granted to those enterprises which suffered from this operation).

On the demand side, the impetus to rising output came almost wholly from the increase of 11 per cent in the volume of *fixed investment*, after three years of decline (a fall of 10 per cent in 1967). This is the clearest evidence of the change in the economic climate, and of the structural and financial improvements in the position of enterprises.

Private consumption increased slightly less than in 1967 (by only 4 per cent); collective consumption increased by about the same proportion. The very modest rise in private consumption was the result of a marked slowing down in the increase in incomes, while the rise in consumer prices slowed down less markedly.

Total household incomes (including income in kind) increased by about 8 per cent in 1968, against 10 per cent

TABLE 24

Yugoslavia: trend of liquid resources

(In million new dinars)

	Amount outstanding end-December 1967	*December 1966 to December 1967*	*December 1966 to October 1967*	*December 1967 to October 1968*	*December 1967 to November 1968*
Bank credit	43 695	2 899	774	3 426	
Short-term credit	42 732	2 884	768	3 443	
Enterprises	30 899	4 157	2 029	3 069	
Government	9 004	−248	−218	−702	
Other organizations	203	−293	−288	−106	
Households	2 626	−732	−755	1 182	
Credits from time deposits	963	15	6	−17	
Restricted deposits [a]	11 856	465	296	137	
of which:					
deposits of enterprises	7 156	46	−7	1 086	
Sales or purchase of foreign exchange	271	−1 284	−686	1 158	
Others	373	−831	—	973	
Total liquid resources	32 483	319	−1 170	5 421	
Money supply [b]	23 483	−410	−339	5 317	5 753
Currency in circulation	7 954	1 006	687	1 600	2 139
Giro accounts	14 146	−807	173	4 605	4 009
of which:					
enterprises	5 358	−2 116	−2 334	1 209	624
Float [c]	1 383	−609	−1 199	−888	−395
All other sight deposits	9 000	729	−831	104	
Savings of households	7 549	1 716	941	984	
Balance of the budget	488	516		672	
Volume of industrial stocks — percentage change	..	—	..	−2.4 [d]	

Sources: National statistics.

[a] Minus sign means an addition to liquidity and no sign a deduction from liquidity.
[b] According to the Yugoslav definition, money supply consists of monetary assets in transactions. However, liquidity also includes sight deposits, though these may not be as liquid as giro accounts. This is because in the Yugoslav system monetary assets are not fully homogenous and different expenditures must be made with different monetary assets.
[c] Minus indicates the decline in the need for float.
[d] End of November against end-1967.

the year before. The major factors were an increase of 9 per cent in average wage/salary earnings in the socialist sector, against 13½ per cent 1967, and a smaller increase in private sector wages. Farmers' incomes from sales fell by 9 per cent (about 5 per cent in 1967). There was, however, a bigger increase in social benefits. An increase in instalment credits added about 2 per cent to resources for consumption, and the savings ratio fell very slightly. As a result, consumers' expenditure rose by 9 per cent.

The increase in consumer prices in 1968 was 4 per cent. Producers' prices for industrial products did not increase —the rise in industrial wages being almost offset by the rise in productivity—and farm prices of food were reduced. But the progressive increase in rents and increasing prices for public utilities, and the effect of the progressive dismantlement of price controls on retail margins, were responsible for the rise in consumer prices, which was, however, less than the 6½ per cent rise in 1967 (and compares with increases of 20-30 per cent in 1965 and 1966 when the price reforms were introduced).

The rise in consumers' purchasing power and expenditure was more widespread than in 1967. In that year, the main increase was in industrial incomes, while incomes in services increased little and farm incomes and hire-purchase credits fell; the increase in consumption particularly affected the more expensive durable goods, household equipment, services and travel abroad. In 1968 industrial income continued to increase but also income in services and hire-purchase credits rose considerably; the impact on industrial output was therefore more marked. Indeed the 6 per cent rise in consumer-goods output was supplemented by a substantial decline in stocks and by a rise in imports (thus the volume of retail sales increased by 11 per cent).

Since exports and imports of goods and services increased by similar rates (4-5 per cent) the role of *foreign*

trade in the overall growth of the economy was neutral. However, exports of commodities alone increased by only 1 per cent: total export growth was affected by the 20 per cent decline in agricultural exports and by a reduction in exports to CMEA countries of 4 per cent (some $100 million surplus of inconvertible currency had been acquired in trade with this area). Exports nevertheless represented an important demand factor for industrial products, of which foreign sales increased by 5 per cent (and to convertible-currency countries by 14 per cent); for capital goods the increase was as much as 20 per cent, helped by a Fund established in 1967 to finance such exports. Imports of goods rose by 5 per cent, with a very substantial increase in capital goods (20 per cent); food imports, however, declined. Net earnings from services increased considerably and offset most of the deficit of about $500 million in merchandise trade. Capital imports allowed an increase in currency reserves from $80 million in December 1967 to $115 million in December 1968 (plus about $100 million surplus on clearing accounts).

Prospects for 1969

There are no signs yet that the scope for a continued upswing in the Yugoslav economy has been exhausted: spare capacity is still substantial and important new additions are to be made in 1969; the supply of labour is plentiful and the level of skill improving, stocks of raw materials are adequate, wage discipline persists, producers' prices are stable (an increase of 0.5 per cent in January was due to an increase in various levies) and the balance-of-payments position shows no signs of deterioration. It appears that the economy should be able to continue to expand normally in 1969, although the high rates of growth registered towards the end of 1968 are not likely to be maintained.

The Federal Planning Office expects that in 1969 total material output will increase by 7-8 per cent, with a somewhat faster increase in industry and a much larger increase in construction and services. It is hoped that agricultural output will recover the ground lost in 1968. This rate of growth is enough to permit a 3 per cent increase in employment. Demand is expected to grow slightly less than output, to permit a reduction in the trade deficit (exports are expected to grow by 10-12 per cent and imports by 6-7 per cent). Investments and collective consumption are expected to increase faster than total output and individual consumption less fast. This will continue to reverse the shift towards private consumption that marked the two or three years before 1968.

These rates of growth are believed to be compatible with the maintenance of stability which—together with an improved balance of payments and an increase in employment—are the major goals of economic policy in 1969. There is nothing on the supply side to indicate that the expectations are unrealistic. It must, however, be said that the instruments for controlling undesired shifts in the distribution of income within enterprises are not yet adequate. The government is still obliged to rely almost wholly on credit policy to make the required adjustments, and credit policy can operate to restrict demand, as has been shown by the experience of 1966-1967, only at the cost of growth. Indeed there are signs that the liberal credit policy of 1968, which played so large a part in the recovery, is already leading to some excess pressure of demand and some restraint is now being introduced.

One improvement in anticyclical machinery has been made early this year with the introduction of a progressive tax on income. However, this is not enough for the Yugoslav system, and the very slow advance towards efficient incomes policies remains a threat to stability and thus to the rate of growth.[101] In view of the increasing openness of the Yugoslav economy to the world market and of the freedom acquired by Yugoslav working collectives, successful development depends heavily on stability, which depends in turn, as experience has shown, on an appropriate distribution of income at the enterprise level. The Yugoslav social and economic system offers substantially greater possibilities for effective policy guidance in this respect than in the different circumstances of western European countries.

[101] A law on "the computation and distribution of income in enterprises" was enacted in August 1968. It provides that distribution of income in enterprises should be the subject of agreements between trade associations, trade unions and the government. If such an agreement is not reached, the National Assembly can intervene or the government may intervene more directly (possibly by laying down minimal accumulation ratios or setting minimal depreciation ratios above actual consumption of capital). In 1968 not much of this was implemented.

8. IMPORTS FROM THE DEVELOPING COUNTRIES AND FROM SOUTHERN EUROPE

An analysis for ten industrial countries

Of developing countries' total exports of $40 billion in 1967, $28 billion went to the western industrial areas in Europe, North America and Japan. These markets also provided rather over three-quarters of the growth of $10 billion in the developing countries' total exports between 1962 and 1967,[102] and clearly provide the main prospect for further expansion of their earnings and thus for a reduction of the foreign exchange constraint on their domestic growth.

The present note examines briefly some recent trends in this trade, with particular emphasis on the different developments among the major importing countries; an effort is made to show how their imports from developing countries are related to the level and growth of their total imports and of their national products. The analysis is entirely statistical, with no attempt to explain inter-country differences or developments in terms of policies.

The industrial countries included here—which together account for the greater part of imports into the industrial areas—are the EEC countries (Belgium-Luxembourg being treated as a single country), the United Kingdom, Sweden, Norway, the United States and Japan. Sweden and Norway are included to illustrate differences between the smaller and the larger developed countries.

The developing countries, which are treated as a single group, are the " Class II " countries in the United Nations classification; that is, all countries other than western Europe, North America, Australia, New Zealand, South Africa, Japan and the centrally planned economies. Imports from southern Europe (Greece, Portugal, Spain, Turkey and Yugoslavia) are also examined alongside those from the developing countries. These five countries, at varying intermediate stages of industrialization, face the same urgent need as the developing countries to increase their export earnings in the developed countries' markets.

For examining the influence of the commodity structure, data collected by the secretariat for a more general analysis of international trade flows are used here. The five groups are:

I. Food and agricultural products

II. Energy products (mineral fuels, lubricants and related materials)

III. Other industrial materials (including non-ferrous metals, which are shown separately in tables 26 and 28)

IV. Machinery and transport equipment (including instruments and other metal manufactures)

V. Other manufactured goods (including chemicals, textiles and clothing).

The corresponding SITC numbers are given in footnote *a* to table 26.

All trade statistics are based on importers' data (*c.i.f.* except for the United States—*f.o.b.*) and are at current prices. GNP figures in tables 25 and 27 are at constant prices. Commodities and transactions not classified according to kind (SITC section 9) and precious stones (SITC group 667) are excluded throughout, the former because of the difficulty of including it in any one of the above five commodity groupings, and the latter because of the substantial entrepot and processing trade (and also because the United Kingdom, one of the largest importers, did not include this item in merchandise trade before 1965).

The period covered is from 1962 to 1967 inclusive. Figures are generally given for the averages for 1962-1963 and for 1966-1967; growth rates are based on compound annual rates between the two periods. Western Germany is the only country where the choice of end-years may have led to some bias in the results, 1967 being a year significantly below trend both for domestic growth and for imports.

In comparing the relative levels of imports from the developing countries, one important qualification should be borne in mind, namely that the country shown in the trade statistics as the importer is not necessarily the country of final destination for the commodity in question. This applies in particular to commodities, such as base metals, which are often imported by an industrial country from a developing country and subsequently delivered to another industrial country, with or without further processing. The trade statistics thus overstate the relative contribution of some countries to the foreign exchange earnings of the developing countries and, by the same token, understate the relative contribution of other—chiefly the smaller—industrial countries.

[102] GATT, " International Trade 1967 ", table K. Figures based on exporters' data (*f.o.b.*).

(i) The present situation

The combined imports from the developing countries of the ten industrial countries shown in table 25 amounted in 1966-1967 to almost $28 billion (all figures in this section are annual averages for the two years). In absolute terms the United States was much the largest market, with some $7½ billion (equivalent to rather over $8 billion on a *c.i.f.* basis) or over a quarter of the total, followed by the United Kingdom and Japan (about $4¼ billion each). Next came western Germany and France ($3.4 billion and $3.2 billion respectively), then Italy ($2.3 billion), the Benelux countries ($1 to $1¼ billion), Sweden ($0.5 billion) and finally Norway with $200 million.

Imports from the developing countries in this period were equivalent to only 1 per cent of GNP in the United States but to 6-7 per cent in the Benelux countries. In the other seven countries, the ratios to GNP were all within the 3-4½ per cent range (marginally higher for Japan and lower for Sweden). The differences within this range are nevertheless significant: for instance, if western Germany had been towards the upper instead of the lower end—at about the same level as Japan and the United Kingdom—its imports from the developing countries would have been some two-fifths, or almost $1½ billion, higher than actual imports in 1966-1967. On a per capita basis, Italy and, even more so, Japan move down and Sweden moves up compared with the corresponding order on a GNP basis; but the United States, with imports from the developing countries of $37 per capita compared with an average for the ten countries of $52, remains below any other country.

The ratio of a country's imports from developing countries to its total imports (table 25) is in large part a function of its overall import dependence, which in turn is largely determined by the country's size and economic structure. It is thus by itself no criterion of a country's trade "behaviour" towards developing countries. The smaller countries in general show a smaller proportion of their total imports coming from developing countries, mainly because of their relatively greater dependence on imports of manufactured goods, in which developing countries are for obvious reasons not at present large exporters. Thus there is a correlation between economic size and the developing countries' share of total imports, which in 1966-1967 varied between 20 and 30 per cent for the four larger western European economies and the United States and 8 per cent for Norway. The relatively small weight of manufactures (groups IV and V) in Japan's total imports—21 per cent compared with an average of 46 per cent for the ten countries in 1966-1967—also largely explains the comparatively big share (40 per cent) of its imports held by the developing countries.

More significant, therefore, are the developing countries' shares of the industrial countries' imports in the individual commodity groups (table 26). These shares tend to display a certain uniformity in the three non-manufactured groups. The most notable exceptions are the relatively high figures for France and the United States

TABLE 25

Imports into ten industrial countries from the developing countries and from southern Europe

(Imports at current prices, GNP at 1963 prices)

Importing country	*Imports from developing countries*						*Imports from southern Europe*		*Total imports as percentage of GNP*
	Average annual value 1966-1967 $ millions	*Increase 1966-1967 / 1962-1963 $ millions*	*As percentage of:*				*Average annual value 1966-1967 $ millions*	*Increase 1966-1967 / 1962-1963 $ millions*	*1966-1967*
			Imports from all sources		*GNP*				
			1962-1963	*1966-1967*	*1962-1963*	*1966-1967*			
Belgium-Luxembourg	1 053	316	15.8	15.3	5.4 [a]	6.5 [a]	91	33	42.2 [a]
France	3 172	516	32.8	26.3	3.4	3.3	311	145	12.6
Western Germany	3 411	850	21.8	20.3	2.7	3.1	541	139	15.4
Italy	2 338	841	22.0	25.7	3.2	4.2	364	77	16.2
Netherlands	1 277	326	11.3	15.9	6.6	7.3	95	42	45.7
Norway	213	41	9.9	8.3	3.1	3.1	35	11	37.8
Sweden	515	142	11.5	11.1	2.4	2.8	94	38	24.8
United Kingdom	4 250	80	32.1	25.9	5.0	4.4	453	82	17.1
United States	7 443	1 519	37.3	30.0	1.0	1.0	492	205	3.4
Japan	4 176	1 766	39.1	39.8	3.8	4.6	63	45	11.6
Total ten countries	27 848	6 396	27.9	24.9	2.1	2.3	2 539	817	9.1

Sources: Import data: United Nations, Statistical Papers, Series D, *Commodity trade statistics*; OECD, Series B and C, *Trade by commodities*; GNP: OECD, *Main Economic Indicators*; and national statistics.

NOTE.—SITC Section 9 and Group 667 excluded throughout.
[a] GNP for Belgium only.

TABLE 26

Imports from the developing countries by main commodity groups

(Average annual values in millions of current dollars and as percentages of imports from all sources)

Importing country	Commodity group[a] and period																				
	I. Food and agricultural products			II. Energy products			III. Other industrial materials			of which: non-ferrous metals			IV. Machinery and transport equipment			V. Other manufactures			Total imports[b]		
	1962-1963	1966-1967	1966-1967 $ millions	1962-1963	1966-1967	1966-1967 $ millions	1962-1963	1966-1967	1966-1967 $ millions	1963-1963	1967-1967	1966-1967 $ millions	1962-1963	1966-1967	1966-1967 $ millions	1962-1963	1966-1967	1966-1967 $ millions	1962-1963	1966-1967	1966-1967 $ millions
	Percentages			Percentages			Percentages			Percentages			Percentages			Percentages			Percentages		
Belgium-Luxembourg.	27	24	326	42	48	282	30	34	405	55	61	312	—	—	7	3	2	34	16	15	1 053
France	58	49	1 471	63	70	1 196	22	23	379	31	31	186	1	—	14	9	5	113	33	26	3 172
Western Germany . .	30	28	1 427	64	67	1 078	21	22	591	34	30	306	1	1	29	7	7	286	22	20	3 411
Italy	34	31	897	67	76	1 081	16	20	274	36	36	165	—	1	11	4	5	75	22	26	2 338
Netherlands	38	34	518	64	69	567	7	12	101	5	10	21	—	—	12	3	4	79	17	16	1 277
Norway	26	24	81	35	33	63	4	5	16	2	4	3	1	—	2	9	9	51	10	8	213
Sweden	31	30	210	28	32	169	13	13	74	25	26	54	—	—	5	4	5	58	12	11	515
United Kingdom . .	32	27	1 629	85	75	1 410	33	28	590	41	33	372	6	5	134	15	14	487	32	26	4 250
United States	64	60	3 170	82	76	1 719	31	28	1 149	62	33	517	3	4	313	15	18	1 091	37	30	7 443
Japan	44	38	1 517	70	74	1 493	49	46	1 057	42	45	213	3	3	34	5	7	76	39	40	4 176
Total ten countries . .	42	37	11 247	68	70	9 058	27	27	4 636	43	35	2 148	2	2	558	10	10	2 349	28	25	27 848

Sources: United Nations, Statistical Papers, Series D, *Commodity trade statistics:* OECD, Foreign Trade, Series B and C, *Trade by commodities.*

a Commodity group	*SITC numbers*
I. Food, beverages and tobacco; agricultural raw materials:	0 and 1, 21, 22, 23, 241, 242, 244, 261-265, 411, 421
II. Mineral fuels, lubricants and related products:	3
III. Metalliferous ores, crude fertilizers and crude minerals; metals and metal scrap:	27, 28, 67, 68
IV. Machinery, transport equipment, instruments and other metal manufactures:	69, 7, 81, 86, 891, 893, 894, 896, 897, 899
V. Other manufactured goods:	243, 25, 266, 267, 422, 431, 5, 61-65, 661-663, 665, 666, 82-85, 892, 895

b SITC section 9 and group 667 excluded.

in food and agricultural products and for Japan in other industrial products, and the lower ones for the four smaller countries in all three commodity groups (apart from Belgium-Luxembourg for other industrial materials, mainly due to imports of copper from its ex-colonial territory in the Congo), these proportions being especially low for the Scandinavian countries in industrial materials.

For manufactures the dispersions are rather wider. Much the largest shares of import markets for "other manufactures" (Group V) are held by the developing countries in the United States (18 per cent) and the United Kingdom (14 per cent). In no other country does the percentage exceed 9 per cent, and it is as low as 2 per cent in Belgium-Luxembourg. In 1966-1967, the United States and the United Kingdom together accounted for two-thirds of the ten countries' total imports of this commodity group from the developing countries, and for four-fifths in machinery and transport equipment.[103]

The effect of the two influences—the commodity pattern of total imports of the industrial countries and the developing countries' share of each commodity group—on the proportion of total imports held by developing countries is summarized below.[104] The first column shows the difference between actual and hypothetical imports from developing countries in 1966-1967—the hypothetical figure being the level that would have obtained had the average share of developing countries in the ten countries' total imports (24.9 per cent) prevailed in each country. The second column gives the net difference between actual and hypothetical imports from developing countries in the five commodity groups taken separately (for the average shares of the developing countries in each commodity group, see table 26). The difference between the first and second columns is ascribed to the commodity pattern of imports. Figures are rounded to the nearest $10 million.

As pointed out below, the comparatively large weight of manufactured goods in the smaller industrial countries' total imports tends to make the commodity pattern of their total imports apparently "unfavourable" to the developing countries in that it leads to a relatively low share of the developing countries in their total imports. But, in addition to this adverse commodity effect, all four of the smaller industrial countries shown below take a relatively small proportion of their imports of each commodity group from the developing countries (apart from other industrial materials for Belgium-Luxembourg).

Differences between actual and hypothetical imports from the developing countries in 1966-1967

(Millions of dollars)

	Total imports from developing countries [a]	of which attributable to: Net effect of differences in each commodity group	of which attributable to: Commodity pattern of total imports
Belgium-Luxembourg	−660	−390	−270
France	170	130	40
Western Germany	−770	−820	50
Italy	70	−290	360
Netherlands	−720	−360	−360
Norway	−430	−210	−220
Sweden	−640	−410	−230
United Kingdom	150	−270	440
United States	1 270	2 050	−780
Japan	1 560	540	1 020

Source: As for table 26.

[a] Minus sign: actual lets than hypothetical imports.

The commodity composition explains half of the large negative figure in the first column for the Netherlands and for Norway, but well under a half for Belgium-Luxembourg and for Sweden.

The other country with an unfavourable commodity pattern is the United States (also due to the relatively large weight of manufactures in total imports). But this effect was more than offset by the developing countries' above average shares in the commodity groups: the United States was the only country to have higher than average shares in all five groups.

By contrast, the commodity composition of total imports into the four larger western European economies and into Japan was relatively favourable, although only marginally so for France and western Germany. But for western Germany this was more than offset by the developing countries' relatively low shares in each commodity group. The comparatively low proportion of its total imports held by developing countries—low in relation to the corresponding proportions for countries of approximately similar size and levels of industrialization—can be entirely ascribed to this factor.

The negative figure for the United Kingdom in the second column above is due to the developing countries' relatively small share of its imports of food and agricultural products (which have a particularly large weight in British imports): they held an above average share of British imports of the other four commodity groups. For France, the situation was exactly the reverse of that for the United Kingdom.

Imports from southern Europe

Imports from southern Europe in 1966-1967 amounted to $2.5 billion, less than a tenth of those from the developing countries (table 25). This trade was heavily concentrated on the four larger western European countries and the United States; together they accounted for 85 per cent of the total, compared with 74 per cent from the developing countries.

[103] However, the figures of imports of machinery and transport equipment from the developing countries overstate the true size of this trade since for some countries they include certain items (e.g. jet engines) for servicing and repair which are subsequently re-exported. But this commodity group as here defined (see footnote to table 26) also includes some light manufactures (e.g. radios, toys and sporting goods), where the trade statistics represent genuine imports.

[104] The size of the two effects depends, of course, on the commodity breakdown adopted: in general, the finer the analysis the greater the commodity pattern effect. Since the breakdown used here is very broad (and was not originally selected for the purpose of this exercise), the relative size of the "competitive" influence is undoubtedly overstated. But the main purpose of the present analysis is to compare differences between countries, and the bias is likely to be in the same direction for most, if not all, countries shown.

For each of the four smaller industrial countries, imports from southern Europe were under $100 million. They were also smaller in relation to total imports, 1-2 per cent against 2½-4 per cent in the larger western European economies (2 per cent in the United States). The figures were equivalent to about ½ per cent of GNP in the European countries but as little as 0.1 per cent in the United States and Japan. In spite of the exceptionally rapid rate of growth of Japan's imports from southern Europe in recent years, they still only amounted to some $60 million, or well below 1 per cent of its total imports, in 1966-1967.

Three-fifths of the 10 industrial countries' aggregate imports from southern Europe are in the food and agricultural products group—a substantially higher figure than for the developing countries (two-fifths). Another fifth is accounted for by other manufactures (group V), while the other three commodity groups, and especially energy products, have a relatively small weight. Thus the commodity pattern differs substantially from that of imports both from all sources and from the developing countries.

Spain accounts for some two-fifths of this trade, followed by Yugoslavia with one-fifth, the other three sharing the remaining two-fifths about equally. The distribution of imports from the five countries differs substantially for some countries. In 1966-1967 Italy took about 40 per cent of the 10 industrial countries' total imports from Yugoslavia, while Portugal's shares of its EFTA partners' imports from southern Europe were, at 20-30 per cent, well above those for any of the other industrial countries (but still only amounted to 0.7 per cent of Sweden's and the United Kingdom's, and 0.3 per cent of Norway's total imports in 1967). However, trade flows and patterns between the industrial countries and southern Europe appear to be highly flexible.[105]

[105] For a detailed analysis of these countries' foreign trade see section 2 of "Foreign trade developments in southern European countries", *Economic Bulletin for Europe*, Vol. 20, No. 2.

(ii) Recent changes in trade flows

Between 1962-1963 and 1966-1967 the combined imports of the 10 countries increased at an average annual rate of almost 10 per cent (at current prices), while their imports from the developing countries rose by 6.7 per cent a year.[106]

The relatively slower growth of imports from the developing countries was common to all countries except Italy and Japan (see table 27). Italian imports increased at a rate almost half as fast again as those from all

[106] This appears to have been slightly above the longer-term rate. Over the period 1950 to 1965, the current dollar value of exports from the developing countries to all developed countries rose at a compound rate of 5.2 per cent. Excluding the major petroleum producers amongst the developing countries, the rate was 4.2 per cent (Hal B. Lary, *Imports of Manufactures from Less Developed Countries*, National Bureau of Economic Research, New York 1968, table 1). Excluding energy products in the 1962-1963 to 1966-1967 period reduces the rate of growth from 6.7 per cent 6.0 per cent.

TABLE 27

Growth of GNP and of imports from all sources, from developing countries and from southern Europe, 1962-1963, to 1966-1967

(GNP at 1963 prices, imports at current *prices)*

Importing country	*Annual compound rates of growth 1962-1963 to 1966-1967 [a] of:*				*Ratios of 1962-1963 to 1966-1967 rates of increase*				
	GNP	*Imports from:*			*Total imports to GNP*	*Imports from developing countries to:*		*Imports from southern Europe to:*	
		All sources	*Developing countries*	*Southern Europe*		*Total imports*	*GNP*	*Total imports*	*GNP*
Belgium-Luxembourg	4.4 [b]	10.2	9.3	12.1	2.3	0.9	2.1 [b]	1.2	2.8 [b]
France	4.9	10.5	4.5	17.0	2.1	0.4	0.9	1.6	3.5
Western Germany	4.0	9.4	7.4	7.7	2.4	0.8	1.9	0.8	1.9
Italy	4.5	7.5	11.8	6.1	1.7	1.6	2.6	0.8	1.4
Netherlands	5.1	9.9	7.6	15.8	1.9	0.8	1.5	1.6	3.1
Norway	5.0	10.3	5.4	10.3	2.1	0.5	1.1	1.0	2.1
Sweden	4.2	9.4	8.4	13.7	2.2	0.9	2.0	1.5	3.3
United Kingdom	3.3	6.0	0.5	5.1	1.8	0.1	0.2	0.9	1.5
United States	5.4	11.7	5.9	14.4	2.2	0.5	1.1	1.2	2.7
Japan	9.6	14.2	14.7	36.0	1.5	1.0	1.5	2.5	3.8
Total ten countries	5.2	9.8	6.7	10.2	1.9	0.7	1.3	1.0	2.0

Sources: As for table 25.

[a] Calculated on the basis of the increase between these two periods. [b] For GNP, Belgium only.

sources, whereas the two rates were almost identical for Japan. Nevertheless, the growth of Japanese imports from the developing countries was substantially the highest among the 10 countries, both in absolute and relative terms: an increase of $1¾ billion, or an average rate of almost 15 per cent a year. Japan and the United States (an increase of $1½ billion) were together responsible for over half the expansion of this trade in this period. A further quarter was accounted for by western Germany and Italy, with about $850 million each.

In marked contrast to the developing countries, imports from southern Europe increased at a rate slightly above that for total imports (10.2 per cent against 9.8 per cent). Six countries had a faster rate of growth of imports from southern Europe than from all sources, and for all but one (Italy) the rate was higher than for the developing countries. This relatively fast growth was especially marked for France, the Netherlands, and Japan. However, the generally very rapid expansion of this trade should be viewed in the context of its small size in relation to the industrial countries' total imports (see above).

In this period, the relative growth rates of imports from southern Europe were fairly closely correlated with the corresponding rates for total imports (a rank correlation of 0.8), suggesting that inter-country differences were to a considerable extent a function of corresponding differences in the rates of expansion of total import demand. There was no such correlation between imports from the developing countries and total imports. The development of this trade appears to have been strongly influenced by factors specific to certain countries.

The rates of growth of imports from developing countries in relation to those for total imports are attributable to the commodity pattern and to the net effect of changes in the developing countries' share of each commodity group over the period. Taking the 10 countries together, the commodity pattern was unfavourable both for the developing countries and for southern Europe, the growth of total imports of food and agricultural products being relatively slow.

Growth of total imports into 10 industrial markets, 1962-1963 to 1966-1967

(Percentages, compound annual rates)

Commodity group	Area of origin		
	All sources	Developing countries	Southern Europe
Food and agricultural products . .	5.4	2.5	6.7
Energy products	7.8	8.3	25.8
Other industrial materials	12.4	12.7	12.7
Machinery and transport equipment	14.5	20.9	25.5
Other manufactures	10.6	11.0	14.9
Total	9.8	6.7	10.2

Sources: Imports from all sources and from developing countries: table 28; from southern Europe: as for table 25.

But the above figures show that the imports from the developing countries increased only about half as fast as from all sources for food and agricultural products, while the differences were only marginal for other industrial materials, energy products and "other manufactures" (the faster growth of machinery and transport equipment had little effect because of its small weight in imports from developing countries). Thus the second effect also contributed to the decline in their share of total imports.

Southern Europe, by contrast, achieved an increased share in each of the five commodity groups but no significant increase in the share of total imports—an indication of the adverse commodity composition.

The effect of changes in the developing countries' share of each industrial country's total imports, and the proximate causes of these changes, are shown below, all figures being rounded to the nearest $10 million. For brevity the second factor (net changes in the share of each commodity group) is referred to as "competitiveness", although it includes the effect of other variables, not least the influence of trade policies (the caution to this type of analysis, given in footnote [104] should be noted).

Actual and hypothetical increases in imports from developing countries between 1962-1963 and 1966-1967

(Annual averages in millions of dollars)

Importing country	*If developing countries had maintained 1962-63 share in total imports*	*Actual increase*	*Difference*	*of which attributable to:*	
				"Competitiveness" a	*Commodity pattern in 1962-63*
Belgium-Luxembourg . . .	350	320	−30	30	−60
France	1 310	520	−790	−220	−570
Western Germany	1 100	850	−250	−30	−220
Italy	500	840	340	130	210
Netherlands	440	330	−110	50	−160
Norway	80	40	−40	−20	−20
Sweden	160	140	−20	30	−50
United Kingdom	1 090	80	−1 010	−730	−280
United States	3 320	1 520	−1 800	−230	−1 570
Japan	1 690	1 760	70	−180	250
Total above	10 040	6 400	−3 640	−1 170	−2 470

Sources: As for table 26.

a Net effect of changes in shares held in the various commodity groups.

Largely because imports from the developing countries are concentrated in the generally slower growing non-manufactured groups, the commodity pattern was unfavourable in all the countries shown above except Italy and Japan. For these two countries, the favourable commodity pattern appears to have been mainly due to the comparatively slow growth of machinery and transport equipment and the comparatively fast expansion of energy products, and for Japan to the relatively low share of manufactures in total imports, too. (See table 28 for growth rates by commodities.)

The near stability in developing countries' share of Japan's total imports in this period was, according to the commodity breakdown adopted here, due to the effect of the commodity composition which rather more than offset the " competitive " decline. In Italy, the commodity factor accounted for almost two-thirds of the substantial rise in the proportion of total imports held by the developing countries (from 22 to almost 26 per cent), but was supplemented by gains in " competitiveness ", largely in energy products and in other industrial materials.

In France, western Germany and the United States, the unfavourable commodity pattern was the major factor contributing to the decline in the developing countries' share of total imports. In France and in the United States, where the declines were especially large, it explains almost three-quarters and nearly 90 per cent respectively of the falls. The adverse commodity effect in Belgium, the Netherlands and Sweden was partly offset by net gains attributable to " competitiveness ".

In marked contrast with the other nine industrial countries, almost three-quarters of the fall in the developing countries' share of total United Kingdom imports was attributable to the lower shares in the commodity groups, and little more than a quarter to the commodity pattern. Between 1962-1963 and 1966-1967 the United Kingdom apparently switched over $700 million of its import demand from developing countries to other sources of supply, a development affecting all five commodity groups (the rather broad commodity classification used here should be recalled). Western Europe appears to have been the principal beneficiary of this development in the non-manufactured groups: most of the switch in energy products was to the EEC, but in food and agricultural products and in other industrial materials EFTA and southern Europe show gains, too. For the two latter commodity groups, the switch to European sources of supply also affected North America adversely, though proportionately less than the developing countries. In " other manufactures ", EFTA increased its share of the market at the expense of developing countries (and of the EEC, too). The major reason for the developing countries' reduced share of this group appears to be that the major United Kingdom imports of manufactures from the developing countries in the earlier period were textiles, of which the United Kingdom imported relatively large amounts.[107] The growth of these imports was very much moderated by the cotton textile agreements, while the general growth of manufactured imports—in which the developing countries could play only a small part—proceeded rapidly. Nevertheless, in 1966-1967 developing countries still held a substantially higher proportion of the United Kingdom's than of any of the other western European countries' imports of " other manufactures " (see table 26).

Excluding the United Kingdom, the aggregate figures show that the commodity pattern was responsible for $2¼ billion, and the " competitive " loss for $440 million of the net declines in the developing countries' shares of total imports in this period. The net " competitive " loss in these nine countries' markets was due overwhelmingly to food and agricultural products (about $1 billion), the loss being spread over all nine countries; simultaneously, southern Europe increased its share of five of these countries' imports of this commodity group.

A similar exercise for imports from southern Europe indicates that, as with the developing countries, the commodity pattern was unfavourable in all the industrial countries except Italy and Japan. But, in marked contrast to the experience of the developing countries, southern Europe achieved " competitive " gains in all markets except Italy. In Belgium, France, Netherlands, Sweden and the United States, these gains outweighted the adverse commodity effect, while in Norway the two influences exactly balanced. Only in western Germany and the United Kingdom were the commodity pattern losses greater than the competitive gains, resulting in a fall in southern Europe's share of total imports. The aggregate figures for the ten countries show an adverse commodity effect of $165 million and a favourable " competitive " influence of $275 million.[108]

Import elasticities

The ratios between the rates of growth of imports (at current prices) and of GNP (at constant prices), or the elasticities of imports with respect to GNP growth, are given in the second half of table 28. The elasticity of imports from developing countries with respect to GNP growth varied from an almost negligible figure in the United Kingdom—implying effectively no response to growth of GNP—to as much as 2.6 in Italy. This exceptionally high figure for Italy, however, was in large part due to an expansion of total imports of energy products (which account for nearly half of its imports from developing countries) at a rate almost three times as fast as GNP. This relationship is unlikely to be maintained, but the effect of any slow-down could be partly offset by some increase in the elasticity of Italy's total import growth with respect to GNP; in this period it was low in relation both to other industrial countries and, in contrast to the other European countries, to the longer-term trend shown in table 8 of this chapter. Among the five commodity

[107] See special study on textiles in *Economic Bulletin for Europe*, Volume 19, No. 1, pp. 79-81.

[108] This is in keeping with the results obtained from a detailed analysis of trade developments in manufactures (fairly widely defined) between 1959 and 1965, which showed high indices of " competitiveness "—i.e. increases that could not be ascribed to the initial commodity or market pattern of their trade—for all five southern European countries. See the SURVEY for 1967, Chapter I, section 5.

TABLE 28

Growth of imports from the developing countries and from all sources and import elasticities, by major commodity groups, 1962-1963 to 1966-1967

Importing country	*Commodity group [a] and area of provenance*													
	I. Food and agricultural products		*II. Energy products*		*III. Other industrial materials*		*of which: non-ferrous metals*		*IV. Machinery and transport equipment*		*V. Other manufactures*		*Total imports [b]*	
	Developing	*All sources*	*Developing*	*All sources*	*Developing*	*All sources*	*Developing*	*All sources*	*Developing*	*All sources*	*Developing*	*All sources*	*Developing*	*All sources*
						Compound annual rates of increases of imports								
Belgium-Luxembourg	4.8	8.1	7.1	3.9	16.1	12.6	18.1	15.2	12.2	11.2	7.0	11.8	9.3	10.2
France	−0.3	3.8	10.1	6.9	13.7	12.7	17.9	18.3	3.7	15.0	0.1	16.6	4.5	10.5
Western Germany	3.5	5.3	10.1	9.0	11.3	10.2	11.8	15.6	24.7	14.8	11.1	10.8	7.4	9.4
Italy	6.7	8.9	16.8	13.2	11.9	5.7	15.1	14.8	14.1	1.8	15.6	9.7	11.8	7.5
Netherlands	5.5	8.0	5.9	3.7	27.6	13.9	42.2	17.2	32.0	9.6	18.2	12.9	7.6	9.9
Norway	4.3	6.5	4.2	5.6	15.3	9.6	40.0	16.4	−35.4	11.7	12.3	12.0	5.4	10.3
Sweden	5.3	6.8	8.2	4.5	13.0	12.0	15.4	13.8	25.7	10.6	15.8	10.5	8.4	9.4
United Kingdom	−3.9	0.5	1.9	5.2	7.0	11.6	8.3	13.7	7.9	16.4	4.9	7.6	0.5	6.0
United States	2.5	4.3	3.1	5.0	9.5	12.7	−1.3	15.4	39.2	27.0	14.0	8.8	5.9	11.7
Japan	9.7	13.5	17.5	15.7	19.4	21.0	45.5	42.5	2.6	4.4	26.3	13.7	14.7	14.2
Total above	2.5	5.4	8.3	7.8	12.7	12.4	10.4	16.6	20.9	14.5	11.0	10.6	6.7	9.8
						Ratios of rates of increase of imports (current prices) to rates of increase of GNP (constant prices) [c]								
Belgium-Luxembourg (4.4) [d]	1.1	1.8	1.6	0.9	3.7	2.9	4.1	3.5	2.8	2.5	1.6	2.7	2.1	2.3
France (4.9)	[e]	0.8	2.1	1.4	2.8	2.6	3.7	3.7	0.8	3.1	—	3.4	0.9	2.1
Western Germany (4.0)	0.9	1.3	2.5	2.3	2.8	2.6	3.0	3.9	6.2	3.7	2.8	2.7	1.9	2.4
Italy (4.5)	1.5	2.0	3.7	2.9	2.6	1.3	3.4	3.3	3.1	0.4	3.5	2.2	2.6	1.7
Netherlands (5.1)	1.1	1.6	1.2	0.7	5.4	2.7	8.3	3.4	6.3	1.9	3.6	2.5	1.5	1.9
Norway (5.0)	0.9	1.3	0.8	1.1	3.1	1.9	8.0	3.3	[e]	2.3	2.5	2.4	1.1	2.1
Sweden (4.2)	1.3	1.6	2.0	1.1	3.1	2.9	3.7	3.3	6.1	2.5	3.8	2.5	2.0	2.2
United Kingdom (3.3)	[e]	0.2	0.6	1.6	2.1	3.5	2.5	4.2	2.4	5.0	1.5	2.3	0.2	1.8
United States (5.4)	0.5	0.8	0.6	0.9	1.8	2.4	[e]	2.9	7.3	5.0	2.6	1.6	1.1	2.2
Japan (9.6)	1.0	1.4	1.8	1.6	2.0	2.2	4.7	4.4	0.3	0.5	2.7	1.4	1.5	1.5
Total above (5.2)	0.5	1.0	1.6	1.5	2.4	2.4	2.0	3.2	4.0	2.8	2.1	2.0	1.3	1.9

Sources: As for table 25.

[a] For definition of commodity groups, see footnote [a] to table 27.
[b] SITC Section 9 and group 667 excluded.
[c] Rates of increase of GNP in brackets, after countries.
[d] GNP for Belgium only.
[e] Negative.

groups, the ten countries' combined elasticities for imports from the developing countries ranged from 4 for machinery and transport equipment to 0.5 for food and agricultural products in this period. The latter was the only commodity group with an elasticity of less than unity.[109]

The figures show two points of particular significance for the developing countries' exports to these markets. First, the generally rather high elasticities of imports from developing countries with respect to GNP growth in this period: of the 50 given in the table (i.e. excluding non-ferrous metals—10 countries × 5 commodity groups) 37 are above unity, 27 above 2, 13 above 3, and 5 above 4. (However, of these larger ones, a relatively high proportion are in machinery and transport equipment, where the trade flows are generally very small and, as mentioned above, the import figures include certain items for re-export.)

The second point of interest is the wide inter-country dispersion of these elasticities for imports from developing countries—a wider dispersion than applied to imports from all sources—especially in the manufactured commodity groups. For "other manufactures", these ranged from a negligible figure for France to 3.8 for Sweden (where imports of clothing from the developing countries trebled in value in this period). Within this group, a marked shift towards textiles and clothing occurred in most countries (and a shift towards chemicals, too, in some cases). Nevertheless, the developing countries, still account for a very modest proportion of total textile imports, except in the United Kingdom and the United States.

In addition to Sweden, countries with high elasticities for imports of both groups of manufactures from the developing countries were western Germany, Italy, the Netherlands and the United States; in all five, elasticities were higher than those for imports from all sources in both manufactured groups (the United States alone accounted for three-fifths of the total increase in all manufactured imports from the developing countries in this period). In France and the United Kingdom, on the other hand, elasticities were lower for the developing countries than for all sources in both groups. The differentials were especially large for France in other manufactures; its imports from the developing countries hardly increased in this period, in spite of an average annual expansion of imports from all sources of over 16 per cent.

Excluding the United Kingdom and the United States, which show very low elasticities for food and agricultural products (negative for the United Kingdom) and for energy products, the dispersions in the three non-manufactured groups were less marked than in manufactures. Exceptions were the negative figure for France in food and agricultural products, and the relatively high elasticities for Italy in energy products, and for Belgium-Luxembourg and the Netherlands in other industrial materials.

Since the rates of increase of imports from *southern Europe* were generally above those from the developing countries, most elasticities were higher, too. For the ten countries' aggregate imports, elasticities in this period were 1.3 for food and agricultural products, 2.4 for other industrial materials (where the qualification mentioned in footnote 109 applies), almost 3 for other manufactures, and around 5 for machinery and transport equipment and for energy products (where, however, imports were less than $70 million in 1966-1967).

In spite of some marked differences between countries, all tended to show high, and sometimes exceptionally high, elasticities for southern European imports of the various commodities. Only five were below unity: Belgium-Luxembourg, Italy and the United Kingdom for food and agricultural products, western Germany for energy products and Norway for machinery and transport equipment. Because many of the trade flows with southern Europe are still very small and, partly as a consequence, are sometimes subject to rather erratic changes, not much weight can be attached to some of these figures. Nevertheless, the fact that so many of them are high indicates a tendency for imports from this area to increase in most developed markets and in the majority of major commodity groups at a rate appreciably above the corresponding GNP growth rates.

There is of course no reason why these relationships, either for imports from southern Europe or from the developing countries, should hold in the future. In the first place, they are derived from developments over a comparatively short period of time and will have been affected by factors which will not necessarily be operative in the future. And, secondly, the elasticities could change substantially in response to changes in, amongst other things, a country's growth rate, in the commodity composition of its import demand or in import policies. But the figures in table 28 indicate that the relationship between domestic growth and the expansion of imports from the developing countries has in recent years varied very considerably as between the industrial countries, and that the pattern of growth within the area has consequently had a considerable influence on the development of imports from the developing countries.

[109] These elasticities are of course affected by the fact that imports are at current prices and GNP at constant prices. However, changes in the price indices for world exports of the main commodity groups were fairly moderate in this period, with the notable exception of non-ferrous metals where the index rose from 100 in 1962 to 142 in 1967 (see United Nations, *Monthly Bulletin of Statistics*, September 1968, Special Table B). Thus the figures given in table 28 for non-ferrous metals—and, to a lesser extent, for other industrial materials—are considerably higher than those that would be obtained from import data at constant prices.

CHAPTER II

RECENT ECONOMIC DEVELOPMENTS IN EASTERN EUROPE AND THE SOVIET UNION

1. A SUMMARY VIEW OF ECONOMIC DEVELOPMENTS IN 1968

The generation and use of national output

No country of eastern Europe raised its national output by less than 5 per cent in 1968. Thus, for the third year running, the growth record of all countries of the region was comfortably in excess of the lower threshold of the long-term rates of expansion normally sought in conditions of socialist planning. It would still be premature to attribute this success (in the sense of uniformly five-plus growth rates, as opposed to the remarkable dispersal between negative or near-zero and very high growth rates which characterized the years 1963-1965) to the economic reforms. Starting from broadly similar motives, and in pursuit of broadly similar ends, the measures of economic reform legislated by the various countries of the region are too disparate in nature, and too diverse in speed of implementation, to permit so straightforward a conclusion. Moreover, the reforms of economic planning and management are not only far from complete, they also contain many elements of an experimental character, subject to revision if performance on " trial runs " does not come up to expectations. Still, it is not too early to affirm that the reforms, considered as a whole, have already passed at least the main negative test: despite the short-term adjustments which their introduction requires, growth rates in eastern Europe have been higher and less widely dispersed in the three years beginning in 1966 than in the three preceding years.

In this context, it is difficult to decide whether the slower rate of expansion recorded in 1968, following the fairly widespread deceleration of 1967, marks the beginning of a new diminishing tendency in the aggregate growth of the region, as the focus of attention shifts from macro-economic dynamism to micro-economic efficiency, or whether the deceleration of 1968 was just a temporary lapse to be corrected in 1969. Judging by the plan targets for the growth of national income in 1969, the planning authorities in virtually all countries of the region incline to the latter view. Only in Poland and the Soviet Union are slower growth rates of national income envisaged for 1969. Stable or marginally faster growth, at fairly high rates (5-7 per cent), is the objective in Czechoslovakia, eastern Germany and Hungary. The least developed countries of the region either look forward to much swifter expansion (Albania, Bulgaria) or have not published any plan target (Rumania). Plan targets do not, however, provide an unequivocal answer to the question raised above, for they are not always fulfilled. In 1968, for instance, the growth achieved was less than the growth planned in Albania, Bulgaria, Hungary and Rumania. It is therefore necessary to turn to the cause of the slow-down in expansion which occurred in 1968 before venturing any judgement on the prospects for 1969.

Soviet national income (distributed) grew in 1968 by 7.2 per cent at constant prices, as compared with a growth of 7.0 per cent in 1967, and a target rate of growth of 6.8 per cent. At first sight, neither industry nor agriculture appear to have been responsible for the over-fulfilment of the plan and the consequent acceleration of the growth rate as compared with 1967. The growth of global industrial production slowed down to 8.1 per cent, exactly as planned. Agricultural output, on the other hand, rose by less than half the amount planned (3.5 per cent, as against a target of 7.4 per cent), and since the farm sector still accounts for roughly one-fifth of net material product, the inference is that the output of construction, transport and trade jointly rose faster than planned. Another possible explanation is that the value of the net output of industry and agriculture—which is the relevant series in discussion of the generation of national income —rose faster between the two years than the global production rates just mentioned. There was such a development in Czechoslovakia, as would be expected in conditions of reform of planning practices and enterprise success indicators designed to lessen emphasis on global output as a yardstick of performance. Foreign trade turnover is also reported to have increased by more than planned (8 per cent as against the target of 7.4 per cent). Since, however, no separate data for the growth of exports and imports were published in the plan-fulfilment report, it is not known whether imports rose faster, thus enabling national income distributed to exceed national

income produced. It may be added that the growth rate of national income distributed in 1968 was identical with the annual average attained in the first three years of the current medium-term plan (7.2 per cent) and therefore matched the upper range of the target average of 6.7-7.1 per cent postulated for the years 1966-1970.

Turning to the distribution between end-uses of the increase of some 7 per cent in national income, the paucity of information available is evident from inspection of table 1. Measured in constant prices, fixed investment grew by 8 per cent—much faster than the 5 per cent increment foreseen in the annual plan. This was entirely due to another upsurge (of 18 per cent) in decentralized investment, since the increase in centralized investment was in quite close conformity with the plan. There can be little doubt that this development can be in large measure ascribed to the effects of the economic reform. At the factory level, investment demand has been greatly stimulated by the easier recourse which the reforms make possible to bank credits and self-financing. This illustrates a dilemma with which the central planning authorities are confronted, as well as serving to underline the point made earlier about the experimental nature of some of the reform measures: by according greater freedom to enterprises in investment activity, potentially considerable benefits in micro-economic allocative efficiency may be reaped, but at the risk of releasing an overall wave of investment demand that puts pressure on supplies of investment goods and strains macro-economic balance. Following the upsurge of 17.2 per cent in decentralized investment activity in 1967, provision was made in the plan to curb the boom in 1968 by limiting the growth of such investment to 3 per cent. In the event, the increase was greater even than in 1967 and brought the volume of decentralized investment to twice its 1965 level. One outcome of the unforeseen strength of investment demand was an unplanned increase in the ratio of fixed investment to national income, to just over 24 per cent in 1968.

Owing presumably to smaller additions to stocks, and possibly to an import surplus, the increased volume of

TABLE 1

Changes in national income, consumption and capital formation at constant prices

(Percentage change over preceding year)

Country and indicator	*1964*	*1965*	*1966*	*1967*	*1968*	*1969 Plan*
Albania						
National income produced	5.8	0.3	9.0	7.5	11.0	16.4
Bulgaria						
National income produced	9.8	7.1	11.1	9.0	6.5	>10
National income produced [a]	9.3	7.0	9.6	8.0		
Domestically distributed national income [a]	9.7	4.3	14.3	8.7		
Consumption, total [a]	6.0	7.7	6.3	9.2	8	9.5
Individual consumption [a]	4.8	7.7	5.9	9.4		
Collective consumption [a]	19.3	7.8	10.4	7.0		
Net capital formation [a]	19.3	−3.5	34.5	7.7		
Net fixed capital formation [a]	24.4	−19.8	20.8	36.6		
Change in stocks [a]	12.0	22.7	48.9	−16.9		
Czechoslovakia						
National income produced	0.6	3.4	10.2	6.9	7 *	7 *
Domestically distributed national income	1.7	4.4	8.1	6.8	8-9 *	
Consumption, total	3.2	5.1	5.3	6.3		
Individual consumption	3.0	5.1	5.3	4.4	9 *	6.6
Public consumption	3.7	5.1	5.2	12.3		
Net capital formation	−5.0	—	26.3	8.9		
Gross fixed capital formation	..	7.8	9.8	5 *	8.6	8.5 [b]
Eastern Germany						
National income produced	4.8	4.4	5.3	5.8	5.3	6
Domestically distributed national income	4.6	6.1	5.2	3.7		
Consumption, total	4.2	4.0	4.5	3.7		
Individual consumption	3.4	3.5	3.8	4.3		
Other consumption	9.0	10.3	4.3	6.5		
Net capital formation	6.8	12.4	10.7	2.5		
Net fixed capital formation:						
in material production	7.4	11.6	7.3	8.9		
in non-material production	2.2	5.4	6.6	15.3		
Change in stocks	13.0	28.6	24.4	−28.4		

TABLE 1 *(continued)*

Changes in national income, consumption and capital formation at constant prices

(Percentage change over preceding year)

Country and indicator	*1964*	*1965*	*1966*	*1967*	*1968*	*1969 Plan*
Hungary						
National income produced	4.7	1.1	8.4	8.7	5	5-6
Domestically distributed national income	5.9	−2.6	7.2	11.7		
Consumption, total	5.7	2.9	4.4	6.4	5	5-6
Consumption of the population	5.7	3.0	4.6	6.8	5-6	
Public consumption	7.4	—	−0.2	—		
Net capital formation	6.2	−16.6	16.2	26.8		
Net fixed capital formation [c]	8.8	6.7	−9.3	28.5		
Change in stocks [d]	1.7	−60.7	147.2	23.6		
Poland						
National income produced	6.8	7.0	7.2	5.6	8	5
Domestically distributed national income	4.9	8.3	7.4	4.4	7	5
Consumption, total	4.6	6.2	6.1	5.4	6.2	5
Consumption from personal income	4.3	5.8	5.9	4.7	5.8	4.8
Other consumption	7.4	9.4	8.1	10.4	8	6.2
Net capital formation	5.6	14.4	10.9	2.6	9.3	4.1
Net fixed capital formation	4.7	12.0	12.4	13.1	9	8.1
Change in stocks	7.7	20.4	7.4	−22.2	10	
Rumania						
National income produced	11	10	10	7	7	
Gross fixed capital formation	..	9	10	17	12	9 [b]
Soviet Union						
National income produced	9.4	7.0	8.0	8.8	7.5 [e]	
National income produced [a]	7.4	6.7	7.2	8.3		
Domestically distributed national income	9.6	5.6	7.5	6.7	7.2	6.5
Domestically distributed national income [a]	8.0	6.0	7.2	8.2		
Consumption, total [a]	5.1	7.6	6.9	7.9	8.0 [e]	
Individual consumption [a]	4.7	8.1	6.6	7.8		
Social consumption [a]	8.0	3.4	9.1	8.3		
Net capital formation [a]	16.5	1.8	8.0	9.2		
Net fixed capital formation [a]	2.5	−3.5	6.5	9.8		
Change in stocks [a]	44.7	9.3	9.9	8.6		

Sources: National statistics, plans and plan-fulfilment reports.

[a] At current prices.
[b] In the State sector only.
[c] Excluding uncompleted investments.
[d] Including uncompleted investments.
[e] Direct communication from the Government of the Soviet Union.

fixed investment did not prevent a further acceleration in the growth of consumption by approximately 8 per cent in 1968 (compared with 7.9 per cent in 1967 and a target average increment of 6.7 per cent for the years 1966-1970). Given the reported increase in real incomes per capita of 6.1 per cent, compared with 6.7 per cent in 1967 (see Part 6, table 16). there may have been a faster growth of social consumption during the year, but information is lacking on too many elements—such as the rate of increase in savings deposits—affecting the distribution of expenditures between personal and social consumption for any estimate of relative growth rates in 1968 to be attempted.

Tendencies in the generation and utilization of national income of the other eastern European countries were too diverse, and are as yet insufficiently supported by detailed statistics, to permit more than the barest sketch of the contours of global developments in 1968. Two countries only—Albania and Poland, neither of which have been pace-setters in economic reform—raised their rate of growth in 1968 (to 11 and 8 per cent, respectively). In Albania, the growth of national income was engendered by fast expansion of industrial output (19 per cent) and owed little to higher agricultural production. Since Albania has never yet had an export surplus, the main uncertainty concerns the scale of the trade deficit, principally in exchanges with mainland China. All that is known at present is that exports went up by 10 per cent in 1968—twice as fast as the previous year. This development, together with a presumed increase (as planned) in the investment ratio as new industrial capacities scheduled for completion during the present (fourth) five-year plan reach the stage of plant installation, probably led to a smaller increase in consumption—of the order of 7-9 per cent—than of national income distributed. In Poland, too, faster industrial expansion (9.3 per cent, as against

7.7 per cent in 1967) was the main source of the swifter growth of national income recorded in 1968. Agricultural output also rose more than in the previous year (4.4 per cent, as against 2.3 per cent in 1967). Drawings on foreign credits permitted a faster growth of imports than in 1967, but the still faster growth of exports brought foreign trade into balance so that there was no import surplus to enlarge national income distributed beyond the volume of national income produced, while additions to stocks, following the considerable de-stocking of the previous year, outstripped the rate of growth of total supply. The distribution of the increment of national income among the main components of aggregate demand was broadly similar to that of the Soviet Union. Net capital formation (including stocks) went up by 9.3 per cent, thus exceeding by far the 2.1 per cent increment planned and raising the investment ratio. Total consumption was still able to increase faster than in 1967—by 6.2 per cent—with a steeper increase in social than in personal consumption (8 per cent and 5.8 per cent, respectively), thereby narrowing the still wider gap between their growth rates in 1967.

Czechoslovak and Rumanian experience was very similar in 1968 by virtue of the maintenance of the growth of national income at the same rate—some 7 per cent—as in the previous year. Neither global industrial nor agricultural output in Czechoslovakia rose as fast as in 1967, but the deceleration in the growth of net output was much smaller, since one of the undeniable benefits of the reform has been to impart more importance to raising net value added rather than global production. A notable feature of development during the year was the steep rise in imports of 10 per cent (in contrast with a decline in 1967) while maintaining balance on overall trade account. This was made possible by running down the surplus earned in earlier years with CMEA trading partners and offsetting trade flows with developed and developing market economies, respectively (see Part 7 of this chapter for further details). The upsurge of imports, and considerable de-stocking of consumers' goods, was necessary to match the vigorous (and higher than planned) rise in personal incomes. As a result, the increase in distributed national income of the order of 8-9 per cent exceeded that of national income produced. Personal consumption, with an increment of 9 per cent, attained the highest rate of increase of any postwar year. In Rumania, a decline in agricultural output of 3.6 per cent depressed the contribution made by another year's fast progress in industrial output (an increase of 11.6 per cent, compared with the target of 10 per cent), the outcome for the growth of national income being, as already mentioned, another advance of 7 per cent instead of the 8.6 per cent increment planned. The growth of imports was drastically curbed to just over 2 per cent, following the extraordinary increase of 27 per cent in 1967, although a small import surplus persisted, thus permitting a marginally faster growth of national income distributed than was domestically produced. Fixed investment rose by 12 per cent and must therefore have absorbed a larger share of national income, but the degree of deceleration of consumption growth has not been reported nor can it be inferred from the few data so far published.

The growth of national income slowed down in three countries of the region in 1968: for eastern Germany the deceleration was slight—from 5.8 per cent in 1967 to 5.3 per cent in 1968—and as envisaged in the annual plan; in Hungary, the slackening was more pronounced—from 8.7 per cent to 5 per cent—and rather more than planned; finally, owing to a very poor harvest, the rate of growth in Bulgaria fell from 9 per cent in 1967 to 6.5 per cent in 1968, instead of the 10 per cent increase to which the planning authorities had looked forward. This was a particularly disappointing outcome, inasmuch as the rhythm of industrial expansion in Bulgaria was faster than planned and would have been sufficient to offset the depressing effect on national income growth of a less severe decline in farm output. In Hungary, agricultural output was barely higher than a year earlier, and slower progress was made in eastern Germany, so that in these countries, too, the main impulse to national income growth came from industry, whose global output went up by 5 per cent and 6 per cent, respectively. Higher labour productivity accounted for most of this expansion in Bulgaria and eastern Germany, but made only a minor contribution in Hungary, where employment rose much faster than planned.

Little can be surmized, from the few statistics published, concerning the distribution of national income in these three countries. Total consumption appears to have grown *pari passu* with national income in Hungary, with a slightly larger gain in personal than in social consumption. In eastern Germany the investment ratio rose as planned and this development, in conjunction with a fairly large export surplus, suggests that the volume of total consumption probably rose less than the 3.7 per cent increase of 1967—the deceleration presumably affecting social consumption most, since real incomes per capita went up by 5 per cent. By contrast, total consumption in Bulgaria is reported to have expanded faster than national income (8 per cent—but whether in current or constant prices is not known—against 6.5 per cent) due to the slightly slower growth of investment than in 1967 and a larger import surplus.

* * *

In the remainder of this introduction a summary account is given of the principal developments in the major sectors of supply and demand during 1968. The reader is referred to the subsequent Parts of this chapter for a much fuller presentation of the statistical data and related analysis on which the conclusions drawn below have been based. Manifestly, 1968 was an important year in the implementation of the economic reforms, and a full account of the new measures introduced in the course of the year, as well as of the modifications made to earlier reform provisions, is contained in Part 2. Given the diversity of types of reforms undertaken (as well as of the experience gained in their implementation from country to country), no attempt has been made to summarize the development of the reform in 1968. The year was essentially one of the more extensive application of the new methods of economic management, when some refinements were also made in a number of the measures (e.g. in the sphere of

investment financing) introduced earlier. Everything considered, the year was characterized by relatively smooth and satisfactory progress in implementing the reforms.

Industry

The expansion of industrial output continued at a rapid pace—in the neighbourhood of 8 per cent—in 1968, with a rather smaller slackening in the rhythm of growth from the previous year (when the weighted average increase had been some 9½ per cent) than had been anticipated in the annual plans of some countries of the region. Thus, Bulgaria, Poland and Rumania succeeded in surpassing their planned rates of growth. The Soviet Union, however, precisely attained the target increment of 8.1 per cent (compared with a 10 per cent expansion in 1967) and thus accounted for most of the deceleration in the region's industrial expansion The fastest expansion occurred in Albania and Rumania, the two least industrialized countries of the region. It may have been no mere coincidence that the slowest growth was experienced by the two countries—Czechoslovakia and Hungary—where the reforms of planning and management have been most far-reaching. Coincidence or not, there is nothing particularly surprising in the association between slower growth, in the short run, and economic reform, for part of the *raison d'être* of the latter is to ensure intensive rather than extensive economic development—in a word, to forfeit some quantitative growth in the interests of a better quality of economic performance.[1]

Albania and Poland were the only countries where industrial output grew faster in 1968 than in 1967, the experience of other countries of the region ranging from slight deceleration, as in east Germany, to an abrupt move to lower gear, as in Hungary. Nonetheless the slower expansion was not generally such as to endanger attainment of the average rates postulated in the current five-year plans terminating in 1970.

Disregarding differences from country to country, there was a widespread tendency—Bulgaria being the chief exception—for industrial employment to rise faster than planned, with, as a corollary, a slower than planned improvement in labour productivity. Nonetheless, nearly all countries succeeded in raising productivity by 5 per cent or more, the exceptions being Czechoslovakia, where the annual rate fell to 3.8 per cent (from 5.9 per cent in 1967) and Hungary, where it fell to as little as 1.1 per cent (from 5.4 per cent in 1967). The Bulgarian authorities set out to curb the outflow of labour from farming and the success of this policy, together with a better deployment of manpower among industrial branches, yielded a remarkable increase in labour productivity of 9.3 per cent.

The pattern of industrial expansion differed amongst the eight countries considered. A fairly general tendency —and one consonant with the aims of the medium-term plans—was for the differential between rates of growth of output of producers' goods and consumers' goods to narrow, largely because the expansion of the former slowed down more than that of the latter. Here, again, the more southerly countries of the region—Albania, Bulgaria and Rumania—which are at an earlier stage of industrial development had a distinctive profile of sectoral expansion. In all three the gap between the growth rates of the producer-goods and consumer-goods sectors appears to have widened—very appreciably in Rumania, where the rates were 14.9 per cent and 6.4 per cent, respectively, and by more than was considered desirable in Bulgaria since vigorous measures to reduce the gap are incorporated in the Plan for 1969. Among the host of factors, outside the domain of policy, which may account for the wider gap between producer-goods and consumer-goods expansion in the less developed countries of the region, two which exert a more permanent or recurrent influence were prominent in 1968: one is the greater addition to capacity in the producer-goods sector as a result of the relative investment priorities observed in earlier years; the other is the vulnerability of their consumer-goods output to fluctuations in domestic supplies of agricultural commodities. Transient changes in demand factors also exerted a short-term influence in 1968—particularly in the sphere of foreign trade, where slacker export demand for some consumers' goods (e.g. clothing from Bulgaria) depressed growth rates. It may be added that the faster growth of global industrial output in these relatively less industrialized countries, in conjunction with the priority accorded to expansion of the producer-goods sector, resulted in a further narrowing in inter-country differences in degrees of industrialization in 1968.

Few general tendencies common to all the countries of the region are discernible in the pattern of expansion by industrial branches in 1968. The chemicals branch maintained the most rapid rate of growth, and thus its place in the vanguard of expansion, for the third year running: the increase in chemicals output ranged from 10-12 per cent in Hungary and the Soviet Union to 26 per cent and 61 per cent in Bulgaria and Albania, respectively; a deceleration in growth from 23 per cent to the still high rate of 17 per cent occurred in Rumania, where output of the building-materials branch rose slightly faster. Other branches whose output in general rose faster than the average for industry as a whole were engineering and metal-working, while power generation (8.3 per cent higher) increased broadly *pari passu* with global industrial production. The growth of output of the branches primarily oriented towards personal consumption—the light and food-processing industries—tended to lag behind the overall rhythm of industrial growth, except in the Soviet Union, where the former branch continued to expand faster than average. The range of performance of the fuel and metallurgical branches was so varied from country to country (as can be seen from table 3) as to preclude generalization. The region's combined output of rolled steel went up by 5.5 per cent, as compared with 6.8 per cent in the preceding year—the deceleration occurring mainly in the Soviet

[1] The reforms have also sought to impart a greater degree of realism to target setting, principally by according less importance to global output as an indicator of success. Moreover, the authorities in both Czechoslovakia and Hungary deliberately sought to create optimal conditions for the introduction of the 1968 reforms by setting lower growth targets and thereby reducing "plan tension".

Union; and the expansion of fuel production continued to slow down, from a 4.8 per cent increment in 1967 to one of 4.3 per cent in 1968.

Agriculture

Judged by its contribution to economic growth and consumers' supplies, the farming sector in the eastern European countries cannot claim exceptionally satisfactory results in 1968. Gross agricultural output was higher, by margins of the order of 3-5 per cent, thus reaching record levels in most countries of the region. In three countries output either registered no gains whatsoever (Hungary) or even fell (Bulgaria and Rumania).

As is usual in years of unexceptional performance, adverse climatic conditions can reasonably be held at least partly responsible for the shortfall from planned rates of growth, and in large tracts of the region farmers had to run the gauntlet in 1968 of winter frost, summer drought and rain at harvest-time. Yet it has to be acknowledged that, for all the importance of annual increments in farm output in the context of short-term progress in economic growth and welfare, the weather hazards to which agricultural production is exposed, as well as the longer-range aim of modernization of the farm sector to which all eastern European countries are committed, make year-to-year comparisons of output an unreasonably narrow basis for assessing agricultural development. Viewed in a longer-term perspective, 1968 was a year of solid, if unspectacular, progress in the modernization of eastern European agriculture, and of its closer integration with the industrial and commercial sectors of the eastern European economies. Over a number of years cumulative reforms have been undertaken with the purpose of strengthening the independence of farm management in decisions regarding the volume and pattern of investment, cultivation, and marketing; measures have also been taken to enhance the attractiveness of work on the farm by enlarging the opportunities for all-the-year round employment and by raising incomes, in relation to those in the towns; and, above all, a wide range of instruments of economic policy and organization has been so reshaped as to encourage fuller use of modern techniques of farming and to adapt the quality and range of farm produce more closely to the requirements of customers in industry, commerce or consumers' markets.

Plainly, the historically daunting task of transforming the large farm sector in eastern Europe [2] from the relatively unfavoured position it occupied during the long years when rapid industrialization was the chief goal of economic policy into a modern, capital-intensive sector with equivalent access to investment resources and technical innovation remains immense. Years of sustained effort still lie ahead before the "scientific agricultural revolution" can be regarded as complete. Moreover, the interlinkages between agriculture and other sectors of the economy will have to be greatly improved; output losses occur in transit from the farm to the consumer, and high opportunity costs are imposed by lack of processing and storage capacity, refrigeration, transport and marketing facilities. Some indications of the scale of modernization are contained in Part 4 of this chapter, where the proportions of inputs from other sectors in relation to gross agricultural output in the industrially more advanced countries are tabulated: based on data for the mid-1960s, the proportion of such inputs is seen to range from less than 20 per cent in the Soviet Union to some 35-40 per cent in Czechoslovakia and eastern Germany. The benefits of enlarged material-technical supplies, higher investment, the wider applications of modern agricultural methods, and reforms of organization and planning were, nonetheless, increasingly in evidence in 1968. As is shown in Part 4, yields in crop and livestock farming were higher, or withstood bad weather better than in earlier years, more processing was undertaken on or near the farms themselves, and supplies to the factories and the cities were more regular and better assorted. In sum, despite the persisting difficulties of the agricultural sector—many of which are the legacy of earlier policies that unfavourably affected the age and sex composition of the farm labour force, or result from shortfalls in planned deliveries of current inputs and investment goods to the farms—there was some advance in 1968 towards more autonomous and better equipped farming in eastern Europe.

Investment

The investment boom continued in eastern Europe in 1968, but lost some of its momentum. Among the major components of final demand, investment remained the most expansionary, followed by exports and consumption in all countries other than Czechoslovakia and Hungary where the growth of consumption took the lead. Rates of gross fixed investment ranged, in general, between 8 per cent and 12 per cent, the smallest increase (2 per cent) occurring in Hungary, following the extraordinary upswing of over 20 per cent in 1967. The scale of investment activity exceeded planned expectations in several countries. The resultant over-spending on investment can scarcely have been welcome, since the deceleration planned for the year had been designed to bring demand closer to supplies of capital goods and building materials, while permitting speedier completion of work in progress. Only Hungary and Rumania came close to attaining the planned retrenchment of investment demand. By and large, investment rose faster than national income, so that the share of national resources absorbed by fixed capital formation, as measured by the investment ratio, increased throughout the region—moderately in Czechoslovakia, Poland and the Soviet Union (to 26.2, 29.2 and 24 per cent, respectively), steeply in Albania and Bulgaria (in the latter country to 35.7 per cent instead of the 33.7 per cent planned—see table 10). In Hungary the ratio fell to 33 per cent, a smaller decline than planned.

Although control over year-to-year fluctuations in the volume of investment is undoubtedly important for the maintenance of short-term equilibrium, such fluctuations are largely explained in terms of factors such as the

[2] The share of agriculture in national output and employment in 1965 ranged from 11 per cent and 21 per cent, respectively, in Czechoslovakia, to 30 per cent and 57 per cent, respectively, in Rumania; the corresponding shares from the Soviet Union were 21 per cent and 31 per cent.

average " lumpiness " or gestation periods of the investment projects undertaken which do not lend themselves readily to short-term manipulation by the planning authorities. Comparisons of changes in the volume and composition of investment over a number of years, in relation to medium-term plan objectives and the rate of increase of national income, throw more light on the development of capital productivity and the effects on efficiency of the economic reforms. Analysis of the data contained in Part 5 of this chapter shows certain medium-term improvements in investment performance, some of which are attributable to the reforms. The analysis also indicates that certain difficulties—such as the high volume of non-completed investments due to supply bottlenecks, undue dispersal of resources, or overspending from decentralized funds—have not been removed by the reforms.

When investment performance in three consecutive periods (1966-1968, and the two preceding quinquinnia) is compared, growth rates of national income are seen to have recovered in the years 1966-1968 in relation to the first half of the 1960s—but not invariably in relation to the latter half of the 1950s (see text table on page 152). Since the improvement was associated, in the six countries for which data are available (i.e. excluding Albania and Rumania), with higher investment ratios in the recent period than during the preceding decade, the implication is that there can have been no appreciable increase in the overall productivity of investment. Inspection of incremental capital-output ratios confirms this presumption so far as the comparison of the late 1950s with the 1966-1968 period is concerned; in all the countries considered, other than Czechoslovakia and Hungary, investment efficiency thus measured is now less than it was ten years earlier. By contrast, there has been a perceptible improvement in investment efficiency in the years 1966-1968 as compared with the first half of the 1960s everywhere except in Bulgaria. The improvement has been most conspicuous in two countries—Czechoslovakia and Hungary—where the economic reforms have been most extensive. This fact in itself does not, however, warrant the drawing of a *post hoc, ergo propter hoc* conclusion, although the steep fall in the overall productivity of investment in these countries in the early 1960s had certainly acted as a powerful incentive to reform.

Clearly, the changes in incremental capital-output ratios just discussed represent a highly aggregative indicator of investment performances which should be supplemented by information on the sectoral and branch-wise distribution of investment, the ratio of uncompleted projects to new investments, the changing degree of capacity utilization, etc., before an adequate assessment of the benefits brought by the reforms can be attempted. Such information as is available has been assembled in Part 5. Changes in the pattern of investments have been noticeable, and not always in conformity with plan objectives, but have varied too much from country to country to admit summarization here. On the other hand, the transference of enlarged decision-making powers to production units has been accompanied, as was to be expected, by a marked shift in the proportions of investment undertaken from centralized and decentralized funds: the share of the latter rose from 24 per cent to 30 per cent in the Soviet Union between 1965 and 1968, and the shift was still more pronounced in Hungary (from 21 per cent to 40 per cent) and Czechoslovakia. The devolution of investment decision-making, reinforced by the increased powers of enterprises to invest from their own resources and increased access to bank credits, appears to have benefited micro-efficiency by improving the selection of investment projects, but has swollen the volume of decentralized investment demand well in excess of available investment resources.[3]

Finally, the cumulative growth of investment in the years 1966-1968 is seen to have surpassed the volume implied for these three years in the current medium-term plans in almost all countries of the region—by as much as 15 per cent in Bulgaria and 11 per cent in Hungary. The annual plan targets for 1969 at present available anticipate a decline in Bulgaria and a slower rate of growth in the Soviet Union and Rumania, but further acceleration in Czechoslovakia, Poland and Hungary.

Consumers' incomes and supplies

Notwithstanding the rather slower growth of national income, progress towards higher levels of consumption in 1968 appears to have been maintained at about the same rate as in 1967 in most countries of the region, and rather faster than foreseen in the annual plans. Improved domestic supplies of consumers' goods, augmented in a number of countries by higher imports and a running down of stocks, enabled any major strains on global supply and demand equilibrium to be avoided. An additional stabilizing influence was provided by the continuance of a strong marginal propensity to save out of personal incomes in all countries of the region other than Czechoslovakia, where some dis-saving occurred in the course of the year.

The growth of nominal incomes was mainly due to higher earnings in the non-farm sector, where the stimulus of the material incentives provided by the economic reforms contributed to increases in average wages of as much as 7-8 per cent in Czechoslovakia and the Soviet Union. At the other end of the scale, however, pay increases amounted to only some 2-4 per cent in Bulgaria, Hungary, Poland and Rumania. The growth of nominal earnings was supplemented by further increases in social benefits and other transfer payments. Gains in peasants' incomes were not, in general, as substantial as in the preceding year when they had been particularly satisfactory.

The outcome of above-plan increments in incomes and employment was a volume of potential consumption demand liable to exceed planned supplies and hence to put prices under pressure. This risk seemed particularly real in those countries—Bulgaria, Czechoslovakia and Hungary—where greater liberalization of consumers' prices was an ingredient of the economic reforms. In the

[3] This excess investment demand was largely due to a swifter growth of profits than anticipated and was thus, in a sense, the short-term price that had to be paid for the success of the reforms in enhancing the profit-awareness of enterprise management.

event, higher output and imports, together with increases of between 12 and 20 per cent in personal savings deposits, relieved pressure on prices, so that only in Bulgaria was the rise in the cost of living (some 5 per cent) appreciable.[4] As a result, real incomes per capita closely followed the progress of nominal incomes, rising by as much as 6-7 per cent in Czechoslovakia and the Soviet Union—much faster than planned in the former country, but slightly below the target in the latter. In Poland and Hungary the gains in real wages were of the order of 1½-2½ per cent, or rather more than planned, while there was a decline in Bulgaria of some 3 per cent.

The volume of retail sales increased by 7-9 per cent in all countries other than eastern Germany, where the gain accelerated to just under 5 per cent. Structural changes in demand towards better quality and a wider assortment of goods and services were everywhere in evidence, but were not always matched on the supply side. Sales of motor-cars were rather less buoyant, with a sharp deceleration in Czechoslovakia, Hungary and the Soviet Union following the exceptional expansion of 1967 (from increases of 34, 57 and 20 per cent respectively, to 17, 32 and 7 per cent respectively) and no advance from the 1966 level of sales in Poland.

The plan targets so far published for 1969 reflect the intention of planners to forestall potential imbalance between the growth of average wages and employment, on the one hand, and the increase of consumers' supplies, on the other, by setting rather lower targets for the former and rather higher targets for the latter.

Foreign trade

The expansion of the region's foreign trade turnover (exports and imports considered together) slackened slightly in 1968 to 7½ per cent from the 8 per cent increase of the previous year. Considered as a group, the eastern European countries other than the Soviet Union raised their imports by 6.8 per cent (compared with 6.2 per cent in 1967) and their exports by 7.8 per cent (compared with 9.1 per cent in 1967). Only the growth of turnover—of 8 per cent—has been reported for the Soviet Union. Bulgaria and Czechoslovakia led the import expansion, with increases of 12 per cent and 10 per cent, respectively, while the two countries which had experienced a still sharper upswing of imports in 1967—Rumania and Hungary—were obliged to cut back their growth to 2.3 and 15 per cent respectively. Poland had the most satisfactory export performance, with an accelerated growth of 13.2 per cent, followed by Bulgaria and eastern Germany (10.5 per cent and 9 per cent respectively). Hungarian and Rumanian exports rose by about 5 per cent, and those from Czechoslovakia by only 3 per cent. The size of balances carried over from the previous year goes some way towards explaining the divergences between the rates of growth of trade of the various countries of the region, on the one hand, and their ranking in terms of growth of national income on the other. In general, trade surpluses carried forward from 1967 permitted a faster import expansion in 1968, whereas deficits in the previous year were followed by import constraint. By virtue of access to foreign credits, Bulgaria and Poland were absolved from this discipline, which resulted in a better balance of the trade of most countries of the region (see table 21).

For the second year running the intra-trade of the CMEA countries accelerated, growing by 11 per cent and thus remaining the most dynamic flow in the region's trade. As in 1967, this sharp expansion can be ascribed largely to the growth of intra-regional demand for machinery and consumers' manufactured goods which bulk large in CMEA exchanges. Trade with other areas was distinctly less buoyant than intra-trade. Exports to western Europe rose in the first nine months of the year by 7 per cent—a useful acceleration, and imports by 6 per cent—a sharp deceleration. Trade with developing areas was the least dynamic of CMEA flows in 1968, turnover in the first half of the year increasing by less than 5 per cent, although even this small increment represented a welcome reversal of the trade contraction that occurred in 1967.

[4] No information has yet been published on the movement of the cost of living in 1968 in Albania, eastern Germany and Rumania.

2. INSTITUTIONAL CHANGES

The changes in the methods of planning and management, which were started in most of the countries of the area several years ago,[5] have reached a stage where certain common traits together with some important differences can be observed. This permits at this point a stock-taking of the measures implemented and of the further changes anticipated, of their similarities and differences between countries, and an attempt to evaluate their effects on the development of the various economies.

A word of caution is necessary. In none of the countries concerned is the end of the economic reform in sight. In some of the countries, in fact, it has been specifically stated that only the first stage has been reached in the application of the economic reform plans; [6] in others, the improvement of planning and management methods is presented as a continuous process which should be pursued in close accordance with changes in the production potential and in social relations. This latter approach points to a search for the solution of specific problems by means of selective measures without a theoretically integrated design. But even in those countries where the reform measures derive from an internally consistent philosophy, a definite judgement on the final outcome must await some years of further experience.

The general features of the measures already adopted range over a wide field of management problems on the macro- and micro-economic levels. They include problems of planning, of the organizational structure of the economy and the status of the enterprises, of the application of economic instruments to influence the decisions of economic units and, last but not least, problems of external economic relations.

[5] See previous accounts in the *Economic Survey of Europe*, especially 1965, Part 1, chapter I, section 7; 1966, chapter II, section 7; 1967, chapter II, section 6; and *Economic Planning in Europe* (1962 SURVEY, Part 2), especially chapter V.

[6] For example, for the Soviet Union, see *Izvestia*, 27 November 1968.

(i) Changes in planning

The measures already introduced were usually related in the first instance to planning. A shift of emphasis to medium- and long-term planning is the aim of all the reforms, but so far frequent changes of yearly plans during the plan period have made the medium-term plans a less reliable instrument for the development of the economy than anticipated. Long-term plans of overall development of the economy have more the character of programmes, but long-term sectoral plans worked out in several countries seem to be a more feasible instrument for working out specific development projects and strategies. Increasingly formalized mathematical methods in plan construction are applied. At the same time, the traditional methods of material and synthetic balances are usually retained.

There is a definite trend towards concentration on the essential features of the central plan and towards reducing the number of plan indicators, especially those which are binding for the lower planning levels and the enterprises. This applies to the medium-term and the yearly plans, but the reduction of plan indicators tends to be more substantial in the medium-term plans. In some countries of the area (Czechoslovakia and Hungary) the mandatory indicators of the central plan (for both yearly and medium-term plans) have been eliminated altogether—or are kept only as a temporary measure to be discarded when the situation allows.

In most of the other countries the previous, most important, aggregate indicator—namely, the value of global production—has lost its binding character. In some countries, however, it is still used for calculating purposes at the central level, and is sometimes also passed on to the enterprises for calculation and orientation. In the Soviet Union it has been replaced (in the branches and sectors of the economy where the economic reform is in force) by the value of sales as a mandatory success indicator. Poland also intends to adopt between now and 1970 the value of sales indicators.[7] In Bulgaria and eastern Germany no *aggregate* value output target in any form is mandatory.

In all countries where the mandatory character of the central plan has been retained, the planned quantitative output of basic raw materials and of selected semi-finished or finished products is also a binding target.[8]

[7] The sales indicator has some advantages over the value of global production indicator. As the new indicator excludes unfinished production and producers' stocks it stimulates demand-oriented production to a greater extent. It also induces the enterprise to speed up inter-enterprise turnover and to scrutinize more closely its real marketing position from the point of view of demand for the product. Its positive effect, however, may be diminished by the fact that binding physical volume indicators of specific commodities are usually applied as well.

[8] Over the past few years the number of these output targets has been greatly reduced, although recently in Bulgaria and Poland there has been some tendency to widen the list of obligatory items.

In eastern Germany the mandatory character of the central plan would seem to be reinforced for priority targets important for structural development, including research and development, automation and mechanization, and deliveries to the domestic market and to foreign trade.

In the same way there is a tendency to change, or limit, the mandatory character of indicators for factor inputs. The number of centrally-funded and allocated indicators for materials and technical supplies has usually been reduced. In some countries (Czechoslovakia, Hungary) the plans for material-technical supplies have been abolished—or have been restricted for a transitional period to a relatively small number of imported commodities. In these countries direct contractual relations (generally long-term contracts) between suppliers and purchasers have been established. In the Soviet Union, the central allocation of supplies has been retained to a greater degree than envisaged in the original reform plan. (See *Economic Survey of Europe in 1965*, Part 1, Chapter I, section 7, pp. 61-62.) It is still intended to increase gradually the range of products to be sold without any quota limitations.[9]

In most countries the number employed has ceased to be a binding plan indicator, though in some of them it is still mandatory in an indirect way through the relationship between obligatory indicators of labour productivity, average wages, and wage funds.

In most countries, planned wage funds have been retained. The setting of wage limits by indirect means through normatives or varying operating ratios has been applied in Bulgaria and, to a certain extent, in Poland. Czechoslovakia and Hungary have discarded the mandatory wage funds (except for budget-dependent organizations) though indirect limitations are in use. In Hungary—as a transitional measure—a maximum limit of an average wage growth of 4 per cent for 1968 has been set.

In the investment field, too, a trend towards decentralization can be observed, though in most cases the central plan sets the total volume and the structural distribution of investments. Centrally-determined investment actions are now usually restricted to key development projects, while for less important investment projects only financial limits are set which are either given to the lower planning levels and the enterprises as mandatory indicators, or are controlled by more indirect means—mainly through the banking system.

One common feature—which is particularly important in those countries emphasizing the necessity for retaining the obligatory character of the central plan—is the endeavour to express some of the mandatory indicators in a more synthetic and sophisticated manner. Instead of absolute figures, ratios or normatives, giving the relation between two or more indices, are commonly used. The normatives are usually meant to be valid for a longer period, to orient enterprise incentives to a longer time-horizon. The wage-productivity relationship is used in several countries. Profitability and the rate of profits—defined respectively as the ratio of profits to total costs of production or to assets employed and working capital—are applied either as mandatory indicators or for calculating purposes. Differentiated deductions to the state budget, calculated in relation to production funds and to net profits, have now been introduced in some countries in the form of a long-term normative percentage rate. Also, incentive funds of enterprises are often fixed as a ratio between two or more indices. No doubt the application of normatives has some advantages in comparison with earlier methods; for instance it permits greater flexibility in implementing the plan. However, as with many other indicators, enterprise managements tend to devote more ingenuity and effort to manipulating the given norm than to achieving genuinely greater effectiveness. The normatives had often to be changed several times during the year, which, of course, defeated their very purpose.

In some of the countries where planning procedures have been changed it may, nevertheless, appear to enterprises that the plan which is passed on to them from superior planning authorities is very much the same as before the reform. This can be explained by the fact that supervisory bodies occasionally treat orientational indicators in the same way as mandatory ones and demand their strict fulfilment. Moreover, the narrowing of the range of mandatory indicators at the central level does not preclude the prescription of more detailed tasks and targets by lower planning levels.[10] Even this represents a certain advance in comparison with previous practice since the stipulation of specific tasks by lower planning authorities brings the decision-making process nearer to the level where more expert knowledge of the actual situation exists than at the central level. This applies particularly to large countries like the Soviet Union, with very varied conditions in different areas. Besides, in many countries the planning authority which is immediately superior to the enterprises is now itself an organizational unit with full financial responsibility for its results and therefore also for the associated enterprises. This point brings us to another common feature of the reforms.

[9] See the Recommendations of the All-Union Economic Conference, *Ekonomicheskaya gazeta*, No. 31, 1968.

[10] This principle is expressly laid down in the Rumanian "Directives on the Improvement of the Management and Planning of the National Economy" (December 1967), *Romanian Foreign Trade*, No. 1 (66), 1968.

(ii) Changes in the organizational structure (enterprises and associations)

Changes in planning methods have usually resulted in the devolution of the planning and decision-making processes to lower planning levels. In the first instance, this implied only a shift of authority to the industrial ministries and from there to administrative branch bodies working under their guidance. The latter were gradually transformed into associations or directorates operating on the basis of full financial responsibility for the asso-

ciated enterprises and for profitability of their respective branches. This change also implied that the associations are entitled to concentrate some of the resources of the enterprises (from amortization and net profits) with the objective of redistributing them between the enterprises, and covering their own outlays.

Changes in the organizational structure have varied from country to country. In Rumania central industrial offices, on the lines described above, will be set up during 1969 and 1970. In the Soviet Union the creation of intermediate management bodies and associations working on the principle of accountability has only begun. It is believed that their slow and hesitant introduction is one of the reasons why the smaller enterprises with their multitude of interrelated ties are not yet working according to the new scheme. Associations of enterprises have been in operation for a number of years in the other countries, either as a generally applicable organizational scheme (e.g. in Poland, eastern Germany, Bulgaria and Czechoslovakia), or in limited fields (Hungary).

In some countries where associations of enterprises were established several years ago, problems of defining their relations with the individual enterprises have frequently been discussed, and new organizational measures adopted. Although the principle of accountability of the associations had been stressed, nevertheless in the beginning they were also conceived as supervisory planning bodies with responsibility for transmitting the central plan to the enterprises and for controlling and regulating their activities. Now, however, it is felt that their authority in many fields (especially in redistributing the resources of individual enterprises) encroaches upon the rights of the enterprises to make autonomous decisions within the framework of the general rules and indirect instruments of regulation set by the central authorities.[11] The hierarchical set-up, linking the enterprises via the associations to the ministries, may revive a tendency towards hidden, or open, direct interference. Moreover, it has been suggested that the hierarchical form of organization may create a tendency for monopolistic domination of the market.[12] This criticism is not levelled against the process of amalgamation and concentration as such, which is an almost universal tendency in contemporary industrial development. Integration should, however, according to these views, be of clear advantage to all participants, and the authority transferred to the association a matter of agreement between them. At the same time, the state authorities should control and counteract in the public interest the possible abuse of the power of monopoly.

An interesting development in eastern Germany also seems to have the effect of cutting across the straight line of hierarchical subordination. For all important structural problems, co-operative councils and commodity group councils[13] have been set up; these are collegiate bodies of enterprises engaged in interdependent or joint activities. The General Directors of the VVBs (associations) are obliged to consult these bodies which are also entitled to make observations to the authorities supervising the VVBs.

[11] Cf. I. Mironov, "The fund of wages and the material stimuli in the system of the state individual associations", *Trud i Tseny*, No. 7, 1968.

[12] Cf. M. Sokol, "Ekonomická reforma jako problém" (The economic reform as a problem), *Plánované hospodářství*, Prague 1969, No. 1.

[13] The co-operative councils are to become responsible for the vertical organization in a line of production, while the commodity group councils watch the developments in important commodity groups.

(iii) Rights and obligations of enterprises

In spite of the differences between countries, there is a clear tendency towards endowing the enterprises with broader rights and responsibilities.

For this purpose, the success criterion of the enterprise is frequently formulated in a new way. Instead of, or in addition to, the fulfilment of targets and indicators set by higher planning levels, the economic result achieved by the economic unit has become the yardstick of success. The economic results can be expressed in various ways, e.g. as gross income (net value added in the SNA definition), profits, profitability rate, etc. While this tendency is of a general nature it cannot be interpreted in an undifferentiated way. In some countries (Czechoslovakia, Hungary and, to a certain extent, Bulgaria) the actual economic results achieved by enterprises are the measure of success, while in the majority of the other countries of the region, these economic criteria are conceived rather as plan indicators given to the enterprises mostly in the form of normatives. But even in the former group of countries, in the transitional period some additional administrative constraints are still in use.[14]

Nevertheless, in most countries incentives for the workforce and management are now increasingly geared to the new success criteria. In the same way, in practically all the countries of the area, managements now have the possibility of extending enterprise activities with the help of development funds set up and financed from their own resources. Funds for social and cultural amenities are now usually financed in the same way (instead of by planned allotments for these purposes).

All these measures have extended the rights and responsibilities of the enterprises. In connexion with this

[14] The reason given for still keeping some transitional administrative controls is usually that the actual economic results achieved by the enterprises are not yet an objective success criterion because of the legacy of past cost and price distortions which have not yet been completely removed.

development a new problem has arisen: to whom is the management of the relatively autonomous enterprise responsible for its activities?

Under the traditional centralized system the answer is unequivocal. The director-general of the enterprise, appointed by the superior state administrative body, has to a large extent the character of a state official who is responsible for the fulfilment of the plan. His authority to make decisions is limited to operating functions while the strategy of enterprise policy remains the prerogative of the central planning body. Within the enterprise the director has sole authority for decisions. The trade unions participate in the fulfilment of the plan but they have no effective say in shaping enterprise policy and cannot interfere with questions of management.

With the greater independence of enterprises, this clear-cut concept of division of responsibilities becomes less consistent. If the enterprise has financial responsibility for the results of its activities, then a situation where the enterprise is subordinated to a higher authority which is empowered to give instructions but bears no material responsibility might easily lead to conflicts. A threefold task has to be undertaken: (i) to strengthen the authority of enterprise management and to free it from administrative subordination, while inducing it by economic pressure and incentives to make rational decisions; (ii) to assert the authority of the State representing the common social interests of society; (iii) to grant to the work-force the right to participate in the shaping of enterprise policy.

The first and second problems pose the question of the relations between the enterprise management and the central state authorities, on the one hand, and the associations on the other. The third problem deals with the relations between management and staff within the enterprise.

The urgency of finding solutions to these problems to a large extent depends on how far directive plan targets have been eliminated; but, even taking this into account, the situation still differs widely from country to country.

Where the reform aims only at the improvement of previous planning and management methods, great changes in the relations of enterprises to higher management and planning levels do not seem to be warranted. Here, the issue seems to be how to keep down the number of centrally determined indicators of a binding character while preventing the intermediate planning bodies and the associations from restricting unduly the authority of enterprises by imposing additional binding tasks and constraints. The solution of this problem is intimately connected with the effectiveness and consistency of indirect economic instruments applied in conjunction with binding indicators. Where the blend of direct and indirect measures is internally consistent, the enterprises have a good chance of successfully defending their broadened authority. Frequently, however, it is precisely the inconsistency between imposed binding indicators and indirectly applied incentives which leads to increased interference of intermediate planning levels and the associations.

In those countries where the central plan has ceased to be a binding document for the enterprises, and its implementation has to be secured increasingly by measures of indirect control only, the relationship between the central state authorities and the enterprises has to be changed more radically. According to some views, there should be no relationship of subordination between the macro-economic and micro-economic spheres, but rather a division by tasks and functions. The main tasks of the State's economic policy are to co-ordinate the activities of the enterprises and their different forms of integration, to regulate the market as a natural environment in which the enterprises operate, and to guide their activities, with the help of economic instruments, towards the planned development of the economy. Among the controlling functions of the central authorities are measures aimed at combating attempts at monopolistic abuse, unfair competition and any attempts to improve the situation of producing enterprises to the detriment of the consumer.[15] The enterprises and combinations of enterprises, on the other hand, should, according to these views, obtain full and genuine freedom and responsibility for their entrepreneurial activities, which they should be able to carry out without subjective and arbitrary interference and manipulation from above within the framework of the economic policy of the State and its regulating and controlling measures. In the same way, it is suggested that the relationship between the enterprise and the association should also be transformed into a form of negotiated partnership, as has been described above.

In view of the increased financial responsibility of the enterprise the relationship between management and staff within the enterprise is yet another problem which is under consideration. Here, too, the situation differs widely from country to country, but seems to be less directly related to the mandatory or indicative character of the central plan.

For instance, in Hungary, which has gone a long way towards eliminating the mandatory character of the central plan, there is at present no intention of replacing the principle of one-man leadership by the director. The State has maintained its right to nominate and dismiss directors, who, however, have now substantially increased authority and powers. The need to observe enterprise democracy is also stated; for its application trade union functions are being extended. On the other hand, in Rumania—which intends to retain the mandatory central plan—the principle of collective management at all levels has been emphasized. Members of the collective leadership are the responsible members of management, experienced specialists and representatives of the work-force. The collective management body in Rumania is therefore a blend of collective, but preponderantly professional, leadership and, to a certain extent, of workers' representation—with a tendency gradually to strengthen the latter.[16]

[15] O. Černík at the Plenary Session of the Communist Party of Czechoslovakia in December 1968, *Rudé Právo*, 13 December 1968.

[16] The co-operative councils and commodity group councils set up in eastern Germany also introduce an element of collective professional leadership. This is, however, a somewhat different problem which has no bearing on the problem of workers' participation.

In 1966 Bulgaria established production committees as a new form of participation of the workers' collective in the management of the enterprise. After more than two years' experience there are some indications that their authority and genuine influence on enterprise decisions has not quite come up to expectations. It also seems that the workers' councils in Poland have less scope, under the existing planning procedures, to make their influence felt than had been anticipated at the time of their introduction. In Czechoslovakia, new legislation is to formulate the rights and responsibilities of both enterprises and the State authorities, and the State's participation in business activities.[17] Together with a differentiated approach to several possible forms of socialist ownership, the problem of the composition and role of self-management bodies is solved in a differentiated way.[18] One of the important issues to be settled by the bills is the way in which the director of the enterprise and his deputies will be appointed. While the State will retain a certain measure of influence on the choice to be made, in principle top management officials will be elected by the self-management bodies from a list of competitors with the professional qualifications necessary for the post.

The picture which emerges of the impact of the reforms on the status of management within the enterprises is not at all unambiguous. By and large, however, a trend away from the classical concept of the sole authority of state-appointed directors in the direction of collective management bodies can be observed. Attempts have been made to relax the previous sole and strict hierarchical subordination of enterprise directors to the authority of the State administration. Attempts have been made in various ways to strike a balance between the need for efficient professional management authority and the widening of industrial democracy.

Where self-management bodies have been introduced without more far-reaching changes in the overall institutional setting, there has usually not been sufficient scope for their distinctive contribution to decision-making, and their authority has tended to become rather formal.

[17] At the time of writing, a law on the position and role of socialist enterprises and a second law on socialist business activities are in the final stages of preparation. See Resolution of the Central Committee of the C.P.C. on the main results, problems and tasks of economic policy in the present period, *Rudé Právo*, 16 December1968.

[18] Different types of self-management bodies (councils of workers and employees) have been tried out on an experimental basis since June 1968. (Resolution of the Czechoslovak Government of 6 June 1968.)

(iv) Economic instruments

The greater independence of enterprises in making decisions is necessarily associated with a wider application of economic instruments in order to replace previous detailed administrative control. These instruments include taxation, credit, interest, price and wage policies, and are either applied in conjunction with, or replace, other direct measures and indicators. In both cases, their aim is to influence the behaviour of enterprises and to set criteria for rational decision-making in line with the aims of planned development. Some of these regulatory instruments primarily serve the maintenance of equilibrium, while others either stimulate or restrict certain activities of enterprises.

As regards *taxation*, in practically all countries a uniform or differentiated capital charge on fixed assets and sometimes also on circulating assets has been introduced. Its introduction is aimed at a more economical use of production funds. While this measure has contributed to the increased scrapping of obsolete equipment and to the sale of excessive equipment, it appears to have made little impact on the volume of inventories, which in most countries were still increasing last year. Its influence on restricting investment demand has also been negligible. In most cases it became a component of the price of output and its burden was therefore passed on to the users.

In those countries where the actual economic results—in contrast to plan indicators—have become the success criterion, taxes levied on profits and/or on gross income have been introduced; in addition to the basic aim of securing an appropriate part of the enterprise surplus for centralized purposes, these taxes should also serve as a system of income regulation at the enterprise level and help to maintain the desired macro-economic balance between consumption and accumulation.

In those countries where the directive character of the central plan prevails, the previous technique of drawing off the planned and above-plan profits into the central budget is still in use, but its application is mitigated by normatives determining the share of profits which can be retained by the associations and enterprises for different uses. In these cases, however, deductions from profits into the central budget can hardly be described as a genuine tax. An intermediate stage towards a profits tax is part of the new institutional measures adopted in eastern Germany. Enterprise net profit charges will be fixed in the form of a long-term (now two years) normative percentage rate, together with an absolute minimum amount. The enterprises may dispose of their remaining net profits for different enterprise uses. The centrally fixed normative percentage rates are applied to individual enterprises in a differentiated way by the VVBs.

In some countries where the wage fund has ceased to be a mandatory plan indicator, the wages bill, or increments in wages, are taxed as well. The application of different types of taxes and charges does not always give a consistent picture. In many instances tax exemptions or tax reliefs had to be granted, as well as the extensive use of negative taxes in the form of subsidies.

While in some countries (Bulgaria, Czechoslovakia and Hungary) the tax systems are conceived as important regulators of the behaviour of the enterprises, in most of the others they still play a minor role. But even in the former countries—with the possible exception of Hungary

—major changes are under preparation in the entire tax system with a view to improving their effectiveness.

The greater use of *credit and interest* to guide enterprise activity is commonly stressed, especially in connexion with self-financing of investment by the enterprises. In practically all the countries of the area, although in differing degrees, self-financing of investments from enterprise funds, or through repayable bank loans, is being extended. In Bulgaria, Poland and the Soviet Union, one-fifth to one-quarter of the total investment is now financed in this way. In Hungary, this share amounts to 40 per cent, of which about two-thirds is financed from enterprise sources and one-third from bank credits. In Czechoslovakia, 57 per cent of investment outlays in the enterprise sphere were financed from the enterprises' own resources, 30 per cent from credits and only 13 per cent from direct budgetary allocations.[19] Self-financing of investment in eastern Germany has just been introduced on a comprehensive scale in industry, construction and trade. In Rumania, the traditional system of allocating financial resources for investments from the budget has been maintained until very recently, but a certain decentralization of financing investment outlays has now commenced.

It is believed that the economic units' increased responsibility for their investment outlays will lead to an increase in allocative efficiency, as well as to a general restriction of overall demand for investments. It is obviously too early to make a final judgement on the first claim, but last year's development has shown that the new measures have not yet been able to curb the pressure of the enterprises for new plant and equipment. The main reasons are that actual profit achievements were generally much higher than anticipated. This can partly be explained by better performance, but it also reflected hidden reserves in the plan proposals (in those countries where "planned profits" are a planning indicator) or the over-evaluation of costs in the new producer prices, which left the enterprises with greater, or more easily earned, financial resources than was intended or desired by the authorities. However, this is a temporary problem which will diminish as taxes and methods of cost study and of auditing are improved.

It has to be emphasized, however, that in the countries where mandatory upper limits are set by the central plan even for decentralized investments, it is these limits and not the availability of funds which tend to be decisive for their size and structure in a situation of high investment demand. In these cases self-financing is not accompanied by a real shift in the decision-making authority. The influence of self-financing on the allocative efficiency is, in these conditions, naturally rather limited.

In Hungary and Czechoslovakia, where there are no such mandatory investment limits, the central authorities exercise extensive control over the volume, and also partly over the distribution, of investments through other means. This control is exercised by a restriction on new starts and by forcing enterprises to use a substantial proportion of their investment resources for work in progress. The government also determines the overall volume of credit, and influences—through rules or recommendations—the credit policy of the banks. There were, however, complaints from the enterprises that the banks have not yet been able to apply a selective credit policy based on appropriate economic criteria.

Although in all instances interest is charged (rates of interest are usually differentiated for short-, medium- and long-term credits), practically nowhere has the interest rate been high enough, or used sufficiently flexibly, to play an equilibrating role when pressure mounted. The charging of interest was therefore of little help in providing a buffer against excessive demand for investment funds on the part of enterprises and associations. Similar considerations apply to credits granted and to interest charged on stocks, which in some countries increased extensively despite the instruments mentioned above.

Some of these unfulfilled expectations are, however, related to causes outside the field of credit policy and cannot wholly offset the overall positive effects of the gradual shift to self-financing, including the use of credits and interest rates. In most countries of the area it is intended soon to widen the scope and application of these instruments. This year in Bulgaria, budget financing of investments will be largely replaced by self-financing from enterprise funds and bank credits and there should be a more flexible way of using interest rates. From now on, in eastern Germany and Rumania, too, state budget allocations should as a rule be restricted to structurally important and key projects.

In the Soviet Union, enterprises will have easier access to long-term credits, especially for investments with a recoupment period of up to five years; and they will now be able to repay these credits from additional profits resulting from the investment concerned as well as from the enterprise development fund as hitherto.

As for Czechoslovakia and Hungary, where self-financing and the use of credits is already the predominant form, the main emphasis is on improving credit policy. In Czechoslovakia ways are being sought to extend the right of enterprises to offer credits from their free resources. In addition, the pooling of free resources of several enterprises in order to set up new joint undertakings is contemplated.

The *regulation of wage developments* by economic instruments rather than by directive indicators is yet another field in which new developments are in progress. Where the technique of planned wage funds has been abandoned (Czechoslovakia, Hungary and, to a lesser extent, Bulgaria) a direct link between enterprise resources and wage payments has been established. This implies relatively autonomous decisions by enterprises on wage payments according to the resources which remain at the disposal of the enterprise after tax payments and other deductions. It has, however, been necessary to build into the system some additional constraints of an economic or administrative character to avoid unwarranted wage increases. Centrally determined wage rates and schedules (negotiated with the central trade-union organization) are retained but it is intended to allow greater flexibility

[19] Investments of budget-dependent organizations are not included in this breakdown.

in the setting of wage rates (more frequent adjustments of the rates and their interpretation as minimum rates which can be increased by a particular enterprise under certain conditions). Various tax measures have been devised to discourage the use of, and reduce, the resources that would lead to the remuneration of employees in particular enterprises becoming significantly out of line with that of employees in other enterprises. In Hungary, in addition to a wage bill tax, this tax device is built into the profits tax, which is assessed in two separate parts on the basis of the proportion of assets to wages paid. The latter part is not only taxed more heavily under a progressive rate, but the taxable part of the profit is increased by an amount corresponding to the increase in average wages in the current year.[20] Increments in average wages (as well as increments in employment), in Czechoslovakia, are taxed by a special payroll and employment tax and above a certain level (5 per cent) on a progressive scale.

In the other countries, which in one way or another plan the wage fund as a mandatory indicator, additional rewards are usually linked, either exclusively or in combination with other indicators and ratios, to the economic returns of enterprises. Premia and incentive funds have usually been set up for that purpose. In these instances one can speak of a limited economic regulation of some additional rewards, while administrative control measures through binding plan indicators prevail for the bulk of remuneration.

The control of wage developments solely through economic instruments is a problem to which the full solution has not yet been found (as can be seen from experience in the same area in the market economies). Yet there is no doubt that the present systems offer a more useful degree of flexibility than the previous exclusively administrative control of the wage funds.

Of all the economic regulators by far the most important are *prices*. There is wide agreement that realistic price relations, and a mechanism that flexibly maintains a rational price structure, are essential for economic calculation and successful planning under the new conditions of economic management.

So far only the first stages towards changing the pre-reform price system have been accomplished, and in some instances the time-limits set for price reforms have had to be postponed. The reason must be sought in the complexity of the problem and in the policy implications of more far-reaching changes.

In the long period of exclusively directive planning, fixed planning prices were used without regard to relative changes in productivity and costs. Neither were changes in the cost and price structure in the world market taken into account. The retail price structure had become separated from the producer price structure, just as internal prices diverged from the prices applying in foreign trade transactions. The concept of balanced prices reflecting demand and supply was at best, and only to a limited extent, applied in the retail market but was not taken into consideration in the formation of producers' prices.

To alter this situation, which developed over a long period and which was in line with the model of a planned economy using parameters mainly expressed in physical terms, is by itself a formidable task. If the social and political implications are also taken into account[21] the cautious and experimental steps taken can be readily understood.

The sequence of the gradual price reforms in the socialist countries may be visualized as follows: as a first step, changes of producers' (or wholesale) prices are made without affecting retail prices or purchase prices of agricultural products; the next logical step leads to the linkage of retail and agricultural prices to the new producers' prices; finally, the entire internal price structure is gradually linked to price relationships in foreign markets. In no country of the area has the full price reform yet been accomplished, and in some of them a far-reaching programme is not at present contemplated.

Measures to implement the first part—namely, the producers' price reform—have already been taken, or preparations for impending changes are well advanced. As a minimum aim, this implies correcting only the most significant distortions in the cost and price structure of wholesale prices. More ambitious schemes are aimed at adjusting these prices according to a unified price model, calculating the rate of profit in one of three ways: (i) in proportion to current costs (unit costs of material, wages and salaries and amortization), (ii) in proportion to required capital assets, or (iii) in relation both to funds and to wage costs. The adjusted price structure is still centrally determined and does not take into account relative scarcities to any significant degree. Limited reforms of producers' prices have been implemented in the Soviet Union, Hungary, Czechoslovakia and, to a certain extent, in Poland and eastern Germany. Similar price reforms are also in preparation in Bulgaria (to be introduced this year) and in Rumania. The improvements range from a reduction in the variations of profitability rates, to the elimination or reduction of branches and sub-branches working at a loss and to better price relations for substitute products. To a limited extent, now-economic factors were also taken into consideration.

One of the problems—not touched by this limited reform—is to establish consistent links with other price structures. By itself this type of price reform does not generate a flexible price mechanism which would attain equilibrium prices. To overcome this latter limitation, several solutions have been considered or proposed. In the Soviet Union a greater price flexibility may be ensured by adjusting some of the prices at shorter intervals as the need arises, rather than by a general revision. It is also believed that greater flexibility of prices can be achieved by a limited decentralization of pricing authority, based on normatives of costs and profitability. The impending

[20] For details, see *Economic Survey of Europe in 1967*, chapter II, pp. 69 and 70.

[21] With a rational price structure, the production of some products of particular enterprises, and even of entire branches, may become unprofitable, with possible repercussions on the existing employment structure and on living standards.

price reform in Rumania and the next stage of the east German changes in pricing policies have similar features. In Hungary and Czechoslovakia, greater flexibility and balanced prices should be attained by gradually increasing the share of prices which can move freely or within certain limits. The new price system in Bulgaria also provides for fixed, contractual, limited (with a given ceiling or range), and non-controlled prices.

The adaptation of the retail price structure to the new producers' prices implies a reform of the turnover tax, too. Since the producers' price structure had previously been completely separated from retail price relatives, the turnover tax system has been conceived as the difference between the two price levels (plus the trade margin) of a particular commodity. Thus there were great variations of tax rates, even within the same commodity group. Efforts are being made in some countries to convert this system into more unified percentage tax rates, which, of course, implies considerable shifts in consumer prices within the individual commodity groups. This presents particularly sensitive problems for policy because it affects the consumption pattern and living standards of the population.

In Hungary, where some adjustments have already been made, it is believed that a longer period—perhaps even 10-15 years—will be needed before the two price levels and structures can be effectively linked to each other.[22] In Czechoslovakia, too, there is agreement that the unification of the two price structures should be carried out in successive steps. No information seems to have been released in other countries of the area on similar changes contemplated for linking the two price structures. This does not imply, however, that no other changes in retail prices have actually occurred or are in preparation. In several countries besides Hungary and Czechoslovakia, the retail price systems have been adapted to include different categories of prices, including limited and free prices.

In several countries adjustments of agricultural purchase prices have been made in the past few years, although much remains to be done before the new systems can be described as consistent with measures undertaken for industrial producers' prices. Here the problem is connected with questions of agricultural taxes, with prevailing subsidies, and with the prices of imported agricultural products.

[22] O. Gadó, " Relations between the 1968 Economic Plan and the economic regulators ", *Acta Oeconomica*, Vol. 3, Fasc. 1, Budapest 1968, p. 8.

(v) Foreign trade

The isolation of the internal price structure from price relations applicable to foreign trade transactions, together with artificial exchange rates and lack of appropriate tariffs, creates difficult problems, especially for smaller countries with high foreign trade dependence.[23] While it is too early at the present stage of the price reform to relate the internal price structure directly to world market prices by means of a convertible currency, some important steps have nevertheless been taken in Czechoslovakia and Hungary to allow the world market to influence the economic returns of industrial enterprises through the effect of trends in foreign trade transactions. Prices actually obtained, or paid, in foreign markets are converted to domestic currency by a system of foreign trade coefficients, uniform for each of the two main foreign currencies (dollars and roubles). The conversion factors are determined by the average ratio between the aggregate domestic price of goods exported and the price obtained abroad in foreign currency.[24] Both countries apply to these uniform coefficients an extensive system of differentiated export subsidies for transactions which are still essential to safeguard the balance of trade but can only be concluded at rates below the average. Thus the State subsidizes for a transitional period less efficient, but still necessary, export activities. It is hoped that this system will stimulate the interest of enterprises in a more effective commodity composition of exports. Likewise, it is hoped that at the set internal conversion rate it will be possible to keep imports within tolerable limits. The Hungarian foreign trade regulations are supplemented by a system of export and import licences to help the foreign trade authorities to channel both exports and imports in the desired directions.[25] Bulgaria, Czechoslovakia and Hungary aim at attaining in the future a large measure of convertibility of the domestic currency, and plan, in this connexion, a modernization of their tariff systems.

Because about two-thirds to three-quarters of the foreign trade turnover of the countries of the area is trade with CMEA partners, it is obvious that the success of this design will depend to a considerable extent on co-operation between them through the CMEA.

The recent Twentieth Anniversary of the CMEA gave ample opportunity for reviewing the results attained up to the present time, and its impact on the development of the economy of the member countries.[26] Nevertheless, it is felt in many of the member countries that the internal development of the national economies requires a review

[23] For a detailed account of recent changes in foreign trade pricing and international payments arrangements of eastern European countries see " Note on institutional developments in the foreign trade of the Soviet Union and eastern European countries ", *Economic Bulletin for Europe*, Vol. 20, No. 1, November 1968, pp. 47-52.

[24] See O. Gadó, *op. cit.*, p. 18.

[25] In several countries changes in the organization of foreign trade activities have also been introduced. In addition to specialized foreign trade agencies, some ministries, branch associations, and even some enterprises can also now engage in foreign trade within the framework of regulations of the Ministry of Foreign Trade. (See " Note on institutional developments in the foreign trade of the Soviet Union and eastern European countries ", *op. cit.*, pp. 44-47).

[26] See N. Faddeev, " Bratskoje Sotrudnitshevstvo Sovjetu Ekonomitshezkoj Vzajimopomoshtshi " — 20 let (Twenty Years of Brotherly Co-operation of the Council for Mutual Economic Assistance), *Pravda*, 21 January 1969.

of the methods and effectiveness of co-operation between them.

The ways and means by which a fuller integration of the economic development of the area could be achieved are still under discussion. Rumania, for instance, has repeatedly voiced its doubts about ambitious schemes of integration which might reduce the economic independence of the member states. On the other hand, especially in Poland and eastern Germany, but also in the Soviet Union, the need for further integration is stressed, as well as the fact that this should be achieved in the first instance by increasing the effectiveness of the co-ordination of the national plans and of inter-governmental specialization and co-operation.[27] In Poland and eastern Germany, a development from mere co-ordination of national plans in the direction of the joint elaboration of plan targets in particular fields is also advocated.

A specific approach to the solution of these problems has been put forward by Hungary.[28] The official Hungarian position will be given fuller treatment because it underlines the interconnexion between domestic policies developed in the course of implementing the economic reforms and their implications for the development of mutual international relations of the CMEA countries.[29] After an evaluation of the positive achievements of international co-operation, some of the difficulties at present existing are criticized. Isolation in scientific research, inertia in productive co-operation and rigidity in foreign trade are said to be some of its characteristics. A system of economic co-operation and integration should be developed consisting in a specific combination of plan co-ordination with international market regulation.

According to this concept, economic integration should be built into the system of independent national economies at the common meeting point where national interests could promote mutual interdependence on a rational basis while safeguarding national sovereignty. Progress should be achieved by developing plan co-ordination, commercial policy, currency and financial arrangements and, in special cases, joint capital investments in common enterprises.

It is suggested by this school of thought that in the field of commercial policy and financial management a successive transformation of existing, mainly bilateral, relations into a common and integrated international market could be achieved. This includes the possibility of free trade between CMEA countries for certain commodities, and the supplementing of fixed pricing in foreign trade by providing scope for free price formation on the basis of direct price bargaining between enterprises. Present intergovernmental co-operation should be enlarged by direct links between enterprises and trusts of CMEA countries, based on their own interests as expressed in meaningful prices and regulated by realistic and co-ordinated foreign exchange rates and a reasonable and effective tariff system. The necessary relationship between the national price systems and the foreign trade price systems can be achieved only by the creation of an advanced monetary system among CMEA countries, which would progressively develop in the direction of a convertible currency system.

As a necessary corollary it is stressed that the banking and credit system of the CMEA should be reorganized on commercial principles. It is also emphasized that the scheme should be treated as a homogeneous and consistent system of integration and that disconnected experiments of putting into practice only isolated components of the scheme could not be successful. On the other hand, it is obvious that implementation of the entire project can be achieved only by degrees. The first half of the 1970s could in this sense become a special transitional period, and the second half, the period of full implementation.

[27] See M. Lesetshko, *Ekonomicheskaya gazeta*, No. 4, 1969, p. 3.

[28] Rezsö Nyers (member of the Politburo and Secretary of the Central Committee of the Hungarian Socialist Workers' Party), "Fundamental and practical problems of socialist economic integration", *Népszabadság*, 23 January 1969.

[29] Similar views as those mentioned in the above source can be found in M. Brožík, "Před reformou RVHP?" (Towards a reform of the CMEA?), *Rudé Pravo*, 23 and 24 January 1969 (in an editorial note it is, however, stressed that the views of the author are independent of the official Czechoslovak position), and in Zbigniev Kamecki, "Problems of economic integration within CMEA", *Gospodarka Planova*, No. 10, 1968.

(vi) Conclusion to general review

The above treatment of institutional changes has concentrated on those features which reflect certain common processes developing in the economies out of the growth of the forces of production, and out of the diversification and growing complexity of the patterns of production, distribution and consumption.

Even so, very different solutions and techniques have been adopted or have been proposed in different countries for similar problems. Some of these differences in the solution of particular questions may simply be caused by specific conditions in individual countries, as well as by disparities in general economic features and trade dependence. There are also at present significant differences in conceptual approach which are concentrated on the emphasis given respectively to the role of the central plan and to the operation of the market mechanism. Two schematic, and therefore necessarily simplified, approaches may be distinguished.

According to one concept, the central plan retains its leading role as a directive instrument for the development of the economy, binding all economic units. However, in view of the growing complexity of the economy, fewer directive plan targets are passed on to the economic units and they are supplemented by instruments of economic stimulation inducing them to fulfil the directive plan.

According to another concept, the central plan is conceived as binding only for the central authorities who are responsible for the economic policy of the country. For

the implementation of the plan, however, instead of directives a regulated market mechanism should be evolved where the economic units operate relatively autonomously according to principles of economic rationality. The task of the central organs consists in regulating the instruments of economic policy in a manner which will induce the economic units to orient their economic decisions towards the central plan objectives. According to some views, the acknowledgement of relative autonomy at the level of enterprises, behaving rationally within a regulated market environment, also has repercussions on the central plan objectives and on the content of the central plan. The central plan has to take into account the fact of a market environment, though it can influence its working by inducing structural changes of the economy and social development with appropriate economic policy measures.

Economic reality is, of course, always more complex than conceptual frameworks. It would be difficult to place each economic reform now under way in the eastern European economies and the Soviet Union in one of these conceptual approaches. Also, one should not lose sight of the fact that while in some countries a certain hesitiation—and even retrenchment—can be observed where some of the results of the first experiments have been regarded as disadvantageous, in others the reforms are developing in depth. This may lead in the future to changes in the mixture and weight of directives and economic instruments, in the consequential scope and content of the central plan, and in the interplay between the plan and the operating units.

In fact, during the implementation of the economic reform in the individual countries, corrections to original intentions had to be made for various reasons. For instance, insufficient attention given originally to those elements which decisively determine the overall functioning of the new management mechanism, such as prices or profits, make further change and elaboration indispensable. Moreover, the absence of some essential economic or other pre-conditions for the full utilization of certain elements of the reform may either lead to the decision to create these pre-conditions or, on the other hand, to give up the corresponding measures. Experience may also show that some of the original measures are not practicable. The consequential changes may often have their roots in an insufficient internal consistency of the programme.

Theoretically, an evolutionary development from one conceptual approach to another is conceivable, even if today the differences between them look formidable. This view can be supported by the fact that not only the causes which led to the reforms, but also the basic objectives, are the same. In all countries, stress is placed on greater efficiency and rationality in economic management. The new methods of planning and management should be more appropriate to the needs of a complex economy in its " intensive " stage of development, where the emphasis is put on rapid technological progress and, for this reason, on the need for flexible adaptation of the economy to continuously changing conditions. It is this fast changing development of science and technology and its economic and social impact which leads to the emergence and development of a new and more perfect insight; at the same time new insight becomes the pre-condition for efficiently planned development in a changing world. With this imperative in mind the search for optimal solutions in methods of planning and management will no doubt continue.

(vii) Review by individual countries

The Soviet Union

The shift of industry and transport to the new principles of management in the Soviet Union was almost completed in 1968. At the end of the year, 27,000 industrial enterprises (accounting for about 55 per cent of all units, 72 per cent of industrial output, about three-quarters of industrial personnel, and more than 80 per cent of total profits) were operating under the new conditions.[30] Railways, sea and river fleets, civil aviation establishments and almost all motor transport enterprises are now operating under the new regulations. The new principles of management are being introduced in communications organizations, retail trade and the material supply system, public catering, municipal services and agriculture. In the building industry the reform is to be implemented in about two years.[31]

The National Economic Conference in 1968 summed up the first results of the reform and outlined its aims. The transition of the enterprises to the new form of planning and economic stimulation is considered as the completion of the first stage of the reform. Simultaneously, the second stage—the development of the reform in depth—is just beginning. This means: (i) a step-by-step further improvement of the new mechanism of management and of its separate elements, (ii) expanding the scope of the reform principles to the medium-level planning bodies—*glavki* (chief boards of the ministries), regional boards and associations of enterprises. Adoption of this system by these managing bodies has just begun.

The *changes in planning procedures* aim at improving the system of central management, which is also to be based to a greater extent on economic means of planning and control. At the present stage of the reform, special emphasis is given to the strengthening of the internal consistency of the central plan.[32] Central planning bodies

[30] The transition of the remaining 45 per cent of enterprises (the smallest) has been postponed until the first half of 1969 and will require special preparation. Plan-fulfilment report for 1968; *Ekonomicheskaya gazeta*, No. 1, 1969, p. 9.

[31] *Izvestia*, 27 November 1968; *Ekonomicheskaya gazeta*, No. 49, 1968, p. 9; No. 30, 1968, p. 11.

[32] Some authors stress that the main emphasis in the reform is an improvement of planning procedures aimed at raising the efficiency of the economy and its structural improvement by using economic

are to focus their attention on the cardinal economic problems. A reduction of binding output targets, expressed in physical units, is envisaged. In the new Five-year Plan for 1971-1975 there are to be 536 such targets at the central level, compared with 886 in the current Five-year Plan. The yearly plans include a greater number of targets (about 2,000),[33] though a further decrease is expected. In line with the recommendations of the National Economic Conference, the number of centrally fixed targets is to be limited to structurally important products in the near future. The role of medium-term (five-year) plans is to be enhanced; and that of ministries in decision-making and resource allocation reinforced. They will have to elaborate plans for products which are taken out of the control of the Gosplan. The ministries which are responsible for the bulk of output of a certain product will have to assess the aggregate demand for this product. On the other hand, in order to prevent a unilateral expansion of the role of the ministries, some measures are being taken to increase the role of regional planning. The republican and local planning authorities are to be given more authority for elaborating the economic development plans of the republics and the regions which include the plans of all enterprises, scrutinizing the plan projects prepared by central ministries and checking their implementation within their areas.

While reducing the number of mandatory output and input targets, central planning now includes more indicators—such as those bearing on investment efficiency, capital and material intensity—for checking the internal consistency of plans. This presupposes that an increasing volume of economic information will be analysed with the help of econometric methods and computer techniques. Some first results in this realm have been achieved: the practical application of input-output tables, particularly for medium-term planning, has begun; alternative projections for the new Five-year Plan with different growth rates and structures are being worked out; some demographic calculations have been made; and material balances of 300 groups of commodities are being prepared on computers. Optimal branch plans which provide for a reduction of unit factor inputs are being elaborated. The network of computer centres is growing.

In stressing the importance and advantages of concentration, the authorities have also emphasized the importance of setting up associations for drawing small enterprises into the new management system. Small enterprises cannot create sufficient incentive funds from their own resources; moreover, the creation of direct contractual ties between enterprises under centralized control is considered possible only when there are amalgamations of the numerous small enterprises, because of the complexity of the economic ties between them.

The gradual introduction of some elements of *khozraschot* (financial accountability) principles into the activities of *glavki* and associations presupposes that they should be able to create their incentive funds out of additional profit deductions from enterprises. It is intended to transform the *glavki* and associations into independent economic organizations which will supervise the performance of certain branches, mainly with the help of economic instruments.[34]

By reducing the number of centrally fixed indicators and product-mix targets, the implementation of the reform to a certain extent reinforces the independence of enterprises. They are now authorized to work out themselves many of the plan indicators for their operations. Besides strengthening the links of the enterprises with the market, the new main success indicators (sales, profits and profitability) have the advantages that: (i) the enterprises are now more interested in the quality of output; (ii) they pay more attention to shipment of the products, to timely payment for them, and to keeping stocks of unfinished output at an optimal level; (iii) there is less evidence of the " storming practice " (when the bulk of the planned output is produced at the end of the month or of other plan periods); (iv) the interest of the staff in saving costs and reducing wastage is rising; (v) excessive stocks of equipment are being reduced.

Some negative features were also noted in the press when intermediate planning bodies, and especially ministries, continued to rule the enterprises by the old, mainly administrative, methods.[35] Excessive administrative interference in the enterprise activities has sometimes been attributed to the following causes: (*a*) at the time of plan drafting it has been difficult to foresee all the consequences of technological progress; (*b*) making use of their increased rights, enterprises often do not fulfil output targets for commodities giving little return, necessitating the renewed inclusion of such products in the list of centrally fixed targets; (*c*) the existing system of incentive funds does not stimulate the enterprises sufficiently to adopt " taut " plans.

The actual growth of output and profits was much higher than envisaged in the plans, even if they were increased somewhat by the enterprises themselves. Apparently, factory managers are still unwilling to divulge all their potential reserves in the plan draft. Even though the norms for allocations to the incentive funds have been reduced by at least 30 per cent with respect to over-fulfilment, it is still more advantageous for enterprises to over-fulfil a " lower " plan than to risk underfulfilment—even to a small extent—of a more demanding plan. To eliminate the concealing of reserves, some new measures are to be adopted, such as the setting of still stricter norms for allocations to incentive funds from returns achieved by over-fulfilling the plan. But no final solution to this problem has yet been found.[36]

levers, but not " the wider use of commodity and monetary relations " (see, for instance, B. Sukharevsky, *Ekonomicheskaya gazeta*, No. 29, 1968, p. 9).

[33] Before the reform, these targets numbered about 3,500 (Baibakov, *Ekonomicheskaya gazeta*, No. 21, 1968, p. 8).

[34] In the view of some economists, the amalgamations should be self-financing organizations with wider scope for decision-making and more resources at their disposal for technological progress and incentive funds (V. Vorotnikov, A. Pevzner, V. Rutgaizer, *Kommunist*, No. 9, 1967).

[35] Cf. E. Liberman, Z. Zhitnitsky, *Planovoe khozyaistvo*, No. 1, 1968, pp. 19-20, 22; *Ekonomicheskaya gazeta*, No. 43, 1968, p. 11; No. 30, p. 11; No. 31, p. 27.

[36] N. Baibakov, *op. cit.*

Changes in the material supply system are still considered as key elements of the economic reform, because its continued existence as a strictly centralized set-up [37] creates difficulties, particularly when utilizing the new factory development funds. The envisaged decentralization of the system and the introduction of economic methods will be carried out in three interconnected directions: (i) Establishing direct links between suppliers and buyers. At present this applies only to a fraction of the turnover of intermediate goods. But it is intended to accelerate this process, especially for enterprises engaged in mass production (particularly in the metallurgical, car and tractor-building industries). (ii) Transition of the existing ramified intermediate organization of supply and sales to *khozraschot* methods by establishing contractual relations between the supply and production units, and by enhancing the role of economic stimulation of the supply organizations.[38] (iii) Gradual transfer from the system of centralized rationing to a system of wholesale trade. The wholesale trade network is still very small, and sales, mostly in small quantities, are insignificant. Also, stocks are not always stable. Nevertheless, the activities of the wholesale trade organizations are gradually being extended, and it is intended to lengthen the list of commodities which can be sold without quotas.

The economic reform has enlarged the opportunities of the enterprises to introduce technological improvements with the help of bank credit and by using their own resources from the factory development fund. Investment from the fund for social-cultural measures and housing construction have also increased. In 1968, *decentralized investments* doubled in comparison with 1965. Enterprises have easier access both to long-term credit for technical improvement and to short-term bank credit to cover working capital needs. The use of long-term bank credit for the construction of new enterprises is also being extended, but is still insignificant. As before, the ministries rely mostly on budget financing. Some steps were recently taken to enlarge the allocations to the factory development funds (especially in large enterprises) and to enable the enterprises to acquire the necessary equipment from the material supply system.[39] The enterprises have so far utilized their funds mainly for mobilizing existing reserves which did not require profound technological and organizational changes. A new decree, issued in October 1968, provides both for the improvement of central planning and control over scientific and technical activities and for the application of the economic reform to scientific and technical institutions where similar incentive funds are to be set up.

The problem of increasing enterprises' interest in the growth of labour productivity is receiving considerable attention. The present system of formation of incentive funds related to the wage fund is an insufficient incentive to increase labour productivity,[40] with the result that in many enterprises and in some entire branches wages have increased faster than labour productivity. To create additional stimuli for the enterprises, experiments are being carried out to give them the right to use the savings in the wage fund, or some part of it, for further rewards to those workers and employees who undertake some additional duties.

With the expansion of the reform, the size and significance of the incentive funds have increased.[41] The global sums transferred to the financial incentive funds in 1968 were much larger than the resources available for these purposes before the reform. The enterprises also have more say in the distribution of their incentive funds. Three-quarters of the funds for material stimulation are paid out as current bonuses for high performances, and one-quarter is distributed as end-of-year rewards which, on average, are equal to 12-14 days' wages. These premia are usually paid according to seniority and work performance. In 1968 the fund for material stimulation accounted for 11-12 per cent of the wage fund. Some premia for special achievements (especially for workers) have until now been also paid out from other resources; however, the concentration of all kinds of premia in the fund for material stimulation is now envisaged.

So far the procedure in setting up the material incentive funds has been very complex and some inconsistencies in their impact were due to the fact that they are related to several indicators (sales, profits, profitability, wages, assets). New methods are sought for setting up incentive funds according to unified criteria of economic efficiency. Particularly since 1968, experiments have been made with transfers to the funds in relation to total profits. These experiments are expected to be of great importance for the further development of the material incentive device. To avoid frequent changes of the incentive funds, it is intended to elaborate stable normatives for branches and groups of enterprises, which, however, is not an easy task.

The main task in the field of *pricing* at the present time is to increase its flexibility. A plan mechanism will be

[37] The preservation of centralization in material-technical supply is still explained by the deficits in many intermediate products and by the intention to ensure priority treatment for the most important sectors of the economy.

[38] In the view of some economists, the supply organs should be transformed into trading syndicates which would not be in a commanding position in relation to the production associations and enterprises, but would conclude contractua agreements with them, or would even be set up by them. To ensure a real (but not a formal) *khozraschot* of the supply organs, they have to cover their expenses from their incomes instead of from the state budget (cf. *Planovoe khozyaistvo*, No. 1, 1968, p. 22; *Kommunist*, No. 2, 1967, p. 71).

[39] Because of the lack of necessary material supplies, as well as difficulties in providing the designing and building capacities, only 70 per cent of the funds were utilized in 1967 (*Izvestia*, 27 November 1968).

[40] This is especially evident in the branches where the wage share in costs is insignificant and wage economies result in only small profit increments, but simultaneously in a reduction of the absolute size of the incentive funds (see M. Nazarov, *Ekonomicheskaya gazeta*, No. 43, 1968, p. 12).

[41] *Incentive funds of the enterprises (billions of roubles)*

	1967	*1968*	*1969*
Fund for material stimulation	1.1	2.6	..
Fund for social-cultural measures and housing construction	0.4	0.8	..
Fund for development of production . . .	0.7	3.0	..
Total	2.2	6.4	9.3

Sources: V. Garbouzov, *Kommunist*, No. 3, 1968, p. 51; *Pravda*, 11 December 1968.

developed which should correct prices in relation to changes in production and market conditions and should ensure an " economically justified " profitability level for the enterprises. It is envisaged that the main method for ensuring price flexibility should be a more frequent adjustment of prices when the need arises, instead of their general revision. It is not considered that the prices for basic raw materials, fuels, electric power and other goods will require frequent revisions. In manufacturing industry, an adjustment of prices should be introduced more frequently. [42]

Decentralized pricing by ministries and enterprises will be based on normatives of costs and profitability.[43] Possibilities are being explored of introducing variable prices which will change with the increase in production, the time needed to bring new items into production, the degree of obsolescence, and so on. Planned changes of price indices for branches and groups of products will be introduced into the Five-year Plan. These indices are to reflect, and actively influence, anticipated changes in costs. They will also orient the planning bodies and the users, as well as the producers themselves, to make correct choices in long-term economic decisions.

The first stage of the new management system permits the preliminary conclusion [44] that the implementation of the reform measures has contributed to an improvement in the efficiency of the national economy and in its growth rate.[45] Most enterprises and organizations operating under the new conditions showed better-than-average results in sales growth rate, in labour productivity increases, as well as in the rate of growth of profits.

The changes in the methods of planning and management are being carried out within the framework of centralized planning. Its role will increase rather than diminish as a consequence of more scientific methods of drawing up plans and checking their internal consistency. Although the reform envisages releasing central planning from excessive detail and increasing the role of the lower planning bodies and enterprises, it does not provide for any far-reaching decentralization of decisions concerning the major economic questions, which remain under central planning and control. The reform is not intended to introduce an interplay of market forces to any significant extent, even within the framework of general state regulations. But the reform has changed the attitude towards profit and other elements of the commodity and monetary mechanism, which were previously regarded rather as accounting devices for a centralized system of planning and management based almost exclusively on physical indicators. Now these elements play a more important role in the centrally planned economy and the search for their more active utilization is continuing.

[42] Some corrections of prices in heavy industry (mainly in engineering) will be introduced as from 1 January 1970. The revision of wholesale prices in light industry is to be carried out in 1972-1973.

[43] This is deemed to be necessary because decentralized pricing could lead to unwarranted price increases. Thus, the profitability of goods, the prices for which are determined by the ministries and enterprises, is as high as 50-70 per cent (V. Sitnin, *Voprosy ekonomiki*, No. 5, 1968, p. 33).

[44] A final assessment of the effects of the economic reform is not yet possible mainly for the following reasons: (*a*) Not all the industrial enterprises and management bodies are working under the new rules; also, many contiguous sectors of the national economy (building industry, material supply, trade) which influence the results of industrial activity are not yet included. (*b*) The whole complex of measures of the reform has not been fully implemented. (*c*) Not all the necessary preliminary conditions (finance system, credit, prices, premium system, etc.) have been created. (*d*) The majority of enterprises and other economic establishments covered by the new system have so far acquired little experience of operating under the new rules. Therefore, all the advantages of the reform have not yet been fully realized, as was stated at the National Economic Conference.

[45] In 1966-1968, the annual growth rate of the national income increased, in comparison with the period 1961-1965, by 22 per cent, of labour productivity by 28 per cent and that of per capita real income by 78 per cent.

Eastern Germany

The initially rigid system of administrative planning in eastern Germany has also gradually given way to a more flexible machinery relying in part on economic instruments. In general, the approach has been to proceed by instalments,[46] but central control, although of a more indirect nature, is still the dominating feature. At the end of June 1968, basic rules and regulations were issued for the implementation of a series of comprehensive measures to be introduced in 1969 and 1970. The economic reform programme should be made fully effective in the coming medium-term plan period 1971-1975. To a greater extent than in the past, central state planning and management will be concentrated on problems of structural development and general economic efficiency. The enterprises will be guided by long-term binding state priority targets, and by a set of normative indicators relating to capital charges, net profit and amortization transfers, allocation to premia funds, research and development fund, etc. (at present fixed for a period of two years). Within this framework, supplies and deliveries of goods and services are to be organized on the basis of long-term contracts between the enterprises.

A system of three types of central plan indicators has been elaborated for the years 1969 and 1970:

(i) *Binding targets*, which exclusively concern tasks defined as structurally important: some specific yearly results; automation and mechanization of nationally important production processes; large-scale investments; vital deliveries to the domestic market; total output of certain raw materials, semi-finished or finished products; foreign trade; the wage fund; and price developments for some important commodity groups.

(ii) *Level indicators*, which refer to the scientific-technological and efficiency level of economic activity.

(iii) *Informative indicators*, mainly defining relationship to the state budget in the plan year with a forecast for the next year.

Binding targets for material-technical supplies are limited in this way to structurally important products; and from 1969 onwards, state budget allocations for investments will as a rule also be restricted to structurally important projects. The wage-fund target, however, is still binding. A beginning will be made with the appli-

[46] Cf. *Economic Survey of Europe in 1967*, chapter II, pp. 68-69.

cation of uniform capital charges within the VVBs (6 per cent for 5 VVBs from 1 January 1969). Payments will be levied on assets, including non-completed investments. Net profit represents the general synthetic success indicator for enterprise activity, which is largely to be guided by a set of normative indicators, usually differentiated at the VVB level. In establishing the eventual norms, the purpose should be to stimulate enterprises producing structurally important commodities, especially export goods; the retention of bigger profit shares should permit them to expand capacity. The premia funds of self-financing enterprises are built up on the basis of net profits. Full statutory allocation is made dependent on the fulfilment of two selected, obligatory, plan targets. Non-fulfilment is penalized by a deduction of 30 per cent of the premia fund.

The strong emphasis on science and technology, as a decisive element for planning and implementation of structural change, has led the authorities to reconsider the methods for financing research and development. Whereas basic research will continue to be financed by state budgetary grants, applied research and development is to be financed on the basis of enterprise funds for science and technology. To prevent dispersion of resources, the VVBs have been granted the right to centralize—partly or wholly—the funds of their subordinated enterprises. All scientific and technical research institutes are henceforth to work on the basis of contracts and strict price regulations. Costs for research and development are progressively to be included in product prices.[47] By concentrating investment resources and research and development potentialities in greater economic units under skilled management, the authorities hope to create the basic conditions for technically advanced large-scale production.

With the extended use of credits in the economy, the problem of appropriate bank interest rates has also been brought to the fore. Rates at present ruling would seem to vary between 1.8 and 3.6 per cent, which is considered as too low to promote efficient use of resources.[48] The average interest paid in the state industrial sector does not seem to represent more than 5 per cent of total net profits, whereas enterprise profits realized on the basis of credits amount to some 14 or 15 per cent.

The recent industrial wholesale price reform, which was completed on 1 January 1967, implied basically a correction of the distortions in the cost and price structure of the economy. The need for capital assets was not sufficiently taken into account during the revision, however. New prices are to be calculated on the basis of current costs and will include a uniform standard profit rate proportionate to required capital assets. But an immediate and comprehensive change-over to the new price system has not been considered possible, because present profitability rates differ considerably. In 1969 and 1970, the first steps will be taken to introduce " fund-related " prices: (*a*) for products and commodity groups of structural importance; (*b*) in VVBs where profitability is about average; and (*c*) for commodity groups where profitability is too high. An " industrial price regulation system ", which establishes maximum and minimum limits for product profitability, is to control the change.

A final judgment on the functioning of the new economic system as a whole would be premature; some of the necessary preliminary conditions (adjustments of such economic instruments as prices, profits, premia, capital charges, interest, etc.) are still under elaboration. This conversion phase cannot yet be considered as completed. It may, nevertheless, be assumed that some of the various measures introduced since 1964 have contributed to the steady and regular growth rate of the economy.

Rumania

The measures adopted at the end of 1967 in Rumania [49] will enhance the initiative and responsibility of economic units in the main fields of their activity, such as: (*a*) Current and long-term planning; the enterprises will have to elaborate their own plan proposals while respecting the state plan parameters. (*b*) Technico-material supply and marketing; the enterprise managements will have the right to approve the purchase of equipment and other items contained globally in the investment plan; as for marketing, the enterprise will conclude contracts with clients directly. (*c*) Enterprises will themselves decide on the staffing of various sectors, sections and services (while the total number of personnel is approved by the associations).

The financial and banking institutions will make their presence felt at all levels of the national economy, exercising their influence through economic measures affecting material and financial resources. The economic and financial relations of the economic units with the budget and with the banking units are to be simplified. The system under which the budget takes over all the income and finances all expenditures will be abandoned.

In future the state budget will finance only the main activities determining the development of the national economy. Investments for new enterprises will be fully financed by the state budget. Working capital and resources for certain investments (mainly for modernization) included in the general plan will be secured from the incomes of the respective economic units and through bank loans. The loans will have a low interest up to the date of commissioning and the date by which the parameters have to be reached; if these are not reached, a penalty interest is added. The enterprises will repay the loans from their own resources.

Small investments of great urgency which are not included in the investment plan can be financed from a fund set up at the level of industrial associations out of planned profits of the enterprises (1-2 per cent). The enterprise will in the future also be able to use bank loans, repayable from profits (credits for small mechanization) within 3-5 years from their commissioning, as long as they have immediate effects upon growth of production and reduction of costs.

[47] See *Gesetzblatt*, Part II, 1968, p. 859 ff. and *Die Wirtschaft*, No. 47, 1968, annex pp. 3-6.

[48] See *Deutsche Finanzwirtschaft*, No. 16, 1968, pp. 16-18.

[49] See *Economic Survey of Europe in 1967*, pp. 70-71.

Profits will be divided in the following way: (*a*) of *planned profits*, part will go to the state budget, part for the increase of working capital, part will be left at the disposal of the industrial associations for the financing of planned investments for modernization, etc., and a part will be used for payment of bank loans obtained for investments for partial mechanization. The proportions will be differentiated according to branches, sub-branches and enterprises, taking into account their level of profitability and their needs. (*b*) *Above-plan profits* will also be divided in a differentiated way between bonuses for employees, small investments not included in the plan, increase of working capital and the state budget.

A reorganization of the banking system through the establishment of specialized banks (for industry and trade, for agriculture and for foreign trade) is envisaged. The National Bank will fulfil only the functions of note issue, regulation of money circulation and the implementation of the monetary aspects of the budget.

The wage system is to be used by raising the role of basic wages. The level of the new basic wages will be established by the inclusion of most of the present variable additions (for overfulfilment of norms and for bonuses), and also some additional payments for special labour conditions. Plan fulfilment is to be the condition for the payment of the full basic wage. Reductions are envisaged if planned targets are not reached because of neglect or fault on the part of the workers (but at least the minimum wage stipulated by the Labour Code will be ensured). The staff and management of industrial associations will be paid the full monthly wage only if the plan tasks for all the enterprises have been fulfilled.

The bonus fund is to depend on the growth of profits (on a scale to be planned by the enterprises on their own initiative). To benefit from the planned bonus, enterprises will have to fulfil the profit plan, as well as other important plan indicators (compulsory assortment, export tasks, etc.). Non-fulfilment will entail a proportional reduction, or even annulment, of the bonuses.

The activities of the enterprises, associations and ministries will be directed by collective bodies (steering committees of enterprises, administrative councils of associations and ministerial councils). Active participation by employees in managing the economic life at all levels is to be ensured by the following measures: (*a*) representatives of the employees will the members of the steering committees of the enterprises; (*b*) representatives of trade union branches will be members of the administrative councils of the industrial associations; (*c*) representatives of the Central Trade Union Council will be members of the ministerial councils. The steering committees manage all the activities of the enterprises. They have enlarged authority for elaborating the plan drafts, establishing measures for plan fulfilment, including investment decisions and mobilizing internal reserves. They approve the financial balances of enterprises and the distribution of the over-plan profits and deal with important organizational questions. The steering committee of the enterprise must report twice a year to a general meeting of wage-earners.

Establishment of the general level of prices, and the fixing of individual prices and tariffs for goods and services, regarded as decisive for living standards, will be centralized. At the same time, to make pricing more flexible, prices for certain products and services will be fixed or modified by the industrial associations in accordance with basic principles and criteria established by the central bodies. Also, the producing enterprises and commercial organizations will have increased authority to determine prices. For certain groups of commodities, price limits will be established at the central level within which the economic units will be able to fix retail prices differentiated according to assortment and quality. To ensure stability of prices for products sold directly by producers, the system of establishing ceiling prices laid down in the market price lists will be increasingly applied, together with an expansion of the range of commodities sold through the state trading network.

Poland

An important element of the reform during the past three years in Poland has been the introduction of the so-called profitability rate as the main success indicater of enterprise performance, and the establishment of a firm link between allocations to the enterprise funds and the degree to which the "planned profitability index" is realized in a given year.[50] It is obviously necessary, for this index to play its assigned role, that it should be realistic (i.e. be based on the actually planned assortment of production and cost) and also that the results of the year should be comparable with the original plan. A survey of this problem concluded that neither of these conditions is in practice fulfilled.[51] It was stated that enterprises with a complex product-mix found it difficult to determine the structure of production a year ahead. Moreover, it was not possible to estimate costs with any certainty because of unstable flows of material supplies, delays in the commisioning of new capacity, changes in the price of supplies, wage rates, etc. The lack of comparability of results with original targets was due to frequent changes of production plans and profitability targets.[52] To maintain premia payments, various devices were adopted with the tacit agreement of supervisory organs. It has also been pointed out that the use of the profitability rate for a single year has the disadvantage of giving only a short-term horizon to the enterprise management.[53]

The earlier guidelines required that the weighted indices of "global" and commodity output be gradually dis-

[50] See *Economic Survey of Europe in 1965*, Part 1, chapter I, p. 66, and, particularly, p. 67. Originally, it was intended to base the payment of premia on the increase in profitability in relation to the previous year. This has not proved practicable, however, owing to large fluctuations in the rate of increase.

[51] The Survey was made by a team of 19 which included representatives of ministries, associations, enterprises, the central bank and general economists. It covered 533 enterprises grouped in 23 associations. (See *Zycie Gospodarcze*, No. 42, 20 October 1968.)

[52] Such changes were found to be the rule rather than the exception. As an effect of the factors mentioned, actual profitability was found to differ very significantly from that originally planned.

[53] In practice the "horizon" is only three months since, as a rule, premia related to profits are paid out quarterly. (See particularly Lipowski, *Gospodarka planova*, No. 8, 1968, pp. 21 ff.)

carded, and much was hoped from developing indices which are more sensitive to labour inputs. In fact, the elaboration of such indicators turned out to be a slow process. Indices of labour absorption, being rather complicated to estimate, are easier to manipulate (thus leaving reserves), difficult to compare over time (particularly when there is a significant shift in the product-mix), and provide a rather inadequate basis for aggregation of the products of various enterprises. Moreover, it was pointed out by some writers that, while the use of the " global production index " had tended to stimulate a " heavy " product-mix, the use of a " labour absorption index " tends to stimulate production with a high labour content.

A sensitive area of reform is that of financing and controlling investment activity. The role of self-financing has been expanded, particularly in the case of investment undertaken by associations. Budgetary grants have been replaced to a large extent by " bank loans ". This term, however, only fits those cases where enterprises and associations were actually obliged to cover the expenditure from their own resources. In other cases—and this applies to the bulk of centrally determined investments—the change was more formal, being largely a bookkeeping device designed to give the investor more incentive to supervise construction. After completion of the project, the " loans " cease to be loans since they are written off by a budgetary grant.

Though the enterprises obtained more resources for investment, the extent to which they could exercise control over investment decisions remained limited. This was partly because the economy was operating in high gear during the past three years and special measures were necessary to restrict the type of investment which enterprises and associations are entitled to make.

It was hardly to be expected that bank credit could increase the responsibility of the economic units for the effective use of investment resources in the absence of the necessary condition that enterprises (or associations) represent viable financial entities—free to plan ahead, participating in the gains and responsible for the risks of new ventures. Even so, the repayment obligation by itself may not be sufficient to ward off demand for investment credit if unaccompanied by an interest rate high enough to play an equilibrating role.

Measures to improve export performance have generally met with a positive response. Enterprises producing for export have been given a number of privileges, including special treatment in the delivery of supplies, investment credits and foreign currency allotments, a reduction of wage fund and employment restrictions, and a special export participation plan designed to provide incentives for exports and to improve the effectiveness of foreign trade.[54] The operation of this plan led to certain problems. Its major feature was an attempt to work out a standardized measure of the profitability of exports and to provide a bonus to those producers and trading organizations with above average performances. It was originally intended to measure profitability as the difference between the " shadow " price of exports and the " shadow " cost. However, it was felt that such a solution would create an incentive to manipulate cost estimates (by apportioning part of the production cost of the exported goods to the cost of goods designated for the internal market), and therefore it was decided to use instead the average factory price as a basis for the " profitability " estimate. A drawback of this solution from the outset was that enterprises whose cost of production was higher than the " average factory price " would participate in exports and would receive the export bonus, whereas enterprises whose production cost was lower than the " average factory price " would be deprived of part of the bonus. In both cases there was a lack of effective incentive for cost reduction, the only way open to obtain a greater export participation bonus being an increase in the proportion of those goods which had the largest difference between the " shadow " factory price and the " shadow " export price. This has not infrequently had the effect of encouraging the discontinuation of unprofitable exports without correspondingly exports increasing of goods which are profitable.

The Fifth Party Congress, convened in November 1968, reviewed the experience gained from the reform measures already introduced. In its resolution it provides an outline for the further development of the planning and management system. The aim is to create a " uniform, internally consistent economic system " which should be achieved by strengthening " the role of central planning, by raising its scientific basis while at the same time investing it, to a larger extent, with economic levers and incentives at the cost of limiting the number of plan directives ".

The resolution stresses the need for complementing traditional balancing methods by input-output analysis and, more generally, by a wider application of econometric methods. It calls for greater attention to alternative variants when elaborating national economic plans. The plans must, however, be more " elastic " than in the past. Only the major tasks and the means for their execution will remain mandatory, and these will differ for the various sectors and branches. With respect to consumer goods production, central plans are to specify only overall targets broken down by major categories. Enterprises will have the right to modify their plans in accordance with market conditions, provided that planned indices of profitability do not suffer.

In order that production be better adapted to requirements, " commodity output " indices now in use as plan parameters are to be replaced by volume indices of sales. In consumer-goods branches, the sum of profits and turnover taxes is to be regarded as the main yardstick of economic performance. In branches where efficient utilization of productive assets is of great importance, the profit rate (the ratio of profits to the value of fixed assets) and, in branches where cost reduction is a preponderant task, the profitability rate (the ratio of profits, including turnover taxes, to the total cost of production) are to serve this purpose. The resolution calls for a reform of the producer price system [55] so that prices better

[54] The plan was described in the SURVEY for 1967, chapter II, p. 69.

[55] To be carried out in 1970-1971 (the last price reform took place in 1960).

reflect production costs and world market relationships. Prices of domestically produced goods are to cover cost and a financial margin high enough to assure the formation of the various enterprise funds out of profits, interest on the value of fixed assets and the appropriate budgetary deductions. Prices of imported goods are to be based on import prices in terms of foreign trade zlotys, with conversion coefficients determined uniformly for each type of import. Related to the new producer prices, " factory prices " are also to be modified so that they can provide an effective stimulus to technological progress, quality improvement and better adjustment to demand patterns.

In the investment sphere, the aim is to create a system which would ensure central direction while at the same time permitting a broad utilization of resources of enterprises and associations so as to increase the efficiency of the investment process. Bank credit should be differentiated to give priority to technological improvement and development of profitable exports.

The resolution stresses, finally, the need to develop organizational forms which would facilitate concentration of production and better selection of production and investment variants. It emphasizes specifically that the scope of enterprises' authority must be differentiated in accordance with the importance of the enterprise and the conditions prevailing in each branch. Large industrial complexes may be accorded a special status or, when necessary, provided with the rights of associations. Enterprises with similar production processes may be permitted to form " groups " under the leadership of a larger enterprise. The resolution also provides for the possibility of creating co-operative forms, cutting across the existing framework of administrative subordination.

Bulgaria

In Bulgaria, almost all enterprises in machine-building and in most other industries were operating during 1968 under the new system. But some important branches (energy, mining, metallurgy, basic chemistry and some other sub-branches) were not included, contrary to previous intention. This is due to a certain cautiousness in implementing the system and to the lag in the elaboration of some of its constituent features. The price reform enabling such branches as the extractive industries to operate under the new system has been postponed until 1969. Nevertheless, from 1969 the reform will be extended not only to all branches of industrial production, but also to all the branches of the economy.

After several years during which the scope of mandatory plan indicators narrowed, there seems to be a new trend to re-assert the role and directive influence of the central plan.[56]

Until 1968 the capital charge was differentiated between 2 and 5 per cent of the value of the productive funds, according to the profitability of the enterprise. However, on the assumption that sharp differences in profitability are now being avoided, it was agreed that from 1968 the charge should amount to a unified 3 per cent. Some of the broader aims and expectations (better utilization of funds) were not fully attained; but it is considered that the tax on productive funds is playing a certain positive role.

Self-financing of investments from enterprise funds reached about 20 per cent in 1968 (credit excluded). The authority of the enterprises to dispose of the accumulated sums is, however, restricted to the limit given in the investment plan. Such regulations reflect the fears that accumulated resources will result in a disproportionate development for some enterprises. However, for the future the intention is to " create a more free regime for utilization of the funds, which will replace the existing rigidity—itself contradictory to the spirit of the new system of management ".[57] An important development which may contribute to implementing this intention is the introduction of new rules on the disposition of depreciation allowances. From 1968, amortization quotas remain with the enterprises and associations. The associations which have redistributive authority in the field of capital investments will also be able to use roughly 30 per cent of the depreciation funds for this purpose. In 1968, budget financing still played a considerable role; all the extractive industries, for instance, were financed by the budget. In 1969 all enterprises will rely on bank credits, while only in some special cases (construction of certain new enterprises) will the system of budget financing continue.[58]

After years of experimenting with different indirect devices, wage developments are now determined by (*a*) a state normative which fixes the allowable share of wages in the total enterprise income, and (*b*) a further normative which stipulates the ratio of average wage growth to the growth of productivity of labour. In this respect it is difficult to speak of full indirect economic control of wage development, but the system is more flexible than the pre-reform system of planning the wage fund by administrative measures. In connexion with wage planning, the so-called " multi-factor system of remuneration " should also be mentioned. According to this system, work incentives will not only reward quantitative achievements (mainly through overfulfilment of norms) but will also link additional rewards to qualitative indicators, such as savings of material, high quality of output, reduction of

[56] As of January 1969 the list of commodities directively planned in the form of so-called State Orders (see *Economic Survey of Europe in 1965*, Part 1, chapter I, p. 62; and *Economic Survey of Europe in 1967*, chapter II, pp. 66-67) has been enlarged from 124 to 150 items. Some new indicators have become mandatory, namely: basic co-operative deliveries; to the financial limit of capital investments has been added a list of the main construction projects and the commissioning deadline for putting them into operation; the maximum amount of the wage fund per 100 leva of income or some other specific indicator; and the main tasks of technical progress which determine the rapid development of the branch.

[57] See T. Zhivkov, Report to the Plenary Session of the Central Committee of the Bulgarian Communist Party, 24-26 July 1968, " Fundamental trends in the further development of the system of public administration in our society ", Sofia Press, 1968, p. 42.

[58] Proposals have been made that enterprises should compete for investment credits for projects not exceeding 2 million leva, while for bigger investment projects included in a special list approved by the Government they should receive bank credits. However, there seems to be no final decision on the forms of application of this principle of credit competition.

rejects, full utilization of machines and equipment, etc.

Foreign trade activity, previously the exclusive prerogative of specialized foreign trade agencies, was decentralized among branch ministries and, in some instances, among the associations. At the same time, some of the existing foreign trade organizations have retained their previous responsibility. This variety of forms has proved to be successful for the growth of foreign trade.

A high degree of centralization still exists in the imports of machinery and equipment. There is a tendency to restore some of the rights of the Ministry of Foreign Trade to control the prices at which associations trade, because it is considered that insufficient knowledge of the market may inflict losses on the State.

The economic reform in its present uncompleted stage has produced some positive results which can be summarized as follows: (i) an increase in the rates of output; (ii) an increase in the rates of accumulation: profits increased and thus also Budget revenues as well as enterprise funds; (iii) more direct links between wages and the final results of economic activity; (iv) a widening of the initiative of the associations and enterprises and, to a limited extent, an increase in the participation of workers in the management of enterprises; (v) output has become more demand-oriented; as incomes now depend on realized output, material stimuli were created—especially for associations and enterprises producing exports—to keep output in line with the requirements of the market for assortment and quality.

Czechoslovakia

Economic development in Czechoslovakia was very much overshadowed by political events in 1968. It is very difficult to disentangle political causes from economic, and external from internal, when trying to analyse the impact of the reform measures already introduced on the performance of the economy.

The key problem of the reform at present is the restoration and maintenance of economic equilibrium.[59] Following the extraordinary growth of personal incomes,[60] imbalances and shortages of some commodities became rather marked by the end of the year. On the other hand, the statistical evidence shows that in the first eight months the accelerated growth of personal income did not create any disturbances on the consumer market, due to greatly increased supplies. Increased imports and the diversion of consumer goods from exports to the domestic market had some positive effects on the growth of domestic supplies. The main reason, however, was increased deliveries to final users, and especially to the home market.[61] On the whole, the growth of final deliveries of industrial products was faster than the growth of industrial output. This can be explained partly by the fact that the index of industrial output, which is no longer a planned success indicator, may have lost its previous upward bias; it may even have acquired a downward bias. But the main cause seems to be that production has become more demand-oriented, and previous economic losses—due to production of unsaleable and unfinished goods (both included in the global production output)—seem to have been greatly reduced.

All this seems to indicate that the reform measures introduced earlier had a positive effect on the demand-orientation of the producing enterprises. It can therefore be assumed that the combined effect of certain psychological reactions of consumers to the political situation (considerable deposit withdrawals, precautionary-purchases) and the loss of output at the height of the political crisis, contributed substantially to the disequilibrium at the end of the year. It may also be assumed that the restoration of consumers' confidence, resolute anti-inflationary income policies, and the continuation of the favourable development in production will in time restore equilibrium on the consumer market.

Far more serious is the protracted disequilibrium in investment. The policy of holding back investment demand has partly broken down, because of increased pressure from enterprises left with profits higher than anticipated. The share of enterprise resources (net profits and depreciation charges) in financing investments reached 57 per cent instead of the anticipated 44 per cent, and the share of credits was correspondingly smaller. The scope for influencing the necessary structural changes (shifts to chemicals, building materials, food, and consumer-goods industries), and for limiting new starts mainly through credit policy, has therefore been greatly restricted. This will apparently necessitate—at least for some time to come—administrative restriction and selection of new starts even for projects entirely financed from enterprise resources.

The taxation system applied (with minor changes) since 1967 has shown a number of drawbacks and inconsistencies.[62] From the point of view of macro-economic equilibrium, current tax rates—calculated according to certain assumptions about average profit rates—proved to be too low, because the wholesale price reform led to an overall increase of prices by 29 per cent instead of the anticipated 19 per cent. Tax revenue was therefore too low to meet the increased commitments,[63] and the share of after-tax profits left to the enterprises was too high, creating inflationary pressures on both wages and investments. The incidence of the different charges put the enterprises in unequal positions. The main tax is that levied on gross income, which consists of wage costs and profits. The same volume of gross income of two enterprises could be made up of very different proportions of wages and profits, so that even an enterprise with a high wage and a low, or even non-existent, profit share would be liable to the same tax payment. The charge on capital and also, to a certain extent, the transfer of parts of the depreciation allowances to the State were intended to

[59] O. Černík at the Plenary Session of the Communist Party of Czechoslovakia in December 1968, *Rudé Právo*, 13 December 1968.

[60] See Part 6 of this chapter.

[61] R. Vintrová, "K vývoji ekonomické rovnováhy na vnitřním trhu" (The development of economic equilibrium on the internal market), *Rudé Právo*, 19 and 20 November 1968.

[62] See *Economic Survey of Europe in 1967*, chapter II, pp. 64-66.

[63] Acceleration of wage growth in the enterprise sphere necessitated wage adjustment in budget-dependent organizations and an increase in social transfer payments.

equalize the tax incidence. In the event, these capital charges—apart from being generally too low to exercise a proper weight in the total tax payments—could not discriminate sufficiently between the different income positions of particular enterprises. The highly differentiated productivities of equipment and cost structures of individual enterprises belonging to the same branch would have therefore left some of them after deduction of taxes with high net profits and others, often, with losses. The taxes could therefore be levied as uniform rates only in respect to the associations, which were invested with redistributory powers to impose additional taxation on some enterprises and to grant tax reliefs and subsidies to others. This fact—by itself justifiable in the circumstances—had some very negative consequences since it considerably weakened the link between rewards and achievements.

It proved impossible to change the entire tax system immediately, but at least two substantial changes were introduced in the last quarter of 1968. A new charge on profits was imposed amounting to 45 per cent of the total sum remaining after previous charges had been met and after any redistributory measures applied by the branch associations had been taken into account. For some branches lower profit charges were set and for some others, tax exemptions were granted. Furthermore, in addition to the existing pay-roll and employment tax, wage increments exceeding 5 per cent a year are to be taxed at a higher rate, and those exceeding 7 per cent progressively more steeply. It is hoped that these measures will help to combat inflationary pressures emanating from the profit boom, check the excessive growth of wages, and balance the state budget.

A comprehensive reform of the enterprise tax system is to be prepared which should be introduced from the beginning of 1970.[64] The diversified system of charges levied on gross income will be replaced by a progressive profits tax supplemented by a unified tax on all enterprise assets and, possibly, by a tax on wage increments.

Work on a reform of the turnover tax, which aims at gradually unifying the wholesale and retail price relationships, is also in progress. As a preparatory step, the widely differentiated rates of the turnover tax embodied in retail prices have been reduced from 3,000 to 1,100 items, and it is intended to unify the tax according to broad groups of commodities. Because some important basic commodities and practically all basic services are at present subsidized, the adjustment of the retail price structure will also necessitate some compensatory measures in the form of social transfer payments, especially to low-income groups.

Further steps are being taken to relate the impact of foreign prices more directly to the income and returns of the industrial enterprises. In 1968, internal conversion factors for foreign trade transactions were introduced;[65] these have been supplemented by a system of differentiated export subsidies when the internal conversion rate is insufficient to cover the costs, while charges (deductions) were imposed on exports where prices on more favourable terms than set by the average conversion rate could be achieved. In a sense this system allowed the continuation of foreign trade activities according to the previous—in many respects unfavourable—commodity structure.

According to the new rules approved for 1969, the subsidies granted in 1968 will be cut by 20 per cent, and for some of the least efficient exports other limitations in the form of a diminished lump sum grant will be imposed. To stimulate efficient export activities, the deductions will be set on a fixed-sum basis instead of, as previously, a percentage of the price realized. These charges will be based on the volumes achieved in the past so that an expansion of these exports will be practically free from further limitations.

For the further development of the economic reform, the question of specifying the role of enterprises, of defining more clearly the relations between the enterprises and their associations, as well as their relations to the state authorities, are at present of great importance. These questions are to be dealt with in two bills which are to be discussed in Parliament in the spring of 1969. The bills are drafted according to the concept of the increased independence of socialist enterprises and the relative separation of the sphere of central state management from the enterprise sphere. There should be no relationship of subordination between the spheres but rather a division of clearly defined tasks and functions.[66]

The socialist enterprise is conceived as an independent economic, legal and social unit. Within the framework of general rules, it can decide on all basic questions of its own development, enter into trade contracts with domestic and foreign partners, engage in co-operation or integration with other enterprises; it has full control over enterprise assets (except that it cannot transfer capital assets to personal consumption), and decides on questions of internal organization, on the production programme, and the sale of its output. The bills recognize different forms of socialist collective ownership according to the purpose, market, position, business orientation, and size of the enterprises, and accordingly distinguish between state managed enterprises (mainly in transport, communications, and public utilities), autonomous socialized enterprises (mainly in manufacturing and construction) of varying sizes and legal forms, and co-operative enterprises. The establishment of small-scale socialist undertakings and workshops will be encouraged and, within well-defined limits, small individual undertakings will also be allowed. The amalgamation and integration of enterprises will be mainly a matter of joint decisions of interested enterprises, and should be based on economic criteria.[67]

Different forms of elected self-management bodies will be possible, and the specification of their role in the system of enterprise management can be solved in various ways; on an experimental basis, different types of self-management bodies (councils of the working people) have been

[64] Resolution of the Central Committee of the Communist Party of Czechoslovakia, *Rudé Právo*, 16 December 1968.

[65] See page 102.

[66] See pp. 98-99.

[67] There will be different forms of integration, ranging from concerns and trusts to share-holding and participation enterprises, and to looser or temporary forms of co-operations.

tried out since June 1968. Full and genuine self-management of the workers' collective will be the rule in co-operative and small-scale undertakings, and will still be feasible in smaller and medium-size national enterprises. In large-scale enterprises they will have more the character of democratic supervisory bodies with well-defined responsibilities, while the main emphasis will be on the authority of professional management. In these cases the composition of the councils may vary, including members representing outside interests (drawn from banking, from foreign trade organizations, from other socialist organizations having property rights, from consumer organizations, and from individual experts and scientists). Yet another set-up is envisaged in the state-managed enterprises, where the responsibility of the state for safeguarding public interest will be emphasized. In all cases where these councils are established, it will be their prerogative to appoint the director and his deputies on the basis of an open competitive procedure, and to sign working contracts of several (about six) years' duration with these executives. The councils themselves will not interfere with the current day-to-day decisions of the managment but will have a decisive voice in specific matters concerning the overall enterprise policy.[68]

Also of prime importance for the economy is the federalization of the State, implemented on the basis of a constitutional law accepted by Parliament in October 1968.[69] In this review, no more than the barest facts about its economic implications can be given. Only a few of the most important economic problems specifically enumerated in the law (such as common external tariffs, currency, and the federal budget) remain the sole responsibility of federal economic policy; a number of other specifically enumerated tasks of economic policy, such as planning, finance, currency issue, prices, labour, wages and social policy, come under the joint authority of the federation and of the two (Czech and Slovak) national republics, while all other matters are the sole prerogative of the two national republics. It is obviously too early to make even a preliminary assessment of the impact of these far-reaching institutional changes on the further development of the economy.

Hungary

In 1968 a new system of economic control was introduced in Hungary. After careful preparation, all elements of the " new economic mechanism " were simultaneously launched, this being one of the main differences between the Hungarian and other reforms. Compulsory plan targets for enterprises were abolished and the central authorities now use mainly indirect measures of economic policy to guide enterprises towards the objectives of the central plan.[70]

After a significant acceleration of economic growth in 1967, the main danger for the reform was seen to be the possibility that the greater freedom to make autonomous decisions at the micro-level could accentuate the first signs of disequilibrium. The principal objective for assuring a successful and smooth change-over of the system of economic control was therefore regarded as establishing conditions of economic equilibrium.

There was a real danger that shortages of supplies, accompanied by more or less freely-moving prices in some commodity groups, could give rise to some inflationary phenomena. To avoid this, it was decided to fix the prices of an important range of products, for consumer goods in particular. At the same time, the economic policy for 1968 aimed at restricting the growth of demand, especially with respect to investment. As a transitional measure, average wage increases were limited to 4 per cent over the base level of 1967. This regulation was also meant to limit cost-inflationary pressures. The 1968 Plan provided for a modest rate of growth compared with the previous years. All these measures aimed at establishing calm and stable relations on the markets for both consumer and investment goods.

The operation of the new economic mechanism stimulates enterprises to maximize their profits. A sophisticated profit tax was introduced [71] in order to prevent sudden major changes in relative personal incomes if profits should increase faster than anticipated. The average rate of profit was expected to amount to 6-8 per cent in 1968—in fact it exceeded 10 per cent. The enterprises apparently over-estimated their costs in the background information given to the central authorities in the preparatory period for price calculation. Similarly, state subsidies granted for some foreign trade transactions [72] were determined on the basis of over-estimated cost calculations of the enterprises which, in view of the export subsidies allowed, assured them of some easy and partly undeserved profits. Finally, the enterprises shifted their product-mix to the most profitable commodities. It follows that, in the first year of the reform, profit had not yet become a perfect success criterion of enterprise activity and achievement.

Because more profits accrued than anticipated, enterprises had ample financial resources available for investment purposes. This fact, combined with a relatively large investment programme financed by the state, caused, contrary to the intentions of the plan, an excessive demand for investment goods, particularly for building materials and construction. The Plan for 1968 intended to maintain investment at the exceptionally high level attained in 1967. As the large volume of work in progress had, under the plan, first priority, this implied a reduction of

[68] At the time of drafting this SURVEY, discussions on the content of the bills, and especially on the problem of the role, composition and authority of self-management bodies, are still in progress. It is therefore possible that the final form of the bill may provide other solutions.

[69] *Ustavní zákon o československé federaci* (Constitutional law on the Czechoslovak federation), No. 143/1968, Sb. (Collection of Laws).

[70] For details of the basic principles of the new planning and management system known in Hungary as " The new economic mechanism ", see the *Economic Survey of Europe in 1965*, Part 1, chapter I, pp. 69-70, and the *Economic Survey of Europe in 1966*, chapter II, pp. 52-53.

[71] For details, see *Economic Survey of Europe in 1967*, Chapter II, pp. 69-70.

[72] See page 102.

the share of new investments belonging to the sphere of enterprise decisions. On the other hand, the greater than expected volume of enterprise profits had the opposite effect. To decelerate the demand for investments, certain credit restrictions had to be applied during the year, and the number of new starts was reduced. In the end these measures succeeded in keeping the rate of investment growth roughly within the planned level. The strain on existing capacities led nevertheless to a certain increase of prices in the construction industry. The final outcome of the competing demand for investments between budget-financed and enterprise-financed projects was that only 40 per cent of investments, less than expected, was self-financed from enlarged enterprise resources and credits.

The reform did not provide for any special restrictive measures on employment. Some experts apparently feared that the new system could induce the enterprises to rid themselves of excessive manpower. The opposite actually happened. In 1968, employment in industry and construction increased by about 4 per cent. There are some possible explanations for this development: (*a*) The control of average wages (maximum limit of growth of 4 per cent for 1968), which was introduced as a transitional measure to contain the wage volume, also had an indirect effect on employment. To be able adequately to reward highly-qualified personnel in short supply, and at the same time to keep within the limit of permitted average wage increases, managements took on additional unqualified workers with lower-than-average wages, by way of compensation. (*b*) Because the share of wage costs in total costs is relatively low, enterprises have not had sufficient incentive to economize on labour costs, especially in 1968 when profits were high. (*c*) Certain reductions in working hours have taken place during the year and this also involved a certain increase in employment.[73]

The overall effect of employment development in 1968 has been a lower than expected growth of productivity of labour in industry. The average wage control is evidently a measure which is alien to the logic of the new economic management system, and its adverse effect on the unwarranted employment growth is therefore an argument in favour of rather than against the general principles of the reform.

One of the main tasks of the price reform was to bring relative prices closer to relative costs. The price reform mainly concerned producers' prices, but only in exceptional cases were price changes passed on to consumers. It was, therefore, necessary to maintain subsidies for a considerable proportion of consumer prices. However, a more flexible price mechanism, by which the enterprises could freely fix prices for an important number of products, has been introduced; 28 per cent of raw materials and semi-finished products, 78 per cent of manufactured goods, 12 per cent of agricultural products, and 23 per cent of retail sales now belong to the free price category. Although a considerable part of production falls within the free price category, the producer-price level remained practically unchanged during the year.[74] Only in building construction did prices rise more than was expected. Also the consumer-price index remained stable throughout the year.[75] In view of the favourable experience with the development of free prices, the list of consumer goods belonging to the free price category will be enlarged in 1969 so that 30 per cent of the retail turnover will be traded at free prices.

Foreign trade transactions were carried out at prices determined by a system of internal foreign trade conversion factors (see page 102.) Besides the differentiated export subsidies, payments of customs duties by the importers for some commodities were introduced, to protect the domestic market from foreign competition in specific cases. On the other hand, the imports of some essential raw materials have been partly subsidized to avoid price increases in manufacturing industries dependent on imported raw materials. The overall experience with the new foreign trade regulators has been positive, and further measures to increase the impact of world market prices on the domestic economy are envisaged.

While it is obviously too early to draw final conclusions, there seems to be no doubt that the Hungarian reform has had a successful start. Enterprise initiative has improved, industrial output has become more demand-oriented, and the number of commodities in short supply has been considerably reduced. The general features of the system will be further developed in 1969. It is intended to impose stricter conditions for granting subsidies so as to increase the pressure and incentive for efficiency gains. It will obviously be necessary to continue, and even to widen, the scope of restrictive investment policy. This will also apply to the credit policy of the banks. In the rules of efficiency-ranking for selection of investment projects, preference will be given to investments with high profitability rates and short recoupment periods. A reduction in the number of new major investment projects is also being considered. It is intended to reduce the list of the imported products and materials still allocated on a quota basis. This would be undertaken simultaneously with a further improvement in the system of customs duties. Further steps will be taken to simplify the turnover tax system. Measures which should induce enterprises to estimate available manpower resources in a more rational way and to increase labour productivity are also under consideration.

[73] The third reason affects employment, but not output per man-hour, which advanced by about 4.5 per cent (see Part 3 of this chapter).

[74] The development of industrial producer prices by branches from January 1967 to December 1968 was as follows:

	1968 January (1967 January = 100)	*1968 December (1968 January = 100)*
Industry, total	107.8	100.4
Mining	104.9	100.0
Electric energy	85.0	100.0
Metallurgy	94.8	99.8
Engineering	110.0	100.0
Building materials	110.0	100.1
Chemicals	98.1	100.6
Wood industry	113.5	100.4
Paper industry	115.8	100.6
Printing	130.9	97.6
Textiles industry	118.3	100.2
Leather, fur and shoe industry	143.7	101.6
Clothing industry	87.9	101.7
Food-processing industry	110.9	101.1

Source: Statisztikai havi Közlemények, 1969, No. 1, p. 53.

[75] See Part 6 of this chapter.

3. INDUSTRY

The pace of industrial expansion slackened in 1968 in most of the eastern European countries and in the Soviet Union. The increase in global output in the group as a whole is estimated at 8.0 per cent as against 9.5 per cent in the preceding year. The slow-down was more marked in the Soviet Union (from 10 per cent to 8.1 per cent) than in eastern Europe (from 8.5 per cent to 7.7 per cent). As can be seen from the figures in table 2, the deceleration in both areas was accompanied by only a slight reduction in the growth rate of industrial employment. A lower increase in labour productivity accounted for practically all of the difference between the two years.

TABLE 2

Global output (A), employment (B) and output per man (C) in industry

Country and indicator		Percentage changes from preceding year					Average annual percentage change	
		1966	1967	1968 Plan [a]	1968 actual	1969 Plan	1966-1968 actual	1966-1970 Five-year plan
Albania	A	12.0	12.8	20.7	19.0	12.7	12.4	8.7
Bulgaria	A	12.4	13.4	10.6	11.8	11.2	12.5	11.2
	B	9.4	5.1	1.5	2.3	..	5.5	5.1
	C	2.7	7.9	9	9.3	..	6.6	5.9
Czechoslovakia	A	7.4	7.1	..	5.2	7.2	6.6	5.6
	B	2.6	1.1	..	1.3	..	1.7	0.8
	C	4.7	5.9	..	3.8	..	4.8	4.7
Eastern Germany	A [b]	6.3	6.5	6.4	6.1	7.0	6.3	6.5-7.0
	B	0.3	0.3	..	0.3	..	0.3	
	C	6.0	6.2	..	5.8	..	6.0	
Hungary	A	6.7	8.7	6-7	4.9	6.0	6.7	5.7-6.3
	B	1.4	3.1	..	3.8	..	2.7	1.4
	C	5.2	5.4	..	1.1	..	3.8	4.2-4.9
Poland	A	7.4	7.7	7.1	9.3	8.3	8.1	7.6
	B	3.5	4.2	2.8	3.5	3.3	3.7	2.5
	C	3.7	3.4	4.4	5.7	4.9	4.2	5.1
Rumania	A	11.7	13.5	10.0	11.6	10.8	12.2	10.7-11.6
	B	3.5	3.8	..	4.5	3.7	3.8	..
	C	8.1	9.3	..	6.8	6.8	28.1	..
Eastern Europe [c]	A	7.8 *	8.5 *	..	7.7 *	8.0	8.0	..
	B	2.8	2.7	..	2.5	..	2.7	..
	C	4.8 *	5.7 *	..	5.1 *	..	5.2	..
Soviet Union	A	8.7	10.0	8.1	8.1	7.3	8.9	8.1-8.5 [d]
	B	3.9	3.2	2.0	3.0	1.3	3.3	2.1
	C	4.5	6.6	6.0	5.0	5.9	5.4	5.9-6.2
Eastern Europe and Soviet Union [c]	A	8.4 *	9.5 *	..	8.0 *	7.5 *	8.6	..
	B	3.5	3.0	..	2.8	..	3.1	..
	C	4.7 *	6.3 *	..	5.1 *	..	5.4	..

Sources: National statistics, plans and plan-fulfilment reports.

NOTE. — Except where otherwise indicated, output data refer to "gross production". The data cover the State and co-operative industry only in Albania, Bulgaria, Poland and Rumania. For the Soviet Union, they exclude industrial activity on collective farms, for eastern Germany, handicrafts. Employment and productivity figures are in many cases derived from the other available data.

a Targets set in original plans. The figures shown in the table may differ from those implied in the reported data on the actual change during the year and the percentage of plan fulfilment, either because of plan modifications or because of differences in the base. Original plan figures are usually related to preliminary estimates of the base year: plan-fulfilment reports, as a rule, relate to the final returns of the base year.

b The figures refer to "commodity production" which is not strictly comparable with gross production because the former excludes work in progress.

c For the method of weighting output see *Economic Survey of Europe in 1962, Part 1*, chapter I, p. 3, footnote 2. Beginning with 1966, the weight system has been shifted to a 1965 base. A comparison of the new with previous weights was given in *Economic Survey of Europe in 1966*, chapter II, p. 4, footnote (*d*).

d Original plan directives, the plans have been subsequently changed to an average of 8.9 per cent.

One general characteristic of industrial expansion in the region remains a relatively fast growth of consumer-goods output. The traditional gap between the growth rates of producer- and consumer-goods output was kept rather narrow in most countries, while in some production of consumer goods expanded somewhat faster than that of producer goods.

The branch patterns of industrial growth in 1968 are shown in table 3. Marked differences among countries occurred in the relative growth of the fuel and metallurgical industries. In relation to the overall industrial growth rate, the expansion of the fuel industry, was particularly fast in Poland, where it almost equalled that of total industrial production, and slow in the Soviet Union, where it amounted to about only one half of that rate. The expansion of metallurgy continued to be relatively fast in Bulgaria and Rumania and, to a lesser extent, in Czechoslovakia and Hungary, where the growth rates exceeded those of industrial production. It was relatively slow in Poland and the Soviet Union, where the growth rate remained below the industrial average. The rate of expansion of energy output tended to be more in line with global industrial production. The chemicals industry remained in the vanguard of industrial expansion but its lead was reduced in some countries; it is now apparent that most countries will find it difficult to attain the growth relationship between the chemical and engineering branches which was stipulated in the present Five-year Plan. The growth rate in light industry was within the range of 60 to 75 per cent of the growth rate of total industrial production everywhere except in the Soviet Union, where it continued to exceed the overall industrial rate. A greater variation is to be found in the case of the food industry, the lowest relative rate being in Bulgaria and the highest in Hungary—40 per cent and 80 per cent, respectively, of the overall rate for industry.

TABLE 3

Indicators of industrial activity by main branches

(Percentage change in global output from preceding year)

	1966	*1967*	*1968 Plan*	*1968 actual*	*1969 Plan*
Albania					
Petroleum	9	12	22	21	21.5
Coal mining	17	12	15	13	..
Timber and wood, and paper	11	7	..	13	..
Chrome ore	..	6	18	19	13.8
Copper ore	56	10	50	54	13.0
Ferro-nickel	43	34	..	..	19.0
Electric power	24	34	37	21	..
Engineering and metal-working	40	23	26	28	22.9
Chemicals	..	180	53	61	12.8
Building materials	4	29	35	34	16.7
Glass and ceramics	..	17	..	..	..
Light industries	10	13	22	15	11.2
Food processing	5	3	12	11	7.6
Bulgaria					
Fuel	11.4	9.4	..	10.7	..
Energy	12.7	16.6	..	15.5	..
Iron and Steel	17.3	27.3	..	22.2	..
Non-ferrous metallurgy	3.7	6.8	..	4.1	..
Engineering and metal-working	20.0	20.6	..	18.6	
Chemicals and rubber	20.0	20.2	..	26.2	22.5
Building materials	8.8	17.0	..	8.4	
Timber and wood processing	3.9	3.7	..	5.0	..
Cellulose and paper	25.5	22.4	..	17.2	..
Glass and china	14.6	21.5	..	12.0	..
Textiles	7.8	11.0	..	7.3	..
Clothing	27.6	23.8	..	15.4	..
Fur, leather and footwear	17.8	14.5	..	12.0	..
Food processing	8.4	7.3	..	4.7	..
Eastern Germany [a]					
Basic industries	7.0	6.5	..	5.4	..
Metal-working industry	7.0	8.2	..	6.9	..
Light industries	5.6	7.0	..	3.3	..
Food industry	4.6	5.3	..	3.7	..

TABLE 3 *(continued)*

(Percentage change in global output from preceding year)

Indicators of industrial activity by main branches

	1966	*1967*	*1968 Plan*	*1968 actual*	*1969 Plan*
Hungary					
Mining	2.7	−0.4	1-2	3.5	..
Energy	9.5	9.5	8	6.1	7
Metallurgy	7.1	6.6	4	6.0	6
Engineering	8.6	9.8	7-8	7.2	7
Chemicals	12.5	13.3	11-12	10.7	9
Building materials	9.8	11.3	..	1.3	7.5
Light industries and related industries	6.3	10.4	6-7	2.8	3
Food processing	2.9	9.5	5-6	4.0	5.5
Poland					
Fuel	4.5	3.8	8.3	9.0	8.4
Energy	8.5	7.4	8.6	9.6	8.7
Iron and Steel	6.4	6.8	4.6	6.5	3.1
Non-ferrous metallurgy	6.2	11.7	8.6	6.0	10.9
Engineering and metal-working	9.6	11.5	10.2	13.6	12.9
Chemicals and rubber	12.8	14.1	11.6	15.6	11.4
Building materials	6.9	7.8	4.5	5.9	6.1
Timber and wood processing	3.9	5.0	4.7	5.5	4.9
Cellulose and paper	5.0	4.9	3.1	6.5	4.2
Glass and china	11.2	6.8	7.1	11.3	6.9
Textiles	7.0	4.4	5.6	7.6	6.3
Clothing	11.5	7.1	6.7	6.4	6.6
Leather and footwear	3.3	5.1	6.2	8.6	5.7
Food processing	4.9	2.5	1.7	3.7	2.7
Rumania					
Fuel	5.0	5.8	..	6.4	..
Energy	20.7	21.7	..	14.2	..
Iron and Steel	9.3	15.8	..	15.7	..
Non-ferrous metallurgy	23.6	10.8	..	12.3	..
Engineering and metal-working	13.5	17.1	..	16.7	13.6
Chemicals	21.5	23.1	..	16.9	19.0
Building materials	9.2	11.6	..	18.3	12.5
Timber and wood processing	4.7	7.1	..	6.6	..
Light industries	9.0	14.4	..	8.7	11.0
Food processing	9.0	9.6	..	5.2	
Soviet Union					
Fuel	6.4	6.4	..	4	..
of which: Coal	1.2	1.7	..	−0.2	0.0
Petroleum	9.1	8.7	..	7.0	5.7
Gas	12.4	9.7	..	7.0	8.7
Energy	9.0	8.8	..	10.0	8.0
Metallurgy	9.0	8.0	..	7.0	..
of which: Iron and steel	7.4	7.0	..	..	..
Engineering and metal-working	12.0	12.3	..	12.0	9.7
Chemicals	12.8	13.1	..	12.0	10.4
Building materials	9.1	9.5	..	7.0	7.0
Timber, wood working and paper	3.5	7.0	..	4.0	..
Glass and china	10.6	10.1	..	..	..
Light industries	8.8	11.0	8.5	9.0	7.5
Food processing	4.3	7.5	..	5.0	5.0

Sources: National statistics and plan-fulfilment reports.

NOTE. — Coverage the same as in table 2—except for Bulgaria and Hungary where the data relate to state industry. The 1968 plan data refer to targets in original plans. For Hungary, the figures represent adjusted daily averages of output.

[a] At plan prices and adjusted for the number of working days per month. Partly because of this adjustment and partly because of differences in valuation, the data given in this table do not correspond to that shown in table 2. The comparable figures for total industry are: 1966 — 6.3 per cent, 1967 — 7.5 per cent, 1968 — 5.2 per cent.

Changes in the level of production of some major industrial commodities are shown in the Appendix Table. Output of electric power rose in the area as a whole by 8.3 per cent and that of fuel output in terms of calorific content by 4.3 per cent, the former in line with the growth recorded in the preceding year, the latter marking a further decline (5.2 per cent in 1966 and 4.8 per cent in 1967). A notable development was the speed-up in coal output in a number of countries, especially Poland which was thereby able to strengthen its export position. And, although no data on the composition of fuel supply by country are available, it appears that the shift—which has been taking place for a number of years—in favour of liquid fuels has slackened in some of the eastern European countries. Output of rolled steel rose in the area as a whole by 5.5 per cent as against 6.7 per cent in the preceding year, the decrease being attributable to a slow-down in the Soviet Union. In most of the other countries, production rose at a faster rate, the gain in eastern Europe having amounted to 10.1 per cent as compared with 7.2 per cent in 1967.

The deceleration in the rate of growth of industrial production in most countries in 1968, which followed a similarly uniform pattern of acceleration in the preceding year, brings into sharper focus the question of the factors behind short-term fluctuations in the growth rate of industrial production in the centrally planned economies and, in particular, the type of inter-action which lends them the shape in which they appear. It can be shown, for instance, that rather than following a random movement around a rising trend such fluctuations assumed a certain pattern over time.[76] Another characteristic, already indicated, is the fairly strong coincidence of upswings and downswings of the growth rate in individual countries.

To answer these questions would obviously be a difficult task. It is rendered more difficult by the fact that there have been only a few theoretical and empirical investigations of the subject and it is only lately that the problems are being given greater attention in the centrally planned economies. As may be gathered from the research note included at the end of this Part (page 130), even a preliminary historical analysis of the data is sufficient to indicate how complex any "model" must be if it is to serve as an analytical tool in the explanation of swings in the industrial growth rate.

Thus, fluctuations in agricultural production, in the rate of expansion of output of industrial materials and in the rhythm of commissioning of new capacity, in imports of raw materials, the uneven growth of investment, exports and consumer demand are only some of the factors—and possibly not all the major ones—affecting the stability of the growth rate. And the interconnexion of some of these factors provides for an even wider range of influences which require analysis before more valid generalizations can be made.

There is little in the 1969 plan targets which might provide an indication of the direction in which the rate of growth may move in the current year, if the question is posed in overall terms. The index for the area as a whole is heavily weighted by Soviet industrial production which, as can be seen from table 2, has before it a target which is lower than the rate actually attained in 1968. The situation among the eastern European countries is rather evenly mixed in this respect. While Czechoslovakia, eastern Germany and Hungary plan for an acceleration in the industrial growth rate, Albania, Bulgaria, Poland and Rumania foresee the opposite. If plans were exactly met, industrial production in eastern Europe would attain a growth rate matching that of 1968. It would not be sufficiently high, however, to compensate for the loss of momentum in the Soviet rate.

[76] That there is a wave-like pattern in the movement of the annual growth rates of industrial production has been stressed particularly by J. Goldman in, for instance, "Short and long-term variations in the growth rate and the Model of Functioning of a Socialist Economy", *Czechoslovak Economic Papers*, No. 5, Prague 1965.

(i) The Soviet Union

The 8.1 per cent increase in *Soviet* industrial production was exactly as stipulated in the annual plan, although it was connected with a rise in employment which was higher than planned and consequently with a growth in productivity which was less than planned. The 1968 increase has brought the rise in output during the first three years of the current five-year plan up to an average of 8.9 per cent, which is in line with the modified programme. However, the plan for 1969 provides for only a 7.3 per cent growth. If it is not exceeded, this will reduce the margin developed during 1966 and 1967 over and above the originally formulated target, and may render the 1970 goal as currently conceived difficult to achieve.

While the position with respect to the longer-term production goal has remained strong, that with respect to the productivity target has been less favourable. Industrial employment rose more than scheduled during the last three years, the increment being almost equal to that envisaged for the whole of the five-year period. Labour productivity, instead of rising within the limits of 5.9-6.2 per cent, rose at an average rate of 5.4 per cent; an average of 6.7 per cent will be needed during the remaining two years in order to reach the lower limit of the target written into the directives.

In mentioning this problem it must also be noted, however, that the growth of labour productivity has been somewhat faster during the past three years than during the preceding quinquennium; and it is of considerable significance that this has been attained in the face of a relatively slower growth of fixed productive assets. Industrial plant and equipment rose in the period covered by the present five-year plan at an average rate of 8.6 per cent, i.e. at a slightly slower pace than industrial pro-

duction. This contrasted with a rate of 10.9 per cent in the period 1961-1965, when the production rate averaged 8.6 per cent and the productivity rate 4.6 per cent.

The growth relationship between producer- and consumer-goods output has been largely in line with the annual target and the longer-term programme. The growth rate of the consumer-goods sector decelerated to a somewhat smaller extent—from 9.0 to 8.3 per cent—than the producer-goods sector—from 10.2 to 7.9 per cent—thereby setting the growth proportion of the two sectors almost as provided in the annual plan. As can be seen from the figures below, a similar relationship is also planned for 1969, consumer-goods output growing somewhat faster than producer-goods output, which—if attained—should enable the pattern envisaged in the longer-term programme to be reached comfortably.

	Percentage change from preceding year						
	1967	*1968 Plan*	*1968 actual*	*1969 Plan*	*1965-1970 directives*	*1965-1970 modified Plan*	*1965-1968 actual*
A. Producers' goods . .	10.2	7.9	8.0	7.2	8.3-8.7	9.2	9.2
B. Consumers' goods .	9.0	8.6	8.3	7.5	7.4-7.9	8.3	8.1
A/B	1.13	0.93	0.96	0.96	1.12-1.10	1.11	1.14

Industrial profitability, after rising by 12 per cent in 1966 and as much as 21 per cent in 1967, grew by a further 14 per cent in 1968. Both the plan for profitability and cost reduction were reported to have been overfulfilled, although wage costs were apparently higher than planned.

As can be seen from the figures below, there was a greater variability in the quarterly changes in Soviet industrial production in 1968 than in other recent years, i.e. if production levels in the various quarters are compared with those in the corresponding quarters of the preceding year. In particular, the third quarter was characterized by a relatively low growth rate.

Index changes from the corresponding period of the preceding year

	First quarter	*Second quarter*	*Third quarter*	*Fourth quarter*
Average 1964-1967 . .	108.9	108.8	108.3	108.3
1966.	107.9	108.1	108.9	109.5
1967.	110.9	110.3	110.3	108.5
1968.	109.3	108.7	106.6	107.8

Data for individual republics indicate a slow-down in the industrial growth rate of the Russian Federation, the Ukraine, and Byelorussia. All three met their global production target in 1968; Byelorussia overfulfilled it to a significant extent.

Global industrial output

(Percentage change from preceding year)

	1966	*1967*	*1968 Plan*	*1968 actual*	*1969 Plan*
RSFSR	8	10	8	8	>7
Ukrainian SSR . . .	8	9	7.6	8	>6
Byelorussian SSR . .	13	13	10.4	12	8.5

As shown in table 3, the deceleration in the industrial aggregate reflected a slow-down in most major branches. Only in the energy and engineering industries was the growth rate equal to or somewhat above that attained in the previous year. The fall-off was rather moderate for the metallurgical and chemicals industries. It was more pronounced in the building materials and in the light industries, and rather strong in the fuel, timber, woodwork and paper industries as well as in the food industry.

The slight speed-up in the expansion of the energy-producing industry reflected a faster growth of electric power output, the rate of which, as in the preceding two years, exceeded the growth of generating capacity. Output of electric power reached a level of 638 billion kWh with the 1969 Plan postulating an output of 687 billion [77] (see Appendix Table) which, although representing a significant increase, does not appear to provide a sufficient basis for the attainment of the Five-year Plan target. Moreover, it implies a growth rate during the present quinquennium much lower than that attained during the previous one. [78]

Although various factors have accounted for the lag described, it would appear that the most important ones are to be found in the area of new construction activity. Investments in the electric power industry have grown little during the past three years and, although significantly higher on average than in the comparable previous period, new capacity put into operation was only slightly above

[77] Production being scheduled to rise by 7.7 per cent, the following changes in supplies by type of user are envisaged:

Industry	7.0 per cent
Agriculture	11.5 per cent
Urban population	9.4 per cent
Rural population	11.4 per cent

[78] This can be seen from the following figures depicting recent changes and plan targets.

	Percentages						
	1961-1965 Average	*1966*	*1967*	*1968*	*1969 Plan*	*1965-1970 Directives*	*1965-1970 Modified Plan*
Output .	11.6	7.5	7.9	8.6	7.7	10.4-10.9	9.6
Capacity .	11.5	6.9	7.1	7.7	8.5	9.3-9.5	..

the average in 1961-1965.[79] A mitigating effect was the fact that, at least at the aggregative level, the increase in energy requirements was not as large as originally anticipated, because—although total industrial production grew somewhat more than planned—output of some important energy consuming sectors (particularly basic chemicals) grew less than scheduled. Nonetheless, regional imbalances have persisted, adding more urgency to the programme of unification of the electric power transfer system on the one hand, and to the programme of shifting the territorial pattern of demand nearer to the territorial pattern of fuel and resource endowment, on the other.

The problem of the territorial balancing of supplies and requirements represents, to a large extent, a problem of costs in general and of regional costs of fuels in particular. As in other branches, wide differences can be found in the technological parameters of equipment installed at the Soviet power stations, resulting in an unusually wide spectrum of production costs and a country-wide average much higher than could be expected on the basis of the available technology. Added to the effect of these differences is a wide territorial variation in the cost of fuel extraction, particularly as between the " old " industrial regions (which still account for the bulk of energy requirements) and the eastern territories.

The 4 per cent increase in the output of the fuel industry was the lowest registered during the nineteen-sixties. Coal output remained virtually unchanged and the expansion of petroleum and natural gas output slowed down in both cases to the relatively low rate of 7 per cent. Although not explicitly stated, the 1966-1970 programme for the expansion of coal output has apparently been abandoned and it appears that the postulated level of natural gas output will also be difficult to attain.[80]

As with energy output, scarcity of investment resources and a long gestation period are mainly responsible for the lag in coal output. However, the problems facing this industry are also different in that the tasks of improving the structure of production (raising the share of coking and higher quality coals), as well as of modernization and re-equipment, have become very urgent. It is because of these latter factors that the future growth of this industry will have to be measured more in terms of quality and productivity changes than in terms of changes in global production. The problems facing the petroleum and natural gas industry are largely those of storage and transportation and of developing efficient processing facilities.[81]

Output of metallurgy grew by 7 per cent, reflecting a rise in iron and steel production of some 6 per cent and of non-ferrous metals of some 9 per cent. Both rates were lower than those in 1967, the increase in the output of steel and rolled products—4.7 and 4.3 per cent respectively—being the most modest registered in the nineteen-sixties, although nearly as planned. The recent increase of investment in this sector may well provide some effects in the current year, with steel output scheduled to increase by 5.2 per cent and—what appears at present to be more important—significant improvements being foreseen in the " profile " and production of rolled metal.

The chemicals industry raised production by 12 per cent which, although representing a slight decline as against the previous year, may well mark a downward trend as the 1969 Plan provides for a further deceleration of the growth rate. Relatively modest results were obtained in a number of high priority outputs, particularly in chemical fertilizers and in artificial and synthetic fibres, the growth of which fell behind the medium-term targets. The situation was more favourable in the case of plastics and synthetic resins, output of which rose by 16 per cent and was near to the average annual rate necessary to attain that target; [82] it was also, apparently, more favourable in the case of pharmaceuticals and other products destined for the consumer market.[83]

The engineering and metal working industry increased production by 12 per cent maintaining its growth rate, and the 1969 Plan calls for a further 9.7 per cent increase;

[79] The average annual increment in capacity in terms of KW was 9.6 million in the years 1961-1965 and 10.0 million in the years 1966-1968. Average investment in the years 1961-1965 amounted to some 1.8 billion roubles, and in the years 1966-1968 to 2.2 billion roubles.

[80] According to the Plan directives, coal output was to reach the level of 665-675 million tons by 1970; the 1969 Plan calls now for an output of 595 million tons. Output of natural gas was originally set at 225-240 billion m^3; the Plan has been revised, however, and now calls for an output of 215 billion, as compared with an output of 186 billion envisaged in 1969.

[81] This is a somewhat generalized statement as the development conditions and bottlenecks differ here significantly from one producing region to another. The main developing oil and gas producing regions are at present the Western Siberian Plain, the Mangyshlak Peninsula in Western Kazakhstan, and Byelorussia. In particular, the regions of Tyumen and Tomsk oblasts (Western Siberia) contain deposits which are among the largest in the Soviet Union, the 1970 Plan providing for a production of 25-30 million tons of crude oil (some 7-9 per cent of the national total). Apart from the transportation problem, the development of this region is hampered by unfavourable climatic conditions, labour scarcity and the problem of remoteness from sources of power and food supply centres. In the Uzen and Zhetybai fields (Western Kazakhstan), which are to yield 12 to 15 million tons by 1970, against 4 million tons in 1967, drilling conditions are relatively good and the construction of transportation facilities is well advanced. However, problems have arisen here in connexion with the chemical characteristics of the oil (high paraffin content) and inadequate fresh water supply. The Byelorussian fields, which have only recently been opened, are to yield 4 million tons by 1970. The location of these fields is extremely favourable but deep drilling is required and the deposits also have a high paraffin content.

[82] This can be seen from the following figures:

	Production 1967	*1970 Plan*	*Implied average annual increase*	*1968 actual increase*
	Thousand tons			
Chemical fertilizers [a]	40 100	62 000	15.7	8
Artificial and synthetic fibres.	511	700 [b]	11.1	8
Plastics and resins	1 112	1 800 [b]	17.4	16

[a] gross weight. [b] reduced target.

In view of the developing lag in fertilizer production, special measures were introduced in the course of 1968 to speed up the development of this section. Investments in the current year are to rise by 55 per cent, permitting the completion of productive facilities—with a capacity of 13 million tons of fertilizers—i.e. 2.5 times more than the average of the past few years.

[83] Output of these products was to be doubled in three years, as shown by the following figures *(millions of roubles)*:

1967 actual	*1968 Plan*	*1970 Plan*
472	631	1 030

although representing a slow-down, this will nonetheless permit the comfortable attainment of the 11.2 per cent average increase postulated for the years 1966-1970. Above-plan production was reported in most ministerial departments, the margin of over-fulfilment having been highest in the case of the Ministry for Instrument-making Enterprises, under which—as can be seen from the figures below—production expanded by 18 per cent, a further improvement over the rate in the preceding year, computer production rising by over one-third. Some further acceleration also took place in the electrical equipment department, which plays a significant role in the current programme of technological advancement,[84] and in the chemicals and petroleum machine-building departments, reflecting better results in the production of oil-processing equipment (scheduled to double during the present five-year plan period) than in the output of chemical equipment, which continues to lag behind requirements and targets. The growth of output of enterprises under the Ministry of Heavy Industry, Power and Transport, and Machine-building was significantly slower than in the previous year, as was the growth of output of enterprises under the Ministry of Machine-building for the Light Industry, Food Industry and Household Appliances. The latter slow-down was not very consistent with the current targets, which call for a 90 per cent increase of equipment supply to the light and the food industry (output of textile machinery is scheduled to increase by 2.3 times and output of equipment for the food industry by 1.6 times) and a continued fast expansion of supplies to the consumer market. The growth of output of enterprises under the Ministry of Motor-vehicles was slower than in the previous year. Output of passenger-cars rose by 11.6 per cent and the expected large upsurge in production will not take place before 1970. Other changes in consumer-goods output by the various Ministerial departments of the engineering industry included a rise in output of domestic refrigerators by 17 per cent, television sets by 16 per cent and washing machines by 9 per cent.[85]

Ministerial Department	*Index numbers (preceding year = 100)*		
	1966	*1967*	*1968*
Heavy industry, power and transport, machine-building	108	109	106
Construction, road building and civil engineering	112	111	111
Chemicals and petroleum machine building	110	111	112
Metal tool and toolindustry	110	111	111
Motor-vehicle industry	114	113	111
Tractor and farm machine-building	110	109	107
Machine-building for light industry, food industry and household appliances	115	114	109
Electrical equipment industry	110	109	110
Instrument-making, means of automation and control systems	116	117	118

The gross output of the Soviet engineering industry now has a value of some 75 billion roubles, with steady annual increments in the neighbourhood of 9 billion roubles. While phenomenal in size and impressive in its rate of expansion, the structural development of this industry has often been the subject of severe criticism in recent years. It has been pointed out, in particular, that the priority pattern attached to the development of various branches has tended to result in a marked imbalance in terms of technological levels and costs. The low level of specialization and the lack of sufficient stimuli for both domestic and international co-operation has often been cited in the Soviet Press. Also contributing to high average costs are the low level of standardization of production and the virtual absence of centralized repair systems. The inter-plant transportation system and the mechanization of handling equipment are also inadequately developed.

Attitudes towards costs, on the part both of producers and of users of equipment, are cited among the major factors responsible for this state of affairs. The problem of increased specialization and massive innovation is thereby linked to the problem of success in the reforms which are being undertaken. However, much stress is also put on organizational measures, such as raising the number of experimental stations and laboratories and their closer co-operation with producing units, greater spread of modern quality control methods, reduction in the number of auxiliary workshops, etc.

The rather sluggish performance of the Soviet timber, woodwork and paper industry, with a growth rate of 4 per cent, can be attributed to a virtual stagnation in the timber and milled lumber sections and inadequate progress in the pulp and paper divisions. Paper output rose by 4 per cent and, while no data on the production of cellulose is available, it fell short, apparently, of the annual target.[86] Production of furniture continued to expand rapidly, the 10 per cent increase equalling that of 1967.

The branches so far surveyed represent, predominantly, producer-goods branches and only cursory mention has been made of developments in consumer-goods sections. Taken together, output of consumer goods other than from the light and food industries rose in 1968 by 15 per cent, putting the average growth rate during the past 3 years at 14 per cent as against a planned average for the years 1966-1970 of 12 per cent.

The light industries advanced rapidly for the third consecutive year. The 9 per cent growth rate recorded in 1968 brought the total increase during the present quinquennium to 30 per cent which, together with the 7.5 per cent increase planned for 1969, ought to suffice to reach the original 5-year target within the period of four years. The ready-made clothing industry raised production by 15 per cent, as in 1967, and the knitted outerwear section accelerated its production rate from

[84] It was reported that in order to speed up technical progress 45 per cent of research institutes active in this field will come under the authority of enterprises.

[85] It was reported that 30 per cent of the value of production of enterprises under the Ministry of Instrument-making, Means of Automation and Control Systems, and 27 per cent of those under the Ministry of Machine-building for Light Industry, Food Industry and Household Appliances, consist of consumer-goods output.

[86] In 1967 output amounted to 4.03 million tons and the 1968 Plan called for a production of 4.7 million to be further augmented to a level of some 7.0 million tons by 1970. The industry came under sharp criticism recently by the Chairman of the State Planning Commission, N.K Baibakov.

15 to 18 per cent. The expansion of the textiles industry slowed down, however, particularly in the silk and linen fabrics sections, and the rise in shoe production was also somewhat less than in the preceding year. A continued rapid expansion in practically all departments is foreseen for the current year, the structure of production also being improved.

Considerable effort is currently being made to reconstruct and modernize the textile industry. A programme of scrapping old equipment was elaborated and a considerable part of investment is being directed towards raising the parameters of enterprises operating at a high cost. However, difficulties such as bottlenecks in the supply of machinery, production of equipment falling behind world standards and the slow pace of assimilation of new technology, were reported to have been encountered.[87]

The downturn in the growth rate of the food-processing branch was largely the result of the slower growth of supplies following the 1967 harvest. The slow-down in the expansion of output of meat, fish, canned goods and vegetable oil was particularly pronounced. Of the major sections, only the sugar refining industry and, to a lesser extent, the confectionery industry achieved faster growth than in the previous year.

[87] According to a statement by the Minister of Light Industry, 50 per cent of the equipment supplied falls below modern technological standards. Only 19 out of 70 enterprises were reported to have sufficiently mastered newly installed equipment.

(ii) Eastern European countries

Relationships between growth rates in the individual eastern European countries were, as in the preceding year, such as to tend to reduce the existing differences in the degree of industrialization between the countries of the group. The less industrially developed countries (Albania, Bulgaria and Rumania) maintained a very fast pace of expansion. Polish industry followed in an intermediary position, but the growth rate of Hungarian industry declined to a level similar to that of the two most developed countries—Czechoslovakia and eastern Germany. The ranking order with regard to the growth of industrial employment bore less correspondence to the pattern of relative levels of industrial development. In particular, Bulgaria expanded its industrial labour force less and Hungary more than would follow from such relatives. The variation in the growth rates of output per man was unusually large, ranging from 1 per cent in Hungary to 9 per cent in Bulgaria.

Albania and Poland were the only countries where the growth rate of industrial production was higher in 1968 than in the preceding year—in the former very significantly higher. In other countries changes varied from a slight deceleration in eastern Germany to a sharp one in Hungary. However, most countries came close to or exceeded their annual plan targets.

Notwithstanding these slow-downs, growth in 1968 was generally sufficient to assure a high enough basis for the attainment of the goals for the present quinquennium contained in the medium-term plans. On the other hand, however, the position with regard to the labour productivity targets has been rather weak in some countries, reflecting above-plan increases in employment.

In most countries, the rhythm of industrial expansion was less stable during 1968 than during the previous year. Quarterly production indices (seasonally adjusted) indicate that in Poland production rose only in the first and third quarters and in eastern Germany in the second and fourth quarters (see table 4). In Czechoslovakia there was no change in the level of industrial production throughout most of the year, an increase having occurred in the fourth quarter only. In Hungary and in Bulgaria, production actually declined during the third quarter, and in Rumania during the fourth quarter.

TABLE 4

Seasonally-adjusted indices of global industrial production in eastern Europe

(1965 = 100)

Country		Quarters I	II	III	IV
Bulgaria	1967	124	128	129	129
	1968	138	143	141	144
Czechoslovakia .	1967	111	113	114	118
	1968	118	118	118	124
Eastern Germany	1967	110	113	114	118
	1968	117	120	120	124
Hungary	1967	112	116	117	121
	1968	121	124	122	123
Poland	1967	113	115	118	118
	1968	124	124	129	129
Rumania. . . .	1967	121	124	129	131
	1968	135	140	146	144

Sources: Derived from national statistics; and United Nations, ECE, *Statistical Indicators of Short-term Economic Changes in ECE Countries.*

The growth of global industrial production in *Albania* is reported to have been exceptionally rapid in 1968, rising by 19 per cent compared with the previous year. This rate of expansion was slightly less than the 20.7 per cent increment foreseen in the annual plan, but more than double the target average annual rate of some 9 per cent incorporated in the current Fourth Five-year Plan (1966-1970). As a result of industry's exceptionally good performance, global industrial production in 1968 reached the lower range of the target set for 1970, a level 50 per cent above that of 1965. The growth of output of producers' goods has continued at a rate more than twice as high as that of consumers' goods.

The branches whose output rose fastest in 1968 were chemicals and copper, both relatively recently established branches based on national mineral resources and in which new capacities are constantly being brought into operation. For similar reasons, there was a sharp increase in output of the building materials branch (mainly cement, constructional timber, prefabricated materials and tiles). This was needed to support the increased volume of construction (an increase of 7 per cent in 1968 and a target increase of 22 per cent in 1969) being undertaken with a view to completing the new factories planned for the present medium-term plan and those provided for in the new agreement on economic assistance from mainland China which was signed in November 1968. (See also Part 7 below on foreign trade.) In accordance with the long-term policy of encouraging import-substitution, the machinery and metal-working branch—which now accounts for nearly one-tenth of total output—has been assigned the target of raising its output by one-fourth in 1968, and succeeded in attaining a 28 per cent increase. Output targets for some of the more important products of this branch, such as electric motors, transformers, and spare parts, were amply overfulfilled—by 13 per cent, 25 per cent and 8 per cent respectively.

Following the good harvest of 1967, the output of the food-processing branch increased by 11 per cent in 1968, slightly lower than planned but nonetheless a distinct improvement on the previous year's results. The light industry expanded production by 15 per cent, well below the planned figure but somewhat more than in the preceding year. Together, these two traditional branches of Albanian industry still account for three-fifths of total industrial output. Consequently, the rather lower target rates of expansion set for 1969 (7.6 and 11.2 per cent respectively, which should be viewed in relation to the 1968 increase in agricultural output of only 2½ per cent) account for the more modest planned growth (12.4 per cent) of industrial output in 1969. The branches whose output is planned to increase faster than average are those already mentioned as having led the expansion in 1968, with the addition of the petroleum and ferro-nickel branches.

Bulgarian industry comfortably exceeded its plan target with a growth of 11.8 per cent, although the rate was somewhat lower than the preceding year. However, the expansion of labour productivity accelerated further, output per man rising by 9.3 per cent and output per man-hour by 9.8 per cent. The exceptionally fast growth of labour productivity may be taken as a measure of the economic achievements in 1968.

The considerable gains in labour productivity during the past two years have crowned special efforts to stem the inflow of labour from agriculture and to utilize more efficiently the labour force already recruited.[88] These measures included a programme of modernization begun in 1966 in a number of branches, particularly the light and food industries [89] which resulted in considerable labour-saving, as well as a programme of re-training, and a further increase in the technical skill of labour. In 1968, the effects have been felt in the form of a significant decrease in the labour force in some branches, and a rather slow growth in others. Only in the engineering and the chemicals industries was employment considerably higher than in the preceding year.[90]

While a slow-down was characteristic of most branches, it was most pronounced in the consumer-goods sector. The gap between the growth rates of the two sectors seems to have widened; the 1969 Plan puts forward the objective, as a matter of great urgency, to close the discrepancy.[91] Among branches turning out predominantly producer goods, the fuel and energy industries maintained their growth rates and the chemicals industry was able to expand faster than in the preceding year. Output of electricity rose by 13.3 per cent and it was reported that around 5 to 6 per cent of capacity can now be regarded as reserve for peak loads; in 1968 the increase in capacity amounted to 14.9 per cent and in 1967 to 11.7 per cent. There appear to have been no difficulties in fuel supply—mainly owing to sufficient imports; coal output, accounting for about 90 per cent of domestic fuel production, rose by 7.6 per cent—somewhat less than in the preceding year. The expansion of iron and steel slowed down somewhat, although production rose by 22 per cent, including an increase of as much as 67 per cent in the output of rolled steel.[92] But the expansion of the engineering and metal-working industry continued at a rather

[88] The problems which arose in connexion with the excessive expansion of the labour force in a number of previous years were described in the *Economic Survey of Europe in 1967*, chapter II, pp. 14-15.

[89] See *Economic Survey of Europe in 1966*, chapter II, p. 11.

[90] Changes in employment and labour productivity by branches were as follows:

(Preceding year = 100)

	Employment	*Output per man*
Energy	99.6	116.0
Fuel	99.2	111.6
Iron and steel	102.5	119.2
Non-ferrous matallurgy	95.4	109.1
Engineering and metal-working	107.8	110.0
Chemicals and rubber	107.8	117.1
Construction materials	100.2	108.2
Wood and wood processing	99.5	105.5
Pulp and paper	103.3	113.5
Glass and ceramics	101.6	110.2
Textiles	102.7	104.5
Clothing	102.5	112.6
Fur, leather and shoes	102.9	108.8
Printing	103.6	107.2
Food processing	96.1	109.0

[91] No data on the growth rates of the producer- and consumer-goods sectors were reported for 1968. In the preceding year, the rates were 14.1 and 12.1 per cent respectively, and the 1969 Plan foresees a 12 per cent increase for producer goods and 10 per cent rise for consumer-goods output.

[92] It was reported that 55 per cent of requirements are not covered from domestic production. The Kremikovzi plant underwent further expansion and the Plan for 1969 foresees that this plant will supply 1,200 thousand tons of pig iron, 1,650 tons of sheet, 1,250 tons of rolled metal and 75 thousand tons of pipes. However, with requirements for rolled steel estimated at some 3 million tons by 1975, an agreement has been concluded with the Soviet Union for the expansion of deliveries which are to reach 1.6 million tons of raw steel and 500 thousand tons of rolled metal by that year. According to the agreement, Bulgaria is to contribute to the construction costs of the supplying plants located on Soviet territory. It was pointed out in this connexion that prices of steel were in 1966 2.5 to 3 times higher in Bulgaria than in the Soviet Union and that the Kremikovzi complex will pay off in 10 years, while in the Soviet Union the cost of similar construction is recuperated within 3 to 4 years.

stable rate, although the growth of both investment and export demand slackened.[93] The 26 per cent expansion of output of the chemicals industry (20 per cent in 1967) included an increase in production of phosphoric fertilizers (47 per cent), nitrogenous fertilizers (34 per cent), sulphuric acid (31 per cent).[94] A first step was made during the year towards the development of a synthetic fibre industry with the completion of the polyester fibre plant at Jambol with a capacity of 12 thousand tons. Plants for the output of different types of chemical fibres are being built in Vidin, Bourgas and Svishtov. These will represent a system of linked enterprises, the combined output of which is eventually to reach the level of 120 thousand tons of chemical fibres. By 1970, output is to cover around 18 per cent of domestic requirements, and by 1975 an export surplus of around 20 thousand tons of fibres is planned.

Both the light and the food industries reduced their growth rates. After expanding by as much as 11.4 per cent in 1966 and by some 10 per cent in 1967, output of the light industry grew by an estimated 8 per cent in 1968, mostly reflecting a fall-off in the export-oriented clothing section. The slackening in the output of foodstuffs was largely concentrated in the canned vegetables, sugar, tobacco and some other sections. Output of meat and dairy products expanded at a rate comparable to the preceding year.

In 1968, a special programme was adopted providing for an increase of output of the light industry by 50 per cent within seven years. The programme is based on a wide application of chemistry in this industry, the share of chemical fibres in consumption being scheduled to rise to 53 per cent, and of synthetic fibres alone to 26 per cent, by 1975. In 1967, chemical fibres accounted for 23.5 per cent and synthetic fibres for 2.9 per cent of the total use of fibres.

The expansion of *Czechoslovak* industry slowed down from an annual rate of 7.1 per cent to 5.2 per cent. The growth of labour productivity has also slackened, employment having risen at about the same rate as in the preceding year.

The first half of the year brought an increase which was equal to that of the corresponding period of the preceding year, and the prospect appeared to be that the rate would be maintained throughout the rest of the year—which was also the assumption contained in the August Directives for 1969. As the figures below show, the final outcome was not only influenced by the set-back suffered in August, but also by developments in the remaining part of the year, which were less favourable than in the corresponding part of 1967.

Output indices, comparable period of the preceding year = 100

	First half-year	*July*	*August*	*Rest of the year*
1967	105.6	105.0	108.4	108.1
1968	105.6	108.1	95.9	106.2

Apart from work stoppages, interruptions in supply and other direct effects of the events during August, there were other partly-related developments which exercised a significant influence on the Czechoslovak industrial growth pattern in 1968. Foremost among these was the slackening of exports and the sharp upswing in consumer demand in the second part of the year.[95] Export deliveries rose by 3.9 per cent as compared with 10.1 per cent attained in 1967, while consumer deliveries rose by 8.9 per cent—about 3 percentage points more than in the preceding year. Investment deliveries—with a much smaller weight—have also expanded faster. Total final deliveries were up 6.5 per cent, exceeding the growth rate of total industrial production—a reversal of the pattern of the previous year, as is shown by the following figures:

	1966 Million Kčs at 1968 prices	*1967*	*1968*
		Preceding year = 100	
Total deliveries	..	106.7	105.2
Final deliveries	139.9	106.8	106.5
Consumers' market	72.4	105.8	108.9
Investment	18.4	102.0	107.7
Export	49.1	110.1	103.9

Consumer-goods output expanded faster than producer-goods output. The figures below show that this was the outcome of a trend which began in 1965, whereby the rate of expansion of producer-goods output has been consistently slowing down, while that of consumer-goods output has remained practically unchanged.

	Percentage change from the preceding year			
	1965	*1966*	*1967*	*1968*
Producer-goods output	9.2	8.3	7.5	4.9
Consumer-goods output	5.7	5.9	6.4	5.7

No data are available on the branch pattern of expansion of Czechoslovak industry in 1968. Reported figures on output by Ministerial departments indicate that the highest gain in the producer goods sector occurred in enterprises under the Ministry of Energy and the Ministry of Mining. The fast growth of the latter is rather surprising since, according to recent policy, the expansion of raw material branches was to slow down in favour of the chemicals and light industrial branches.

[93] Although there is still considerable scope for import substitution—production of the engineering industry covering only about one-third of investment requirements—it is recognized that further development of this industry will depend on greater international specialization and co-operation. Accordingly, emphasis is to be put on the development of electronics, machine tools and means of automation. At present specialization is mostly in electrical engineering, agricultural machinery and handling equipment, such as electric trucks and motor-lorries.

[94] In 1968 a big chemical plant was completed in Vratza with a capacity of 600 thousand tons of carbamid, 400 thousand tons of ammonium chlorine and 200 thousand tons of ammonium chlorine water. In 1970, output of chemical fertilizers is to reach 760 thousand tons as against the present level of some 500 thousand tons pure content.

[95] In the first half of the year exports were up 7.3 per cent against 3.1 per cent recorded for the year as a whole. The impact of the August events on consumer demand is discussed in Part 6 below.

Ministerial Department	Preceding year = 100 1967	1968	1969 Plan
Energy	9.9	8.7	7.0
Mining	1.4	8.7	4.4
Metallurgy	5.0	4.1	6.8
Engineering	10.7	6.1	9.4
Chemicals	9.9	6.2	13.0
Construction	7.3	5.5	7.0
Manufactured consumer goods	5.4	2.3	6.0
Food	4.9	4.0	2.3

Output of electric energy rose by 7.2 per cent, somewhat more than in the preceding year, and the supply situation continued to be satisfactory. Output of brown coal, stationary since 1965, rose 5.4 per cent, production of hard coal remaining unchanged. A serious shortage of coal, partly owing to transportation difficulties, made itself felt, however. The supply of metallurgical products was also inadequate, although output of rolled steel rose by 5.8 per cent, and there were further improvements in the structure of production.

The 6.1 per cent increase in output of enterprises under the Ministry of Engineering and Metal-working masks a much steeper expansion of production for the consumer market, possibly exceeding the already high rate of 1967; for instance, output of passenger-cars rose 12.4 per cent, television sets 37 per cent and radio sets 15 per cent. The expansion of deliveries for investment purposes gained in impetus, but a serious set-back was suffered in deliveries for export. A similar situation existed in the chemicals industry in that deliveries to the consumer market rose steeply while exports declined. Deliveries for intermediate use also increased less than in the previous year. In total, output of this industry rose by some 6 per cent, down from 10 per cent in the preceding year, reflecting delays partly owing to technical difficulties in bringing new capacities into operation. In discussing the future outlook of this branch, the need for greater specialization is being emphasized and other proposals for cost reduction are put forward.

Output of enterprises under the Ministry of Manufactured Consumer Goods rose by a modest 2.3 per cent, significantly less than in the preceding year, reflecting what appears to have been an absolute decline in the output of the textiles and the glass and ceramics sections; output of leather footwear rose 1.5 per cent and of furniture 9.2 per cent. Lags in production capacity were mostly responsible for the unfavourable performance of this branch, although a shortage in supply of raw materials had also been felt. The 4 per cent increase in the output of the enterprises under the Ministry of Food was only slightly less than the gain of the preceding year, agricultural supplies remaining at a satisfactory level. Output of meat rose 6.9 per cent, but a shortage in processing capacity was reported in some areas, particularly for meat and dairy products.

An even rhythm of growth of industrial production was foreseen for 1968 in *eastern Germany* and the actual growth rate was marginally less than planned. Data on production in the various ownership sectors, currently made available, indicate a faster rate of expansion during the past three years in the semi-state than in the state-owned sector of industry. Moreover, in 1968 there was a marked acceleration in the growth rate of the private sector, the opposite movement being indicated for the other sectors, as the figures below show. Growing integration between the various sectors in co-operative chains and production groups was given as an explanation for the changes.

	Percentage change 1966	1967	1968	Per cent of output 1965
State	6.3	6.4	5.9	88.0
Semi-state	9.2	9.2	8.1	9.8
Private	−0.2	1.3	5.8	2.2

As in the previous year, virtually all of the gain in output was accounted for by rising productivity. Output per man in state industry was reported to have risen by 6 per cent and productivity (per hour of work) by 8 per cent. The concentration and co-ordination process, which has been going on in the industrial sector in recent years, seems to have begun having a noticeable impact. Large-scale production has been favoured by the establishment of bigger new production units and through expansion or mergers of existing enterprises. The promotion of vertical " co-operation unions " under the leadership of final producers was reported to have helped eliminate a number of disturbances in the production process, such as delays and inconsistencies in intermediate deliveries. Accelerated mechanization and the automation of whole production lines, undertaken to compensate for a stable domestic labour force, and shift of labour from basic industries to " structurally " important branches, have also contributed to greater labour efficiency.

The implementation of the measures in connexion with the economic reform, especially the principle of autonomous financing, is reported to have had a favourable impact on enterprise activity, by improving the cost structure and the efficiency of existing capacity utilization. The majority of enterprises fulfilled or overfulfilled their net profit plans, reflecting among other things greater efficiency in the use of materials.[96]

Neither the plan-fulfilment report nor the monthly published statistical data permit any detailed analysis of the branch pattern of expansion in 1968. The monthly production index—adjusted for the number of working days per month and evidently not fully corresponding in coverage to the figure given in the plan-fulfilment report —indicates a much sharper slow-down in the growth rate of industry as a whole and correspondingly, also, a marked deterioration in the growth of each of the four major sectors (see table 3 and footnote *a* to this table). More detailed data output by ministerial divisions provide a varied picture, however, as shown by the following figures:

[96] According to the plan-fulfilment report, the " material intensity" of the economy was lowered by some 3 per cent in 1968; product specific content of wood diminished by 8.6 per cent; of rolled steel in the metal-processing industry by 5.6 per cent and of cast iron by 14.9 per cent. According to data published in *Deutsche Finanzwirtschaft*, No. 24, 1968, p. F.1, many east German products are 20 per cent heavier than comparable products in the international market. Also, the percentage of scrap arising in production is excessively high. It was estimated that as a result only about 76-78 per cent of the approximately 6 million tons of steel annually consumed is used effectively.

Industrial Ministry	Percentage change		
	1967	1968	1969 Plan
Basic industries	3.7	2.5	6
Metallurgy and potash [a]	6.3	5.7	8
Chemicals	6.8	7.8	9
Electro-technical and electronics	9.5	8.6	13
Heavy engineering and complete installations	5.3	4.7	8
Processing machinery and transport equipment	5.5	9.3	9
Light industry	6.5	4.1	6
Locally administered industries and food industry	4.4	5.9	6

[a] Including mining of metal ore.

Changes in output of enterprises under the Ministry of Basic Industries largely represented the performance of the lignite and the power industries. Output of electric energy rose 5.9 per cent, that of lignite (after declining in the two preceding years) expanded by some 2 per cent, higher output having been obtained with a smaller labour force. 1968 was marked by substantial growth in the metallurgy division. Output of rolled products rose by 11.9 per cent, reflecting significant additions to capacity.[97] Also the acceleration in the growth of output of enterprises under the Ministry of the Chemical Industry—from 6.8.-7.8 per cent—may be given special importance considering the already relatively high level of chemical output in this country.[98] Among the engineering divisions, the speed-up in the growth of output of enterprises under the Ministry of Processing Machinery and Transport Equipment reflected an upswing in foreign demand, exports of machinery having risen in 1968 by some 20 per cent as compared with about 9 per cent in the preceding year. Important structural improvements were reported to have taken place in the engineering branch, output of "structurally important" commodities, for instance, rising 35 per cent as compared with 1967, and output of enterprises belonging to the VVB Prefabricated Elements and Vacuum Techniques increasing by 15 per cent. Results in the consumer-goods division were less favourable, output of such items as television sets, domestic refrigerators and domestic washing machines having declined.

While little detail is available on the development of the light industry, it would appear that significant expansion took place in the woollen and synthetic fabrics and also in the knitted wear sections. However, it was stated that the clothing industry was unable to satisfy demand for high quality fashion fabrics, while excessive stocks appeared in some areas. In the food industry, production of meat was up 3 per cent, butter 5 per cent and fish catch 10 per cent.

[97] Most important was the completion of a cold rolling mill at the Eisenhütten Kombinat Ost. The automated rolling mill is scheduled to have a daily output of 180 km of high grade steel strip and a capacity of 600 thousand tons of cold rolled sheet and strip per annum.

[98] According to some preliminary reports, output of the chemicals industry taken as a whole rose approximately by 9 per cent over 1967. The growth planned for 1968 was: plastics 14 per cent, synthetic fibres 21 per cent, nitrogenous fertilizers 41 per cent, phosphoric fertilizers 17 per cent. No actual production data for the major commodities have been published except for synthetic fibres, output of which expanded as planned.

To maintain an unbroken path of expansion in a year when far-reaching changes in the planning and management system are taking place is obviously a difficult task and from this viewpoint the 4.9 per cent increase in *Hungarian* industrial output must clearly be seen as a favourable development. Several—in some respects countervailing—factors and policies can be identified as having contributed to this outcome. First, the desire to create conditions which are as balanced as possible in order to help the implementation of the reform and to be able to test some of its important elements. Secondly, the need to slow down the growth of investment, partly related to the need for internal relaxation mentioned above, and partly conditioned by the deterioration of foreign trade balance—a result of the high expansion rate in 1967. And, thirdly, the need to expand exports as part of the effort towards redressing the foreign trade balance.

In terms of targets embodied in the 1968 Plan, this has meant a sharp reduction in the investment growth rate, a step-up in the expansion of imports of raw and basic materials and—in the face of a declining growth of agricultural supplies—a drastic increase of industrial exports. On the basis, and in anticipation, of a continued high rate of expansion of consumer demand, the plan for industrial production was set at an increase of 6-7 per cent, which although lower than that attained in the preceding two years was nonetheless above the 1965 rate—a year when similar economic re-adjustments were necessary.

In the event, the growth rate attained was somewhat lower than planned. Although the reasons for this are somewhat difficult to ascertain, it would appear that they are partly to be found in the area where the reform is functioning. One of the desired effects of the reform has been the fact that it became more difficult to produce goods for which demand is inadequate, and far-reaching adjustments in the structure of production are obviously difficult to make within a year. Moreover, with the prices of imported materials significantly higher, a measure designed to provide a closer link with foreign price levels,[99] certain producers may have found themselves in a cost-price squeeze, prompting them to curtail certain types of production. It seems that the latter factor has played a role in the slackening of production in a number of sections of the light industry.

From the point of view of the aims of the reform, developments in the field of industrial labour productivity were less favourable than those in production. Output per man rose by 1.1 per cent and, while the increase in the output per man-hour was apparently in the neighbourhood of 4.5 per cent, the improvement was still less than that registered in most past years. A factor in the relatively slow growth of labour-productivity has been the steep increase in employment—on the average more than would be needed in order to compensate for the reduction in the number of man-hours worked.[100]

[99] Some import subsidies being retained, however (see Part 2 of this chapter).

[100] The reduction was the result of shortening the working week from 48 to 46 or 44 hours for about half the industrial labour force.

(Continued on next page.)

As has already been mentioned, the material supply situation was better in Hungary in 1968 than in the previous year. Coal output did not rise, but the expansion of petroleum supplies was faster owing to both higher gains in production and an acceleration of imports. Output of electricity was up 5.6 per cent and imports, currently accounting for 17 per cent of availabilities, by 18 per cent. Output of rolled steel rose by as much as 12 per cent, but the increase in supplies was even greater (26 per cent) as imports rose and exports declined. In the engineering industry, the expansion of the telecommunications section was rapid and above-average increases were reported in the general machine-building and the metal products sections.[101] Exports of engineering products rose by 15 per cent, deliveries to domestic market by some 10 per cent, but investment deliveries apparently by very little.

The 11 per cent increase in chemicals output included a 19 per cent expansion of chemical fertilizers,[102] resins and plastics 14 per cent, synthetic fibres 9 per cent,[103] and production of pharmaceuticals rose by 7 per cent, exports suffering some slow-down.[104] In the light industry, a sharp deceleration was characteristic for all sections—particularly in cotton and woollen fabrics, output of which actually declined. With an increase in overall production of 3 per cent, the light industry was nonetheless able to expand exports by 10 per cent—mostly of ready-made clothing and furniture. In the food industry, an expansion of some 20 per cent took place in meat packing and processing; output of butter and sugar was lower than in the preceding year.

The increase from 7.7 to 9.4 per cent in the *Polish* industrial growth rate reflected an improvement in both the producer- and consumer-goods sectors. Growth of the former accelerated from 9.0 to 10 per cent and that of the latter from 5.3 to 7 per cent, the plan figures being 8.2 and 5.1 per cent respectively. The growth of industrial labour productivity has also speeded-up, from 3.4 to 5.3 per cent, the pace of employment expansion having declined slightly.

While these changes represented a marked improvement over the results of the two preceding years, and were also more in line with the targets written into the five-year plan,[105] in another area the result has been less favourable. Net industrial production rose by 9 per cent, i.e. about the same rate as gross output and contrary to what was stipulated in the plan. One of the postulates of the present Five-year Plan was to speed-up development of high grade goods characterized by a high degree of processing and mostly with a high capital and skilled labour content. Parallel to this went an effort to limit exports of unprocessed materials and goods with a high material content. It was assumed that this would result in a reduction of material inputs and a growth of value-added significantly in excess of the growth of gross production.

The figures provided below show that this has not been realized, however. In fact, the situation—during the past three years—was less favourable in this respect than in 1961-1965, when the growth of net output exceeded the growth of gross output, although not to the same extent as stipulated in the 1966-1970 Plan.

	1961-1965	*1966*	*1967*	*1968*	*1969 Plan*	*1966-1970 Plan*
Gross industrial output	8.5	7.4	7.7	9.3	8.3	7.6
Net industrial output	8.9	6.9	7.7	9	8.5	8.5

A faster rate of expansion was characteristic of most branches. The growth of the fuel industry accelerated from 3.8 to 9.0 per cent, the highest rate registered in more than a decade, reflecting an increase of natural gas output of 63 per cent [106]—and oil processing 40 per cent.[107]

(Continued)

It was reported that in Budapest changes in the number of hours worked had no adverse effect on output per man. All of the expansion of the labour force took place outside Budapest. The institutional factors which may have provided a stimulus to the excessive rise in employment are described in Part 2 above of this chapter.

[101] Trends in the development of particular divisions are indicated by the following figures (per cent):

	1966	*1967*	*1968*	*1966-1970 Plan*
General machine building . . .	5	13	11	
Transport equipment	6	8	1	12.0
Electric engineering	10	9	—	
Telecommunications equipment	12	9	14	7.3
Precision engineering	10	11	5	
Metal products	15	8	10	

In transport equipment an upsurge in production is to be expected in the current year according to a broadly conceived programme involving specialization and co-operation with a number of countries, in particular with the Soviet Union. At the beginning of 1969 a new plant for the production of diesel motors is to be commissioned in Győr with a capacity of 13 thousand units. A west German-French consortium has been participating in this project. Production of buses is to reach a level of 7,000 units in 1970, against the present 4,000 units. Hungary has at present no plans for developing a passenger-car industry. Agreement was, however, reached with the Soviet Union according to which the two countries will co-operate in the manufacture of Volga factory cars. Hungary will deliver to the Soviet Union various components, the value of which will be repaid by car deliveries.

[102] Output of nitrogenous fertilizers rose by 30 per cent in connexion with the enlargement of the Tiszai Chemical Combine, representing a capacity addition of 210 thousand tons. The expanded factory is to produce 410 thousand tons of nitrogen fertilizers and 200 thousand tons of liquid ammonia annually.

[103] Among the centrally planned economies, production of resins and plastics and of synthetic fibres is relatively least-developed in Hungary. Fast expansion is envisaged during the next two years in plastics, the 1970 Plan calling for an output of 100 thousand tons compared with the present level of 43 thousand. Plans for synthetic fibres are more modest, with production scheduled to increase from 9 to 12 thousand tons in the next two years. It is envisaged, however, that in 1973 production will reach 40 thousand tons.

[104] Nearly 70 per cent of pharmaceuticals output is now exported. According to the present Five-year Plan, output of pharmaceuticals was to increase 40 per cent, with sales on the domestic market rising 35 per cent, exports to centrally planned economies 40 per cent, and exports to western Europe 60 per cent.

[105] Output of consumer goods rose during the last three years at a rate of 6.2 per cent whereas the plan target for 1966-1970 was 6.7 per cent. For planned and actual changes in employment and output per man see table 2.

[106] Newly discovered natural gas is to play an increasing role in meeting fuel requirements. In 1968 the biggest Polish oil and gas well was handed over for exploitation in Bochnia, where a gas desulphurization plant and other departments were constructed. Construction began on the biggest natural gas pumping station in the country to be commissioned in 1970. The unit will permit gas to be pumped to chemical plants in Pulawy and Wloclawek as well as to Warsaw factories and public utilities.

[107] Operations at the Plock refinery were reported to have been further expanded to a capacity of 4.1 million tons.

Output of brown coal also rose significantly (12.4 per cent) following the commissioning of new mines, and greater progress was also registered in hard-coal mining, production rising 3.8 per cent. A satisfactory development in the latter section has been a 3.7 per cent increase in labour productivity, the result of stepped-up mechanization of mining processes, and an increase in export deliveries from 24 to 26 million tons, of which 3.5 million was coking coal; present plans are to expand coal exports to 30 million tons by 1970.

The situation with respect to other industrial supplies was less satisfactory. Output of electricity rose 8.3 per cent, capacity rising by 7.1 per cent. The latter figure in particular was less than planned and a shortage of electricity in certain types of industrial use was reported; an increase in power generating capacity of 1011 thousand kW, or 9.2 per cent was planned, but only 800 thousand kW was put into operation. Also lagging behind requirements was the expansion of metallurgy. Steel output rose 5.3 per cent against 6.1 per cent in the preceding year,[108] and an increase in imports of rolled products of 28 per cent was needed and the 6.0 per cent expansion of non-ferrous metallurgy reflected for the most part gains in extraction—particularly of copper ore. Output of copper and zinc rose by some 3 per cent, and that of lead and aluminium underwent little change.[109]

Data now made available on the structure of total deliveries of the engineering and metal-work industry indicate the following distribution for 1968: investment and industrial demand 51 per cent, exports 28 per cent, consumer market 21 per cent. Of these categories the greatest expansion—some 16 per cent—took place in exports. Investment and industrial supply deliveries can be estimated to have risen by roughly 13 per cent, and deliveries to the consumer market by 8 per cent. In 1969 export deliveries are scheduled to rise 19 per cent and deliveries to the consumer market 7.3 per cent.

1968 was a landmark in the development of the motor-vehicle industry. Output of passenger-cars rose 46 per cent to a level of 40,000 vehicles, of which 15,000 were the newly produced Fiat 125 P. Production is to be expanded to a level of 70,000 units by 1970, including 35 thousand "Fiat", 20 thousand "Syrenas" and 12.3 thousand "Warszawas".

As in a number of other centrally planned economies, the problem of sustaining a high rate of growth of exports is a central one at the present stage of the development of the Polish engineering and metal-work industry. Exports have come to provide a yardstick for the industry's qualitative progress, as well as the key to the solution of the problem of external balance. However, the ambitious plans for export expansion, especially to western countries, are not being achieved and it has been stressed that the share of production directed towards exports to western countries has been declining in recent years. At present, exports to market economies account for some 11 per cent of total machinery exports.

The growth of the chemicals industry was exceptionally fast. Output of chemical fertilizers rose by 26.6 per cent, synthetic fibres 23.4 per cent, plastics 24.5 per cent and pharmaceuticals by 13.7 per cent (exports by 21.6 per cent). Measures designed for a further rapid development of chemical fibres and plastics were stressed at the Fifth Party Congress and an almost tripling of production from the present levels is envisaged by 1975. Production of sulphur rose by as much as 82 per cent and exports have apparently once again increased extremely fast, although no precise data are available at present. (In 1967, production and export of sulphur both rose by some 50 per cent, making Poland one of the world's major exporters.)

The speedier growth of the light industry reflected better raw material supplies, including an increase in imports of cotton of 16.7 per cent and of wool of 4.2 per cent. (In 1967, cotton imports declined by 16 per cent and imports of wool hardly changed.) Production of textile fabrics, which hardly expanded at all in 1967, rose 3.2 per cent in 1968, and output of knitted wear rose 21 per cent in terms of value, the former in connexion with a significant acceleration of exports—exports of cotton fabrics rose by 21 per cent and knitted wear by 13.5 per cent; the comparable figures in 1967 were 4.1 per cent and 20 per cent respectively. A higher growth rate than in the preceding year was also achieved by the fur, leather and shoe section, although exports of footwear rose at a slower rate. In the food industry, the improvement was mainly in the fish catch, confectionery and tobacco products sections. A significant feature in the development of both of these branches was an increase in investment, a great part of which is devoted to modernization. The importance of the light industry as a foreign currency earner is now being stressed and the expansion of exports is put forward as one of the major tasks.[110] In the food industry, considerable emphasis is given to the improvement of technological processes, as well as to the expansion of storage capacity and cold storage facilities.

Rumanian industry reduced its growth rate from 13.5 per cent to 11.6 per cent, entirely owing to a slow-down in the consumer-goods sector. Output of producer goods grew, in fact, faster than in the preceding year—by 14.9 per cent as against 13.6 per cent—contrasting sharply with the decline in the growth rate of consumer-goods output from 13.4 per cent to some 7 per cent. The resulting divergence between the growth rate of the two sectors was among the largest registered in the nineteen-sixties, and undoubtedly represents the most important single development in 1968.

A slow-down in agricultural supplies, pressure on imports of raw materials and the shifting of supplies in favour of investment and export requirements all contributed to the relatively unfavourable performance of

[108] However, important additions to capacity were reported. The Lenin Works in Nova Huta obtained a new slabbing mill and a blast furnace with a capacity of 2 thousand m^3; and a new iron foundry, the most modern in the country, has been put into operation in Srem.

[109] Among the most important additions to capacity was the lead and zinc refinery at Miasteczko Slaskie. It was commissioned on 8 November 1968 and will produce, in addition to lead and zinc, cadmium sulphuric acid, ammonium sulphate and zinc oxide.

[110] The ratio of exports to output in 1967 was: cotton fabrics 15 per cent, woollen fabrics 8 per cent, silk and silk-like and linen fabrics 18 per cent in each category, leather footwear 14 per cent, and clothing and knitted wear around 10 per cent in each category.

the consumer-goods sector in 1968. Both the light and the food industries had substantially lower growth rates than in the preceding year and, whereas no exact data on changes in the aggregate output of consumer durables are available, it appears that a sharp deceleration also occurred here.[111] Among the branches turning out predominantly producer goods, only the energy and the chemicals industries registered a significant slow-down. The construction materials industry accelerated its growth rate from 11.7 per cent to as much as 18.3 per cent, and some speed-up was also reported in the non-ferrous metallurgy and fuel branches.

Output of electric power rose by 12 per cent, down from 19 per cent in the preceding year—capacity completion having fallen even more steeply[112]—and difficulties in meeting requirements have been reported. In the fuel industry, the slight acceleration was apparently due to an increase in oil refining; output of coal rose at nearly the same rate as in the preceding year, and the expansion of oil and natural gas output slowed down.[113] Growth of ferrous metallurgy continued at a fast rate of 16 per cent in connexion with a step-up in the final product sections and what must have been a slow-down in the ore-mining and processing division. The slight speed-up in the expansion of non-ferrous metallurgy was apparently mainly due to an upsurge in aluminium production of 45 per cent, although output of other metals—particularly zinc—must also have grown substantially.[114]

The growth rate of the chemicals industry declined from 23 per cent to 17 per cent—still an impressively high figure; output of plastics and resins rose by 20 per cent, sulphuric acid by 14 per cent, synthetic fibres by 13 per cent, and chemical fertilizers by 12 per cent; and a 53 per cent increase in pharmaceutical exports was reported. The rate of growth of the engineering and metal-work industries remained practically unchanged, production rising 17 per cent, although the increase in final deliveries was apparently lower than in the preceding year.[115] Output of automatic equipment rose 77 per cent, diesel and electric locomotives 26 per cent and machine tools—a large proportion of which are exported—21 per cent. In the light industry, output of which rose 8.7 per cent as compared with 14 per cent in 1967, most major sections had a less impressive growth record, particularly with regard to ready-made clothing and footwear, although exports rose very significantly. Output of textile fabrics rose 4.9 per cent (6.8 per cent in 1967), footwear 8.8 per cent (24 per cent), knitted goods 8.2 per cent (12 per cent) and ready-made clothing 5.6 per cent (16 per cent). A better than average rate of growth was achieved by the meat and meat-processing section of the food industry—output of industrial meat rising 7.5 per cent and prepared meat 11.0 per cent—but output of refined sugar declined by 14 per cent and butter by 5.2 per cent.

The rhythm of growth of industrial labour productivity slackened significantly in Rumania in 1968. With the expansion of employment rising to a rate of 4.5 per cent, only about 60 per cent of the output growth could be accounted for by rising productivity. This was among the lower proportions attained in the nineteen-sixties.

[111] The following changes were reported in the output of major items in this category (per cent):

	1967	*1968*
Television sets	35.2	13.3
Radios	12.9	5.7
Refrigerators	9.3	−2.8

[112] Changes in output and capacity in recent years were as follows (per cent):

	1966	*1967*	*1968*	*1966-1970 Plan*
Output	20.9	19.0	12.2	15.2[a]
Capacity	37.2	16.2	8.8	..

[a] revised target.

Plans remain ambitious in this sector, however, as recently the 1970 production target has been increased from 33-34 billion to 35 billion kWh. A total of 2.1 MW of capacity is to be put into operation during the next two years, representing a 37 per cent increase over the present level.

[113] The comparable figures were *(percentage increase over previous year)*:

	Petroleum	*Natural gas*	*Coal*
1967	3.0	10.1	11.7
1968	0.6	6.0	13.3

The relatively high growth rate of coal output in recent years mostly reflects an expansion of brown-coal mining, now at a level of some 9 million tons. In 1968 new pits were opened in the Livazeni and Jin Valley mines, and it was reported that extraction of the newly-discovered lignite deposits in the Crisana region will begin in 1970. Oil refining rose following the completion in September 1967 of a new catalytic cracking complex at Brazi, with an annual capacity of 1.1 million tons. Rumania remains a significant exporter of petroleum refinery products.

[114] The completion of a new electrolytic plant with a capacity of 26 thousand tons was reported at the Slatina Aluminium Works. The capacity of the aluminium works at Oradea, which supplies alumina to the Slatina Plant, also expanded in 1968. In another division, the Copsa Mica Chemical and Lead and Zinc Metallurgical Complex, in the Brasovo region, started production in 1967; the final annual capacity will be 50 thousand tons of metal (lead and zinc) and 100 thousand tons of sulphuric acid.

[115] Major capacity additions were made in electro-technical engineering and automatic equipment. It was reported also that the Colibas motor works began production of the Dacia 1100 passenger car; it is expected that 12.6 thousand cars will be produced in 1969.

Some factors in the fluctuations of the industrial growth rate

A research note

In the preceding part of this chapter mention was made of the problem of swings in the growth rate of industrial production in the centrally planned economies. That a smooth year-to-year expansion of production, following a long-term trend line, can hardly be expected even under conditions of central planning and allocation of resources is quite obvious. What has generally been considered in need of interpretation was the mechanism by which fluctuations around the trend assume other than a random-type movement, as well as the fact that upswings and

downswings tend to occur simultaneously in the various countries.[116] The problem has only recently begun to attract greater attention in the centrally planned economies; it is of particular significance that present attempts to provide explanations sometimes differ from those put forward in the past.[117]

In attempting to account for accelerations or decelerations in the industrial growth rate, attention has often been focused in previous SURVEYS on fluctuations in the growth rate of agricultural production. With the food industry still carrying a considerable weight in most countries,[118] and given the sensitivity of this industry's output to the level of agricultural supplies, the importance of these fluctuations is obvious. Indeed, the postwar data indicate a very strong correlation between changes in the growth rate of the food industry and those of agricultural output.[119] But the association was not always of the same kind. Thus, in the Soviet Union, Rumania, and—to a lesser extent—in Bulgaria, changes in the growth rate of the food industry have typically reflected changes in aggregate agricultural output with a one-year lag. In eastern Germany and Poland, a stronger correlation can be found between food production and the output of animal husbandry in the same year,[120] while in Czechoslovakia the strongest correspondence which can be found is that in relation to crop production, also in the same year. While the origin of these differences is not entirely clear—a fact which may well be worth further investigation—these differences do not, of course, detract from the general validity of the statement that annual fluctuations in harvests have a direct and important bearing on the rhythm of industrial growth.

But the impact of variations in agricultural production might be expected to be greater than the one just described. Fluctuations in agricultural production have influenced the balance of trade, which in turn has tended to influence the other variables affecting the rate of industrial growth. Following a good harvest, countries with a surplus of agricultural commodities were able to expand agricultural exports and increase imports of investment goods and of raw and basic materials, thus providing a stimulus to industrial production. The same applied to countries which were able to reduce their deficit of agricultural commodities, while the opposite, of course, was true in the years which followed poor harvests.

Another factor to which attention has often been drawn, in seeking an explanation of short-term changes in the industrial growth rate, is the fluctuations in the completions of new capacity. The problem of fluctuations in the growth rate of investment (i.e. capital expenditure), including the fact that there has been a certain degree of parallelism in the timing of upswings and downswings in the growth of investment in individual countries, has been dealt with elsewhere.[121] There was a high correlation between changes in the growth rate of total investment and changes in the growth rate of industrial investment, which in turn may affect the rate of industrial completions in various ways. For instance, since there are a large number of uncompleted investment projects available at any point of time, a given acceleration of investment outlays may provide a basis for an acceleration in the rate of completions with little or no time lag.[122] On the other hand, the concentration of investment in certain years may produce a similar concentration of completions in later years—the duration of the time-lag being dependent on the average construction period.[123]

[116] Time series for seven countries, extending back to 1950, provide 119 observations of the movement of the industrial growth rate from year to year. Of these, 70 represent contractions, 41 represent expansions and 8 indicate no change (where changes—if any—did not exceed 0.3 per cent). Of the 41 expansions, as many as 27 occurred in the years 1957 to 1960, 1964 and 1967. Similarly, in a number of years (such as 1952 to 1954, 1956, 1961, 1963 and 1968), at least six out of seven countries registered a deceleration in the industrial growth rate.

[117] Instead of stressing the role of exogenous factors such as policy decisions, some explanations now emphasize the role of a "quasi-mechanism" which results from a complex system of economic interactions and which is responsible for the periodic recurrence of upswings and downswings. See particularly J. Goldmann, *op. cit.*, and Goldmann and Karel Kouba, *Hospodářsky Růst v ČSSR*, Prague 1967, where the analysis is extended to cover fluctuations in other sectors as well as in industry.

[118] In 1965, the share of the food-processing industries in global industrial production varied between 13.4 per cent in eastern Germany and 31.7 per cent in Bulgaria, the former in terms of 1955 prices and the latter in terms of 1962 prices.

[119] However, there are a number of factors which tend to reduce the correlation coefficients. With an increasing proportion of agricultural production passing through industrial processing, particularly in the less industrialized countries, and—more generally—with the rising degree of processing of foodstuffs, the growth of the food industry has been much faster than that of agriculture. This means that increases in agricultural output, reported on an annual basis, have usually been accompanied by more than proportional increases in the output of the food industry, whereas decreases in agricultural production—unless very steep—have not generally been reflected in a decrease of the output of the food industry. The correlation between the annual fluctuation in agricultural production and the swings in the growth of the food industry is also affected by imports of agricultural produce and other differences in the composition of the aggregates, such as the inclusion of outputs used as agricultural inputs or of such products as cotton or wool in the agricultural index, and of fish catch and fish-processing in the index of the food industry. Another equally important factor is the different price weights used for aggregation.

[120] In Bulgaria and the Soviet Union there was also a correlation between fluctuations in the growth rate of the food industry and those in the output of animal husbandry in the same year. There was no such correlation, however, for Rumania.

[121] See *Economic Bulletin for Europe*, Vol. 18, No. 1, pp. 31 ff. It may be added here that out of a total of 112 observations covering seven countries during the period 1951 to 1967 there were 50 expansions, 58 contractions and 4 representing "no change". Of the 50 expansions 43 occurred in 8 of the 16 years (1955, 1956, 1958, 1959, 1962, 1964, 1966 and 1967), while 41 of the 58 contractions were in 7 years (1952-1954, 1957, 1960, 1961 and 1965).

[122] This does not exclude the possibility, of course, that the ratio of investment to completions may also rise. It is also possible that an accumulation of uncompleted projects may have been a factor in a decision to accelerate investment outlays. The effect in this case would be the same as that mentioned in the text.

[123] Fluctuations in the growth rate of investment, however, are not the only source of variability in the growth rate of completions. Indeed, a situation may be envisaged in which the growth rate of investment is stable but the growth rate of completions fluctuates owing to differences in the construction period of the various projects. Another source of such fluctuations is differences in the value of the various investment projects. Large-scale projects have a long gestation period and, when completed, appear with all or most of their cost as a year's increment in the volume of completions. A concentration in the maturing of a few large projects in a single year, even if brought about by random factors, may create a con-

(Continued on next page.)

Analysis shows that in fact both types of interaction are of importance. In all countries for which statistics on investment completions are available for a reasonably long period, a tendency can be distinguished for annual changes in the growth rate of completions to be correlated with the changes in the growth rate of investment. On the other hand, numerous cases can also be shown where relatively high rates of growth of industrial capacity put into operation appear to have been related, with a lag of three to four years, to correspondingly high growth rates of fixed investments.

Also, the rhythm of investment completions can be shown to have had significant repercussions on the rhythm of industrial expansion. Analysis reveals that relatively high completion rates have tended to correspond with relatively high production growth rates, usually with a one-year lag; but given the multitude of factors which contribute to the instability of the industrial growth rate, it is not surprising that the correlation coefficients are rather low. In countries which have devoted a large share of their investment resources to the development of raw and basic material-producing industries, higher coefficients can be found between the rates of capacity additions and the growth rates of such branches. But given the fact that there may be a considerable time-lag between the year of commissioning and the year in which full utilization of capacity is achieved, it is difficult to obtain a full measure of the impact.

Changes in imports of materials used as industrial inputs are another source of fluctuations in the industrial growth rate. Fluctuations in the supply of imported materials seem to have been particularly large for those serving as inputs for light industry. Moreover, since certain inputs are complementary, restrictions on raw-material imports may well have tended—in addition to generating fluctuations in the growth rate of certain final outputs—to introduce instability in the growth of some raw materials supplying branches.[124]

The effect of fluctuations in agricultural production, the double effect of investment completions—that of expanding production facilities on the one hand, and of augmenting the raw material base on the other—together with net changes in the foreign supply of industrial inputs, provide what might be termed a " supply " framework for the analysis of fluctuations in the industrial growth rate. It must be stressed that the use of such a framework involves many simplifications, even in a period when the growth of industrial production in the centrally planned economies was largely determined by factors operating on the supply side. Its usefulness has tended to become increasingly restricted in recent years; in a number of industries and branches, problems of production capacity have become less pressing, growth becoming increasingly dependent on the ability to adjust to changes in the magnitude and pattern of demand.

The notion that the growth rate of production may be influenced in the centrally planned economies by the level of demand obviously requires elaboration. It has been commonly assumed that since money flows play an auxiliary role in the production and distribution process in the centrally planned economies, demand problems do not arise; for any given period, the authorities are able to create a level of demand—whether in inter-enterprise transactions or in the consumer market—which is sufficient to absorb the flow of goods produced. The problem of co-ordinating supply with the level and structure of demand was regarded as a problem of co-ordinating physical and financial flows, involving the control of inter-industry flows, the integration of the physical and financial flows related to the investment process, and the planning of equilibrium in the consumer market.

This approach, although well suited to the longer-term analysis of a centrally co-ordinated economic system, is not entirely applicable when short-term situations are considered. It tends to overlook various structural lags which appear when shifts in production and other adjustments become necessary and which, in practice, may mean the existence of serious maladjustments between production capacity and the pull exercised by the level of demand.

One area where changes in the level of demand have tended to exercise a significant influence on the year-to-year pattern of industrial growth is connected with investment activity. The achievement of a smooth year-to-year expansion of investment, even though one of the planning objectives, could not always be given much weight in formulating annual plans. As a rule, other considerations, deriving from the situation in the year in which the plan was being prepared, were given greater prominence; decisions to accelerate or to decelerate the investment growth rate were more often taken in the light of the stresses and strains felt in the economy.

Analysis of the data for the postwar period shows that, although the situation with regard to home-produced supplies, including the capacity of the construction industry, has figured prominently in short-term decisions about the investment rate, other considerations less directly related to physical capacity to invest have played a very significant role. One important factor of this type has been the development of pressures on the consumer market. Another has been the accumulation of stresses in foreign trade. The role of foreign trade has been particularly important in smaller countries; there is evidence that in such countries changes in the growth rate of investment have tended to reflect changes in the foreign trade balance with a lag of one year with some consistency.[125]

As regards the demand effect of investment fluctuations, it should be stressed that changes in enterprises' savings have not been, hitherto, an important determinant of changes in investment; also, the range of instruments available to the authorities for correcting expected effects

(Continued)

siderable " bump " in the path of expansion of completions. All this may help to explain the fact that changes in the growth rate of completions have a greater amplitude and are more erratic than changes in the growth rate of investment.

[124] The latter supposition cannot be verified statistically. It is also quite possible that by varying the rate of accumulation of inventories the planning authorities were able largely to eliminate this source of instability.

[125] This association was first pointed out for Hungary by Mrs. J. Zala in " The Economic Trends of a Decade ", *Acta Oeconomica*, Vol. 3, Fasc. 2, 1968, pp. 136 ff.

of investment fluctuations is wider than in market economies, thus making it easier to reduce the feed-back of investment fluctuations into fluctuations of employment, wages and consumption. However, because of the complex nature of the intra-industry relationships and other interlocking factors, even in the centrally planned economies, investment changes have a certain indirect impact, in addition to their direct impact, on the demand side.[126]

The direct impact of changes in the rate of expansion of investment is seen in the output of the engineering and metal-working industries. Analysis of the postwar record indicates that changes in the growth rate of total investment were highly correlated with changes in expenditure on machinery and that in turn changes in machinery investment to a large extent moved in parallel with changes in the expansion of the engineering and metal-working industries. This was so despite the fact that investment deliveries account for only part of the output of these industries and, in some countries, machinery imports weigh heavily in the investment bill. Exceptions to this relationship were Hungary and Czechoslovakia, where changes in the growth rate of machinery exports were a more important determinant of the fluctuations in the growth rate of this industry than investment demand, and the Soviet Union, where no association with the growth rate of either investment or of exports can be statistically discerned.

The role of changes in export demand is fairly obvious. In addition to exercising a considerable—and, as has been noted, in some countries a predominant—influence on the growth of the machinery and metal-working industry, the uneven growth of foreign demand has had a considerable impact on the growth of the consumer-oriented sections of the chemicals and woodworking industries and, to an increasing extent, of the clothing and other light industries.

The problem of the impact of fluctuations in the rate of growth of consumer demand on the growth rate of production is complex and needs careful investigation. As has been described elsewhere,[127] authorities in the centrally planned economies dispose of powerful instruments to control the growth of the population's money income; however, these instruments have sometimes proved to be inadequate in controlling the expansion of demand in relation to available supply. Also, as with investment, the growth of money incomes has tended to be uneven and such fluctuations have not always moved in parallel with similar swings in the growth of production capacity of consumer goods. Moreover, maladjustments between the patterns of supply and demand have played an even greater role in limiting the growth of particular sections and products, as has frequently been pointed out in previous SURVEYS.

The present note is intended to provide a rather general framework for the analysis of factors behind the instability of the industrial growth rate and to identify some of the more easily determined relationships, knowledge of which may contribute to a better understanding of the changing rhythm of growth. It is not intended to provide a full account of the factors or the relationships involved. In particular, no detailed account has been given of the historical pattern of swings in the industrial growth rate and no attempt made to concentrate on the factors which may possibly have shaped this pattern, or contributed to the significant degree of concordance of fluctuations in individual countries. Moreover, attention has been focused exclusively on economic relationships; no mention has been made of factors of an institutional character which must be given a significant weight in any attempt to provide an analytical framework for the mechanism accounting for the characteristics of such swings. It is sufficient to mention here that since planning authorities have often aimed—over short periods of time—at maximizing investment it was frequently the existence of "growth barriers", either in the form of internal or external strains, which contributed to the severity and prolongation of downswings in the growth rate. Also, the phasing of investment programmes in medium-term plans had a significant bearing on both the historical pattern of industrial fluctuations and on their inter-country synchronization.

[126] In this connexion it is of interest that, in a number of countries, changes in the growth rate of investment are correlated with changes in the growth rate of non-agricultural employment, the correlation holding true also when employment in construction is excluded.

[127] See, for instance, *Incomes in Postwar Europe; A Study of Policies Growth and Distribution*, ECE, Geneva 1967, chapter 10.

4. AGRICULTURE

(i) General situation

Although most eastern European countries continued to improve their levels of global output in 1968, there was nothing particularly striking about the growth rates; for that, the fillip of the weather was lacking, and the general rapid progress in 1966 has lifted the standards for comparison (see table 5). Under the impact of adverse weather conditions, a few countries experienced setbacks, although global output remained well above the 1965 level—indicating that the broadening application of modern agricultural techniques and more rational economic policy attitudes towards the agricultural sector are beginning to pay off. Moreover, mere growth of the physical volume of output—important as it may still be—is no longer the predominant problem. In most countries a stage has been reached where the major concern is how to obtain the right economic conditions for the development " towards a capital-intensive agriculture ", as an ECE report on conditions in western

TABLE 5

Global agricultural output

(Percentage increase over preceding year)

Country	*Annual compound rates of increase 1963-1967*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969 Plan*
Albania							
Total	6.8	1.6	−4.0	12.5	12	2.5	22
Crop output	..	7.8	−6.8	..	..	..	22.1
Animal output	..	6.3	−5.4	..	..	..	20.8
Bulgaria							
Total	6.6	11.4	1.8	14.3	3.5	−8.7	16.6
Crop output	6.6	10.3	−1.5	19.0	1.8	−15.4	..
Animal output	6.6	13.7	8.3	5.8	6.9	−3.1	..
Czechoslovakia [a]							
Total	4.1	3.0	−5.4	11.1	5.5	3.6	2.9
Crop output	4.4	1.2	−14.4	21.4	5.3	3.0	..
Animal output	3.9	7.3	3.2	3.0	5.8	4.1	..
Hungary							
Total	2.7	6	−5	8	1	1	2-3
Crop output	3.2	2	−6	12	—	—	3-4
Animal output	2.8	10	−4	4	3	3-4	1-2
Poland							
Total	4.2	1.3	7.7	5.4	2.3	4.4	−1.7
Crop output	6.0	0.5	8.4	5.5	3.2	5.4	−3.9
Animal output	1.5	2.3	6.6	5.4	0.8	2.9	1.9
Rumania							
Total	6.3	6.3	6.7	14.0	1.8	−3.6	..
Crop output	6.6	3.3	6.4	16.5	−1.9	..	..
Animal output	6.0	14.7	4.5	12.3	7.7	..	..
Soviet Union							
Total	3.5	14.6	1.8	8.9	1.5	3.5	6.1
Crop output	4.1	29.0	−8.3	12.7	0.1	5.5	..
Animal output	3.0	−1.6	17.0	3.4	2.9	1.7	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

[a] Discrepancies in comparison with earlier published data are due to a change in the price basis for the calculation of the index from 1960 to 1967.

European countries in the middle 1960s defined the challenge.[128] Now that the plans for the forthcoming five-year period have been or are being drawn up, the question arises as to whether it will be possible to guide the difficult process of adjustment to industrialized methods of agricultural production without undue waste of resources.

Final results by commodities are not yet officially available for all countries. But preliminary assessments tend to indicate that the damage to crops in the drought-stricken countries—Bulgaria, Rumania and, to a certain extent, Hungary—did not take serious proportions in respect of basic products. Considering the circumstances, average per hectare yields of cereals were maintained at acceptable levels even in these countries; and in the more northern countries and in the Soviet Union, new records were set, reflecting the continuous improvements in seed selection, fertilization, land melioration, plant protection and harvest organization.

The fairly steady growth of animal output in recent years seems to have continued in 1968 (except in Bulgaria), mainly due to higher yields, livestock numbers nearly everywhere showing little or no growth. Emphasis has been laid on improvements in breeding and feeding methods, encouraged by the greater concentration and specialization of production in large-scale and well-equipped enterprises. Further expansion of basic livestock will now be dependent on radical changes in the fodder economy and on investments in new building and equipment.

Over the years, capital investments in agriculture and yearly supplies of industrial means of production have increased in volume and in relative importance.[129] Authorities everywhere now consider that the rate of growth of agricultural output and its economic efficiency depend to a decisive extent on the degree of technical equipment; they have also admitted that, in the course of rapid industrial development, they often failed to establish appropriate qualitative and quantitative relationships between, on the one hand, the farm sector and, on the other, the main suppliers of industrial equipment to agriculture and the processing industry, trade and construction. These weak links are now beginning to constitute a handicap to the policy of intensification and concentration of agricultural production. The whole problem of efficient resource allocation is being raised in this still important sector in the economies,[130] where mobility of resources is inherently slow even in the absence of administrative obstacles.

The general economic reform movements have brought out the need for new measures to prevent the weak structure of the agro-business complex from becoming a bottleneck in the development of the economy, a problem which has been accentuated by success in production. Although it is not yet possible to speak of surplus production, in the sense that—at the level of the administratively regulated retail prices—there would be market saturation for particular commodities, increasingly frequently output cannot be brought to final use because of insufficient processing capacity, lack of storage, refrigeration, transport or marketing facilities.

In recent years, new planning and institutional and organizational measures have been introduced to improve the co-ordination of the exchanges between agriculture and the other sectors of the economy. Efforts have naturally tended to be concentrated on areas where input/output relationships are strongest; decisions have recently been taken in some countries to establish joint planning and management of agriculture and food at the central level. New ministries with responsibility for the two sectors were created in Hungary and Czechoslovakia in 1967; in August 1968, a supreme Council for Food and Agriculture was set up in eastern Germany, and a similar Ministry was announced in Bulgaria at the end of the year. In all four countries, the central body relies on formalized horizontal and vertical co-operation between farms, processing industry and trade, which has been actively encouraged in recent years. Developments in the Soviet Union appear to be in the same direction; the timeliness of promoting co-operation through the whole spectrum from the producing farm units, via material supplies and services and processing to sales, seems to have been raised for discussion. As a first step, the creation, on an experimental basis, of some joint state and collective farm production-marketing co-operative unions, which would also develop joint processing industries, has been suggested.[131]

In the evolution of planning of agriculture, which is now almost everywhere centred on the state purchasing targets, the contract system has become the key element. With the extended rights of the enterprises to plan their own production patterns and negotiate deliveries on a

[128] See "Towards a capital-intensive agriculture", ST/ECE/AGRI.5, Geneva 1961.

[129] The *share of total purchases of agriculture from outside sectors in gross output* may be taken as an appropriate indicator of the progress of industrialization. Officially published statistics do not yet permit a study of its dynamics, but some data from sector accounts, which have been communicated to the ECE/FAO Agriculture Division (to be published shortly), and from input/output tables available in the secretariat, make it possible roughly to define the situation in a recent year or a recent short period:

	Percentage shares	
	ECE/FAO accounts 1963-1965 (at 1963 prices)	*Input/output tables*
Czechoslovakia	38	31 (1962)
Eastern Germany	41	..
Hungary	27	29 (1965)
Poland	18	20 (1962)
Soviet Union	..	17[a](1966)

[a] This figure has been derived from the data in *Narodnoe khozyalstvo v 1967 godu*, pp. 63-111.

[130] The shares of the agricultural sector in Net Material Product (NMP) and Employment (E) in 1965 were:

	Percentages	
	NMP (at 1963 prices)	*E*
Bulgaria	34	46
Czechoslovakia	11	21
Eastern Germany	13	16
Hungary	20	31
Poland	23	45
Rumania	30	57
Soviet Union	21	31

Sources: Calculated by the secretariat on the basis of official statistics.

[131] See, for example, *Izvestia*, 11 January 1969, p. 2; and *Voprosy ekonomiki*, No. 7, pp. 44-54.

longer-term basis, possibilities have arisen for concentration and intensification on the basis of natural conditions and territorial location. In this development, which is of particular importance in the Soviet Union, the role of the state purchasing agencies as the main agents for the implementation of the central targets will be greatly enhanced. At the same time, their monopoly position has to some extent been weakened by granting permission to the enterprises to seek other outlets for above contract availabilities and to establish direct contacts with trade and other enterprises, as long as existing price regulations are respected.

The newly granted rights of the farms to create auxiliary enterprises for processing their own produce and other locally available raw materials, and for services and even for trading—either individually or on a co-operative basis—may contribute to a more rational utilization of resources. Financial difficulties and shortage of capital goods will constitute initial handicaps, but in the short period that the new conditions have been applicable, the initiatives of the farms appear to have been greatly stimulated. The general tendency of locating activities connected with agricultural production in rural areas will hasten the industrialization process, in which a number of operations previously carried out by the farms—such as storage, drying, threshing, refrigeration, building and transport—will be transferred to specialized enterprises.

Since the implementation of the general economic reforms implicitly requires the establishment of fairly similar conditions for economic activity within each sector, the practical distinction between the state and collective farms is likely gradually to diminish. To the extent that the collective farms have always been responsible for the financing of their operations out of their own resources, they correspond more closely to the ideal model of the new enterprise than the state farm. The transfer, in successive stages, of the state farms to fully autonomous economic accounting on the basis of collective farm producer prices—as is happening in the Soviet Union at present—will eliminate the system of state allocations of resources and, in respect of investment financing, will put state farms on the same footing as the collective farms. The obligation of the latter to guarantee remuneration to their labour at rates applicable on the state farms (which became statutory in the Soviet Union in 1966) will contribute further to the equality of operating conditions.

In order to clear the way for the new forms of organizing enterprise activity, a number of economic, financial and fiscal measures with a bearing on the farm sector have been taken. In recent years, the level of agricultural prices has everywhere been raised so as to cover costs of production and provide a reasonable profit margin for all commodities and thereby to encourage expanding farm investments. Where the industrial wholesale price reforms have led to increases in prices of means of production, their effects have either been absorbed by the state budget or compensated by corresponding agricultural price adjustments. The intention appears to be to make the agricultural sector as a whole self-supporting and eliminate state subsidization. Redistribution by various means within the sector is likely to be intensified, however. There seems to be a tendency to reserve central state investments in agriculture for major projects in the field of soil melioration, etc., the financing of which exceeds the resources of individual or joint enterprises. Appropriate solutions to the problem of economic rent, which is of particular importance in the Soviet Union, are sought in a combination of differentiated prices and income taxes. The old system of obligatory deliveries, at lower than standard purchasing prices, has disappeared with the introduction of unified prices for animal products in eastern Germany in 1968. In most countries, changes have recently been made in the tax systems for the collective farm sector so as to take into account more fairly the net income situation of the farms. In several instances, improvements in the agricultural credit system, granting the farms access to direct bank loans on commercial terms, have been accompanied by large-scale debt remittances, providing economically weak enterprises with a sounder economic basis for development.

A considerable redistribution of national income in favour of the farm sector has taken place in all the eastern European countries and in the Soviet Union in the past few years. The income levels of full-time collective farmers and state farm workers have risen substantially and are rapidly approaching those of urban workers, which may induce young and well-trained people to enter or to remain in agriculture. But the problem of providing productive employment outside the peak work seasons to the rank and file of agricultural labour remains. Farming of individual holdings, as a stop-gap solution, is likely to remain for some while, and may even be encouraged, but it will inevitably continue to decline in relative importance in the course of rural industrialization. The new employment possibilities, following the establishment of auxiliary and specialized enterprises in the countryside are likely to be the decisive factor, however, in reducing the differences in working and living conditions between agricultural and industrial labour.

(ii) Review by countries

With a further expansion by 3.5 per cent, following four years of continuous growth, global agricultural output in the *Soviet Union* reached a new record level in 1968.

Progress in the crop sector can partly be attributed to improving agro-technical and organizational measures. However, the yearly pattern of climatic conditions in the main grain-growing regions of the Soviet Union still has a considerable impact on overall results. In 1968, winter frost and summer drought hit the normally most fertile areas in Moldavia and the Ukraine; [132] in the major part

[132] The total cereals crop in the Ukraine was 12 per cent lower than in 1967, mainly due to a decline in wheat production by 23 per cent, that of maize remaining at the level of the previous year.

of the RSFSR and some Kazakhstan oblasts, the weather favoured the crop, but excessive rainfall rendered harvesting difficult. Cereal production totalled 170 million tons, only slightly less than the 1966 bumper crop (see table 6); the area was smaller but average per hectare yields (at 13.9 quintals) exceeded all previous results. Total state purchases amounted to 69 million tons, of which 85 per cent were covered by deliveries from the RSFSR and Kazakhstan (46 and 11.7 million tons respectively).

The grain problem nevertheless remains of great concern to Soviet authorities; present output is still far short of the medium-term average target of 190-200 million tons. Present development policy measures include changes in the structure of sowings, with concentration on naturally suitable areas, careful seed selection and renewal of degenerating varieties, fertilization (in 1970, 50 per cent of total supplies should be used for cereals), and irrigation of large areas (for this purpose, extensive works are at present being undertaken in the southern regions of the RSFSR and the Ukraine).[133] In Kazakhstan the fight against soil erosion is progressing and the application of new, experimentally successful, cultivation methods are contributing to the stabilization of yields. The qualitative aspect of cereals production is also receiving increased attention; in this connexion the promotion of hard wheat varieties is of great importance.[134]

For all other basic crops, output in 1968 was also at satisfactory levels. The sugar-beet harvest reached an all-time high, exceeding the medium-term target; areas were reduced by 8 per cent in comparison with 1967 but yields were 14 per cent higher. The sugar content seems to show a decreasing tendency, however, which has an adverse impact on processing costs. The potato crop was also a record, entirely due to higher per hectare yields. In recent years, the cotton harvest has been stable at about 6 million tons; new incentives in the form of price increases now seem to be under consideration. Production of sunflower seed was also at the 1967 level.

Output of animal products continued to increase in 1968; some tendency towards a slow-down in livestock expansion is apparent, however. At the end of the year, the cattle herd—already stable in 1967—showed a decline by 1.5 per cent, and the pig population decreased for the third consecutive year, the decline being particularly pronounced in the private sector. (See text table on p. 138.) The reduction of livestock partly reflects the deliberate policy of stressing the size and quality of animals rather than their numbers. But some other factors also appear to have played a part: recurring epizootic diseases with effects on reproduction rates, which to a certain extent could explain the shortage of piglets for fattening on individual holdings; and the shift away from small herds to specialized large scale operations for pig- as well as cattle-breeding,[135] giving rise to some difficulties in the conversion process. The emphasis laid on cattle, as against pigs, as a source for meat production, may also indicate a recognition of deficient supplies of feed concentrates. A significant upturn in Soviet livestock production will probably have to wait for the removal of present handicaps: an insufficient, unstable and qualitatively inadequate feed basis,[136] a low degree of mechanization and lack of suitable buildings. It is encouraging, nevertheless, that in the meantime animal productivity is increasing; since 1965, average milk yields in state and collective farms, for instance, has risen by 12 per cent. Even at present levels of production, local shortages of

[133] *Ekonomicheskaya Gazeta*, No. 45, 1968.

[134] In the period 1960-1967, areas expanded from about 10 to more than 40 million hectares and the share of these varieties in the total wheat crop at present amounts to some 54 per cent. The problem is, however, that even in the very successful year 1966, they represented little more than 15 per cent of total deliveries to the state, for which bad purchasing organization appears to be the main reason. See *Ekonomika selskogo khozyaistva*, No. 5, 1968, pp. 73-81.

[135] See *Narodnoe khozyaistvo v 1967 godu*, pp. 476-477 and pp. 485-487.

[136] See *Narodnoe khozyaistvo v 1962 godu*, p. 319, and *1967*, p. 451.

TABLE 6

Production (A) and state procurements (B) of selected agricultural products in the Soviet Union

(Millions of tons)

Product	*1966*		*1967*		*1968*		*Medium-term targets*
	A	*B*	*A*	*B*	*A*	*B*	*A*
Cereals	171.2	75.0	147.6	57.2	169.2	69	190-200
of which: Wheat	100.5	56.8	79.4	38.2	..	..	
Sugar-beet	74.0	69.7	87.1	81.6	93.6	84.1	90
Cotton	6.0	6.0	6.0	6.0	6.0	5.9	7
Sunflower seed	6.1	4.7	6.6	4.9	6.6	4.9	7
Potatoes	87.9	9.3	95.5	11.5	101.6	11.5	113
Meat—live weight	..	10.3	..	11.5	..	11.9	14-15
carcass weight	10.7	6.5	11.5	7.2	11.6	7.4	
Milk	76.0	40.1	79.9	42.5	82.1	44.0	99-95
Eggs (millions)	31.7	11.6	33.9	12.9	35.5	14.0	40-50
Wool	0.38	0.37	0.40	0.41	0.41	0.41	0.45-0.50

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

processing capacity have been noticed both for milk and for meat, and the need for rapid industrial plant expansion is being felt.

Livestock numbers in the Soviet Union

(Millions of heads at the end-year census)

Livestock	*1967*	*1968*
Total		
Cattle	97.2	95.7
of which: Cows	41.6	41.2
Pigs	50.8	49.0
Sheep and goats	143.9	146.1
In state and collective farms		
Cattle	68.7	68.4
of which: Cows	24.5	24.5
Pigs	37.2	36.2
Sheep and goats	110.4	111.8
In private ownership		
Cattle	28.4	27.3
of which: Cows	17.1	16.7
Pigs	13.6	12.8
Sheep and goats	33.5	34.3

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

Agricultural investments in the Soviet Union

(Millions of roubles at constant prices)

	1966	*1967*	*1968*	*1969 Plan*
			(billions)	
Total	11 378	12 596	14.7[a]	17.2[a]
of which:				
State investments	6 490	7 020	..	9.2
Collective farm investments	4 888	5 576	..	8.0
Total productive investments	9 521	10 224	..	..
of which:				
Construction	6 179	6 643	..	..
of which:				
Livestock premises	1 928	1 786	..	..
Water supply facilities, irrigation, etc.	1 298	1 559	..	..
Electrification	496	541	..	..
Establishment of orchards and vineyards	321	349	..	..
Machinery and equipment	3 342	3 581	..	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

a At 1968 prices; in volume terms the change between 1967 and 1968 is reported to be about 12 per cent.

The level of capital assets per worker in Soviet agriculture is still comparatively low [137] and current industrial means of production represent hardly more than a fifth of gross agricultural output. However, there is evidence that progress has been rapid in recent years; investments and deliveries of technical supplies continued to increase at high rates in 1968 and an acceleration is envisaged in the current medium-term plan period (see text table below and table 7). Nevertheless, efforts have been inadequate; industry has developed fast without taking into account the needs of the farm sector. Not only have plan provisions for investment and supplies been too small; in addition they were rarely fully implemented.[138] This was in broad lines the conclusion drawn at the Plenary Session of the Party in October 1968, which was entirely devoted to agricultural problems.

Fertilizer supplies in 1968 permitted an average per hectare application of 41 Kgs (in pure nutrient value), 7 per cent more than in the previous year. Domestic production capacity—47 million tons in 1969—is planned to double in the period up to 1973. The deficiency in machinery supplies over the years, both in respect of volume, assortment and quality, is also being criticized. It is reflected in the structure of farm assets: in 1967, machinery accounted for only 26 per cent of the total, the ratio between machinery and buildings being 0.5:1 (in highly industrialized countries it is close to 1:1).[139] In spite of expanding yearly deliveries of tractors, the stock is increasing rather slowly—the scrapping rate has become high and, in 1966 and 1967, new deliveries to a large extent represented replacements. The same applies to combines, where the total stock has hardly increased since 1958.[140]

Electro-energy supplies to the farm sector rose by as much as 21 per cent in 1968. Practically all state and collective farms now have access to electricity and increasingly are being connected with the state network. But further rapid expansion is necessary to promote utilization for productive purposes, as electric power will be especially important for the mechanization of the livestock sector. Heavy investments have been channelled into melioration works, large areas being in need of drainage, desalination and protection against erosion. The irrigation scheme, which aims at around 13 million hectares in 1970, will be accelerated: 360,000 hectares are to be prepared in 1969 as against 157,000 in 1966-1967; part of the existing network,[141] with low efficiency, also requires reconstruction.

[137] On the basis of official statistics, it can be estimated that the volume of capital assets per worker (taking average monthly employment in collective farms and capital assets excluding livestock) is only a third of that in industry, whereas in highly industrialized countries the level in agriculture exceeds that in industry (*Voprosy ekonomiki*, No. 9, 1968, p. 50).

[138] See *Ekonomicheskaya Gazeta*, No. 45, 1968. For instance, centralized investments in agriculture proper during the first three years of the current medium-term plan would barely reach 78 per cent of the planned level; indirect investments in branches of the chemicals and the engineering industries supplying agriculture had also been unduly neglected.

[139] See *Voprosy ekonomiki*, No. 7, 1968, pp. 49-50 and *Narodnoe khozyaistvo v 1967 godu*, p. 339.

[140] See *Voprosy ekonomiki*, No. 7, 1968, p. 51. The general lack of complementary equipment also constitutes a handicap to efficient utilization of machinery; the existing fleet of nearly one million wheel tractors, for instance, cannot be used for transport purposes because there are no trailers. Within the near future, capacity will be constructed for a yearly output of 300,000 units.

[141] In 1966, the total irrigated area amounted to some 9.5 million hectares. See *Vestnik statistiki*, No. 7, 1967, p. 11.

TABLE 7

Current agricultural inputs in the Soviet Union

	1966	*1967*	*1968*	*1969 Plan*
A. *Stocks and deliveries of machinery (in thousands)*				
Stocks:				
Tractors: physical units	1 660	1 739	..	..
15 h.p. units	3 223	3 485	..	..
Grain combines	531	553	..	..
Motor trucks	1 071	1 054	..	..
Deliveries:				
Tractors: physical units	276	287	292	306
15 h.p. units	583	624	676	..
Grain combines	86	96	98	100
Motor trucks	107	108	146	155
B. *Fertilizer supplies (in millions of tons)*				
Total (in gross weight)	30.5	33.7	36.3	38.5
Total (in pure nutrient value)	6.99	7.75	8.3	..
In kilograms per hectare	31.8	37.4	40.1	..
of which:				
Nitrogenous	12.1	14.9	..	..
Phosphatic	7.6	8.2	..	..
Phosphorous meal	3.5	4.0	..	..
Potash	8.6	10.3	..	..
C. *Electro-energy supplies (in billions of kWh)*				
Total to agriculture	23.2	25.7	31.0	..
As a percentage of national total	4.4	4.4	5.0	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

The modernization of Soviet agriculture is a task of tremendous dimensions, which, within the general framework outlined in 1965, is being tackled by new institutional, organizational and economic policy measures. It is significant that the importance of science and technology and the rapid transfer of research results to the farm sector received official recognition in a decree of October 1968. The 1965 state purchasing system, on the basis of long-term stable plans, will remain in force during the coming medium-term plan period—new targets being communicated to the farm units as early as the beginning of 1970. In organizing the contracts with the farms, the state purchasing organization will to a large extent become responsible for the success of the intensification and concentration process in agricultural production. For the moment, the general level of prices is considered adequate, but some upward adjustments of prices of vegetables, cotton and poultry meat are envisaged. Improvement of price differentiation in respect of quality is generally desirable, and has already been implemented, for instance, for hard wheat.[142] The territorial differentiation of prices, which is linked to the problem of economic rent, may be revised after the completion of the land cadastre.

The economic re-organization of the state farm sector, initiated in 1967, continued with the transfer of 400 more units to "full khozraschet". On 1 January 1969, a further 2,900 were added; 29 per cent of all state farms are thus working under the new conditions. The state farm sector as a whole broke even and in the current year it is planned to make profits of 2.5 billion roubles. The system is not yet entirely free from friction, however.[143]

Two years have passed since the principle of guaranteed payments to the collective farmers, at state farm rates, was introduced in July 1966. Its implementation in economically weak farms still presents difficulties.[144] Further-

[142] See *Ekonomika selskogo khozyaistva*, No. 5, 1968, p. 81.

[143] As the farms are supposed to finance their own resources, investments and current operations, prices are of fundamental importance; the rule that the latter should correspond to those on the collective farms in the same region does not result in complete equality of economic conditions between state farms. The difference between collective farm prices and previous state farm prices vary by products and regions. The profitability of the farms has thus been made dependent on their location and production structure. Most favoured are those producing cereals, for which price differences were largest. See *Pravda*, 27 July 1968, p. 2 and *Meshdunarodnii selsko-khozyaistvennii zhurnal*, No. 5, 1968, p. 9.

[144] Some adjustments to the original credit regulations, which permitted the banks to grant loans only when the total labour payment fund (calculated at state farm rates) exceeded gross income, have taken place; and, as credit requirements have to be included in the yearly plans, in bad harvest years it may be impossible to obtain extra credits. See *Voprosy ekonomiki*, No. 10, 1968, pp. 129-135.

more, actual comparisons with the state farm level remain difficult to establish, one problem being the pricing of in-kind payments, which may lead to inequalities in the real level of guaranteed payments, even if the tariffs are the same.[145] The question has also been raised of how to proceed when possibilities exist of increasing payments above the state farm level. In some collective farms the share of income from net profit distribution at the end of the year is reported to have been nearly equal to the guaranteed payment. In the Estonian republic, where such income distribution, on the average, constituted 16 per cent of net farm profits, recommendations have been issued that it should not be permitted to exceed 35 per cent in individual farms.

The measures, taken in 1967, to promote the establishment of auxiliary enterprises in state and collective farms appear to have met with success. An increasing number of new co-operative ventures have been announced, but large-scale effects can obviously not be immediate as new investments are required and material and equipment are often difficult to obtain. The right to establish such enterprises—together with the freedom granted to negotiate prices as long as they remain below official retail levels —constitutes nevertheless a serious attempt to encourage initiative and adaptation of production to demand.

For three successive years, the growth of agricultural output in *Czechoslovakia*,[146] both in the crop and in the livestock sector, has been impressive. In 1968, record per hectare yields were registered for practically all products. The exceptional crop of cereals was, at a preliminary stage, expected to exceed the high 1967 level by 20 per cent, but as a consequence of the late and disorganized harvest, only 10 per cent more was brought in. In spite of falling areas under labour intensive root crops (the area under potatoes was the lowest in the past 50 years) total production of sugar-beet and potatoes exceeded all previous results. In the first half of the year, animal production was progressing at a very rapid rate and ample fodder supplies gave rise to high expectations; later, the pace slackened, but the final increase of 4 per cent was in line with the average growth in the preceding five years.

Fertilizer supplies (stable in the period 1965-1967) increased, partly due to imports, the domestic chemicals industry having failed to fulfil development targets. Purchases of new machinery by the farms continued to lag, apparently for the same reasons as in 1967 (assortment and quality did not correspond to demand)—an

[145] See *Ekonomika selskogo khozyaistva*, No. 1, 1969, p. 10 and *Voprosy ekonomiki*, No. 10, 1968. Although, on the average, 92 per cent of payments for work are in cash, payments in kind are important in certain regions. In some farms, products are distributed free of charge, but in most cases they are sold at various prices; 44 per cent of the farms apply retail prices, 37 per cent state purchasing prices, and 19 per cent cost or other prices.

[146] Basic statistics for the analysis of developments in eastern European countries are presented in tables 8 and 9.

TABLE 8

Production and yields of some basic crops in eastern European countries

(Output in millions of tons and yields in quintals per hectare)

Country and crop	Production		Yield	
	1967	1968	1967	1968
Bulgaria				
Wheat	3.25	2.53	30.5	23.9
Maize	1.97	1.68	34.3	30.0
Potatoes	0.38	0.35	106	..
Sugar-beet	2.03	1.46	342	..
Sunflower seed	0.48	..	17.8	..
Czechoslovakia				
Wheat	2.52	3.13	27.1	31.5
Barley	1.94	2.09	27.3	29.4
Potatoes	6.04	6.26	148	168
Sugar-beet	7.66	8.00	376	400
Eastern Germany				
Cereals	7.35	>7.35	31.8	..
of which:				
Wheat	2.01	..	37.8	..
Barley	1.93	..	34.9	..
Potatoes	14.07	..	205	..
Sugar-beet	6.95	..	333	..
Hungary				
Wheat	2.72	2.83	25.8	25.2
Maize	3.52	3.76	28.5	29.9
Potatoes	1.51	1.33	89.4	89.2
Sugar-beet	3.36	3.47	324	334
Sunflower seed	0.08	0.09	9.6	12.0
Poland				
Cereals	16.5	..	19.4	21.4
of which:				
Wheat	3.93	4.64	22.4	24.7
Rye	7.69	8.94	17.9	..
Potatoes	48.62	50.51	176	185
Sugar-beet	15.52	14.7	358	357
Rumania				
Cereals	13.51	12.43	..	..
of which:				
Wheat	5.82	4.88	20.0	..
Maize	6.87	6.78	21.3	..
Potatoes	3.10	3.66	98	..
Sugar-beet	3.83	3.70	218	..
Sunflower seed	0.72	0.73	15.0	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

unsatisfactory situation in view of the general shortage of labour at present mechanization levels. Another problem consists in the fact that, with an increasing volume of agricultural output, marketing and processing are beginning to impede further progress. A solution is sought in the joint planning and management of food and agriculture under the new Ministry, established in 1967, which relies on an infra-structure of nationwide co-operative organizations. In 1969, investments in this composite sector are planned to expand by 13 per cent; in their distribution, a certain concentration of outlays in the food industry (an increase of 30 per cent) and in agricultural purchasing and supplying agencies (21 per cent) is envisaged. The 1967 changes in the agricultural price system implied a considerable increase in the farm prices of many basic products and free prices for fruit and vegetables, but a relatively more important rise in the price level of industrial means of production; the resulting terms of trade [147] did not permir the elimination of the high level of state subsidization; a new reform is being prepared for 1970.

In *eastern Germany*, the upward trend in total output continued, but probably at a slower pace than in 1967; crop output is reported to have risen by 1.6 per cent and the progress in the animal sector can be roughly estimated at about 4 per cent. In spite of rather poor weather during the harvesting period, the total cereals crop was at a record level, exceeding the 1967 results of 7.4 million tons. For some other major crops, especially potatoes, yields appear to have been slightly lower than in the previous year. State purchases of animal products rose by nearly 5 per cent. No information is available on the development of livestock, but increasing yields are likely to have been the predominant factor in output growth. Average milk yields rose by more than 5 per cent and reached 3,444 kg, the highest in the area.

As in the recent past, a substantial share of agricultural investments was channelled into melioration works (30 per cent more than in 1967). According to the new credit regulations for the agricultural sector, which entered into force on 1 January 1969, loans to melioration projects will be granted on particularly favourable terms. Although the agricultural sector is still to some extent sheltered from the impact of the economic reform, far-reaching organizational measures have been taken for its full inclusion. In autumn 1968, joint planning of Food and Agriculture under a Supreme State Council was decided.[148] In the past two years, limited territorial experiments were carried out and great efforts were deployed to promote horizontal and vertical co-operation between agricultural enterprises, the processing industry, purchasing agencies and domestic trade. A number of co-operative building projects for storage, livestock and processing capacities are under construction. In connexion with the introduction of joint planning, a series of agricultural price adjustments was decided. They imply, basically, the complete elimination of the system of differentiation in prices between obligatory deliveries and state purchases of animal products: a system, which had been maintained in eastern Germany as a means to collect differential rent but has now been replaced by direct charges.

[147] Input prices rose approximately by 39 per cent, and output prices by 21 per cent. See *Plánované hospodářství*, No. 6, 1968, p. 31.

[148] See GBL, Part II, No. 91, 1968.

TABLE 9

Livestock numbers and output of livestock products

(Numbers of livestock in thousands, output of meat and wool in thousands of tons, of milk in millions of litres, of eggs in millions)

Country and year		Numbers of which:				Output of which:			
		Cattle	Cows	Pigs	Sheep	Meat	Milk	Eggs	Wool
Bulgaria	1967	1 363	586	2 314	9 905	490	1 562	1 683	27
	1968	ca 1 317	ca 590	ca 2 315	ca 9 900	..	..	..	..
Czechoslovakia	1967	4 437	1 929	5 601	770	1 175	4 205	3 218	..
	1968	4 325	1 917	5 300	..	ca 1 222	ca 4 373	3 220	..
Eastern Germany	1967	5 019	2 188	9 254	1 818	1 731	6 904 [a]	3 995	8.3
Hungary	1967	2 049	785	6 647	2 300	1 236	1 918	2 750	10.1
	1968	2 017	751	5 800	..	..	..	..	..
Poland	1967	10 768	6 143	14 233	3 321	2 130	14 058	6 348	8.6
	1968	10 940	..	13 900	3 300	2 163	14 150	6 306	..
Rumania	1967	5 332	2 218	5 752	14 380	1 350	4 116	2 900	29
	1968	5 131	2 458	5 832	14 283	1 389	3 955	3 637	31

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE. — For livestock numbers, end-year census in all countries except Poland (mid-year census). Figures for meat are in terms of live weight in all countries except Bulgaria and Poland. For Albania, output figures relate only to state farms.

[a] In thousands of tons.

In 1968 the growth of agricultural output in *Poland* corresponded approximately to the average level in the preceding five years. In spite of regionally rather uneven climatic conditions, crop production expanded by 5.4 per cent. Cereals production exceeded the level of 1967, as a result of both higher average yields (up by 10 per cent) and larger areas under grains, which, in accordance with the government self-sufficiency programme, have been gradually increasing at the expense of potatoes, sugar-beet and, to a certain extent, of pasture land. The success in wheat cultivation is especially encouraging. In the agricultural year 1967/68, nearly 2 million tons of cereals were still imported, however, and for 1968/69 contracts with the Soviet Union alone are for 1.3 million tons. Yields of potatoes increased by some 5 per cent, while those of sugar-beet remained at last year's level. Total meat output hardly changed, the decline in pig meat being compensated by an increase in beef production. At the mid-year livestock census, the pig population (stable in 1967) showed a decline. In recent years, stress has been laid on the development of cattle rearing. Herds are steadily expanding and meat production per animal has increased considerably, partly because premature slaughter of calves has been prevented. Declining supplies of white veal are to be compensated by large-scale industrialized production of poultry.

In Polish agriculture, where the small private farm is still the basic unit, efforts are being made to use the Agricultural Circles and their intra-Circle Machinery Centres as levers for the modernization of the peasant economy. Establishment of closer contacts with the State Machine and Tractor Stations (POM) has been recommended for the purpose of encouraging the use of mechanization services amongst the peasantry. In many regions, the still prevalent chessboard pattern of field ownership presents a serious handicap; and the number of horses in the Polish countryside continued to increase in 1968. Important land consolidation schemes are reported to have been carried out in the course of the year. The contracting system for State purchases of agricultural products is increasingly being supplemented by incentives in the form of bonuses for the purchase of fertilizers and feed concentrates.

Hungarian agriculture suffered from a prolonged drought in the summer. Nevertheless, global output showed some improvement on the 1967 level. The total cereals crop was not seriously affected; wheat yields were somewhat smaller, but those of all other grains exceeded the results of the previous year. Some reduction occurred in root crops, but the set-back in plant production was mainly caused by the decline in the fruit and vegetable sector, which weighs heavily in the total (26 per cent). Green forage supplies were scarce, but due to imports of fodder, the cattle herds were kept practically stable. But pig numbers declined by nearly 13 per cent. Excessive slaughterings may have been encouraged by the upward adjustment in pig and cattle prices (by 9 and 7 per cent respectively) and total meat output increased. The underlying tendency was an improvement in yields, however, as was the case for milk production. As in many other countries of the region, the production structure of the livestock sector is undergoing a profound transformation. While concentration of animals in the larger units is taking place, livestock in individual holdings is tending to decrease; at the same time, the big farms do not yet dispose of building or equipment for potential numbers of stock.

The generally favourable results in agriculture in 1968 —taking into account the weather—are largely ascribed to improving cultivation techniques and measures to improve soil fertility. Although half of the cultivated area is still in need of melioration work in one form or another, irrigation efforts have been enormous: in 1967 the total irrigated area amounted to 205 thousand hectares in state and collective farms, having doubled in the 1960-1967 period. The growing imbalance between agricultural output growth and processing, storage and handling facilities has been seriously felt in recent years, especially in the fruit and vegetable sector. The huge new plantations established in the first half of the 1960s are entering bearing stage, but neither industry nor trade has made adequate preparations to cope with the resulting increase in crops. The joint Ministry for Food and Agriculture is now the supreme authority dealing with such problems. The permission to establish auxiliary enterprises—granted to the farms in 1967—is reported to have exercised a favourable influence. The income situation of farmers has greatly improved in recent years and this phenomenon seems to have put a brake, at least temporarily, on the migration of labour.[149]

In *Bulgaria*, the extremely unfavourable climatic conditions—yearly rainfall amounted to barely half of the normal level—brought a fall in total agricultural output of 9 per cent. Yields of all basic crops were below those of the two previous years—which, however, had been extremely favourable. In view of the circumstances, average wheat yields of 24 quintals per hectare were considered satisfactory. That such a level could be kept up is primarily ascribed to the development of drought-resisting varieties, the general application of certified seed, and other agro-technical measures. Fruit and vegetables, being largely cultivated on areas under irrigation—which now cover 20 per cent of the cultivable area—yielded well, although quality was somewhat impaired. Transport problems in the peak season also seem to have affected the marketing of produce.

The carry-over of fodder supplies from 1967 was abundant, but the situation deteriorated. Total animal output declined by some 3 per cent. Meat production increased but that of milk and eggs fell. The cattle herd was reduced by as much as 3.5 per cent, but the pig population remained at the level of the previous year and broiler production expanded by 36 per cent. In the beginning of 1968, livestock prices were adjusted upwards and the sector as a whole is considered to have been raised to a reasonable profitability level.

Fertilizer supplies again increased very rapidly (by 39 per cent) and domestic production capacity continued to

[149] A certain tendency to flow-back has even been reported. The unfavourable age, sex and qualification structure of collective farm labour appears to have created a great need for temporary labour, who obtain high earnings. A recent decree fixes wages for such workers at par with industry, with the proviso that total payments should not exceed the contract wage by more than 50 per cent.

expand. Great attention is given to a wider assortment of machinery for the gardening, fruit- and vine-growing sector to reduce labour intensity. Manpower qualification is another major concern; a recent decree requires co-operative farm chairmen to have university education. The Council of Co-operative Unions, established in 1967, has blamed the state purchasing organizations for a tendency to refuse above-contract deliveries and obtained extended rights for its members to sell and process produce and even to establish contacts with foreign markets. At the end of 1968, a decision was taken to establish a joint Ministry for Food and Agriculture.

Climatic hazards, and particularly the summer drought, provide the main explanation of the decline by 3.6 per cent in global agricultural output in *Rumania*. Total cereals production fell just below the 1965 level, entirely owing to the failure of the wheat crop; the maize harvest reached about 6.8 million tons, as in 1967. Output of sugar-beet and sunflower seed showed no major changes, but the potato crop increased by 18 per cent. The progress in the livestock sector was achieved on the basis of a small increase in meat output, and expansion by more than 25 per cent in egg production as a result of production in large-scale specialized units, and higher output of wool. Milk production declined, in spite of an expansion in the number of cows.

Fertilizers and machinery supplies continued to increase rapidly. Great emphasis is laid on fulfilment of the target for irrigation (1 million hectares in 1970). Judging from indications about present areas in various sources (which rarely agree varying between 400 and 600 thousand hectares), it is difficult to see how this figure could be reached, even though the 1969 Plan provides for an extension by 100 thousand hectares.

Towards the end of 1968, new legislation was introduced on the taxation of income from agriculture; it implies, basically, a certain redistribution within the sector. The hitherto valid regulations, dating from 1957, provided for a fixed amount per hectare. Taxes will now be levied on incomes. On the basis of 1967 results, the change will result in higher taxes for about 45 per cent of the collective farms, lower taxes for about 44 per cent—and no change for the remaining 11 per cent.

Output of bread grains (wheat and maize) attained a record level in *Albania* in 1968, despite bad weather during the harvesting season, exceeding half a million tons for the first time. This represented an increase of 11 per cent over the 1967 crop, and comfortably exceeded the annual target increase of 8 per cent, although less than half the average annual rate stipulated in the current five-year plan. Output of other crops—notably cotton and tobacco—fell short of the planned rates of growth, however, and the livestock sector also failed to live up to expectations, with the result that total agricultural output rose during 1968 by only some 2½ per cent, as against the 12 per cent increase planned. In view of the fact that nearly 20,000 hectares of new land were brought under cultivation in 1968, while the volume of mechanized work increased by 13 per cent, the stock of tractors by 12 per cent, and fertilizer supplies doubled, the agricultural results for 1968 were rather disappointing.

5. INVESTMENT

(i) Current changes

The sweeping investment boom of the second half of the 1960s continued in the Soviet Union and the six eastern European countries last year although it had lost some of its extraordinary momentum. The rate of investment expansion was, nevertheless, of the order of 8-12 per cent in all but one of these countries (see table 10).[150] These fast rates meant an acceleration only in Czechoslovakia and eastern Germany; in the Soviet Union they resulted in the near stability of expansion rates for the fourth consecutive year; in Bulgaria, Rumania and Poland they meant some slowing down. Hungary, by contrast, did not expand investment but maintained it practically unchanged at the high level reached by the remarkable expansion in 1967.

[150] The data underlying this analysis are in conformity with the annual reporting systems of these countries. Fixed capital investment is defined as gross fixed investment expenditure without deductions for capital consumption but including changes in work in progress on capital assets. Produced national income is understood as net material product (excluding capital consumption), that is to say, the net output of goods and material services of domestic origin. (In the account of distributed national income, as in table 1 of this chapter, "fixed capital formation" differs from "investment" in that the former excludes capital consumption and, in most countries, excludes also changes in work in progress on capital assets.)

TABLE 10

Fixed capital investment in relation to national income

(Percentages)

	1965	*1966*	*1967*	*1968 Plan*	*1968 Actual*	*1969 Plan*	*1966-1970 Plan*
Bulgaria							
(1) Growth rate of fixed investment [a]	8.2	22.1	25.1	7.0	11.0	—4	13.5
(2) Growth rate of national income	6.5	11.1	7.5	10.5	6.5	10.0	8.4
(3) Fixed investment as a percentage of national income	27.1	30.0	34.9	33.7	35.7	31.3	..
(4) Marginal capital-output ratio [(3) ÷ (2)]	4.2	2.7	4.7	3.2	5.5	3.1	..
(5) Growth rate of national income, excluding agriculture	10.7	10.9	11.3	..	14 *	..	..
(6) Marginal capital-output ratio, adjusted for fluctuations in the output of agriculture [(3) ÷ (5)]	2.5	2.8	3.1	..	2.6	..	..
Czechoslovakia							
(1) Growth rate of fixed investment	7.8	9.8	5 *	..	8.6	8.5 [b]	5.6
(2) Growth rate of national income	3.4	10.2	7	..	7	7	4.1-4.4
(3) Fixed investment as a percentage of national income	26.6	26.5	25.8 *	..	26.2	26.6	27.0
(4) Marginal capital-output ratio [(3) ÷ (2)]	7.8	2.6	3.7 *	..	3.7	3.8	6.4
Eastern Germany							
(1) Growth rate of fixed investment	10	7	9	10.7	10	11	8-8.7
(2) Growth rate of national income	4	5	5	5.4	5.3	6	ca 5.5
(3) Fixed investments as a percentage of national income	21.3	21.7	22.3	23.5	23.4	24.4	23.2
(4) Marginal capital-output ratio [(3) ÷ (2)]	5	4½	4½	4½	4½	4	4.3

TABLE 10 *(continued)*

Fixed capital investment in relation to national income

(Percentages)

	1965	1966	1967	1968 Plan	1968 Actual	1969 Plan	1966-1970 Plan
Hungary							
(1) Growth rate of fixed investment	0.7	9.1	20.7	1	2 *	7	7.0 [a]
(2) Gowth rate of national income	1.1	8.4	8.7	5-6	5	5-6	3.5-3.9
(3) Fixed investment as a percentage of national income	30.1	30.6	33.9	32.6	33.0	33.5	..
(4) Marginal capital-output ratio [(3) ÷ (2)]	27.4	3.6	3.9	5.9	6.6	6.1	..
(5) Growth rate of national income, excluding agriculture	4.7	8.3	9.9	..	6 *	..	..
(6) Marginal capital-output ratio, adjusted for fluctuations in the output of agriculture [(3) ÷ (5)]	6.4	3.7	3.4	..	5.5	..	..
Poland							
(1) Growth rate of fixed investment	9.8	8.6	11.5	5.8 [c]	7.6	8.8	8.0
(2) Growth rate of national income	7.0	7.2	5.6	4.8 [c]	8	5	6.0
(3) Fixed investment as a percentage of national income	27.4	27.8	29.3	28.8 [c]	29.2	30.3	27.3
(4) Marginal capital-output ratio [(3) ÷ (2)]	3.9	3.9	5.2	6.0 [c]	3.7	6.0	5.0
(5) Growth rate of national income, excluding agriculture	8.3	7.2	7.9	..	9 *	..	..
(6) Marginal capital-output ratio, adjusted for fluctuations in the output of agriculture [(3) ÷ (4)]	3.3	3.9	3.7	..	3.2	..	..
Rumania							
(1) Growth rate of fixed investment	9	10	17	11½	12	..	10.3
(2) Growth rate of national income	10	10	7	8.6	7	..	..
Soviet Union							
(1) Growth rate of fixed investment	8.3	7.4	8.4	5.1	8.3	6	7.4
(2) Growth rate of national income	6.9	8.1	8.6	6.8	7.5	6.5 [d]	6.8
(3) Fixed investment as a percentage of national income	23.9	23.9	23.8	23.5	24.1	24.0	24.4
(4) Marginal capital-output ratio [(3)÷(2)]	3.5	3.0	2.8	3.4	3.2	3.7	3.6
(5) Growth rate of national income, excluding agriculture	8.3	6.7	10.6	..	8 *	..	..
(6) Marginal capital-output ratio, adjusted for fluctuations in the output of agriculture [(3) ÷ (5)]	2.9	3.6	2.2	..	3.0	..	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE. — For definitions see footnote 150 of this chapter. Incremental capital-output ratios calculated without the usual one-year lag between fixed capital investment and the increase of national income.

The investment ratios shown as item (3) and the marginal capital-output ratios shown as item (4) and (6) are comparable in time but not internationally; they reflect differences in the price systems and may, therefore, imply either relative over-valuation or under-valuation of investments.

The following is the price base of these calculations:
Bulgaria: Current prices.
Czechoslovakia: National income, prices of 1960: investment prices of 1963.
Eastern Germany: Current prices (with adjustment for the effects of the 1967 price reform)
Hungary: Prices of 1959.
Poland: Prices of 1961.
Rumania: Investment prices of 1959 in 1965; those of 1963 for 1966-1970.
Soviet Union: National income, prices of 1968; investment, prices of 1955.

For national income at constant prices in Bulgaria and eastern Germany see table 1 above (differences for both countries are significant only in 1967).

For some investment-price indexes see text table on p. 157.

a Excluding private investment.
b Excluding co-operative and private housing construction.
c Expressed in relation to preliminary results of previous year.
d National income distributed (rounded figure).

A marked reduction in the continuing pressure to invest was indeed included in the annual plans of most of these countries; a limitation of excess investment demand was desired, among other reasons, to eliminate supply bottlenecks and to speed up completions. Actual investment, however, exceeded the planned level in Bulgaria, which planned a sharp cut in the rate of investment expansion; in the Soviet Union and Poland, which planned a more moderate rate of expansion; and in Czechoslovakia, which had originally planned a modest increase. The planned limits were maintained, on the other hand, in Hungary and Rumania, where substantial reductions in the rates of expansion were intended. The actual increase in the investment rate for eastern Germany also turned out to be close to the plan target.

Changes in the stock of uncompleted investments

(Billions of national currency units; percentages of fixed capital investment in italics)

	1965	1966	1967	1968
Bulgaria	0.3	0.40	0.44	0.70
	17	*18*	*16*	*23*
Czechoslovakia	−0.1	0.8	3	6
	−0.0	*1.7*	*6*	*11*
Hungary[a]	−0.5	4.5	5.9	..
	−1	*9.5*	*10*	..
Poland	15.9	8.3	..	..
	11	*5*	..	..
Rumania	5.0	3.0	10.4	12
	11	*6*	*18*	*19*
Soviet Union	4.0	4.5	4.6	6.3
	8	*9*	*8*	*10*

Sources: Statistical yearbooks and plan-fulfilment reports.

NOTE. — The following is the price base of these series: current prices in Bulgaria and Hungary; prices of 1955 in the Soviet Union, of 1961 in Poland, of 1963 in Rumania and of 1964 in Czechoslovakia.

[a] State and co-operative sector.

This remarkable quantitative performance has so far been accompanied by only partial realization of the fundamental qualitative improvements expected from the continuing reforms of planning and management techniques. Sustained drives for the fulfilment or over-fulfilment of centralized investment plans were frequently combined with strong pressure from enterprises, supported by ample finance, for additional investment within their own sphere of competence. The usual result was excess demand, and consequent supply bottlenecks, in both the machinery and construction sectors—and, with few exceptions, a further disorganization of investment completions (one of the notoriously weak points of the traditional system). The progressive reforms of investment planning and financing have, however, already begun to influence favourably the choice and execution of remunerative projects although—because of the high priority necessarily attached to uncompleted projects—they have so far had only a limited effect on the sectoral and branchwise pattern of investment.

Relation to national income

The fast rates of last year's investment expansion in the Soviet Union and the six eastern European countries surpassed, with only two exceptions, the equally impressive rates of national income expansion (which varied between 5 and 8 per cent in all these countries). National income expansion came closest to investment expansion in the Soviet Union, Czechoslovakia and Poland; it showed, by contrast, a considerable lag behind investment expansion in Rumania, Bulgaria and eastern Germany; in Hungary, national income expanded faster. Investment ratios, accordingly, changed little last year in the first three countries; but they increased in Rumania, Bulgaria and eastern Germany, and fell in Hungary.

Marginal capital-output ratios, measuring current investment expenditure in relation to the increase in produced national income,[151] reached last year their lowest (or most favourable) level for three years in Poland; with a constant investment ratio, Poland showed in 1968 its biggest increase in national income so far in the current five-year plan period. The marginal capital-output ratios rose last year in the Soviet Union and also in Czechoslovakia, Hungary and Bulgaria (although not in Bulgaria if adjusted for fluctuations in agricultural output). The capital-output ratio has been stable for three years in eastern Germany, indicating unchanged proportions in both investment and in additions to output.

Equipment and construction

The rapid development of fixed capital investment in the Soviet Union and the eastern European countries was powerfully sustained in the past three years by a marked upswing in the metal-processing and construction sectors and, if with less regularity, by an expansion of trade in machinery and equipment. Output expansion of the metal-processing industries, shown in table 11, reached in these three years an average annual rate in excess of investment expansion in all these countries except eastern Germany and Hungary. Output in construction, on the other hand, expanded in line with investment as a rule, lagging behind only in eastern Germany and Bulgaria.

Output increases in 1968 in the metal-processing sector —ranging from 6 per cent in Czechoslovakia and Hungary to 18 per cent or so in Rumania and Bulgaria—remained well in step with the dynamic upswing of the preceding years in the Soviet Union and eastern Germany. The annual increases even implied some acceleration in Poland and Rumania; but they show clear signs of reduced momentum in Czechoslovakia and Hungary.

Domestic supplies of machinery and equipment increased less in most countries last year than the domestic output of the metal-processing industries. Most countries directed an increasing part of their output to exports, which are known to have increased sharply in eastern Germany, Hungary, Poland and Rumania. Additions to domestic supplies from imports have, on the other hand, increased in some surplus countries but remained stable or declined in those countries suffering a deficit on trade account in 1967.[152] Thus in Czechoslovakia, supplies increased more than output; imports increased only slightly in Poland, remained unchanged in Bulgaria, fell

[151] The interpretation of marginal (incremental) capital-output ratios based on one year's fixed capital investment and one year's addition to produced national income substantially differs—in spite of their formal identity—from marginal capital-output ratios relating completed investment to capacity output *or* long-term investment series to trend series of output. These ratios, when derived from one-year values of investment and output (without the usual time-lag), cannot be regarded either as technical coefficients of investment requirements or as meaningful measures of capital productivity. Marginal capital-output ratios, nevertheless, are useful short-term indicators of the relationship between current capital inputs and the current output from completed capital. They reflect irregularities in the current investment effort and also in the timing of investment completions and in the rate of capacity utilization.

[152] See " Some factors in the fluctuations of the industrial growth rate: a research note " in Part 3 of this chapter.

TABLE 11

Production and foreign-trade in the investment-goods sectors

(Annual percentage rates of change)

	1965	*1966*	*1967*	*1968 Plan*	*1968 Actual*	*1969 Plan*	*1966-1970 Plan*
Bulgaria							
Output of construction industry	10.6	17.9	17.8	..	11.5	..	..
Output of construction-materials industry	17	9	17	..	8.4	..	13.7
Output of metal-processing industry	20	21	19	..	18.6	..	20.1
Exports of machinery and equipment	22	14	14	..	7.5	..	..
Imports of machinery and equipment	15	35	11	..	..	..	..
Czechoslovakia							
Output of construction industry	5.9	9.2	6.8	2.6	6.2	7.0	..
Output of construction-materials industry	9.2	8	8	..	5.5	..	..
Output of metal-processing industry	11	10	11	..	6.1	..	7.4
Exports of machinery and equipment	8	5	2	..	..	..	..
Imports of machinery and equipment	17	11	−7	..	..	..	..
Eastern Germany							
Output of construction industry	8	4	8	7.5	8 [a]	12	7.0
Output of construction-materials industry	5	5	4	..	6.9	..	..
Output of metal-processing industry	7	8	7	..	8 [b]	..	..
Exports of machinery and equipment	9	..	8	..	.. [c]	..	..
Imports of machinery and equipment	..	..	5	..	.. [c]	..	..
Hungary							
Output of construction industry	2	11	13	7	6	6-7	..
Output of construction-materials industry	5.4	9.8	11.3	..	2 *	7.5	..
Output of metal-processing industry	6.2	8.6	9.8	7-8	7.2	7	7.0-7.7
Exports of machinery and equipment	5.2	−3.8	6.8	..	14.9	..	..
Imports of machinery and equipment	−8.6	1.9	31.0	..	−14.5	..	..
Poland							
Output of construction industry	7.5	8.1	9.8	..	9.3	..	..
Output of construction-materials industry	9.1	6.9	7.8	4.5	5.9	6.1	..
Output of metal-processing industry	13.3	9.6	10.8	10.2	13.6	12.9	..
Exports of machinery and equipment	9	5	14	12.9	16.1	13.4	..
Imports of machinery and equipment	21	14	12	6.3	4.7	16.9	..
Rumania							
Output of construction industry	7	10	18	..	13	..	..
Output of construction-materials industry	13.5	9.2	11.6	..	18.3	12.5	..
Output of metal-processing industry	14	13	17	13	16.7	13.6	..
Exports of machinery and equipment	12	1	29	..	24	..	..
Imports of machinery and equipment	−8	19	51	..	−3	..	..
Soviet Union							
Output of construction industry	8.8	6.5	8.7	..	7	..	..
Output of construction-materials industry	8.9	9.1	9.5	..	7	7	..
Output of metal-processing industry	9	12	12	..	12	9.7	..
Exports of machinery and equipment	1	13	11	..	..	..	..
Imports of machinery and equipment	1	−5	14	..	..	..	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE. — The data refer to all sectors of ownership in Czechoslovakia, eastern Germany (except handicrafts) and the Soviet Union (except industrial activity on collective farms). State and co-operative sectors are covered in Bulgaria, Poland and Rumania; the state sector only in Hungary.

a State sector only.
b Combined commodity output of machinery, transport equipment and electrotechnical industries.
c Exports and imports of machinery and equipment are reported to have increased at rates higher than total commodity trade, which expanded by 9 per cent and an estimated 6-7 per cent, respectively.

Percentage changes in factor inputs and output in construction industry

Country	Year	(1) Employment	(2) Capital stock	(3) Output	(4) Capital intensity	(5) Labour productivity
Bulgaria	1966	10.4	18	17.9	7	6.8
	1967	10.0	33	17.8	21	7.1
	1968	2.8	41	11.5	37	8.5
Czechoslovakia	1966	3.8	12	9.2	8	5.2
	1967	3.2	15	6.8	11	3.5
	1968	1.8	19	6.2	17	4.3
Eastern Germany	1966	−0.7	10	4	11	4.7
	1967	2	14	8	12	6
	1968	2.6 [a]	18	8 [a]	15	5.2 [a]
Hungary	1966	6.5	14	11	7	4
	1967	5.5	13	13	7	7
	1968	6	15	6	8	—
Poland [b]	1966	2.7	13	8.1	10	5.3
	1967	5.6	16	9.8	10	4
	1968	4.8	19	9.3	14	4.3
Soviet Union	1966	3.4	12	6.5	8	3.0
	1967	4.5	14	8.7	9	4.0
	1968	2.9	16	7.0	13	4.0

Sources: National statistics, plans and plan-fulfilment reports.

NOTE. — Changes in fixed capital stock are rough estimates which relate fixed capital investment in the preceding year (e.g. for 1968, fixed capital investment in 1967) to the fixed capital stock of end-1965. Capital intensity is defined as capital stock per employed person.

[a] State sector only. [b] State and co-operative sector.

slightly in Rumania and were subject to a sharp reduction in Hungary.

Output expansion in the construction industries (at rates varying between 6 and 13 per cent) slowed down or at best stabilized in 1968 and frequent signs of growing difficulties appeared, in contrast with the very smooth developments in earlier years: additional manpower was less readily available; demand for machinery surpassed supplies; and the upper limits of supply elasticity for construction materials also seems to have been reached in a number of countries.

The relative contributions of extra manpower and productivity gains to the expansion of construction output in 1968 varied within wide limits between countries. Employment expansion contributed less than one-half (and productivity increases more than one-half) in all countries except Poland and Hungary. But whereas productivity increases added 70-80 per cent to the output increase in Czechoslovakia and Bulgaria, no productivity increase at all was reported last year in Hungary.

The higher priority given to fixed capital investment in the construction sector (shown in table 13), increased building mechanization, and the extended use of new techniques and construction materials have all been important factors in the continuing increase of building productivity—at annual rates faster than 4 per cent for the average of the past three years in all these countries except the Soviet Union and Hungary.

The rapid mechanization of construction in fact appears to be one of the most important contributors to productivity increases in this sector. Fixed investments allocated to the sector amounted in 1965-1967, for example, to more than 90 per cent of the gross stock at the end of 1965 in Bulgaria, and to as much as 40-50 per cent in all the other countries; in 1966-1968, they brought an increase in the capital intensity of labour (fixed capital stock per worker employed) of 18 per cent a year in Bulgaria, 10-11 per cent in eastern Germany, Czechoslovakia and Poland, and 7-9 per cent in the Soviet Union and Hungary. The corresponding annual productivity increases in the three years were 7 per cent in Bulgaria, 4½-5½ per cent in the second group of countries and 3½ per cent in the Soviet Union and Hungary.

Construction materials supplies were less satisfactory last year than in 1967 in some eastern European countries. Production of construction materials increased much faster than the output of the construction industry in Rumania; the two industries expanded at about equal rates in the Soviet Union, eastern Germany and Czechoslovakia; but construction materials industries developed a further considerable lag in relation to construction industries in Poland, Hungary and Bulgaria. Reports from the Soviet Union and Poland refer to the shortage of construction materials as one of the main reasons for delays in the completion of some major investment projects. The Soviet Union had also to maintain partial restrictions on the supply of construction materials for

TABLE 12

Shares of machinery and of construction in fixed capital investment

(Percentages)

	1965	1966	1967	1968
Bulgaria				
Machinery and equipment	36.3	39.3	42.3	48.7
Building and construction	50.8	48.8	46.7	..
Other	12.9	11.9	11.0	..
Czechoslovakia				
Machinery and equipment	41.3	42.4	38.8	39.6
Building and construction	58.7	57.6	61.2	60.4
Eastern Germany				
Machinery and equipment	56.1	57.9	52.5	..
Building and construction	36.9	35.3	40.4	..
Other	7.0	6.8	7.1	..
Hungary				
Machinery and equipment	42.3	43.0	44.5	44
Building and construction	48.3	48.2	46.6	47
Other	9.4	8.8	8.9	9
Poland				
Machinery and equipment	39.6	40.4	40.2	ca. 38.5 [a]
Building and construction	54.2	53.4	53.5	56 * [a]
Other	6.2	6.2	6.3	ca. 5.5 [a]
Rumania				
Machinery and equipment	36.8	36.9	37.2	..
Building and construction	47.1	46.4	47.8	..
Other	16.1	16.7	15.0	..
Soviet Union				
Machinery and equipment	33.5	32.8	32.8	33
Building and construction	59.5	59.4	59.3	59
Other	7.0	7.8	7.9	8

Sources: Statistical yearbooks and plan-fulfilment reports.

NOTE. — Refers to all investment, except for Bulgaria where it refers to State and co-operative investment and Czechoslovakia where State and co-operative investment is given to the exclusion of housing co-operatives.

[a] State and co-operative sectors only.

co-operative and private housing construction and Poland on supplies to agriculture. The supply situation in Hungary was also reported as unsatisfactory.

These more or less compensating tendencies in the production and trade of investment goods had only a marginal impact in 1966-1968 on the material composition of investment. This means that the substantial shifts, envisaged in most medium-term plans, towards a rising share of machinery and equipment in investment and a falling share of construction, has so far, for the most part, not taken place. In the Soviet Union, where the Five-year Plan had envisaged a shift in the ratio of equipment to total investment from 33 per cen in 1961-1965 to 37 per cent in 1966-1970, the ratio in fact hardly changed from its previous level throughout the first three years of the current Five-year Plan (see table 12). The share of machinery and equipment (generally after an initial rise in 1966) fell below the 1965 level in the course of the past two years in Czechoslovakia and Poland and, most probably, in eastern Germany and Rumania. In Hungary, the tendency towards a rising share of machinery which appeared in the first two years of the current Plan, ceased in the course of last year. Thus, only Bulgaria can claim a continuous rise of the machinery and equipment component of investment throughout the past three years.

TABLE 13

Fixed capital investment by main economic sectors

	Fixed Capital Stock 1965	*Fixed capital investment*							
		1951-1955	*1956-1960*	*1961-1965*	*1966-1970 Plan*	*1966-1968*	*1966*	*1967*	*1968*
Bulgaria									
All economic sectors (billions of leva)									
— at current prices	*18.58*	*2.54*	*3.90*	*7.50* [a]	*13.0* [a]	*7.93* [a]	*2.19* [a]	*2.74* [a]	*3.00* [a]
Percentage share of:									
Agriculture	11.2	19.3	31.6	25.1	17.7	..	20.1	18.2	..
Industry	31.4	44.1	41.5	47.5	50.0	..	48.9	49.3	
Construction	1.5	1.2	1.0	2.9	..	..	4.1	4.0	..
Transport	8.9	11.4	7.7	7.6	8.3	..	9.1	10.6	..
Trade	2.1	4.3	2.6	3.2	..	..	3.2	2.9	..
Housing	34.8	19.7	15.6	13.7	24.0 [b]	..	3.2	2.6	..
Other sectors	10.1					..	11.4	12.4	..
Czechoslovakia									
All economic sectors (billions of Kčs)									
— at 1960 prices	*841.8*	103.8	167.3	223.9	285	168.8	52.9	55.6	60.3
— at 1963 prices	830.0	*102.3*	*165.0*	*220.8*	*281*	*166.5*	52.2	54.8	59.5
— at 1964 prices	749	92	149	199	253	150	*47.0*	49.4	53.6
— at 1967 prices	1 067	132	212	284	361	214.1	67.1	*70.5*	*76.5*
Percentage share of:									
Agriculture	11.5	11.2	16.4	15.1	..	..	13.8	11.0	..
Industry	32.4	41.1	40.2	44.2	..	..	43.9	40.2	..
Construction	1.5	2.1	3.0	2.8	..	..	3.2	3.4	..
Transport	6.9	12.6	10.1	10.8	..	..	10.7	14.8	..
Trade	2.6	2.1	3.2	3.3	..	..	4.6	5.8	..
Housing	22.5	30.9	27.1	23.8	..	..	12.7	13.5	..
Other sectors	22.6				..	..	11.1	11.3	..
Eastern Germany									
All economic sectors (billions of MDN)									
— at current prices	*191.7* [c]	*27.7*	*55.0*	*76.8*	*123*	*62.2*	*18.9*	20.6	22.7
— at new (1967) prices	224 [c]	32.3	64.2	89.6	144	72.5	22.0	*24.0*	*26.5*
Percentage share of:									
Agriculture	10.3	..	..	13.5	..	..	14.4	13.9	..
Industry	62.8	..	..	48.4	..	..	50.3	48.1	..
Construction	1.8	..	..	2.1	..	..	2.5	2.8	..
Transport	20.7	..	..	10.1	..	..	8.2	8.6	..
Trade	4.4	..	..	3.1	..	..	4.4	4.8	..
Housing and other sectors	—	..	..	*22.8*	..	..	*20.2*	*21.8*	..
Hungary									
All economic sectors (billions of forints)									
— at 1959 prices	*947.5*	*137.1*	*154.5*	*239.3*	*283-295* [d]	*197.9*	*57.5*	*69.4*	*71.0*
— at current prices	..	76.8	125.0	227.3	*250-260* [d]	..	51.7	..	..
Percentage share of:									
Agriculture	12.0	14.5	14.8	17.7	18.0	..	16.0	14.4	..
Industry	23.7	41.7	36.5	37.4	47.0	..	39.1	39.8	..
Construction	1.0	1.8	1.6	2.0		..	2.1	2.0	..
Transport	16.7	11.0	9.4	10.4	14.0	..	11.5	13.7	..
Trade	2.2	2.1	2.9	3.0	3 5 *	..	3.1	3.2	..
Housing	44.4	11.7	22.0	16.3	17.5 *	..	15.1	13.4	..
Other sectors		17.2	12.8	13.2	..	..	13.1	13.5	..

TABLE 13 *(continued)*

Fixed capital investment by main economic sections

	Fixed Capital Stock 1965	*Fixed capital investment*							
		1951-1955	*1956-1960*	*1961-1965*	*1966-1970 Plan*	*1966-1968*	*1966*	*1967*	*1968*
Poland									
All economic sectors (billions of zlotys)									
— at 1961 prices	*2 756.7*	*282.9*	*417.2*	*617.4*	*847*	*505.8*	*152.5*	*170.1*	*183* *
— at current prices	2 754.4	156.4	362.9	611.3	..	497.7	149.9	167.5	*180.3*
Percentage share of:									
Agriculture	17.7	10.0	12.6	13.7	17.5	16.0	15.9	15.7	16 *
Industry	24.0	45.8	40.6	41.7	42.2	40.0	40.0	39.9	40.2
Construction	1.5	2.2	2.8	3.6	.. [e]	4.2	4.2	4.5	4.0
Transport	17.0	12.3	9.5	10.9	10.5	11.6	12.0	12.1	10.8
Trade	2.0	3.1	3.0	2.9	.. [e]	3.7	3.6	3.9	3.7
Housing	37.8	26.6	31.5	27.2	23.9	24.5	24.3	23.9	15 *
Other sectors									10.0
Rumania									
All economic sectors (billions of lei)									
— at 1959 prices	..	*57.7*	*88.0*	*172.6* [f]	*280.5* [f]	159.4 [f]	*45.9* [f]	*53.9* [f]	*59.6* [f]
— at 1963 prices	..	57.4	87.6	171.7 [f]	*279* [f]	*159.1* [f]	*45.8* [f]	*53.8* [f]	*59.5* [f]
Percentage share of:									
Agriculture	13.6	11.0	17.6	15.5	12.7	12.0	12.6	12.1	12.3 *
Industry	31.7	57.7	51.1	53.2	55.8	56.1	53.6	56.9	(57.3)
Construction	2.4	3.9	2.8	3.9	4.2	4.0	4.7	4.4	(3.2)
Transport	7.5	11.0	9.2	10.2	11.5	11.2	11.8	11.0	(11.0)
Trade	2.3	2.6	2.4	2.4	2.1	2.3	2.2	2.2	(2.5)
Housing	42.5	4.7	6.1	7.0	13.7	14.4	7.4	6.9	13.7
Other sectors		9.1	10.8	7.8			7.7	6.5	
Soviet Union									
All economic sectors (billions of roubles)									
— at 1955 prices	*507*	*77.7*	*146.3*	*211.8*	*303.2*	*170.6*	*52.4*	*56.7*	*61.5*
Percentage share of:									
Agriculture	10.8	15.0	15.0	16.2	23 [g]	..	17.9	17.7	18.4 *
Industry	29.6	40.5	35.2	36.1	49 [g]	..	34.9	34.4	..
Construction	2.2	2.9	3.0	2.7		..	3.0	3.1	..
Transport and communications	13.2	9.1	8.8	10.0		..	9.6	9.2	15.8
Housing	27.8	20.0	23.6	18.2	14.5-16 [g]	..	17.1	17.0	..
Trade and other non-productive sectors	16.4	12.5	14.4	16.8	12-13.5 [g]		17.5	18.6	..

Source: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE. — The fixed capital stock at the end of 1965 is shown net of retirements. Valuation practices vary, however, from country to country and the initial valuation of the stock may differ from that of later additions. The italicized figures for totals were obtained or derived from the published sources. The alternative series at different prices, shown for comparison, were either obtained from the published sources or estimated by using available global indices of investment prices (see text table p. 157). The percentage shares given are calculated on the basis of the italicized information for all sectors. Data in brackets refer to plans.

[a] Excluding private housing construction investment, which amounted to 0.9 billion leva in 1961-1965.
[b] Including construction and trade, which are shown separately for 1961-1965.
[c] Refers to state enterprises in productive sectors and agricultural, dairy and consumers' co-operatives. Water works are included with industry.
[d] State and co-operative investment.
[e] The combined share of construction and trade amounted to 5.9 per cent.
[f] Excluding co-operative and private investment, which showed the following development (in billions of lei): 1951-1955 — 1.0; 1956-1960 — 3.9; 1961-1965 — 13.8 (at 1959 prices); 1966 — 3.1; 1967 — 3.7; 1968 — 5.0 (at 1963 prices).
[g] Percentage of original plan total of 310 billion roubles.

(ii) Medium-term comparisons

Investment performance in the Soviet Union and the six eastern European countries in the past three years appears generally favourable in overall terms, by comparison both with the current Five-year Plan objectives and with performance in the previous medium-term period. Fixed capital investment, in spite of frequently sharp fluctuations in the rate of expansion, has reached in all countries (except eastern Germany) the three-year totals required for a continuous attainment of the Five-year Plan objectives. This new surge of investment, closely associated with a new wave of national income expansion, has, moreover, reversed, at least for the time being, the tendency towards a slowing down in both investment and output growth which in some countries reached critical dimensions in the first half of the 1960s.

The three-year totals of actual investment in 1966-1968, shown in the text table on p. 152, reached 56-62 per cent of the five-year totals budgeted for 1966-1970 in six of the seven countries. The average rates of investment expansion have also, in all these countries, surpassed to a vary-

Planned and actual investment in the current five-year plan period

	(1)	(2)	(3)	(4)	(5)
	Billions of national currency units			*Percentages*	
	Plan 1966-1970	*Plan a 1966-1968*	*Actual 1966-1968*	*(3) ÷ (1)*	*(3) ÷ (2)*
Bulgaria	13.0	6.9	7.93	61	115
Czechoslovakia	281	159	166.5	59	105
Eastern Germany	123	65.7	62.3	51	95
Hungary	283-295	162	180	62	111
Poland	847	477	505.8	60	106
Rumania	280.5	152 [b]	159.4	57	105
Soviet Union	303.2	169	170.6	56	101

Sources: National plans, statistical yearbooks and plan-fulfilment reports.

NOTE. — Refers to all sectors of the economy in Czechoslovakia, eastern Germany, Poland and the Soviet Union, to the State and co-operative sector in Bulgaria and Hungary, to only the State sector in Rumania. For the price base of the underlying series see table 12.

[a] Three-year investment total estimated on the assumption that the planned five-year total was to be obtained by an expansion of investment at equal annual rates over 1965.

[b] The annual schedules incorporated into the five-year plan law foresaw a total of lei 155.1 billion for these three years which would imply a fulfilment by 102.8 per cent.

ing extent the average rates necessary for the full attainment of the planned five-year totals. Only eastern Germany, which invested in three years 51 per cent of the five-year budget, would require a substantial acceleration in investment growth for full accomplishment of the five-year plan objective.

Partial reversal of trend

The expansion of national income and investment, which had lost much of its momentum in the first half of this decade,[153] has taken a new upswing in 1966-1968, reaching average compound annual rates of 5½-8½ per cent for national income and of 8-19 per cent for investment. Recovery was most conspicuous in those countries which had been most affected by previous slowdown—Czechoslovakia, eastern Germany and Hungary—but it was also manifest in the Soviet Union and Poland. In Bulgaria and Rumania the variations in rates of expansion were less significant (apart from a sharp upturn of investment in Bulgaria); these two countries had in any case succeeded in maintaining national income and investment expansion at fast rates in the earlier period.

The following text table shows for Czechoslovakia, eastern Germany and Hungary a marked acceleration of national income growth between 1961-1965 and 1966-1968, a rise in investment ratios (as the result of an even

[153] See *Economic Bulletin for Europe*, Vol. 18, No. 1, p. 39.

Investment ratios, growth rates and incremental capital-output ratios

	Soviet Union	*Bulgaria a*	*Czecho-slovakia*	*Eastern Germany a*	*Hungary*	*Poland*
(1) *Investment ratios*						
1951-1955	20.0	19.4	20.9	13.0	28.4	24.3
1956-1960	23.1	21.5	23.4	17.8	26.1	24.4
1961-1965	23.8	26.6	25.3	19.8	29.4	27.2
1964-1968	23.9	31.3	26.2	21.8	31.8	28.2
1966-1968	24.0	33.7	26.2	22.5	32.6	28.8
(2) *Growth rates*						
1951-1955	11.4	10.5	8.0	11.5	5.7	8.5
1956-1960	9.1	9.7	7.1	7.1	6.0	6.6
1961-1965	6.6	8.0	1.9	3.3	4.5	6.0
1964-1968	8.3	8.2	5.9	4.8	5.6	6.9
1966-1968	7.8	8.4	8.3	5.5	7.4	6.9
(3) *Incremental capital-output ratios ((1) : (2))*						
1951-1955	1.75	1.85	2.61	1.13	4.98	2.86
1956-1960	2.54	2.22	3.30	2.51	4.35	3.70
1961-1965	3.61	3.33	13.32	6.00	6.53	4.53
1964-1968	2.88	3.82	4.44	4.54	5.68	4.09
1966-1968	3.08	4.01	3.16	4.09 [b]	4.41	4.17

Sources: Statistical yearbooks and plan-fulfilment reports.

NOTE. — Investment ratios show total gross fixed capital investment as a percentage of national income; both investment ratios and growth rates refer to national income produced; incremental capital-output ratios are calculated without the usual one-year lag between capital investment and the increase of national income.
For the price base of the underlying series see table 10.

[a] At current prices. The following is the information available on growth rates at constant prices:

	1951-1955	*1956-1960*	*1961-1965*	*1964-1968*	*1966-1968*
Bulgaria	12.2	9.6	6.5	..	..
Eastern Germany	13.2	7.4	3.5	4.9	5.2

[b] Calculated with growth rate at constant prices: 4.33.

faster investment expansion) but nevertheless a reduction in incremental capital-output ratios. In the early 1960s, growth rates of output and of investment were reduced to low levels, partly as a result of earlier, less selective, investment strategies, which had tended to disregard returns and recoupment periods, and of other shortcomings in planning and management. The changes shown above indicate, by contrast, a sustained investment effort in these countries but, at the same time, at least a partial elimination of these earlier obstacles to realizing development possibilities.

Medium-term comparisons of growth rates, investment ratios and incremental capital-output ratios in the Soviet Union, Poland and Bulgaria point to modest increases from 1961-1965 to 1966-1968 in the growth rates of national income in all these countries. Investment ratios remained stable between these periods in the Soviet Union but they increased moderately in Poland and sharply in Bulgaria. Incremental capital-output ratios, after rising through three preceding five-year periods, have as a result fallen for the first time in the Soviet Union and Poland; but they have risen in Bulgaria, indicating the inherent difficulties of reducing investment costs and of reaping the benefits of a rapid process of structural transformation and industrialization.

A still longer-term view, comparing current (1966-1968) growth rates, investment ratios and incremental capital-output ratios with the same parameters in the period 1957-1960, gives somewhat different results. Investment ratios in all the countries concerned have risen considerably all the time. By comparison with the late 1950s, growth rates have declined in Bulgaria, eastern Germany and the Soviet Union, remained roughly the same in Poland, but increased in Czechoslovakia and Hungary. The changes in incremental capital-output ratios have been closely correlated with the changes in growth rates. They deteriorated considerably in Bulgaria, eastern Germany and, somewhat less, in the Soviet Union and Poland, and remained roughly unchanged in Czechoslovakia and Hungary. The figures in themselves suggest a relative improvement in the allocative efficiency of investment policy in the latter two countries but it will be necessary to await further developments before any considered judgement can be made.

Distribution patterns

The distribution of fixed capital investment had undergone some important changes by the end of the third year of the current Five-year Plans in comparison with earlier five-year periods (see tables 13 and 14).

Only relatively minor shifts occurred in the pattern of investment distribution in the Soviet Union in the first two or three years of the current Five-year Plan, with practically no change in the relative shares of productive and non-productive sectors but some increase, within productive sectors, in the shares of agriculture and construction and some decrease in those of industry and transport. The changes were more accentuated in Czechoslovakia, where there was a radical shift from industry and agriculture towards construction, transport and trade. The frequently substantial changes in the other countries followed a more uniform pattern: the shares of industry, construction, transport and trade expanded generally and those of agriculture and non-productive sectors contracted. Exceptions were Poland, which gave high priority to agriculture, eastern Germany which reduced the share of transport, and Bulgaria which increased its allocations to educational, health and social investment.

Comparison of the sectoral pattern of investment planned for 1966-1970 with the actual pattern in 1966-1968 (or 1966-1967) shows lower than planned shares of agricultural investment in the Soviet Union and Poland (which have both foreseen a considerable rise in the share of this investment). Correspondingly, higher than planned shares in the Soviet Union of non-productive investment, and in Poland of construction, transport and trade have been obtained. Rumania, on the other hand, appears to have completed its planned shift of investment resources from agriculture and the non-productive sectors to industry, construction and transport.

The shifts foreseen in the Five-year Plans within the industrial sector, primarily in favour of the chemicals industry, also seem to have met with some difficulty of achievement. Chemical and steel industrial investment in the Soviet Union, which was given high priority, has seen their share reduced in the total of industrial investment. Growth of investment activity was also slow in

TABLE 14

Fixed industrial investment by branches and sectors

	Fixed capital stock in industry 1965	*Fixed capital investment*					
		1951-1955	*1956-1960*	*1961-1965*	*1966*	*1967*	*1968*
Bulgaria							
Total industry (billions of leva)							
— at current prices	*5.36*	*1.12*	*1.61*	*3.56*	*1.07*	..	..
Percentage distribution by branches:							
Fuel	12.5	12.6	14.1	16.8	11.2	..	..
Electric energy	16.8	25.1	19.1	15.4	15.9	..	..
Metallurgy	18.8	19.0	18.1	23.6	17.8	..	..
Engineering	11.4	7.8	8.9	10.7	13.1	..	..
Chemicals	8.4	9.5	5.0	8.7	14.0	..	..

TABLE 14 *(continued)*

Fixed industrial development by branches and sectors

	Fixed capital stock in industry 1965	*Fixed capital investment*					
		1951-1955	*1956-1960*	*1961-1965*	*1966*	*1967*	*1968*
Building materials	6.4	2.2	6.0	4.5	5.6	..	..
Wood and paper	5.0	2.3	3.8	4.5	4.7	..	..
Other industries	..	6.6	4.9	2.0	2.8	..	..
Food processing	11.4	5.4	11.8	7.0	9.3	..	..
Light industries	9.3	9.5	8.2	6.8	5.6	..	..
By sectors:							
Heavy sector	79.3	85.1	80.0	86.2	85.0	..	..
Light sector	20.7	14.9	20.0	13.8	15.0	..	..
Czechoslovakia							
Total industry (billions of Kčs)							
— at prices of 1955	*258.1*	..	..	..	..	..	..
— at 1964 prices	..	*41.82*	*65.85*	*96.90*	..	..	..
— at 1967 prices	..	..	..	..	*26.7*	*26.4*	*27.0* [a]
Percentage distribution by branches:							
Fuel	15.7	12.4	18.7	14.5	17.6	15.0	11.5
Electric energy	12.7	14.4	15.4	12.4	11.8	12.2	13.4
Metallurgy	17.6	19.9	15.5	17.4	14.8	13.2	9.5
Engineering	19.6	17.4	16.1	17.8	14.6	13.4	14.0
Chemicals	7.3	10.1	7.4	11.2	16.4	17.4	18.8
Building materials	6.7	4.3	6.5	5.0	6.4	10.5	12.0
Wood and paper	4.0	4.4	3.2	3.4	..	..	..
Other industries	8.3	5.7	4.6	4.1	2.5 [b]	2.5 [b]	2.5
Food processing	7.8	4.4	5.6	6.9	5.7 [b]	5.7 [b]	7.0
Light industries	0.3	7.0	7.0	7.3	10.1 [c]	10.3 [c]	11.3
By sectors:							
Heavy sector	83.6	82.9	82.8	81.6	84.2 *	84.0 *	..
Light sector	16.4	17.1	17.2	18.4	15.8 *	16.0 *	..
Eastern Germany							
Total industry (billions of MDN)							
— at current prices	*110.3*	..	..	*37.20*	..	..	..
— at pre-1967 prices	..	..	..	..	*9.50*	9.90	
— at 1967 prices	..	..	..	..	11.06	*11.55*	..
Percentage distribution by branches:							
Fuel and ore mining	16.8	..	..	20.7	18.0	16.1	..
Electric energy	16.4	..	..	16.0	12.7	11.5	..
Metallurgy	6.6	..	..	7.6	7.9	8.3	..
Engineering	19.3	..	..	19.6	22.1	19.7	..
Chemicals	17.5	..	..	18.3	21.3	23.9	..
Building materials	4.0	..	..	4.4	3.8	3.6	..
Wood and paper	..	..	..	..	2.7	3.5	..
Other heavy industries	..	..	..	..	..	..	..
Food processing	7.2	..	..	4.5	6.1	6.9	..
Light industries	12.2	..	..	8.9	5.4	6.5	..
By sectors:							
Heavy sector	80.6	..	..	86.6	85.8	83.1	..
Light sector [d]	19.4	..	..	13.4	14.2	16.9	..
Hungary							
Total industry (billions of forints)							
— at 1959 prices	*226.1*	*57.13*	*56.50*	*90.38*	*22.77*	*28.65*	..
Percentage distribution by branches:							
Fuel and ore mining	(14.4)	20.9	24.1	19.4	17.7	14.1	..
Electric energy	(18.1)	15.0	17.8	14.7	12.3	11.6	..
Metallurgy	(11.4)	19.9	9.4	10.2	10.9	12.6	..
Engineering	(17.4)	16.8	17.1	14.1	15.6	16.9	..
Chemicals	(10.6)	12.0	10.6	16.4	17.8	16.7	..
Building materials	(5.8)	6.3	5.4	6.4	5.8	8.0	..
Food processing	(10.7)	4.7	7.3	8.3	9.1	9.2	..
Light industries [d]	(11.6)	4.4	8.3	10.5	10.8	10.9	..

TABLE 14 *(concluded)*

Fixed industrial development by branches and sectors

	Fixed capital stock in industry 1965	*Fixed capital investment*					
		1951-1955	*1956-1960*	*1961-1965*	*1966*	*1967*	*1968*
By sectors:							
Heavy sector	(77.7)	90.9	84.4	81.2	80.1	79.9	..
Light sector [d]	(22.3)	9.1	15.6	18.8	19.9	20.1	..
Poland							
Total industry (billions of zloty)							
— at 1961 prices	*649.4*	*128.1*	*168.2*	*256.51*	*61.0*	*67.7*	*73.5*
— at current prices	647.9	..	..	250.58	58.5	65.1	72.4
Percentage distribution by branches:							
Fuel	19.6	18.4	19.0	21.8	18.5	(16.9)	15.3
Electric energy	12.4	9.8	11.5	12.1	10.5	(10.2)	10.2
Metallurgy	10.9	22.3	12.6	11.8	11.9	(11.7)	10.3
Engineering	16.5	18.1	14.5	15.5	17.8	(18.7)	16.7
Chemicals	9.2	14.6	12.3	12.1	16.4	(16.0)	18.9
Building materials	8.2	5.7	9.4	7.8	5.9	(7.1)	9.4 *
Food processing	10.5	..	9.4	9.2	9.2	8.9	8.0 *
Light industries [d]	12.3	..	10.5	8.9	8.9	9.6	9.5 *
Other industries	0.4	..	0.9	0.8	0.9	0.9	1.7 *
By sectors:							
Heavy sector	76.8	88.9	79.2	81.1	81.0	80.6	80.8 *
Light sector	23.2	11.1	20.8	18.9	19.0	19.4	19.2 *
Rumania							
Total industry (billions of lei)							
— at 1959 prices	..	*33.29*	*44.94*	*92.37*	..	..	..
— at 1963 prices	..	..	..	..	*24.78*	*30.86*	..
Percentage distribution by branches:							
Fuel	..	37.4	31.0	21.1	21.8	17.3	..
Electric energy	..	13.3	9.6	13.4	18.0	14.6	..
Metallurgy	..	13.5	14.9	16.6	14.8	15.0	..
Engineering	..	7.8	6.9	8.5	8.0	9.5	..
Building materials	..	4.7	3.4	4.0	4.1	3.8	..
Wood and paper industry	..	6.8	10.7	11.6	8.6	6.6	..
Chemicals	..	6.5	11.3	14.2	10.8	16.8	..
Other heavy industries	..	0.9	1.5	1.1	1.8	2.7	..
Food processing	..	5.0	6.6	5.1	5.9	5.9	..
Light industries	..	4.1	4.1	4.4	6.2	7.8	..
By sectors:							
Heavy sector	..	90.9	89.3	90.5	87.9	86.3	..
Light sector	..	9.1	10.7	9.5	12.1	13.7	..
Soviet Union							
Total industry (billions of roubles)							
— at prices of 1955	*150*	*31.45*	*51.44*	*76.38*	*18.24*	*19.46*	..
Percentage distribution by branches:							
Fuel	13.9	26.4	23.3	19.4	20.8	20.0	..
Electric energy	14.9	14.3	13.5	12.0	12.3	12.0	..
Metallurgy	10.6	8.2	8.6	9.4	8.1	8.6	..
Engineering	19.0	14.1	13.5	16.0	16.6	17.6	..
Chemicals	8.3	3.5	4.8	9.9	9.7	8.9	..
Building materials	7.0	3.5	6.2	6.0	5.0	5.0	..
Wood and paper	5.6	4.4	5.1	5.5	5.0	5.0	..
Other heavy industries	7.1	15.0	10.5	8.9	9.0	9.4	..
Food processing	9.2	5.9	8.7	8.2	8.8	8.7	..
Light industries	4.4	4.7	5.8	4.7	4.8	4.8	..
By sectors:							
Heavy sector	86.4	89.4	85.5	87.1	86.4	86.5	..
Light sector	13.6	10.6	14.5	12.9	13.6	13.5	..

Sources: National statistics, plans and plan-fulfilment reports.

NOTE. — The fixed capital stock at the end of 1965 is shown net of retirements. Valuation practices vary, however, from country to country and the initial valuation of the stock may differ from that of later additions. Planned distribution in 1968. See also note to table 13.

a Distribution refers to the planned total of 1968 *and* 1969.
b Refers to combined total of 1966 and 1967.
c Manufactured consumer goods.
d Wood and paper is included with light industries.

TABLE 15

Fixed capital investment by sectors of ownership and method of decision-making

	Percentage shares			*Percentage increase over previous year*		
	1965	*1967*	*1968*	*1968 Plan*	*1968*	*1969 Plan*
Bulgaria						
State sector [a]	78.3	85.9	..	..	..	..
Collective farms	12.1	10.6	..	..	..	..
Total socialized sector	90.4	96.5	..	7 [b]	11	−4 [b]
Private sector	9.6	3.5	..	..	..	..
Total investment	100.0	100.0	..	..	..	..
of which:						
Centralized investment	59.6	66.2	..	..	..	..
Decentralized investment	40.4	33.8	..	..	..	..
Czechoslovakia						
State sector	82.5	83.3	93.5 [c]	5.7 [c]	7.2 [c]	8.5 [c]
Co-operative sector	13.3	12.4	..	..	..	..
Social institutions	0.6	0.6	..	..	..	..
Private sector	3.7	3.7	..	..	..	..
Total investment	100.0	100.0	100.0	..	8.6	..
Eastern Germany						
State sector	85.2	..	..	..	..	..
Private sector	14.8	..	..	..	..	..
Total investment	100.0	..	..	10.7	10	11
Hungary						
State sector	78.9	80.7	..	..	..	..
Co-operative sector	10.4	10.8	..	..	..	..
Total socialized sector	89.3	91.5	..	0-1 *	..	..
Private sector [d]	*10.7*	*8.5*	..	..	..	..
Total investment	100.0	100.0	100.0	1	2	..
of which:						
Centralized investment	79 *	70	60	..	−13	..
Decentralized investment	21 *	30	40	..	36	..
Poland						
State sector	81.8	76.4	..	6.0 [e]	8.1	9.2 [e]
Co-operative sector	8.8	12.1	..			
Private sector	*9.4*	*11.5*	..	*4.2* [e]	*4.7*	*5.5* [e]
Total investment	100.0	100.0	100.0	5.8 [e]	7.6	8.8 [e]
of which:						
Centralized investment	..	76.4	75.7	..	6.7	..
Decentralized investment [f]	..	23.6	24.3	..	10.6	..
Rumania						
State sector	93.0	93.5	..	..	11 *	..
Co-operative sector	6.3	5.6	..	..	..	..
Total socialized sector	99.3	99.1	..	..	..	..
Private sector	*0.7*	*0.9*	..	..	..	..
Total investment	100.0	100.0	100.0	11.5	12 *	8.5
of which:						
Centralized investment	90.8	91.1	..	10.9	11.1	9.0
Decentralized investment	9.2	8.9	..	17	..	6-7 *
Soviet Union						
State sector [b]	87.7	87.3	87.5	..	8.4	4
Collective farms	8.9	9.9	10.2	..	13.0	22
Private sector [g]	*3.4*	*2.8*	2.4	..	−8.0	
Total investment	100.0	100.0	100.0	5.1	8.3	6
of which:						
Centralized investment	76.0	72.3	70	6	4.8	8
Decentralized investment	24.0	27.7	30	3	17.7	1

Sources: National statistics, plans and plan-fulfilment reports.

NOTE. — The price base of these series is the same as in table 10, with the following exceptions: *Czechoslovakia:* Prices of 1964 for 1965-1967, prices of 1967 for 1967. Poland: Current prices.

a Including non-agricultural co-operatives.

b Estimate based on data at 1965 prices.

c State and co-operative investment, excluding co-operative housing construction.

d Completed investments only.

e Expressed in relation to preliminary results of preceding year. In relation to actual results, the Plan for 1968 showed the following increases: Socialist sector, 4.7 per cent; private sector, −9.9 per cent; total investment, 3.0 per cent.

f Includes State and co-operative investment under special regulations and private investment.

g Owner-occupied housing only.

Czechoslovakia in the favoured sectors of chemicals, construction materials and food and consumer goods. Eastern Germany reported progress in its priority engineering and chemical investment, including such technically advanced industries as electronics, data processing, synthetic fibres and plastics.

(iii) The impact of economic reforms

The current reforms of economic planning and management, of which a detailed account is given in Part 2 of this chapter, have already to some extent influenced the complex and interrelated processes of investment planning, investment financing and investment plan implementation. The data in table 15 (showing only few significant changes in the distribution of investment by sectors of ownership) indicate a more substantial transfer, at least in a formal sense, of decision making powers in respect of investment from the centre to the periphery—that is, from central planning authorities to intermediate planning bodies, enterprises, municipalities, other self-governing bodies, co-operatives and the private sector.

This shift in investment was important in the Soviet Union, where the share of decentralized investment rose from 24 per cent in 1965 to 30 per cent in 1968 (this includes State-enterprise investment from development and technical-innovation funds, retained depreciation quotas, various credit schemes, investments by local authorities, collective farm investment and the construction of owner-occupied dwellings). The shift was even more pronounced in Czechoslovakia and Hungary: in Hungary, the share of decentralized investment has risen from an estimated 21 per cent in 1965 to 40 per cent in 1968—in spite of a reduced share of co-operative and private investment. The role of decentralized investment has also increased in Poland, through the introduction of investment schemes under special regulations; while in Rumania and to an even greater extent in Bulgaria, by contrast, centralized investment increased in importance, at least up to 1967.

Planning

The effective transfer of the powers of decision making in matters of investment planning is a slow process and is certainly less extensive than might be suggested by the figures just quoted (which are based primarily on formal criteria). It is only within a limited field, and only in some countries that enterprises, co-operatives and autonomous administrations are able to take their own decisions on the choice and execution of investment—in a general framework of pricing, taxation, foreign trade and financial policies, and guided primarily by profits, costs and returns and financial availabilities. This limited field may, for example, include some investments in export industries, consumer-goods industries, foreign trade, retail trade and municipal projects. But the peripheral investor is, for the most part, still subject, even in respect of decentralized investments, to limitations on new starts, to mandatory instructions for the continuation of high priority projects, or, in a number of countries, to an administrative handing down of investment plans.

Index numbers of investment prices

Country	*Base year*	*Period*	*Total of investment*	*Machinery and equipment*	*Buildings and constructions*	*Other investment goods*
Czechoslovakia	1963 [a]	1964-1966	90.1	83.1	95.4	—
	1963	1967-1968	128.6	114.3	139.8	—
Eastern Germany	1966	1967-1968	116.7	107.8	132.3	110.4
Hungary	1959	1964	96.1	96.6	94.9	99.7
	1959	1965-1967	89.2	80.3	94.9	99.6
	1959	1968	101.7	92.4	110.0	100.6
Poland	1961	1964	98.8	96.5	100.3	100.1
	1961	1965	98.9	96.7	100.4	100.1
	1961	1966	98.3	94.9	100.7	100.1
	1961	1967	98.5	94.4	101.3	100.1
Rumania	1959	1963	99.5	93.0	103.0	106.5
	1959	1966-1968	99.5	93.0	103.0	106.5

Sources: National statistics, plans and plan-fulfilment reports.

a Prices of 1963 (1 January 1964) implied the following shifts in comparison with prices of 1960 (= 100): total of investment—98.6; machinery and equipment—100.0; buildings and constructions 97.6.

The impact of price reforms on investment decisions has also been limited so far. In the process of reform, investment prices have, however, been adjusted in a number of countries, in the sense of incorporating full production costs and thereby providing more appropriate guidance both to the centre and to the periphery in making their investment decisions. Upward adjustments shown in the above text-table for Czechoslovakia, eastern Germany and Hungary reflect this process. The information for Poland and Rumania shows, by contrast, a

continuing maintenance of investment prices at unchanged levels for long period.[154]

The fact remains, nevertheless, that in spite of some adjustment in investment prices, a number of wholesale price reforms and a standardization of subsidies and taxes in foreign trade, price systems in the Soviet Union and eastern European countries are still not fully reliable guides for investment decisions and investment profitability. They frequently fail to provide a realistic assessment of economic costs and to provide guidance from the centre for enterprise decisions.

The " synthetic indicators " of investment efficiency, which have been developed and used for some time in all these countries as measures of the rationality of investment decisions, have, in these conditions, still maintained their usefulness.[155]

[154] The implied price index of fixed investment in the Soviet Union has recently shown the following change:

	Billions of roubles		*Implied price index*
	1955 prices	*1 January 1969 prices*	*1 January 1969 1955 = 100*
Plan for 1969:			
Total fixed investment	65.2	72.4	111.0
of which:			
Centralized investment . .	46.6	52.1	111.8
Decentralized investment .	18.6	20.3	109.1

Sources: Izvestia, 11 December 1968.

[155] See *Economic Survey of Europe in 1962*, Part 2 *(Economic Planning in Europe)*, chapter IV, pp. 35-42.

Financing and plan implementation

The decentralization of investment brought important changes in the methods of investment financing. New financial instruments have been introduced in practically all these countries for increasing enterprise responsibility in financial matters; such instruments either create possibilities for the self-financing of investment or extend the scope of credit arrangements for the financing of investment projects.[156] The combined effect of giving high priority to the completion of continuing projects under the traditional system, and of the new regulations, has, however, tended in all countries to promote an excessive expansion of investment demand far beyond the availability of the material resources for investment. This has not only had adverse repercussions on the selection and choice of investment projects by enterprises and local authorities, but has also necessitated administrative restrictions on self-financing and credit restrictions through the banking system (as in Czechoslovakia and Hungary), or the advance inclusion of decentralized allocations into the central plan, or the introduction of permit systems for new construction and an administrative rationing of machinery, equipment and construction material supplies (as in the Soviet Union and Poland).

[156] For details, see Part 2(i) of this chapter.

6. CONSUMERS' INCOMES AND SUPPLIES

General pattern

A certain slow-down in the rate of growth of national income in all countries of the area except Albania and Poland in 1968 had a hardly perceptible effect on the momentum of expansion of consumption of populations concerned. On the whole, consumption standards continued to expand at high rates, in broad accordance with the targets in the current medium-term plans.

Indeed, in several countries money incomes of population rose faster than planned, causing some anxiety among planners concerned with the maintenance of equilibrium in consumer markets. In most countries these pressures were associated with above-plan expansion of average wages and/or of peasant incomes, whereas in Hungary and Poland above-plan growth of non-agricultural employment also played some role; in Bulgaria and Rumania, the unplanned growth of employment, characteristic of the preceding years, was arrested. In general, consumer price levels were not allowed to rise much, not even in Czechoslovakia, Hungary and Bulgaria, where upward price movements were feared as a concomitant of the economic reforms.

Improvements in real incomes were by no means uniform in all countries. In Czechoslovakia and in the Soviet Union, average real wages were reported to have increased by around 7 per cent—much faster than planned. The annual targets were also exceeded in Poland and Hungary. But in Bulgaria average real wages declined by around 3 per cent, and no data have as yet been published on the trends in real wages for eastern Germany and Rumania. In Hungary, Albania, Bulgaria and probably Czechoslovakia, peasants fared better than the wage-earners, but in some countries the slow-down in the growth of agricultural deliveries reduced the increment in peasant receipts in 1968 and will have an adverse effect in the current year.

If some strains appeared in a number of countries in supplies to specific markets, global stability was generally maintained everywhere, due largely to improved domestic supplies of industrial goods (including processed foodstuffs) and, in some countries, to increased imports.

TABLE 16

Average wages and incomes

(Percentage change from preceding year)

	1964	*1965*	*1966*	*1967*	*1968*	*1968 Plan*	*1969 Plan*
Bulgaria							
Nominal wages (per wage-earner)	2	2	5	11	2 [a]	..	..
Cost of living	—	−1	—	..	5 *	..	..
Real wages (per wage-earner)	2	3	5	..	−3 *	..	..
Real incomes of wage-earners [b] (per capita)	4	2	9	..	..	..	..
Real incomes of peasants [b] (per capita)	—	12	7	..	..	..	..
Czechoslovakia							
Nominal wages (per wage-earner)	2.9	2.3	2.5	5.5	8.2	5	5
Cost of living	0.4	1.2	0.5	1.4	1.2	2-2½	2-2½
Real wages (per wage-earner)	2.4	1.2	2.0	3.9	7.0	2½-3	2½-3
Eastern Germany							
Nominal wages [c] (per wage earner)	3.3	3.5	2.0	2.4	..	..	..
Cost of living [d]	0.1	−0.4	—	1.3	..	..	..
Real wages [c] (per wage-earner)	3.2	3.9	2.0	1.1	..	..	..
Hungary							
Real incomes of population [e] (per capita)	6	—	5	6	..	..	4-5
Nominal wages (per wage-earner)	3	1	4	4	2-2½	..	..
Cost of living	1	1	2	1	—	..	..
Real wages (per wage-earner)	3	—	2	4	2-2½	1½-2	2
Real incomes of wage-earners [f] (per capita)	6	—	5	5	5-6	3-4	..
Real incomes of peasants [f] (per capita)	7	−2	6	9	>5-6	..	..
Real consumption of peasants [f] (per capita)	6	2	5	6	..	3-4	..

TABLE 16 *(continued)*

Average wages and incomes

(Percentage change from preceding year)

	1964	*1965*	*1966*	*1967*	*1968*	*1968 Plan*	*1969 Plan*
Poland							
Nominal wages (per wage-earner)	3.1	2.6	4.5	4.0	3.9	2.5	2.2
Cost of living	1.0	2.6	1.2	1.5	2.4	..	..
Real wages (per wage-earner)	2.1	—	3.3	2.5	1.5	..	..
Real consumption of peasants [g]	5	5	5	1	..	..	..
of which: money incomes	5	10	7	2	..	..	..
Rumania							
Nominal wages (per wage-earner)	4	7	6	2.8	..	..	..
Cost of living [d]	2	1	—	0.5	..	..	..
Real wages (per wage-earner)	2	6	6	2.3	..	3	5.1
Soviet Union							
Real incomes of population (per capita)	4.8	6.8	5.9	6.7	6.1	6.9	5.5
Nominal wages (per wage-earner)	2.9	6.1	3.8	4.2	7.5	5.4	3.3
State retail trade price index	—	−1	−1	—	..	..	..
Nominal incomes of wage-earners [j]	2.4	7.0	3.9	4.5	7.9	..	..
Real incomes of wage-earners (per wage-earner)	..	4	4	5	..	..	..
Real incomes of collective farmers	..	8	10	9	..	..	..
Receipts of peasants from collective farms [h]	..	16	11	7	6.5 [i]	5.6	7.5

Sources: National statistics, plans and plan-fulfilment reports; "Real incomes in the Soviet Union", *Trud USSR*, Moscow 1968, p. 134; and direct communication from the Soviet Government.

a Industry only.
b Including presumably the material cost of state-rendered services.
c Workers and employees in the socialist sector of material production.
d Derived from the other two series.
e Including the value of unpaid services to population.
f Excluding the value of unpaid services rendered to population.
g Income from agricultural activities, including income spent on non-productive investment, and increase in cash holdings.
h In cash and in goods.
i Provisional estimate (*Planovoe khozyaistvo*, No. 1, 1969, p. 7).
j Including social benefits and subsidized services (per wage-earner).

Supplies of consumer durables, in particular, continued to find a ready market everywhere, and in several producing countries the automobile industry entered, or is about to enter, a new stage of development. Structural changes in demand, towards better quality and wider variety of assortment of goods and services, were manifest everywhere, but were not always matched on the supply side. Some improvements in the pattern of supply are expected to follow in the wake of the economic reforms now in progress.

Living standards were also influenced by further improvements in the various social welfare schemes as well as by some acceleration in house building activities. However, in most countries the volume of building construction again fell short of annual plan targets, putting in danger the objectives of the current five-year plan.

To a certain extent plan targets for 1969 reflect the growing preoccupation of the planners with the problems of internal and external market equilibria. The generally accepted policies of relative stability of price levels and the difficulties experienced in controlling the expansion of employment necessitate a cautious approach to further improvements in average wages. Moreover, some degree of uncertainty still surrounds the outcome of the economic reforms now in the early stage of implementation, making forecasts particularly hazardous. Nevertheless, the planned rapid growth of output of consumers' goods and, still more, of services, as well as the high priority given to the consumption problems everywhere, should result in further significant gains to consumers in all countries. As in the past, consumers will again benefit from improved social services and, in some countries (the Soviet Union, Bulgaria, Czechoslovakia), from a greatly accelerated programme of housing construction.

Developments in individual countries

In *Albania*, the annual plan for 1968 envisaged a growth of national income of 17 per cent, to be accompanied by a decline in the share of consumption from 82 to 77 per cent. In the event, national income increased by 11 per cent and if some shift in its end-uses did take place on the planned scale, the growth of consumption could have been roughly in the 7-9 per cent range. This estimate is supported by the reported rise in retail sales by 9 per cent (14 per cent in rural areas). Only 6.5 per cent growth in the value of sales was planned. As employment in the state sector was 10 per cent up on the 1967 average, it would seem that both incomes and supplies were considerably above the levels envisaged and incorporated in the annual plan.

No data on workers' and peasants' incomes have been published for some years now but the 1969 Plan foresees that peasants' real incomes should reach a level 24-26 per cent above that of 1965 and workers' incomes should be 14-16 per cent higher. If achieved, these targets would represent the attainment in 1969 of the levels postulated in the Fourth Five-year Plan for 1970—with, however, a faster growth of wage-earners' incomes (and hence a slower narrowing of the gap between urban and rural incomes) than originally envisaged.

A slow-down in the expansion of non-agricultural employment, price revisions accompanying the economic reform and a setback in agricultural production were among the principal factors influencing the pattern of population incomes in *Bulgaria* in 1968.

In spite of a rise in national income by 6.5 per cent (rather than by the 10 per cent planned) the consumption fund was reported to have increased by 8 per cent.[157] As no data on per capita real incomes of wage-earners and of peasants have yet been published for the post-1966 period, recent trends in income cannot be established with any precision. As reported in the SURVEY for 1967, workers benefited in that year both from a steep increase in average wages and from a fast expansion of employment. The final figures show that these tendencies were even stronger than shown by preliminary data, the increase in average wages of 11 per cent having been in fact accompanied by a growth of non-agricultural employment by 4.6, which forced up the total wage-fund by about 16 per cent; and, in spite of a virtual stability of peasant incomes, total incomes of population rose in that year

Bulgaria: Money incomes and expenditure of the population [a]

	Percentage increase over preceding year			*Structure in 1967*
	1965	*1966*	*1967*	*Percentages*
Total income	10.0	10.5	13.2	100.0
Wages and wage-like payments	8.9	14.2	16.1	54.5
Money income from collective farms	5.9	2.6	2.1	18.4
Receipts from sale of agricultural products	55.2	19.7	−7.2	3.0
Pensions	8.4	8.7	19.0	8.2
Social allowances	4.3	7.4	12.4	3.1
Credits	41.3	9.8	36.4	4.1
Other receipts	9.0	9.1	16.3	8.7
Expenditure	10.0	10.5	13.2	100.0
Purchase of goods	7.6	5.9	12.7	67.7
Payment for services	12.9	11.6	7.3	11.4
Taxes and fees	9.2	13.3	16.3	9.2
Repayment of credits	33.4	49.8	18.5	2.5
Increment in savings deposits	7.4	39.9	31.5	7.2

Sources: Direct communication from the Government.
[a] Excluding transactions within the household sector.

by more than 13 per cent. In these circumstances, a marked deceleration in 1968 in the expansion of wages and employment was a welcome contribution to the supply/demand equilibrium.[158] Market stability was further helped by price revisions instituted at the beginning of the year, but food price increases occurring on free markets during the year point to the existence of some pressures. The comparison of the trends in volume and in value of state retail trade indicates a rise in the retail trade price index of around 4 per cent over the year as a whole;[159] however, the cost of living probably rose more, as service charges (including rents) have tended to increase more than proportionately.

The rise in the volume of retail trade by 8 per cent was consistent with the reported growth of consumption, but —as average real wages declined by some 3 per cent— improved supplies must have principally benefited the peasants, unless considerable dis-savings among workers' families occurred.[160] Peasant incomes grew, in spite of poor crop results, due to marked increases in contractual prices, particularly for meat, milk, fruit and vegetables, introduced at the beginning of the year.[161] Moreover, purchases of meat went up by nearly 6 per cent. It seems that in 1968 collective farm members drew part payments for the good production results obtained in 1967.

As in the preceding years, consumer durables figured prominently in the expansion of sales in the retail trade. Thus sales of television sets, refrigerators and sewing machines were around 50 per cent above the 1967 level. Demand for textiles picked up somewhat and that for ready-made clothing continued to grow at a fast rate, helped by the expansion of output by 15 per cent. On the other hand, sales of many foodstuffs (including animal and dairy products) were no higher than in 1967 and some probably even declined, but no details are given in the report on plan-fulfilment.

Retail trade stocks seem to have increased somewhat in 1968, but by less than the volume of trade:

Retail trade stocks (end of year or quarter)

	1965	*1966*	*1967*		*1968*		
			III	*IV*	*I*	*II*	*III*
Value (million leva)	569.5	617.0	605.7	622.9	618.9	632.1	627.0
Turnover days (quarterly average)	73	71	65	61	65	63	60

Source: *Statisticheski izvestia*, No. 10, 1968.

The Plan for 1969 devotes considerable attention to the problems of market equilibrium. The expected growth of total money incomes of the population to 7,188 million leva (nearly 20 per cent above the 1967 level) is to be "covered" by an increase in the retail trade turnover by 8.2 per cent. A 10 per cent growth of output of industries producing consumer goods, and one of 16.6 per cent in agricultural output, should ensure adequate

[157] It is not clear, however, whether this figure is at current or constant prices. The series of data on uses of national income, published in Bulgarian statistical compilations, are calculated at current prices.

[158] Only data concerning industry are available at the time of reporting; they indicate a 2.3 per cent growth of employment, accompanied by a 2 per cent increase in average wages.

[159] Comparing the first 10 months of 1968 with the corresponding period in 1967, the state prices for fruit and vegetables went up as follows (in leva per kg): potatoes—from 0.11 to 0.14; tomatoes—0.18 to 0.58; green peppers—0.16 to 0.61; dried onions—0.18 to 0.32.

[160] Pensioners have benefited from a 15 per cent increase in statutory pension minima, and their number has tended to increase continuously for demographic reasons.

[161] Prices for meat deliveries went up by the following amounts (leva per ton): beef—100, veal—189, lamb—92 and pork—44. The price paid for sheep milk rose by 40 leva and that for buffalo milk by 80 leva per thousand litres.

supplies to meet the delivery targets and raise the aggregate consumption fund by 9.5 per cent. Per capita real incomes of population should increase by 5.7 per cent and reach in 1969 a level 25 per cent above that of 1965.[162]

A boom in consumer incomes on a scale surpassing the already optimistic targets announced in the new programme in the spring was a salient feature of 1968 developments in *Czechoslovakia*. The resulting pressure on consumer markets was intensified by significant dissavings during the August events, which were only recovered towards the end of the year. As the domestic output of consumer goods failed to accelerate quickly enough to meet the growth of purchasing power, partly due to the August disruptions, and consumer prices were not allowed to rise much, the global supply/demand equilibrium was re-established by greatly increased imports of consumer goods, by some diversion to domestic markets of goods destined for exports and by a substantial running down of stocks of consumer goods. Even so, shortages of some goods were reported, particularly at the end of the year.

Personal consumption was reported to have increased by 9 per cent in 1968, the highest rate attained in any postwar year. (The original plan for the current five-year plan foresaw an increase of personal consumption by 16-17 per cent over the whole period of the plan.) Distributed national income also rose fast (by 7 per cent) but the share of personal consumption increased, in contrast to the trend in the two preceding years. Average real wages were 7 per cent up on 1967 (compared with 2.5-3 per cent planned), following a 4 per cent increase in 1967; before this, the annual rate of expansion oscillated around 1-2 per cent. Last year, peasant incomes probably rose even faster than real wages.

The boost in wage-earners' employment income was reflected in an increase in the wage-fund by more than 10 per cent, total employment increasing by 1.9 per cent [163] and the cost of living by an estimated 1.2 per cent. Gains in average wages were smaller in industry and in building than in other sectors, in accordance with the policy of correcting some inter-sectoral disparities. Particularly marked improvements occurred in railway transport and in retail trade (an increase of about 15 per cent) and in health and education. Within industry—where payments from the incentive funds rose steeply in 1968 and amounted on the average to around 3-4 week-wages—workers and employees in the food-processing branches did particularly well. Further stages of the economic reform are expected to bring a wider differentiation of earnings by skill and by enterprise.

In industry as a whole, the annual growth of average wages was considerably above that of productivity (average wages increasing by 6.2 per cent against a 3.8 per cent growth in productivity). This unfavourable relation was particularly marked in light and food industry (where basic rates were adjusted last year), and was partly due to the fall in production in the late summer months.

TABLE 17

Savings deposits

(Percentage increase from preceding year; end-year comparisons)

Country	*1964*	*1965*	*1966*	*1967*	*1968*
Bulgaria	12.8	14.4	17.6	..	..
Czechoslovakia	13.2	14.0	10.9	14.1	..
Eastern Germany	15.5	14.3	12.0	11.1	11.7
Hungary	36.8	19.6	14.9	7.0	18
Poland	22.6	21.0	22.5	20.5	16.5
Soviet Union	12.3	19.2	22.4	17.2	20.4
of which: Urban	11.2	19.3	20.9	16.6	..
Rural	15.5	18.9	26.7	19.2	..

Sources: National statistics and plan-fulfilment reports.

Money incomes in agriculture rose by nearly 17 per cent, the increase being particularly rapid during the first quarter of the year when the so-called " liquidation sums " were paid for the results of the good 1967 performance of collective farms. Both in 1967 and in 1968 the volume of state purchases rose by some 7 per cent and in the former year the average prices paid for agricultural products were raised by as much as 21 per cent, but farmers' gains were smaller in real terms since prices of some inputs rose.

A vast programme of improvements in social welfare was launched in 1968 and is to be completed this year. In May, 370 thousand pensioners had their minimum rates raised by an average of 130 Kčs. In July, the first stage of the reform of the children's allowance system was carried out. This is now based on progressive payments according to family size, the allowance varying from 90 Kčs per month for one child to 1,030 Kčs (more than 50 per cent of the average wage) for four children. At the same time, maternity leave was extended to 26 weeks during which 90 per cent of wages are paid to working mothers, and the maternity grant was raised. These measures aim at encouraging larger family size as well as at a more equitable distribution of incomes between families of various sizes.[164]

There was a further extension of state credit facilities to the population, the amount outstanding being more than 10 per cent up on 1967. Other incomes included some rehabilitation payments.[165]

[162] A new system of children's allowances, strongly favouring the third child in the family, is to be introduced at the beginning of 1969. The decline in crude birth rate seems to have come to a halt in 1968, when 16.1 babies were born per 1,000 inhabitants, compared with 15.0 in 1967 (see also chart 2 in chapter III).

[163] Once again this was to a large extent attained through the expansion of female employment. The share of women in the total work force in the socialist sector rose from 44.3 per cent in 1967 to 44.7 per cent in 1968.

[164] There was a further decline in the number of live births in 1968 and the crude birth-rate declined to 14.9 per 1,000 in spite of an increase in the number of women in reproductive ages by about 50 thousand. The natural rate of increase was further adversely affected by an increase in crude death-rates from 10.1 in 1967 to 10.6 in 1968.

[165] The total amount of rehabilitation compensations has been fixed at 3.1 billion Kčs, out of which 1.3 billion is in cash and 1.8 billion in state obligations. All those claims are expected to be settled by 1971.

Czechoslovakia: Money incomes and expenditure of population [a]

	1966	*Percentage change from the preceding year*				
	Billions Kčs	*1966*	*1967*	*1968*	*1968 Plan*	*1969 Plan*
Total income	161.6	5.7	7.2	12.3	5.1	10.0
Wage fund	108.9	5.3	7.1	10.1	5.5	8.0
Incomes in agriculture	13.0	4.0	9.2	16.6	0.7	5.4
Social benefits	25.4	4.9	4.7	15.0	7.9	20.7
Credits to population	5.1	30.8	11.8	..	1.8	14.0
Total expenditure	161.6	5.7	7.2	12.3	5.1	10.0
Retail trade	111.0	4.4	5.8	13.3	6.2	10.1
Taxes, etc.	15.9	3.7	3.6	..	6.9	3.2
Services	21.3	7.0	4.2	6.1	4.1	5.1
Credit repayments	4.0	37.9	25.0	..	4.0	9.6
Increment in saving deposits and cash holdings	5.3	4.0	16.5	—	—	18.2

Source: Direct communication from the Government and plan-fulfilment reports.
[a] Excluding transfers within the household sector.

Over the whole year, the cost-of-living index of wage-earners' families was estimated to have increased by 1.2 per cent, but the trend was upwards in the course of the year (quarterly data, corresponding period of 1967 = 100.0):

Quarters	*Wage-earners' families*	*Farmers' families*
First	100.4	100.5
Second	100.7	100.5
Third	101.9	101.4
Fourth	101.9	101.8

In the fourth quarter of 1968, average prices of foodstuffs were 1.2 per cent up on 1967, and those of industrial goods 2.4 per cent higher. Among food items, some price increases occurred for fish, tinned and fresh vegetables and fruit preserves. Among non-food goods, prices of textiles, furniture, electrical equipment, china and liquor went up, but those of nylon stockings and stationery declined. Charges in public catering rose by 3.6 per cent on the average, mainly because of mark-ups on the price of alcohol. Some charges for personal services went up steeply, such as chemical cleaning and tailoring, but this was not always reflected in improvements in quality. The level of average prices in retail trade was also affected by structural changes in sales towards better but higher priced qualities. This effect was estimated to have been responsible for a further rise in average prices by some 1½ per cent.[166]

Consumers' retail trade purchases rose by over 13 per cent—more than twice as fast as planned. Retail trade was brisker in the second than in the first half of the year, stimulated both by growing incomes and by withdrawals from savings accounts. Savings deposits declined in the late summer but seem to have picked up by the end of the year. The total of savings and cash holdings increased by about 11 per cent over the year.

[166] *Hospodářské noviny*, No. 6, 1968.

The increase in output of consumer goods (Group B) by 5.7 per cent—deliveries to the retail trade increasing especially fast from engineering (by 24 per cent) and chemicals (15 per cent)—was not quite sufficient to meet the greatly expanded effective demand, particularly in the second half of the year. The gap was largely filled by a 29 per cent decline in trade stocks,[167] by stepping up imports of consumer goods and by retaining for domestic consumption a larger part of output. Total imports from the socialist and western countries rose by more than 10 per cent, and within this total foodstuffs and industrial consumer goods figured prominently.

As shown in the Part on industry above, final deliveries from home production rose somewhat faster than the latter, indicating a better demand orientation of supply. However, the increase in deliveries to consumer markets by 8.9 per cent (in wholesale prices) was largely due to a shift in the pattern of market destination—exports rising by only 3.9 per cent. Among the deliveries to the home market, particularly significant gains were registered for passenger-cars (17 per cent increase), television sets (33 per cent), radios (14 per cent), furniture (12 per cent), woollen textiles (11 per cent), carpets (29 per cent), knitwear, linen and cotton clothing.

The strains appearing at the end of the year will have a considerable influence on developments in 1969. The original plan target for a further 10 per cent increase in the total incomes of population, which was based on the expected rather than the actual results of the preceding year, will have to be revised downwards unless planners are prepared to tolerate some price increases, or unless they are assured of further expansion of imports of consumer goods on a large scale.

[167] As supplies to consumer markets (both from domestic and foreign sources) amounted to 139 billion Kčs and the value of retail trade amounted to 143 billion Kčs, trade stocks must have declined by at least 4 billion Kčs; and by the end of 1967 stocks in trade represented 25.5 billion Kčs.

The original phasing of the economic reform foresaw that 50 per cent of the retail trade turnover in 1969 would be subject to free price movement; it was anticipated that the average price level would go up by not more than 2½ per cent as a result. In the present conditions, and assuming a further steep increase in nominal incomes, this measure would probably result in a much more pronounced rise in the cost of living.

Room for manœuvre will be limited by the expected growth of social welfare benefits by some 21 per cent, following the measures introduced in 1968 and the upward adjustment of pensions introduced on 1 January 1969, as well as by some commitments made to the trade unions concerning wage settlement to take place in the new year.[168] Moreover, the good 1968 agricultural results will be partly reflected in increased peasant incomes in 1969.

In *Hungary*, in spite of a considerable slow-down in 1968 in the expansion of the distributed national income (see table 1 of this chapter), the deceleration in the growth of investment made it possible to increase consumption at a rate only a little below that in 1967. An increase in consumption in 1968 by 5 per cent was

[168] An upward adjustment of all pensions by 8 per cent was decreed, to compensate for the 5.5 per cent increase in the cost of living between 1961 and 1967, and the expected further 2.5 per cent increase by 1970.

TABLE 18

Volume of retail trade turnover

(Percentage change from preceding year)

	1964	1965	1966	1967	1968 Plan	1968 actual	1969 Plan
Albania							
Total sales [a]	5.7	2.8	7.0	5.0	6.5	9.0	9.3
Bulgaria							
Total sales	5.8	7.9	8.6	11.6	9.0	8.1	8.2
Food	5.3	7.3	6.4	9.1	..	..	..
Public catering [a]	4.7	7.6	7.5	11.1	..	..	..
Non-food	6.3	8.4	10.4	13.7	..	..	..
Czechoslovakia							
Total sales [b]	2.8	5.5	5.2	5.2	..	12 *	..
Food	2.1	4.9	2.7	4.2	..	..	..
Public catering [a]	—2.6	2.4	2.8	6.6	..	..	..
Non-food	3.8	6.2	8.5	6.4	..	..	..
Eastern Germany [a]							
Total sales	3.3	4.3	4.1	4.0	4.2	4.8	4.7
Food	3.3	3.6	4.3	4.5	4.0	4.6	3.6
Public catering	..	..	..	..	..	..	..
Non-food	3.2	5.1	3.9	3.4	4.4	4.9	6.1
Hungary							
Total sales	7	4	7	10	7	7	8-9
Food	8	3	4	8	5-6	7 *	4
Public catering	9	2	7	7	..	..	..
Non-food	7	4	10	11	7-8	7 *	10-12 *
Poland							
Total sales	4.3	8.8	6.2	7.2	5.7	..	6.7
Sales in socialist sector	4.7	8.9	6.8	6.8	..	7.3	..
Food	2.4	7.0	8.2	7.0	..	.	..
Public catering [a]	3.6	7.0	7.2	11.4	..	8.3 [c]	..
Non-food	5.5	9.4	5.6	6.9	..	..	..
Rumania							
Total sales [b]	8.0	7.4	9.4	9.7	8	8.8	8
Food	11.6	5.2	5.6	7.0	..	7.0	..
Public catering	5.3	8.8	12.7	9.7	..	..	..
Non-food	6.7	7.6	12.3	12.1	..	10.4	..
Soviet Union							
Total sales [b]	5.3	9.8	8.7	9.3	7.8-9.5	8.7	7.5-8.4
Food	5.7	8.4	7.8	9.0	..	7.3	..
Public catering	9.6	5.1	6.6	8.5	..	..	..
Non-food	4.8	12.3	9.7	10.0	..	10.6	..

Sources: National statistics, plans and plan-fulfilment reports; *Economicheskaya Gazeta*, No. 9, 1969, p. 2.

[a] At current prices, [b] In the socialist sector. [c] At constant prices the increase was 4.7 per cent.

reported to have been accompanied by an increase in per capita real incomes of wage-earners by about 5-6 per cent and an apparently even faster one among peasants. As real incomes of wage-earners and of peasants were expected to rise by some 3-4 per cent only, plan targets were significantly overfulfilled. Moreover, the improvement in peasant incomes follows substantial gains during the two preceding years. During the first three years of the current five-year plan period, peasant real incomes rose by nearly a quarter.[169]

Workers' nominal wages per earner went up by only 2 per cent, but wage-earner families benefited again from a steep increase in employment, and from further expansion of social benefits. The consumer price index was reported to have remained at the 1967 level, but went through some vicissitudes in the course of the year. The price revision introduced at the beginning of the year as part of the economic reform reduced the general price level somewhat,[170] but this was offset by upward movements during the year, affecting mostly services and free market sales of fruit and vegetables. However, the average annual cost-of-living index calculated on the basis of the pattern of expenditure of workers' families was at about the same level in the two years. It fell by 1 per cent for peasant families and increased slightly for workers and employees in the higher income brackets.

Hungary: Gross money incomes of the population [a]

	1967 Billions of forints	*Percentage change over previous year*		
		1966	*1967*	*1968* *
Total money incomes	148.5	8.0	7.6	8-9
of which:				
Wages	77.6	5.7	5.4	5-5.5
Other wage-like incomes . .	8.0	13.4	20.0	11
Social benefits	16.2	17.2	9.8	
Peasant incomes	24.7	7.4	11.8	18-20 [b]
Incomes in private sector. .	7.4	2.9	2.5	..
Other incomes	14.6	12.9	7.3	..

Source: A lakosság jövedelme és fogyasztása 1966-67, p. 13 and plan-fulfilment report for 1968.

[a] Including transactions within the household sector.
[b] Preliminary data based on first 9 months.

Money incomes of the population rose by some 8-9 per cent and the wage-fund was exceeded due to the excessive growth of employment; at the same time peasants' money receipts rose by about 20 per cent, due partly to price increases granted for state procurement of pigs (9 per cent) and slaughtered cattle (7 per cent). These monetary incentives, together with poor fodder supplies, encouraged peasants to reduce their livestock (see Part 4 of this chapter).

The value of retail trade rose by 7 per cent, somewhat less than the total of money incomes. No inflationary pressures were reported, but personal savings deposits were up by 4.4 billion forints, this increment being 2½ times higher than in the preceding year,[171] representing nearly 4 per cent of the value of retail sales in 1968. By the end of last year saving deposits were 18 per cent up on the 1967 figure. As the main beneficiaries of rises in money income were peasants, the pressure on food prices was not excessive, particularly in view of the boost in meat supply for the reasons mentioned above. After increasing very rapidly in the two preceding years, imports of industrial consumer goods rose very little in 1968.

The imbalance between supplies and the purchasing power of the population could be expected to exercise an influence on the level of trade stocks, as in the two preceding years. But although the volume of stocks declined somewhat between the end of 1967 and the end of 1968, this seems to have been partly due to a temporary though substantial rise in stocks in December 1967, probably associated with the imminence of the price reform.

As in the recent past, consumer durables were the fastest growing item of retail sales in 1968 (a 10 per cent increase). Considerable improvements were recorded in the sales of transistor radios, television sets, refrigerators and motor-cycles. The demand for clothing, particularly ready-made, was also greater than in previous years. It seems that the assortment and quality of consumer goods of industrial origin improved somewhat. Supplies of meat and dairy products expanded significantly; sales of meat, after little or no increase during the previous three years, rose by 14 per cent in 1968.

Thus it would seem that the Hungarian reform has not led—as many feared—to an upward movement of consumer prices. However, this seems to have been achieved at the cost of keeping down the expansion of average money wages at a time when employment outside agriculture and peasant money incomes appeared difficult to control. The apparently high savings propensity of the population was also helpful. Yet the reform—at some stage—must allow more flexibility in the movement of wages and salaries, particularly with regard to their incentive-premia content.

The precariousness of the supply/demand equilibrium, characteristic of Hungarian developments during the past three years, is reflected in the plan targets for 1969. The Plan allows for a 4-5 per cent growth of real per capita incomes of the population (including a 2 per cent increase in average real wages), which is to be backed up by an expansion of retail trade turnover by 8-9 per cent.

Total money incomes of the population in *eastern Germany*, which with the prevailing stability of prices and of population moved almost in parallel with the index of

[169] One factor contributing to the growth of total peasant income from all sources was the spread of industrial and construction activities (such as food processing) on collective farms. This also explains why employment on those farms changed very little and why some movement from the towns to villages was reported.

[170] Prices of some foodstuffs and consumer durables were cut as follows: butter—24 per cent, cheese—14 per cent, sugar—8 per cent, cocoa—38 per cent, transistor radios—23 per cent, television sets—10 per cent, refrigerators—23 per cent. On the other hand, prices of shoes increased by 8-10 per cent, knitwear by 10-12 per cent and furniture by 5-6 per cent (the list is not comprehensive).

[171] In 1967, the increment in cash-holdings was nearly as large as that in personal savings (see the SURVEY for 1967, chapter II, p. 54).

TABLE 19

Retail sales of selected products

(Percentage change from preceding year)

Commodity	Albania				Bulgaria				Czechoslovakia [a]				Eastern Germany [a]			
	1965	1966	1967	1968	1965	1966	1967	1968	1965	1966	1967	1968	1965	1966	1967	1968
Meat	..	22	2	10	9	12	7	..	5	3	2	5	4	4	3	..
Meat products	..	..	..	..	—	11	7	..								
Sugar	7	11*	11	14	6	6	8	..	—	−3	−3	..	1	2	−4	..
Butter	..	..	..	..	−8	12	9	..	—	—	1	2	—	4	7	..
Milk	..	10*	27	3	14	6	10	..	—	1	6	..	—	—	2	..
Cheese	..	11*	8	..	−1	8	8	..	5	6	10	4	9	3	4	..
Eggs	..	10	..	7	2	8	5	..	3	−2	2	..	7	−3	2	..
Fresh fruits	11	..	18	..	16	14	−1	..	−26 [b]	44 [b]	..	..	40 [c]	44 [c]	3 [c]	..
Fresh vegetables	5	..	..	..	2	16	−4	..	−4	−1	6	..	..	..	..	..
Woollen fabrics					6	10	15	..	1	3	13	11	..	..	..	..
Cotton fabrics	−5	16*	23	21	5	−5	—	..	−4	−3	−1	..	..	..	..	..
Silk fabrics					5	13	7	..	−16	−1	1	..	..	..	..	..
Ready-made clothing	..	..	13	..	10	19	13	..	—	4	—	10*	..	..	..	..
Footwear	..	..	..	26	−3	15	6	5	−1	2	3	3	6	4	—	..
Bicycles	..	..	..	..	..	..	..	..	−15	32	9	..	−5	5	3	..
Motor-cycles and scooters	..	..	..	..	11	−26	..	..	−11	−25	−16	..	−4	−7	2	..
Washing machines	..	..	..	..	3	6	22	14	10	3	12	..	−1	−4	3	..
Refrigerators	..	..	..	..	68	21	39	57	15	15	15	..	21	..	..	..
Sewing machines	..	..	..	..	6	−7	14	44	7	−4	..	..	−17	29	−13	..
Vacuum cleaners	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Watches	..	..	..	..	−8	13	13	..	−7	—	—	..	2	3	−1	..
Motor-cars	..	..	..	..	69	42	46	..	11	66	34	17	18	10	12	..
Radios	..	..	..	..	−9	7	6	..	21	2	16	14	18	28	2	..
Television sets	..	..	..	..	9	57	35	50	−12	26	−9	33	−7	−8	−3	..
Furniture	..	..	..	..	7	7	20	10	6	3	2	12	2	3	7	..

Commodity	Hungary				Poland				Rumania [d]				Soviet Union			
	1965	1966	1967 [e]	1968 [e]	1965	1966	1967	1968	1965	1966	1967	1968	1965	1966	1967	1968
Meat	2	−17	3	14	12	11	3	2	7	11	5	6	9	11	11	8
Meat products	−1	−12	13						−3	15	10	..				
Sugar	5	6	3	3	4	6	1	6	6	6	4	5	5	5	6	3
Butter	—	2	—	22	15	12	13	6	4 [f]	6 [f]	11 [f]	4	5	−1	3	7
Milk	5	8	3	5	2	3	5	5	10	14	16	10	16	9	11	11
Cheese	−1	−7	5	39	..	..	..	..	−13	9	8	8	18	6	3	12
Eggs	−6	5	−5	−1	−5	3	1	..	49	11	..	..	40	8	9	10
Fresh fruits	−19	17	12	..	−34	49	−3	..	..	45	..	..	17	18	10	14
Fresh vegetables					−12	19	5	..	..	6	..	..	—	3	12	1
Woollen fabrics	17	−6	9	5	5	1	−1	−3	..	9	3	4	9	1	1	6
Cotton fabrics	12	−9	−3	..	—	12	6	4	..	5	3		−2	5	4	—
Silk fabrics	38	−22	—	−8	—	−2	1	−2	..	4	5		4	7	4	−6
Ready-made clothing	−1	3	6	8	11	3	5	7	..	15	13	10	9	7	10	12
Footwear	5	2	5	3	4	6	5	3	5	16	−6	8	10	11	14	10
Bicycles	2	27	−1	45	18	2	4	4	..	..	..	..	6	8	1	2
Motor-cycles and scooters	−27	39	15	55	7	−19	—	−3	..	..	..	..	8	7	—	2
Washing machines	6	18	−8	−5	−4	−3	−3	7	3	5	9	..	21	13	9	9
Refrigerators	43	33	9	9	32	19	14	11	19	10	2	18	50	34	23	20
Sewing machines	−21	13	80	..	−18	−9	−8	6	−3	1	37	..	−4	−11	−15	—
Vacuum cleaners	29	−12	−2	35	8	19	4	3	..	..	7	..	20	12	14	13
Watches	−6	27	−14	..	19 [g]	−9 [g]	10 [g]	13 [g]	..	..	..	..	15	8	7	3
Motor-cars	14	57	32	..	56	3	−4	2	..	..	..	..	−8	7	20	7
Radios	−10	49	−4	153	10	17	12	3	2	19	−8	..	12	−4	3	3
Television sets	−27	10	−4	68	−3	19	−6	5	33	42	2	−7	26	19	7	15
Furniture	3	7	17	6	17	9	13	7	3	15	10	9	..	9	10	8

Sources: National statistics and plan-fulfilment reports.

[a] Deliveries to the retail trade network. [b] Tropical fruits included. [c] Tropical fruits only. [d] Socialist sector only. [e] Nine months. [f] Including margarine. [g] Wrist watches.

per capita real incomes of population, rose by 4.9 per cent in 1968. This rate, equivalent to an increment of 3.9 billion marks, was higher both than those recorded in several preceding years and than the target incorporated in the current five-year plan (3.5-4.0 per cent).

The full impact of the new wage minima and improved social benefits instituted in mid-1967 was felt in 1968, and the total of money incomes was further affected by the new regulations on old-age pensions which came into force on 1 July 1968, raising the benefits by 8 per cent. Moreover, workers and employees benefited from the new premia systems, their total amount having increased by one-third on the previous year.[172]

Total retail trade turnover reached 57.9 billion marks, exceeding the 1967 figure by 4.8 per cent (compared with a plan target of 4.2 per cent). Sales of food and beverages rose by 4.6 per cent and of industrial goods by 4.9 per cent. For many years the sales of total foodstuffs have been higher than those of industrial goods—food and beverages accounted for nearly 60 per cent of total sales in 1967—and the year 1968 may in this respect represent a turning point.

In 1968, savings per head of the population rose by 273 marks or by 11.7 per cent—the same rate as in the preceding year. Total accumulated savings deposits now amount to some 43-44 billion marks, or the equivalent of about three-fourths of the total yearly retail trade turnover.

Improvements in supplies were reported for a few food items. Thus sales of meat and meat products rose by 4 per cent, fresh fruit by 11 per cent, frozen vegetables by 33 per cent and roasted coffee by 6 per cent. Per capita consumption of animal products is now at generally satisfactory levels:

	Unit	*Consumption in 1968*	*Percentage increase in 1968*
Meat and meat products	Kg	63.5	3.3
of which: beef and veal	Kg	19.7	3.7
Fresh milk	Litres	100.8	2.1
Eggs	Numbers	217	0.5

Demand still exceeds supply for a number of industrial consumer goods. Deliveries to retail trade of such articles as " easy-care " clothing and textiles, fashionable footwear and upholstered furniture appear to have risen considerably in 1968, but further improvement will require increased productive capacity, which is foreseen in this year's plan. Moreover, with the implementation of the economic reform and the establishment of " co-operation unions ", it is hoped gradually to achieve better co-ordination between trade and industrial enterprises and, *ipso facto*, a better balance between supply and demand.

As in previous years, east German households continued to improve their stock of consumer durables:

	Units per 100 households			
	1965	*1966*	*1967*	*1968*
Television sets	48	54	60	65
Refrigerators	26	31	38	44
Washing machines	28	32	38	43

[172] 600 million marks were paid out in the form of end-year premia at the beginning of 1968. *Wirtschaft*, No. 35, 29 August 1968, p. 12.

The 1969 Plan foresees a further expansion of incomes of population by 4.5 per cent. This is to be matched by a 4.7 per cent increase in retail sales, with an added emphasis on non-food articles, the sales of which are to rise by 6.1 per cent (compared with the planned growth of food sales by only 3.6 per cent).

" Consumption from personal incomes "—the best available indicator of changes in living standards in *Poland*—rose by 6 per cent (5 per cent per capita) in 1968. This was a faster rate than planned, and also above that achieved in the preceding year (see table 1 of this chapter); thus the targets in the current (1966-1970) medium-term plan for total consumption of the population will almost certainly be reached.

As in preceding years, employment in the socialist sector grew at a faster rate than planned: 3.4 per cent and 3.1 per cent, respectively. (The corresponding figures in industry were 3.5 and 2.8 per cent).[173] As the average wage (in the socialist sector) rose also faster than planned (by 3.9 instead of 2.5 per cent), the wage fund target was exceeded: the actual growth was 8.1 per cent compared with 6.3 per cent planned. (The wage regulations introduced in the course of the year affected nearly 900 thousand workers, but their full impact will only be felt in 1969.)

Since the cost-of-living index rose by 2.4 per cent, average real wages increased by only 1.5 per cent. During the first half of the year, consumer prices were more than 5 per cent up on the corresponding period of 1967, but the comparison of the last quarters was affected by the steep increase in meat prices introduced in November 1967. Services were again the fastest rising item in the cost-of-living index: their average cost in 1968 rose by some 20 per cent, following increases of some 10-15 per cent both in 1966 and 1967.[174]

Steep increases were registered in 1968 in payments from the enterprise fund and other premia funds. Similarly, pension benefits rose by 22 per cent, due partly to the increasing number of pensioners and partly to the introduction on 1 January 1968 of the first stage of the new pension law under which about 250 thousand new

[173] In his speech of 28 January 1969, Mr. Gomulka stressed that the concern over the maintenance of full employment during the 1966-1970 plan period, which was one of the premises on which this plan was built, was not justified. In fact, more than the 1.5 million new jobs planned will be created, and the miscalculation was a result of an incorrect assessment of the future labour force balance (*Trybuna Ludu*, 31 January 1969). The failure to overcome the tendency of enterprises towards over-employment (on the demand side) and the increasing desire of non-working women to take up gainful employment (on the supply side), were among the main causes of the under-estimation of future labour force trends by the planners (*Nowe Drogi*, No. 9, 1968). Originally, it was assumed that the increase in female activity rates would add about 100 thousand women to the labour force. This figure has now been amended to 300 thousand. (K. Secomski, *Nowe Drogi*, No. 6, 1968, p. 48.)

[174] In contrast to past trends, the increases in the cost of living during the first two years of the current five-year plan period fell relatively more heavily on non-manual than on manual workers, and on higher income groups in general (see L. Beskid, *Ekonomista*, No. 6, 1968). This trend probably continued in 1968 since the share of expenditure on services is greater among higher income recipients and since the meat price mark-ups were more than proportionate on higher qualities.

pensions were granted and the average pension was increased by 12 per cent.

Because of this rapid expansion of benefits from sources other than the " personal " wage fund, and because of a further decline in the dependency ratio in workers' families, per capita real incomes of wage-earners (from all sources) rose by around 4 per cent—much faster than average real wages.

Peasant money incomes from state deliveries also rose by 4 per cent. (The non-inflationary receipts from the free market sales certainly increased more, both on account of rises in volume and in prices.) Grain deliveries brought them nearly 30 per cent more than in the past year, but those from animals and animal products remained at the level of 1967: a 10 per cent increase in deliveries of beef was offset by a decline in the delivery of pork; and the state purchased more milk than in 1967 but fewer eggs. In contrast to the preceding year, when total peasant money incomes also rose by some 4-5 per cent, there was in 1968 a marked deceleration in the state short- and long-term credits; these rose by only 4 per cent, compared with an increase of more than 12 per cent in 1967.[175]

Poland: Money incomes and expenditure of population [a]

(Percentage change from preceding year)

	1966	*1967*	*1968 Plan*	*1969 actual*	*1969 Plan*
Total income	9.1	7-8*	6.2	8-9*	7
Wages and wage-like incomes	8.1	8.7	6.3	8.1 [b]	6.5
Sickness and other benefits	5.5	4.3	..	..	9
Pensions		9.5	..	21.8	
Sales of agricultural products	9.3	4.7	..	4	1-2
Credits to population	11.1	12.5	..	4 [c]	..
Incomes in private sector outside agriculture	21.1	21	..	20*	..
Total expenditure	9.1	7-8*	6.2	8.9	7
Purchase of goods	6.4	7.8	6.8	8.7 [d]	6.7
Purchase of services	16.3	10.3	..	8	7-8
Taxes and fees	8.7	16 [d]	..	..	..
Increment in savings	29.5	14.4	..	−12.7	..

Sources: Gospodarka planowa, Nos. 8-9, 1967 and No. 9, 1968; *Zycie Gospodarcze*, Nos. 1 and 2, 1969; plans and plan-fulfilment reports.

a Excluding transcations within the household sector.
b Wage-fund only; premia payments rose by 17.5 per cent.
c Short-, medium- and long-term credits to peasants.
d Total retail trade turnover.

The supply/demand situation on consumer markets has been a cause of concern to Polish planners for some time now. Developments in 1968 did not significantly reduce these strains, but rather lifted the equilibrium point to a higher level: the level both of demand and of supply turned out to be considerably higher than expected. Thus total money incomes of the population rose by some 8-9 per cent instead of the 6.2 per cent planned [176] and the value of sales of goods and services increased by almost 9 per cent (nearly 7 per cent planned). In real terms, the global balance was maintained with some difficulty in spite of a steep increase in meat prices decreed at the end of 1967, which—together with increases in charges for services—was largely responsible for the significant increase in the cost of living. The increment in personal savings was rather less than in 1967, but savings deposits were about 17 per cent above the end-of-1967 level.

The above-plan output of the consumer-goods industries, a good agricultural year and a marked increase in imports of food products and of industrial consumer goods contributed to the overfulfilment of the 1968 targets for supplies to consumer markets. The light industry achieved particular successes in expanding production of some types of wool, cotton and silk textiles, and of ready-made clothing and leather shoes. In food processing, plans for production of sugar, butter and sea-fish were exceeded, but that of meat fell short of the target. There was a further development of private handicrafts and restaurants. The fall in state deliveries of pork was offset by imports of nearly 80 thousand tons of pork, partly in exchange for beef, the output of which exceeded expectations. Even so, meat deliveries were inadequate, in spite of the price increases of November 1967: once again the high income elasticity and the low price elasticity of demand for meat in Poland were demonstrated. The volume of deliveries of consumer durables (refrigerators, washing machines, sewing machines, radios and televisions) expanded again, but complaints were voiced over the quality of some products. For the third consecutive year, deliveries of passenger cars hardly increased in spite of a steep rise in output in 1968 (largely due to some reduction in imports and an increase in exports). Some improvement in supplies of building materials to farms was reported, but requirements were not fully met. The value of retail trade stocks increased much faster in 1968 than in 1967, and somewhat faster than the trade turnover.

As in the preceding year, the annual plan for 1969 envisages some slowing down in the growth of money incomes. The pension fund and incomes in the non-agricultural private sector will probably rise again by some 20 per cent, but the target for the growth of peasant incomes is set at only 1-2 per cent, and average wages should increase by only 2.2 per cent. It is now recognized that the initially planned expansion of sales of goods and services to population, by 6.7 per cent and 7-8 per cent respectively, will not eliminate shortages of some products. To improve the balances of deficit goods, an increase in supplies of 4-5 billion zlotys would be needed; it is expected that measures will be taken in the course of the first quarter of the year to find supplementary sources of supplies.[177]

The 7 per cent overall target for the expansion of consumer-goods industries (Group B) provides for a very modest growth of the food-processing industry (2.7 per cent), but consumers will no doubt benefit from the rapid expansion of engineering (which includes the output of some consumer durables) and chemicals. Supplies to the

[175] *Wiadomosci Banku Narodowego*, No. 4, 1968.

[176] In the speech quoted above, Mr. Gomulka stated that the above-plan increment in money incomes amounted in 1968 to 11 billion zlotys, and that ensuring balance between the increase in purchasing power of the population and supplies of goods and services would be one of the most important tasks in 1969.

[177] G. Pisarski, *Zycie Gospodarcze*, No. 2, 1969.

retail trade network of cars and refrigerators will grow particularly fast (18-20 per cent) but those of television sets and washing machines are expected to decline. Meat sales should increase by 3.5 per cent and those of eggs and vegetable oil ought to rise after increasing very little in 1968.

The consumption fund was reported to have increased by 6 per cent, or rather less than total national income, in *Rumania* in 1968. Over the first three years of the current five-year plan, consumption rose by 23 per cent, compared with a 26.2 per cent growth of national income over the same period, indicating a slight fall in the share of consumption in national income.

Total money incomes of the population and of its two main sub-groups have increased as follows during the past three years:

	Percentage change from preceding year		
	1966	*1967*	*1968*
Total population	10.1	9.1	8.0
Wage-earners' families	10.5	8.9	8.0
Peasant families	8.7	9.8	7.9

Thus money incomes of workers and of peasants moved in parallel in 1968, and at somewhat lower rates than in the two preceding years. For workers and employees, this deceleration was partly due to a slow-down in the growth of employment—an increase of 2.1 per cent in 1968 as against more than 4 per cent in each of the two preceding years. Per capita receipts of workers' families were about 4 per cent up on the preceding year, but average wages per earner certainly rose less, since—as reported in the plan-fulfilment report—the number of earners per wage-earner family increased significantly. No data have yet been published on changes in consumer price levels, but there are grounds for believing that some price increases occurred in 1968 and that the steep increases in rental charges introduced in the second quarter of the year[178] pushed the cost-of-living index up even farther.

The increase in the volume of retail sales (in the socialist sector) by nearly 9 per cent kept pace with the growth of money incomes. As in the three preceding years, sales of industrial goods rose markedly faster than those of foodstuffs, although the gap narrowed in 1968. These structural changes were partly a reflection of the sharp acceleration in the output of consumer-goods industries (Group B), noted in the Part on industry above. Nevertheless improvements in supplies to the consumer markets were rather uneven. Setbacks in agricultural production were reflected in a decline in output of some products (such as butter and sugar) and in non-fulfilment of targets for cheese and, to a lesser extent, for meat. Sales of consumer durables (furniture, refrigerators) continued to rise, but those of textile fabrics rose only little while sales of television sets declined after an increase of more than 40 per cent over the two preceding years. An improvement in public catering and in services in general was helped by the decision to allow private concessionaries to enter the market. Under the same arrangement small grocery shops were also allowed.[179]

[178] For details, see the SURVEY for 1967, chapter II, p. 63.

[179] *Scînteia*, 12 June 1968.

The 1969 Plan foresees some acceleration in the growth of average real wages compared with the rate in several previous years, this indicator being planned to rise by 5.1 per cent. Income expansion will be supported by an 8 per cent increase in the value of retail trade (sales should slightly exceed 90 billion lei). The total consumption fund should be up about 2 billion lei on the 1968 figure but, in the absence of absolute figures of national income and of its main sub-aggregates, it is not possible to assess the importance of this increment.

The rapid expansion of per capita real incomes of population in the *Soviet Union* in recent years continued in 1968. Although the recorded rate of growth of 6.1 per cent fell slightly short of the annual plan target of 6.9 per cent, it exceeded the average five-year plan target of 5.5 per cent. During the first three years of the 1966-1970 plan period, per capita real incomes rose by around 20 per cent and the planned 30 per cent growth by 1970 appears likely to be met.

A feature of income trends in 1968 was the very fast expansion of average nominal wages. The 7.5 per cent rate of growth was much above that in the recent past, as well as above the annual and the average medium-term plan targets of 5.4 and 3.8 per cent respectively. Since payments and benefits from the social welfare fund rose in parallel, and the average level of consumer prices does not seem to have changed significantly, workers' and employees' real incomes per earner must have risen by a similar margin of 7-8 per cent.

The main factor contributing to the growth of nominal wages in 1968 was the increase in the statutory wage minima from some 40-45 to 60 roubles per month, and the concomitant upward adjustment of basic wages in the lower tariff grades. Moreover, the basic rates were raised for some workers in engineering, and additional bonuses were introduced in some Far East and North-European regions. Workers in the 61-80 roubles per month wage bracket also benefited from some reduction in their income-tax.

After several years of rapid improvement, farmers' receipts from collective farms were last year affected by reduced purchases of agricultural produce delivered in 1967, due to the fall in output that year.[180] Nevertheless, the 1966-1970 plan target for peasant real incomes will certainly be met, due to the gains during the first two years of this plan period[181] and to the good agricultural results in 1968, the benefit of which will be partly felt in 1969.

Employment outside co-operative farms rose by the substantial margin of 3.5 per cent; together with a steep increase in average wages, this resulted in an expansion of the total wage fund by 11 per cent in 1968. As the increase in average wages considerably exceeded that in industrial labour productivity, the slow-down in the

[180] According to preliminary estimates available in December, these receipts increased by 6.5 per cent in 1968. However, the final report on fulfilment of the annual plan puts the growth of incomes of collective farms at 4 per cent.

[181] During the first two years of the 1966-1970 plan period, peasant real incomes (per working peasant) rose by 20 per cent, compared with a 8 per cent growth of real incomes of workers (per earner). See table 16.

expansion of peasant incomes contributed to stability in consumer markets. This equilibrium was largely assured through improved supplies of consumer goods and an increase in retail trade turnover of 8.7 per cent (at constant prices), i.e. in excess of the original annual plan but somewhat below its revised version.[182]

The increments in personal savings deposits amounted to some 3-4 per cent of the value of retail trade, and

[182] The initial figure of 7.8 per cent was revised upwards to 9.5 per cent. See the SURVEY for 1967, chapter II, table 25.

TABLE 20

Dwelling construction

	1965	1966	1967	1968	1968 Plan	1969 Plan
			(Thousands of dwellings)			
Bulgaria						
Total	45.2	43.4	42.7	47.8	..	..
State	10.4	11.3	10.8	..	..	..
Private and co-operative	34.8	32.1	31.9	..	..	..
Aided	13.4	14.1	13.7	..	..	..
Unaided	21.4	18.0	18.2	..	..	..
Czechoslovakia						
Total	82.4	81.8	83.0	85.0	92	105
State	24.9	22.7	18.8	65.3	..	..
Co-operative	38.3	39.9	44.4		..	..
Private	19.2	19.2	19.8	19.7	..	..
Aided	10.2	10.4	..	..	..	..
Unaided	9.0	8.8	..	..	..	..
Eastern Germany						
Total	68.2	65.3	76.3	76.2	..	..
State	38.9	38.5	48.7	..	..	..
Co-operative	22.3	18.6	19.6	..	..	..
Private (aided)	7.0	8.2	8.0	..	..	..
Hungary						
Total	54.6	55.6	62.6	65.5	>61	60-62
State	22.4	20.3	21.6	24.0	..	21.6
Private	32.2	35.3	41.0	41.5	..	..
Aided	22.6	25.1	30.0	..	..	..
Unaided	9.6	10.2	11.0	..	..	..
Poland						
Total	170.5	176.0	185.7	..	..	..
Urban	131.2	133.0	139.1	142.7	..	..
Rural	39.3	43.0	46.6	..	..	..
Socialized sector	126.1	129.4	136.0	137.4	..	150 *a
of which:						
State	92.8	77.8	58.7	44.6	..	..
Co-operative	33.3	51.6	77.3	92.8	..	..
Rumania						
Total	121.1	117.3	122.1	111.7	..	88.6
State and co-operative	51.0	49.6	53.2	52.3	57	..
Private	70.1	67.7	68.9	59.4	..	..
			(Million square metres of total space)			
Soviet Union						
Total	97.6	102.1	104.5	>102	..	121
Outside collective farms	79.3	81.8	84.3	..	..	..
of which:						
State and co-operative	63.2	65.9	68.7	..	..	..
State-aided and private	16.1	15.9	15.6	..	..	..
Collective farms	18.3	20.3	20.2	..	..	..

Sources: National statistics; ECE, *Annual Bulletin of Housing and Building Statistics for Europe*, 1967; plan-fulfilment reports.

[a] The area constructed is to increase by 9.4 per cent.

represented a 20 per cent increase on the deposits held at the end of the preceding year.

The added emphasis given to the output of consumer goods and the reasonably good results in the production of animal products contributed to the increased supplies to consumer markets. However, sales of meat expanded mainly through structural qualitative changes, output remaining at the level of the preceding year. Although sales of vegetables were unchanged, those of fresh fruit improved markedly. Sales of textile fabrics again showed an uneven pattern, but those of ready-made clothing made further progress (see table 19). Deliveries of consumer durables such as refrigerators, washing machines, furniture and motor-cars [183] increased by a substantial, though reduced, margin.

Household stocks of some consumer durables rose quite fast during the first three years of the current five-year Plan, as the following figures show (numbers per 100 households):

	1965	*1968*
Refrigerators	11	22
Washing machines	21	39
Television sets	26	42
Radio sets	61	67

Source: Direct communication from the Soviet Government.

1969 should bring further gains to the Soviet consumer. Per capita real incomes of the population ought to rise by 5.5 per cent. The plan foresees an increase in peasant receipts from collective farms of 7.5 per cent, and a 3.3 per cent increase in average nominal wages, thus reverting to the pre-1968 pattern of income expansion. Wage regulations will affect principally workers and employees in construction and building materials industry, where average basic rates should go up by as much as 23 per cent. The priority given to the expansion of consumer-goods output [184] and last year's good agricultural results should bring about an increase in the volume of retail trade by some 7-8 per cent which will largely absorb the planned increment in total money incomes of the population of 11.2 billion roubles.

The supply/demand equilibrium in consumer markets should be further strengthened by the planned rise in the value of paid services by 9 per cent. Among these, particular attention will be given to transport (mainly car servicing), house repairs, and to public laundry and chemical cleaning services.

Housing construction

Some increase in housing construction occurred in 1968 in Bulgaria, Czechoslovakia, Hungary and Poland, but in other countries fewer dwellings were completed than in the preceding year, and in several countries the annual and medium-term plan targets were not met (see table 20). The fragmentary data available for the year under review indicate that past tendencies towards the expansion of co-operative building were given a further boost in several countries, particularly in Poland and in Czechoslovakia.[185] In Poland, co-operative construction was responsible for about two-thirds of the whole building activity in the socialized sector, or about one-half of total construction.

All countries except Hungary and Rumania foresee an expansion of the volume of construction in 1969. Particularly large improvements are included in the Soviet, Bulgarian and Czechoslovak plans. In the former country, the total living area to be built should reach 121 million square metres, compared with some 102 million square metres in 1968. In Bulgaria, the expenditure on state and co-operative construction is to go up by as much as 25 per cent, and the living area per person should reach 11.2 square metres. The total volume of new construction in Poland should increase by 7.4 per cent and that in the socialized sector by 9.4 per cent. Nevertheless, it does not seem that the targets incorporated in the current (1966-1970) five-year plans will be met anywhere.

[183] 280 thousand passenger-cars were produced in 1968, and output is expected to reach 800 thousand in 1970. This expansion will be due mainly to the opening of the Volga Works with the assistance of Fiat. At the same time Renault is taking part in the reconstruction and modernization of the Moscow plant producing "Moskvich" cars. The output of the latter is to reach 200 thousand in 1969. (*Soviet News*, April 30, 1968.)

[184] The output of consumer goods (Group B) is to increase by 7.5 per cent and that of producer goods (Group A) by 7.2 per cent, and the share of consumption in total income for distribution is to increase somewhat. This will represent a continuation of the trend started last year, when this share (at current prices) amounted to 75.2 per cent compared with 73.2 per cent in 1967.

[185] See the SURVEY for 1967, chapter II, pp. 59-63, for a brief review of developments in housing construction and policies since 1960.

7. FOREIGN TRADE

General features of the region's trade

The growth of the foreign trade of CMEA countries slowed down a little in 1968; the value of the region's combined trade turnover rose by 7.5 per cent, compared with 8 per cent in 1967 (see table 21); the combined exports of CMEA countries other than the Soviet Union grew by 7.8 per cent (9.1 per cent in 1967) and imports by 6.8 per cent (6.2 per cent in 1967). Since world prices tended to decline in 1968, with an unmistakable fall in the prices of food products exported from eastern Europe to western Europe, the volume growth of eastern Europe's trade was probably slightly larger than its value as reflected in the above figures. Viewed in longer-term perspective, the rate of growth of the region's trade in 1968 was broadly in line with that registered during the 1962-1967 period (8 per cent), and close to the rate planned for the 1965-1970 period. However, in three of the countries considered—Czechoslovakia, Hungary and Rumania—trade grew no faster than output, so that no progress was recorded during the year in realizing their policy of raising the foreign-trade ratio. This departure from the longer-range aim of enhancing the role of foreign trade may be regarded as a temporary occurrence, caused by the short-range need to improve the balance-of-payments position.

TABLE 21

Foreign trade

Country		1968 Million dollars	Percentage change over previous year				
					1968		1969
			1966	1967	Plan	Actual	Plan
Bulgaria	Exports	1 635	11.0	13.4	..	10.5	
	Imports	1 753	25.5	6.0	..	11.9	
	National income		11.1	9.0	10.5	6.5	>10
Czechoslovakia	Exports	2 952	2.1	4.3	5.2	3.1	
	Imports	2 951	2.4	−2.1	4.9	10.1	
	National income		10.2	6.9	..	7	7
Eastern Germany	Exports	3 770	4.4	7.8	7	9	10
	Imports	3 450 *	14.4	2.0		6-7 *	
	National income		5.3	5.8	5.4	5.3	6
Hungary	Exports	1 790	5.6	6.8	8	5.2	6-7
	Imports	1 800	3.0	13.4	9	1.5	6-7
	National income		8.4	8.7	5-6	5	5-6
Poland	Exports	2 860	2.0	11.2	7.0	13.2	10.1
	Imports	2 860	6.6	6.0	6.3	8.3	10.6
	National income		7.2	5.6	4.8	8	5
Rumania	Exports	1 463	7.7	17.6	9	4.9	11
	Imports	1 581	12.6	27.4	7	2.3	9
	National income		10	7	8.6	7	
Six eastern European countries	Exports	14 470	4.5	9.1	..	7.8	
	Imports	14 395	9.5	6.2	..	6.8	
	Turnover	28 892	7.0	7.6	..	7.3	
Soviet Union	Exports		8.2	9.1	7.4	8	5.7
	Imports		−1.8	7.9			
	National income		8.0	8.8	6.8		
Six eastern European countries and the Soviet Union	Exports		6.1	9.1	..	..	
	Imports		4.9	6.8	..	..	
	Turnover	48 532	5.5	8.0	..	7.5	

Rates of growth of foreign-trade turnover (exports and imports combined) ranged widely from country to country: growth was fastest in Bulgaria and Poland (11.2 per cent and 10.8 per cent respectively); the Soviet Union, Czechoslovakia and eastern Germany were in the intermediate range (7-8 per cent), and the slowest growth occurred in Hungary and Rumania (about 3.5 per cent). This ranking does not match that of rates of growth of output, the inference being that differences in national commercial policies resulted in different interactions between trade growth and overall economic development. Balances carried over from the preceding years, which varied considerably in size, were especially important in this respect. Apart from Bulgaria and Poland, both of which were able to draw on foreign credits, a trading surplus earned in 1967 was normally associated with faster growth of imports in 1968, while deficits were associated with a slower growth of imports. In consequence, the trade of most countries of the region was better balanced in 1968 than in 1967.

As in the preceding year, the trade expansion of CMEA countries in 1968 was concentrated on their mutual exchanges, which grew by 11 per cent as compared with the 7.5 per cent expansion of their total trade. Thus, for the second year running intra-trade grew at an accelerated rate (in 1967 there was an increase of 9.8 per cent, but none at all in 1966) and was the most dynamic trade flow of the CMEA countries. The factors contributing most to the acceleration in 1968 were, moreover, almost the same as in 1967. First, the commodity pattern of trade expansion favoured intra-regional trade; in most of the countries considered, large increases were registered in exports and imports of machinery and consumers' manufactured goods—the bulk of which is normally traded within the area. Secondly, the CMEA actively promoted industrial co-operation between individual enterprises of member countries, and such co-operation stimulates the expansion of trade even in the short run.

The effects of the economic reforms on the region's trade in general, and on mutual trade in particular, were probably small, inasmuch as they have been introduced comparatively recently and are still far from complete.[186] However, the reforms may—or at any rate could—lead to divergences of interests between enterprises, on the one hand, whose decision-taking powers have been enlarged, and governments, on the other, since the latter are obliged to honour trade agreements signed with their CMEA partners for the period 1966-1970.

Divergences of interest may be avoided by transitional subsidies granted in varying degrees for different commodities. According to some sources, certain countries did make use of such subsidies in 1968 in order to fulfil trade agreements.

The co-ordination of the 1971-1975 plans within the CMEA started in 1968 and is proceeding in parallel with the formulation of national plans. Numerous bilateral and multilateral consultations are being held concerning, *inter alia*, problems arising in respect of specialization. Priority has been given to consultations concerning mutual deliveries of basic materials, and much attention has been paid to joint investment projects which should relieve raw-material suppliers of some of the burden of capital formation.[187] A number of problems relating to CMEA institutional arrangements, to closer co-operation and to improvements in mutual trade and payments systems are also under discussion. Adjustments of existing institutions and systems to match new forms of economic management are widely held to be necessary, and it seems that the various proposals for reform are converging more and more on agreement to introduce a certain degree of commercialization and multilateralization of mutual trade and payments.

Little information is yet available regarding the CMEA countries' trade with other regions in 1968, although the data published on intra-trade clearly imply that it increased less fast than average. Statistics from trading partners indicate that during the first nine months of 1968 exports from eastern European countries to western Europe rose by 7 per cent and their imports from that area by 6 per cent. This means an accelerated growth of exports (from the 4 per cent achieved in 1967) but a considerable slowing down in the growth of imports (which had increased by 17 per cent in 1967). A more detailed account of east-west European trade in the first three quarters of 1968 is given in chapter I, Part 5. Trade with North America faltered under the impact of a steep decline in North American shipments of wheat to the Soviet Union.

The trade of the eastern European countries and the Soviet Union with developing areas was the least dynamic of the region's trade flows in 1968. Precise statistics are available for only six months, but they indicate that imports from these areas increased by no more than 4 per cent, and the statistics of trade with other regions already discussed suggest that imports cannot have grown much faster in the second half of the year. Nonetheless, this expansion—small as it was—would, if maintained, be a welcome reversal of the declining tendency experienced in the preceding year. Exports from CMEA countries to developing areas may have been more expansionary, since the gross flow of credits from CMEA countries to developing countries has been large for a number of years —$5.5 billion in total during the 1960-1967 period, while the net flow amounted roughly to $300-350 million per year.

Trade forecasts for 1969 have been published by five countries and incline to optimism. The growth of trade turnover in individual countries is expected to increase

[186] See, for an account of the reforms in the field of foreign trade and payments, the *Economic Bulletin for Europe*, Vol. 20, No. 1, pp. 43-55.

[187] Some joint investment projects of this kind which are already under way are the following: the Bulgarian-Soviet investment in the development of Komi (USSR) timber resources, with 500,000 cubic metres of timber to be shipped to Bulgaria annually; Czechoslovak-Soviet investment in Soviet oil production, with 40 million tons of oil to be shipped to Czechoslovakia in addition to the quotas established by 1966-1970 long-term trade agreements; Czechoslovakia participates in the development of Polish sulphur, copper and coal deposits; Bulgaria, Hungary, eastern Germany, Poland and Czechoslovakia take part in the development of phosphorate ore mine and dressing plants in Kingisep in the Soviet Union.

by roughly 6-10 per cent: those with low rates of growth of trade in 1968 will try to raise them in 1969, while the others will try to maintain the high rates achieved in 1968 —except the Soviet Union, which anticipates a considerable slow-down. Intra-CMEA trade is again expected to increase rapidly, judging by the trade agreements negotiated for 1969—a development in line with the optimistic expectations for the growth of output and demand in all countries of the region.[188]

Review by countries

The most dynamic growth of trade in 1968 was achieved by *Bulgaria*, whose exports increased by 10.5 per cent (against 13.4 per cent in 1967) while imports increased by twice as much as in 1967 (11.9 per cent against 6 per cent). As a result, the trade deficit went up from $87 million in 1967 to $118 million in 1968. The growth of Bulgaria's trade in 1968 benefited from drawing on credit facilities

Bulgaria's trade: increase in January-September 1968 over corresponding period of 1967

	Percentages	
	Exports	*Imports*
Total	12.8	9.5
Socialist countries[a]	11.7	15.0
Other countries	13.1	−5.4
Machinery	7.5	—
Intermediate products	21.2	8.8
Food products	9.2	27.6
Manufactured consumers' goods	20.3	49.0

[a] Including Cuba, Yugoslavia and Asian socialist countries.

which permitted a faster increase in domestic consumption than in supplies from domestic sources. Another expansionary factor on the import side was the need to enlarge imports of ferrous metallurgy products on account of a slower expansion of domestic steel-making capacity than planned. Recent efforts to save on imports by switching output towards labour-intensive, import-saving sectors cannot yield substantial results in the short run. During the first nine months of 1968 exports to socialist and non-socialist countries increased at similar rates; import growth, however, was concentrated on socialist countries, those from other countries declining in absolute terms, as can be seen from the text-table above. Consumers' goods and intermediate products were most dynamic in promoting exports, and consumers' goods and food products in raising imports.

Poland's exports and imports increased in 1968 by 13.2 and 8.3 per cent respectively—an acceleration of both flows compared with 1967. The faster increase in exports than imports, achieved by holding the growth of domestic demand below the growth of domestic supplies, resulted in the complete elimination of the trade deficit ($119 million in 1967). This, together with a surplus in services of $163 million, considerably improved the overall balance of payments.

By far the most expansionary market for Polish exports was the socialist countries (mainly the CMEA countries), but imports from other areas were the most dynamic, as is shown in the text-table below. These divergent developments were governed, on the one hand, by the need to offset the deficit in trade with CMEA countries in 1967 with a surplus in 1968, and, on the other, by the surplus in both commodity and service trade with other areas in 1967 which—together with short-term borrowing —allowed Polish imports from these areas to increase in 1968 much faster than Polish exports to them. The result was an improvement in Poland's balance of payments with CMEA countries, but a deterioration in the payments balance with other countries. As regards the commodity composition of exports, machinery and manufactured consumers' goods contributed most to the rapid expansion achieved in 1968 (though exports of intermediate products also grew fast), in line with Polish long-term policy of basing export expansion primarily on such products. Poland has recently intensified its efforts to promote exports, especially by selecting the best equipped plants for specialization in export production and according them priority in supplies of inputs. On the import side, food products and manufactured consumers' goods led the expansion, increasing considerably faster than imports as a whole.

[188] The trade agreements between pairs of CMEA countries indicate that trade turnover may increase between Bulgaria and Czechoslovakia by 7 per cent, Bulgaria and Poland by 18 per cent, Bulgaria and the Soviet Union by 10 per cent, Czechoslovakia and eastern Germany by 12 per cent, Czechoslovakia and the Soviet Union by 10 per cent, Czechoslovakia and Poland by 14 per cent, Czechoslovakia and Rumania by 16 per cent, eastern Germany and the Soviet Union by 9 per cent, eastern Germany and Poland by 18 per cent, eastern Germany and Hungary by 16 per cent, Hungary and Poland by 10 per cent, Poland and the Soviet Union by 18 per cent.

Percentage increases in Poland's trade

	Exports		*Imports*		*Plan for 1969*	
	1967	*1968*	*1967*	*1968*	*Exports*	*Imports*
Total	11.2	13.2	6.0	8.3	10.1	10.6
With socialist countries	18.1	16.6	9.6	6.1	..	..
With all other regions	1.7	7.2	0.4	12.6	..	..
Machinery and equipment	13.6	16.6	11.8	5.4	13.4	16.9
Manufactured consumers' goods	23.6	17.8	−3.1	14.6	18.0	..
Food products	4.1	4.3	0.5	12.4	..	..
Intermediate products	7.1	11.5	4.3	6.2	6.0	10.0

Exports from *eastern Germany* increased in 1968 by 9 per cent—a higher rate of growth than in the previous year; as for imports, all that is known is that they increased less fast than exports. The need to finance the deficit in trade on services account and to expand suppliers' credits probably explains the substantial increase (from the already high level of $196 million in 1967) in the surplus earned in merchandise trade. The higher surplus was obtained in part by limiting domestic supplies and allowing some demand to remain unsatisfied. Exports to CMEA countries expanded most (with an increase of 11 per cent, compared with an average for all exports of 9 per cent) and the pattern of import growth was probably similar, intra-German trade rising only slowly following the standstill of 1967. Machinery was the most dynamic commodity group in both import and export trade.

The major feature of trade developments in *Czechoslovakia* in 1968 was the slower growth of exports—from 4.3 per cent in 1967 to 3.1 per cent in 1968—and the upswing in imports from a decline of 2 per cent in 1967 to an increase of 10.1 per cent in 1968. Indeed, imports in 1968 grew more than three times as fast as exports, with the result that the trade surplus of $184 million in 1967 dwindled to almost nothing in 1968. The development of Czechoslovak trade in 1968 was strongly influenced by three factors: first, the accumulated surplus from earlier years in the balance of payments with socialist and developing countries; second, the exceptional disturbances of a political nature which occurred in August; and, third, the growth of domestic consumption demand which exceded the growth of supplies (especially in the field of consumers' goods) from domestic sources. The accumulated Czechoslovak claims on socialist countries amounted in 1967 to 13.9 billion crowns; at the exchange rate of 18 crowns per rouble this amounted to 772 million roubles (in 1966 and 1967 alone the payments surplus in exchanges with these countries amounted to some 160 million roubles). This situation provided ample reason for Czechoslovakia to slow down the growth of its exports to these countries and to enlarge its imports from them. The position was quite different vis-à-vis other trading partners. In 1967 cumulative Czechoslovak liabilities to developed market economy countries amounted to 13.4 billion crowns, or $430 million, while Czechoslovak claims on developing countries amounted to 12.5 billion crowns or $400 million, and in 1966 and 1967 payments with these two areas combined were virtually in equilibrium. Due to short-term credits granted by western European trade partners and credit repayments by developing countries, imports from these two areas combined were able to increase much faster than Czechoslovak exports to them, although the balance of payments with developed countries came under strain. The economic impact of the change in political climate in the second half of the year is illustrated in the text-table below: the rate of growth of exports declined considerably from the first half to the second half of 1968, while the import expansion slackened only a little.

These factors, in conjunction with the strong pressure of domestic demand on limited supplies from domestic sources, affected the commodity patterns of exports and

Czechoslovakia's trade:
Percentage increase in 1968 over the same period of the preceding year

	January-July	*January-September*	*August-December*	*January-December*
Exports—total	6.4	4.7	−12.0	3.1
of which to:				
Socialist countries	4.1	2.0	−2.6	2.0
CMEA countries	2.9	0.8	..	..
Soviet Union alone	0.2	−0.2	..	..
Developed countries	5.2	4.8	−31.0	5.3
Developing countries	26.1	24.1		
Imports—total	13.3	12.2	6.5	10.1
of which from:				
Socialist countries	15.9	13.8	3.7	10.0
CMEA countries	16.4	13.8	..	..
Soviet Union alone	13.6	10.2	..	..
Developed countries	9.5	12.3	14.3	10.4
Developing countries	2.4	−1.7		

January-September 1968 (first 9 months 1967 = 100)

	Exports	*Imports*
Machinery and equipment	6.5	15.8
Intermediate products	5.5	13.1
Food	−0.5	3.3
Manufactured consumers' goods	2.0	40.7

imports (as can be seen from the figures above): during the first nine months of 1968 the growth of exports of food products and consumers' goods either ceased or slowed down abruptly (mostly on account of the pressure of domestic demand) as exports of machinery and intermediate products accelerated. On the other hand, imports of all items except food increased very rapidly—on account of a rapid increase in consumers' income—demand for consumers' goods being particularly strong. A welcome development was the increase in the efficiency of foreign trade, inasmuch as export items of low or negative profitability declined as a share of total exports. Subsidies, however, are still large, especially for exports to CMEA countries.

In *Rumania* the rate of growth of trade declined in 1968 very sharply: exports increased by 4.9 per cent (18 per cent in 1967) and imports by 2.3 per cent (27 per cent in 1967). Given the exceptionally high rates of growth recorded in 1967, the slow-down in 1968 does not appear abnormal, and the forecast for 1969 anticipates a return to the long-run rate of growth of 10-11 per cent. Imports of machinery and consumers' goods declined by 3.3 and 8.4 per cent respectively (partly on account of increased national self-sufficiency), but imports of intermediate products (especially of iron ore and steel products, domestic output of which has not yet matched the growth of demand) increased by 11.2 per cent. Among exports, machinery and chemicals were in strong demand, shipments increasing by 24 and 20 per cent respectively.

Economic policy in *Hungary* took as one of its aims for 1968 an improvement in the balance of payments, and

since the growth of exports tended to slow down (from 6.8 per cent in 1967 to 5.2 per cent in 1968) that of imports was limited to a still lower rate (1.5 per cent against 13.4 in 1967). As a result, the trade deficit was almost eliminated. The 1968 rates of growth of exports and imports were strongly influenced by adjustments of conversion rates and of customs duties which were equivalent in effect for exports to devaluation and for imports to revaluation. As a result, exporting enterprises earned considerable profits, while costs to importers increased.

The adjustment of conversion rates and customs duties also affected regional and commodity patterns of trade. Moreover, the pattern of demand and supply led to a faster growth of exports to CMEA partners than to other markets, and there was a related shift in the origin of imports. Exports to or imports from other areas either declined or stagnated (see the text-table below). Moreover, the new measures tended to penalize imports of machinery and food products but to favour those of intermediate products; the decline in imports of machinery and food products and a slow-down in imports of consumers' goods is also attributable to the very large increase in these imports in 1967, which could not be maintained in 1968 for balance-of-payments reasons. On the export side, the opposite effects occurred.

Percentage increase in Hungary's trade

	Imports		*Exports*	
	1967	*1968*	*1967*	*1968*
Total	13.4	1.5	6.8	5.2
with:				
Socialist countries	16.5	4.3	7.1	10.2
Developed market economies	12.1	−5.0	3.5	−2.5
Developing countries	−9.5	0.4	17.0	−19.2
Energy materials and electricity	−9.3	6.2	—	13.9
Raw materials and semi-manufactures	7.9	9.7	2.5	—
Machinery	31.0	−14.5	6.8	14.9
Manufactured consumers' goods	29.8	3.1	10.0	8.7
Food	16.4	−5.3	9.0	−3.4

Albania's exports are reported to have increased by 10 per cent in 1968—twice as fast as in 1967, but less than the rate of 15-18 per cent anticipated in the annual plan. A further increase of 8.4 per cent is envisaged in 1969. Mineral products and agricultural commodities continue to dominate exports, sales of bitumen, chrome ore and tobacco, in particular, having led the expansion of major export items since 1965, the base year of the current (fourth) Five-year Plan. The creation of domestic processing and manufacturing capacity is beginning to be reflected in the structure of Albanian foreign trade, new export items such as copper wire appearing alongside the unprocessed metal, while requirements for certain imports such as chemical fertilizers have been reduced as domestic self-sufficiency increases. By 1968 Albanian exports covered two-thirds of import requirements; and exports of consumers' goods were equivalent in value to imports in this category, whereas as recently as 1960 such exports covered 47 per cent of imports. Mainland China remains Albania's principal supplier of investment goods and financed the chemicals and copper-wire producing capacities just mentioned. In November 1968 a new economic co-operation agreement was signed between the two countries for the period 1969-1975. Under its terms, mainland China will assist in the financing and commissioning of a metallurgical combine with an annual capacity of 800,000 tons, a petroleum refinery with an annual capacity of one million tons, a hydropower station of 400,000 kw, and the creation or enlargement of numerous other industrial capacities.

No details are yet available on the foreign trade of the *Soviet Union* in 1968. As shown in table 21, Soviet trade turnover increased quite rapidly, at a rate similar to that of 1967. Partners' statistics indicate that the most dynamic flow was the trade with CMEA countries, which was very much concentrated on manufactured products.

APPENDIX TABLE

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1968 and 1969 Plan

Product and country	1966	1967	1968 Plan	1968 Actual	1969 Plan
Electric power (million kWh)					
Bulgaria	11.8	13.6	..	15.5	
Czechoslovakia	36.5	38.6	..	41.4	..
Eastern Germany	56.9	59.7	..	63.2[b]	..
Hungary	11.9	12.5	..	13.2	..
Poland	47.4	51.3	56.4	55.5	60.1
Rumania	20.8	24.8	28.1	27.8	31.0
Soviet Union	545	588	650	638	687
Total	730	789	..	855	..
Coal[a] (million tons)					
Bulgaria	26.5	28.8	..	30.9	..
Czechoslovakia	100.8	97.6	..	100.4	..
Eastern Germany	249.0	242.0	..	246.6[b]	..
Hungary	30.3	27.0	..	27.2	..
Poland	146.5	147.8	155.2	155.5	161.0
Rumania	13.5	15.0	17.1	17.0	19.6
Soviet Union	586	595	..	594	595.3
Total	1 153	1 153.2	..	1 172	..
Petroleum (million tons)					
Bulgaria	0.40	0.50	..	0.48[b]	..
Czechoslovakia	0.19	0.20	..	0.21	..
Eastern Germany	—	—	—	—	—
Hungary	1.71	1.69	..	1.81	..
Poland	0.40	0.45	0.50	0.48	0.55
Rumania	12.83	13.21	13.20	13.30	13.20
Soviet Union	265	288	309	309	326.5
Total	281	304	..	325	..
Natural gas (billion m^3)					
Bulgaria	—	—	—	—	—
Czechoslovakia	—	—	—	—	—
Eastern Germany	—	—	—	—	—
Hungary	1.55	2.04	..	2.69	..
Poland	1.38	1.57	2.10	2.56	3.70
Rumania	14.08	16.0	17.45	17	18.05
Soviet Union	145	159	173	171	185.8
Total	162	179	..	193	..

Product and country	1966	1967	1968 Plan	1968 Actual	1969 Plan
Pig-iron (million tons)					
Bulgaria	0.90	1.03	..	1.08	..
Czechoslovakia	6.27	6.82	..	6.92	..
Eastern Germany	2.45	2.53	..	2.32[b]	..
Hungary	1.63	1.66	..	1.64	..
Poland	5.86	6.58	6.70	6.84	..
Rumania	2.20	2.46	..	2.99	..
Soviet Union	70.3	74.8	..	78.80	83.4
Total	89.3	95.9	..	100.6	..
Crude steel (million tons)					
Bulgaria	0.70	1.23	..	1.46	..
Czechoslovakia	9.13	10.00	..	10.55	..
Eastern Germany	4.08	4.24	..	4.38[b]	..
Hungary	2.65	2.74	..	2.90	..
Poland	9.85	10.45	10.74	11.00	11.20
Rumania	3.67	4.08	4.92	4.75	5.49
Soviet Union	96.9	102.2	107	107.0	112.6
Total	127.0	134.9	..	142.0	..
Rolled steel (million tons)					
Bulgaria	0.48	0.61	..	1.03	..
Czechoslovakia	6.52	7.11	..	7.53[b]	..
Eastern Germany[c]	2.57	2.59	..	2.91[b]	..
Hungary	1.74	1.78	..	1.98	..
Poland[d]	6.58	6.95	7.25	7.33	7.60
Rumania[d]	2.59	2.91	..	3.39	..
Soviet Union	76.7	81.7	85	85.20	89.5
Total	97.2	103.7	..	109.4	..
Mineral fertilizers[e] (thousand tons)					
Bulgaria	369	354	..	409	..
Czechoslovakia	512	519	..	526	..
Eastern Germany	598	641	..	..	..
Hungary	298	..	..	..	..
Poland	826	975	1 206	1 233	1 574
Rumania	419	537	707	603	859
Soviet Union	8 400	9 400	..	10 200	11 087
Total	11 422	..	..	..	..

APPENDIX TABLE (*continued*)

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1968 and 1969 Plan

Product and country	*1966*	*1967*	*1968*		*1969*
			Plan	*Actual*	*Plan*
Sulphuric acid (thousand tons)					
Bulgaria	353	360	..	467[b]	..
Czechoslovakia	982	1 012	..	977	..
Eastern Germany	795	806	..	882[b]	..
Hungary	393	424	..	446	..
Poland	1 139	1 213	1 315	1 315	1 640
Rumania	619	679	..	773	..
Soviet Union	9 367	9 737	..	10 166	..
Total	13 648	14 231	..	15 026	..
Caustic soda (thousand tons)					
Bulgaria[f]	38.7	42.1	..	43.1[b]	..
Czechoslovakia	175.6	178	..	..	..
Eastern Germany	381.1	389	..	406[b]	..
Hungary	52.2	55.5	..	52.2	..
Poland[f]	247	276	..	302	..
Rumania	252	260	..	..	..
Soviet Union[g]	1 393	1 524	..	1 658	..
Total	2 540	2 724.6	..	..	..
Plastic and resins (thousand tons)					
Bulgaria	40	..	..	..	..
Czechoslovakia	152.0	186	..	197	..
Eastern Germany	249.6	278.2	..	..	..
Hungary	33.3	38.0	..	43.3	..
Poland	132	160.8	209	200.3	242.1
Rumania	94.7	108	122.7	129.5	169.3
Soviet Union	971	1 114	..	1 293	1 480
Total	1 672.6	..	..	..	..
Synthetic and artificial fibres (thousand tons)					
Bulgaria	—	—	—	—	—
Czechoslovakia	83.0	88.5	..	88.5	..
Eastern Germany	180.4	188.1	..	..	..
Hungary	6.9	..	..	..	..
Poland[h]	106.5	116.3	122.0	124.0	130.4
Rumania	34.2	47.3	54.4	53.5	60.2
Soviet Union	458	511	..	554	..
Total	869	..	..	..	..
Cement (million tons)					
Bulgaria	2.9	3.4	..	3.5	..
Czechoslovakia	6.1	6.5	..	6.4	..
Eastern Germany	6.5	7.2	..	7.4[b]	..
Hungary	2.6	2.7	..	2.8	..
Poland	10.0	11.1	11.7	11.6	11.96
Rumania	5.9	6.3	7.1	7.0	7.8
Soviet Union	80.0	84.8	..	87.5	92.0
Total	114.0	122.0	..	126.3	..

Product and country	*1966*	*1967*	*1968*		*1969*
			Plan	*Actual*	*Plan*
Paper (thousand tons)					
Bulgaria	133	151	..	188[b]	..
Czechoslovakia	544	584	..	596	..
Eastern Germany	640	671	..	..	..
Hungary	192.3	238.8	..	258.3	..
Poland	657	672	682	681	719
Rumania	287	336	392	380	425.5
Soviet Union	3 780	3 990	4 000	4 000	4 136
Total	6 233	6 643	..	..	..
Metal-cutting machines: tools (thousands)					
Bulgaria	..	..	..	..	..
Czechoslovakia	27.6	29.7	..	..	..
Eastern Germany	..	..	..	..	..
Hungary	9.8	10.0	..	..	..
Poland	32.6	32.3	..	..	..
Rumania	8.5	9.7	11.0	11.7	13.1
Soviet Union	192	198	..	200	..
Total	..	..	..	..	..
Tractors (two-axle) (thousands)					
Bulgaria	3.1	2.7	..	..	..
Czechoslovakia	28.2	28.7	..	24.4	..
Eastern Germany	..	..	..	..	..
Hungary	3.3	3.6	..	2.8	..
Poland	24.6	29.8	35.2	34.9	44.3
Rumania	18.5	17.6	21.2	21.2	25.0
Soviet Union	382	405	444	423	449
Total	..	..	..	..	..
Electric and diesel locomotives[i] (units)					
Bulgaria	—	—	—	—	—
Czechoslovakia	615	709	..	..	..
Eastern Germany	500	547	..	..	..
Hungary	141	..	..	..	..
Poland	450	353	..	..	..
Rumania	125	133	165	167	228
Soviet Union	2 129	1 885	..	..	..
Total	3 960	..	..	..	..
Railway freight wagons (thousands)					
Bulgaria	1.93	1.79	..	1.50[b]	..
Czechoslovakia	4.44	4.19	..	..	..
Eastern Germany	3.69	4.22	..	..	..
Hungary	0.56	0.39	..	0.45	..
Poland	16.6	12.70	..	..	..
Rumania	7.61	7.02	..	..	..
Soviet Union	40.1	43.8	..	48.1	..
Total	74.9	74.1	..	..	..

Motor-lorries (thousands)

Bulgaria	—	—	—	—	—
Czechoslovakia	18.0	19.9	..	22.6	..
Eastern Germany	20.2	21.9	..	..	..
Hungary	4.9	4.8	..	..	..
Poland	29.5	32.2	33.9	35.1	40.2
Rumania[j]	18.5	20.6	24.3	25.4	30.5
Soviet Union	445	477	..	478.2	503.0
Total	536	576.4	..	..	..

Passenger motor-cars (thousands)

Bulgaria	—	—	—	—	—
Czechoslovakia	92.7	111.7	..	125.7	..
Eastern Germany	106.5	111.5	..	..	..
Hungary	—	—	—	—	—
Poland	29.2	27.7	34.8	40.4	..
Rumania	—	—	—	—	12
Soviet Union	230	251	..	280	307
Total	458	501.9	..	..	..

Television sets (thousands)

Bulgaria	90	130	..	153	..
Czechoslovakia	228	256	..	350	..
Eastern Germany	562	475	..	413[b]	..
Hungary	298	316	..	339	..
Poland	412	495	516	560	570
Rumania	105	142	160	161	220
Soviet Union	4 415	4 955	5 700	5 700	6 584
Total	6 110	6 769	..	..	..

Radio sets (thousands)

Bulgaria	184	149	..	..	..
Czechoslovakia	247	222	..	352	..
Eastern Germany	901	932	..	..	..
Hungary	250	247	..	253	..
Poland	623	612	760	787	875
Rumania	325	367	385	388	425
Soviet Union	5 842	6 416	..	7 000	..
Total	8 372	8 945	..	..	..

Domestic refrigerators (thousands)

Bulgaria	47	60	..	91	..
Czechoslovakia	279	279	..	301	..
Eastern Germany	360	403	..	374[b]	..
Hungary	113	119	..	154	..
Poland	334	341	..	388	..
Rumania	140	153	166	148	159
Soviet Union	2 205	2 697	3 400	3 200	3 744
Total	3 478	4 052	..	..	..

Domestic washing machines (thousands)

Bulgaria	125	..	..	..	..
Czechoslovakia	230	222	..	..	..
Eastern Germany	314	324	..	293[b]	..
Hungary	179	180	..	167	..
Poland	396	433	..	..	..
Rumania	101	127	..	..	..
Soviet Union	3 869	4 324	4 700	4 700	..
Total	5 214	..	..	..	..

Bicycles (thousands)

Bulgaria	..	..	..	..	..
Czechoslovakia	398	410	..	..	..
Eastern Germany	452	450	..	..	..
Hungary	255	265	..	266	..
Poland[k]	758	730	..	..	..
Rumania	169	154	..	..	..
Soviet Union	4 000	4 200	..	4 300	..
Total	..	..	..	..	..

Cotton fabrics (million square metres)

Bulgaria[l]	299	306	..	320[b]	..
Czechoslovakia[l]	494	492	..	..	..
Eastern Germany	244	247	..	..	..
Hungary	334	340	..	330	..
Poland	845[l]	824	815	793	824
Rumania	339	357	..	..	..
Soviet Union	5 701	5 915	..	6 115	6 372
Total	..	..	..	..	..

Woollen fabrics (million square metres)

Bulgaria[l]	21.7	22.4	..	22.7[b]	..
Czechoslovakia[l]	45.2	46.4	..	45.3	..
Eastern Germany	38.8	38.1	..	..	..
Hungary	38.7	41.0	..	39.6	..
Poland	91.5[l]	126.4	129.7	131.7	136
Rumania	44	50	..	..	..
Soviet Union	509	547	..	585	623
Total	..	..	..	..	..

Leather footwear (million pairs)

Bulgaria	12.0	13.9	..	15.8[b]	..
Czechoslovakia	51.3	52.4	..	53.0	..
Eastern Germany	29.4	30.2	..	..	..
Hungary	27.0	30.5	..	32.7	..
Poland	52.5	57.6	62.5	63.2	66.6
Rumania	32.0	34.0	..	..	..
Soviet Union	522	561	586	597	639
Total	726	779.6	..	..	..

APPENDIX TABLE (*continued*)

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1968 and 1969 Plan

Product and country	*1966*	*1967*	*1968*		*1969*
			Plan	*Actual*	*Plan*
Meat (thousand tons) [p]					
Bulgaria	224	249	..	267 [b]	..
Czechoslovakia	543	574	..	615	..
Eastern Germany	868	906	..	..	..
Hungary	265	272	..	330	..
Poland	1 286	1 312	1 343	1 295	1 325
Rumania	345	399	440	429	483
Soviet Union	5 774	6 463	6 000	6 600	..
Total	9 305	10 175	..	..	..
Butter (thousand tons) [p]					
Bulgaria	11.6	13.4	..	..	..
Czechoslovakia	84.2	82.2	..	86.9	..
Eastern Germany	205.6	209.4	..	219 [b]	..
Hungary	19.3	23.3	..	21.5	..
Poland	118	119.1	120.8	123.8	132
Rumania	28.2	30.1	..	28.5	..
Soviet Union	1 042	1 160	..	..	..
Total	15 089	15 375	..	..	..
Sugar (thousand tons)					
Bulgaria	354	397	..	305 [b]	..
Czechoslovakia	984	956	..	911	..
Eastern Germany	618	627	..	..	..
Hungary	436	432	..	389	..
Poland	1 530	1 677	1 510	1 580	1 702
Rumania	442	445	490	384	495
Soviet Union	9 740	9 939	..	10 800	..
Total	14 104	14 473	..	..	..

Product and country	*1966*	*1967*	*1968*		*1969*
			Plan	*Actual*	*Plan*
Vegetable oil (thousand tons)					
Bulgaria [m]	104.4	102.7	..	..	..
Czechoslovakia [m]	114.3	117.8	..	128.3	..
Eastern Germany [n]	199.2	190.8	..	..	..
Hungary	42.4	51	..	..	..
Poland [m]	173	176	178	179.8	195
Rumania	206	256	260	268	290
Soviet Union	2 600	3 000	..	3 200	..
Total	3 440	3 894	..	..	..
Fish catch (thousand tons)					
Bulgaria	23.6	39.3	..	..	..
Czechoslovakia	..	..	..	..	..
Eastern Germany [o]	156	218	..	235 [b]	..
Hungary	..	..	..	..	..
Poland	316	321	369	385	384-395
Rumania	..	..	..	..	..
Soviet Union	6 000	6 500	..	6 700	7 303
Total	..	..	..	..	..

Sources: National statistics, plans and plan-fulfilment reports.

[a] Hard coal, brown coal and lignite.
[b] Partly estimated.
[c] Hot rolled steel.
[d] Excluding steel tubes.
[e] All mineral fertilizers in terms of pure content.
[f] 96 per cent.
[g] 92 per cent.
[h] Of which: synthetic fibres 33.8 thousand tons in 1967 and 41.7 thousand tons in 1968.
[i] Excluding narrow gauge.
[j] Including buses.
[k] Bicycles and motor-cycles.
[l] Million metres.
[m] Edible oil only.
[n] Margarine.
[o] For human consumption only.
[p] Industrial production only.

CHAPTER III

DETERMINANTS OF LABOUR SUPPLY IN EUROPE, 1950-1980

INTRODUCTION

Chapter III of the present SURVEY is devoted to a study of postwar trends in the overall supply of labour in eastern and western Europe respectively. It is essentially an investigation into demographic and socio-economic factors responsible for the growth, age and sex pattern of the labour force in the recent past, which provides a basis for an assessment of labour supply projections covering the period until 1980.[1]

Part 1 of the chapter deals with eastern Europe and the Soviet Union; Part 2 with western Europe. The opening section in each part provides the demographic background, showing changes in the size, and in the age and sex composition, of the populations between, in principle, 1950 and 1965, and discusses the implications of these changes for the quantity and quality of labour supply during this period; this analysis is followed by, and extended to, projected populations. The second section deals with postwar trends in active population, based principally on population censuses, and attempts to analyse the impact of various factors responsible for these changes as well as to assess the scope of existing labour reserves; and the final section presents sets of labour force projections for individual countries, by sex and age. Part 3 summarizes some salient conclusions and some points of similarity and contrast between the two groups of countries.

While the presentation is essentially similar, the different problems of east and west impose differences of emphasis in the treatment. Thus the impact of international migration has been a major factor in the manpower development of several countries of western Europe, and its future course is a major uncertainty in projections; in eastern Europe migration movements have been virtually absent apart from those resulting from the postwar settlements and the outflow from eastern Germany in the nineteen-fifties. Again, there are, particularly in the west, important differences between countries in the degree of women's participation in the labour forces, and much uncertainty about their future trend; in the east, the employment policies pursued in all countries have aimed at absorbing an increasing proportion of women in the national economy, and it is taken as likely that these policies will continue in the near future. Further, the scope for future shifts of agricultural population to non-agricultural occupations is greater in the eastern countries than in most western countries.

The present study is part of a more extensive research project now in progress in the secretariat, encompassing the preparation of projections of economic development in the countries of Europe, which may provide a basis for visualizing, among other things, the possible future patterns of economic relationships within Europe, and between Europe and other regions of the world. The wider purpose of the main research project imposes certain limitations on the manpower study; among these is the need to restrict the number of projection variants, having in mind the large multitude of variables, and therefore of possible combination of variants, to be introduced at other stages of the project. Thus the present exercise is based on a single variant of the possible population increase, by age and sex; since the labour force projection does not extend beyond 1980 (so that all prospective entrants have already been born) it seemed unnecessary to enter deeply into all the demographic factors which might influence the population increase. By contrast, it has been necessary to give some indication of the plausible range within which changes in activity rates—and particularly the participation of women in the labour force—might vary. The final selection between the resulting variants must depend upon the whole contour of future economic and social development and its influence on the demand for manpower, in quality as well as in quantity.

Definitions of terms employed in this chapter

The expressions "population of working age" and "potential labour force" are regarded as equivalent. So are "active population" and "labour force", indicating people at work or recorded as unemployed. "Activity rates" or "participation rates" mean the number of active persons per hundred population. They can be global (for total males and for total females) or age-specific. For global activity rates, the active population may be related to the whole population of all ages ("crude activity rates"), or to the population of working age ("coefficient of labour utilization"—a concept used in eastern Europe); or the active population in the usual working ages (15-64 being taken here for western Europe and 15-59 for eastern Europe) may be related to the total population in that age-group ("general activity rate").

[1] For earlier developments and manpower projections until 1970 see "Labour market problems in western Europe", SURVEY for 1955, chapter V and "Manpower and employment in eastern Europe and the Soviet Union", SURVEY for 1957, chapter VII.

PART 1

DETERMINANTS OF TOTAL LABOUR SUPPLY IN EASTERN EUROPE AND THE SOVIET UNION, 1950-1980

(i) Demographic background

Population growth, 1950 to 1965

During the 15 years between 1950 and 1965, the population of the whole area of eastern Europe and the Soviet Union [2] grew from about 270 million to 331 million persons, or by some 23 per cent (1.4 per cent per annum). As can be seen from table 1, the Soviet population rose markedly faster, from 181 to 231 million (or by some 27 per cent), than did the population of eastern Europe, whose overall increase, from 89 to 100 million persons, amounted to only 13 per cent. At the same time, considerable variation in the rates of growth can be seen between eastern European countries. At one extreme, the population of eastern Germany actually fell by about 1.3 million persons (or by some 7 per cent) during the period,[3] whereas, at the other, that of Poland went up by a margin as high as that of the Soviet Union.

A further feature of the evolution of total population during this period was—in most countries—a noticeable slowing-down in its rate of growth, particularly in the latter years. In eastern Germany and, to a lesser extent, in Bulgaria (early 1950s) and in Hungary (1956) the trends shown in table 1 were affected by emigration. The declines in the natural rates of population growth, shown in chart 1, are more continuous and systematic. The chart shows that the generally downward trend in crude death rates was accompanied by an almost universal decline in crude birth rates setting in around 1950 or a few years later; in some countries, however, the last few years have witnessed some upturn in crude death rates, associated primarily with unfavourable changes in the age-structure of population. In eastern Germany, the birth rate rose somewhat between 1958 and 1964 to fall again afterwards. As chart 1 shows, by the later 1960s birth-rates oscillated around 15 per 1,000 in all eastern European countries, reaching levels somewhat below those prevailing in the most advanced western European countries.

These trends in crude birth rates were a reflection of an actual decline in the number of live births, which was experienced by all the countries of the area, though to a

[2] Due to the virtual absence of the relevant statistical information, Albania has been excluded from eastern Europe as defined for the purpose of this chapter.

[3] The paramount factor in this decline was the outflow of population to western Germany in the 1950s. On the basis of the natural rate of increase, the population of eastern Germany should have risen from 18.4 million in 1950 to 19.1 million in 1960. In fact, it declined to 17.2 million, indicating roughly net emigration of around 2 million persons.

TABLE 1

Eastern Europe: the growth of population, 1950-1980

(Millions of persons and percentages)

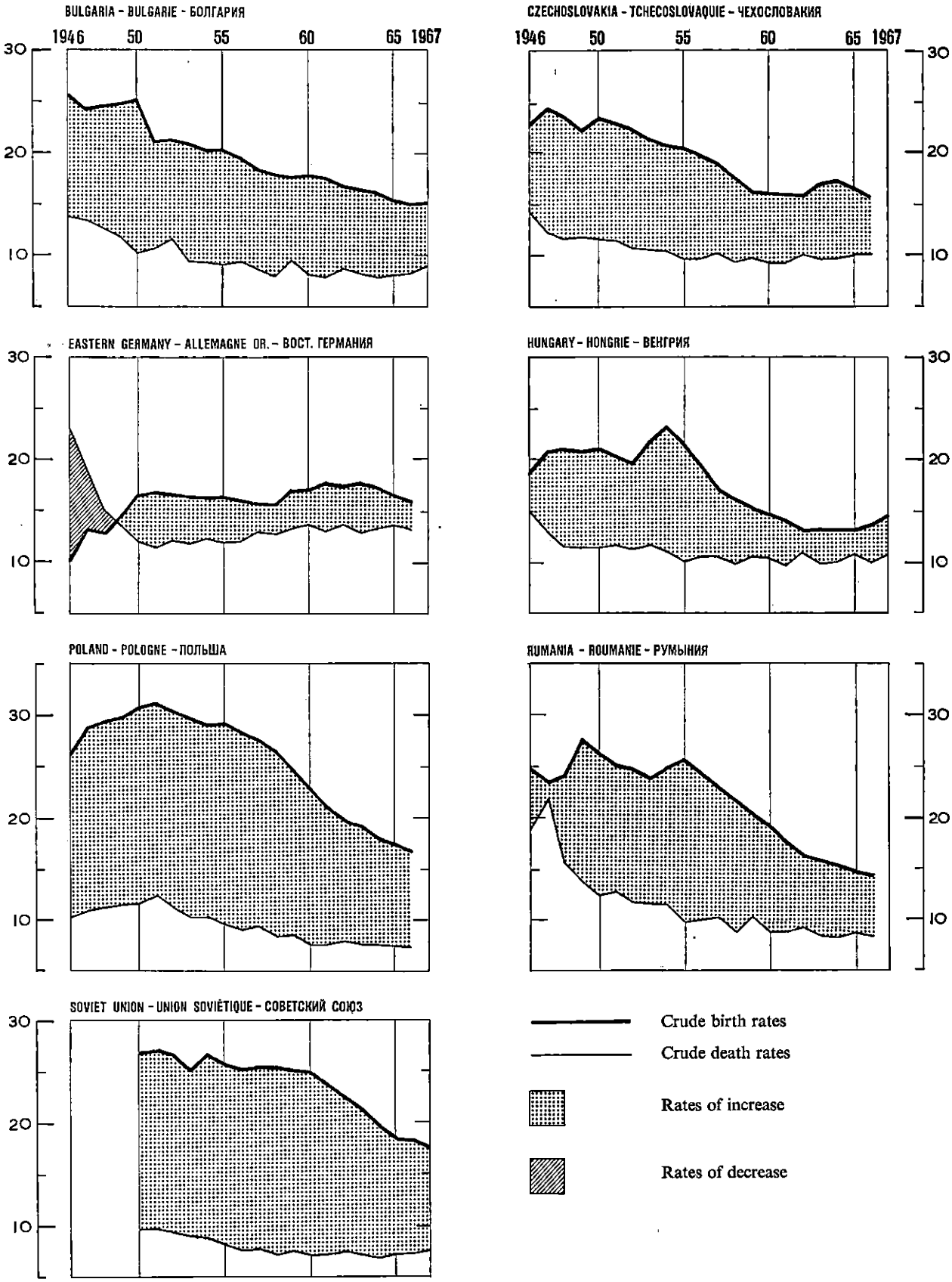
Country or area	Millions			Average annual rates of growth							
	1950	1965	1980	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975	1975-1980	1950-1965	1965-1980
Bulgaria	7.3	8.3	9.3	0.7	1.0	1.0	1.0	0.8	0.7	0.9	0.8
Czechoslovakia	12.3	14.2	15.8	1.2	0.9	0.8	0.7	0.8	0.8	0.9	0.7
Eastern Germany	18.4	17.1	17.7	−0.5	−0.8	−0.2	0.2	0.2	0.3	−0.5	0.3
Hungary	9.3	10.2	10.6	1.0	0.3	0.4	0.2	0.4	0.3	0.6	0.3
Poland	24.8	31.4	37.0	1.9	1.7	1.2	0.9	1.1	1.2	1.6	1.1
Rumania	16.3	19.0	22.5	1.2	1.2	0.7	1.4	1.0	0.9	1.1	1.1
Eastern Europe	88.5	100.2	112.8	1.0	0.8	0.7	0.8	0.8	0.8	0.9	0.8
Soviet Union	181.1	230.6	268.9	1.6	1.8	1.5	1.1	1.0	1.0	1.6	1.1
Eastern Europe and the Soviet Union	269.5	330.8	381.7	1.4	1.5	1.3	1.0	0.9	1.0	1.4	0.9

Sources: United Nations Demographic Yearbooks; for population projections see appendix I.

CHART 1

Rates of natural increase of population, 1946 to 1967

(Per thousand persons)

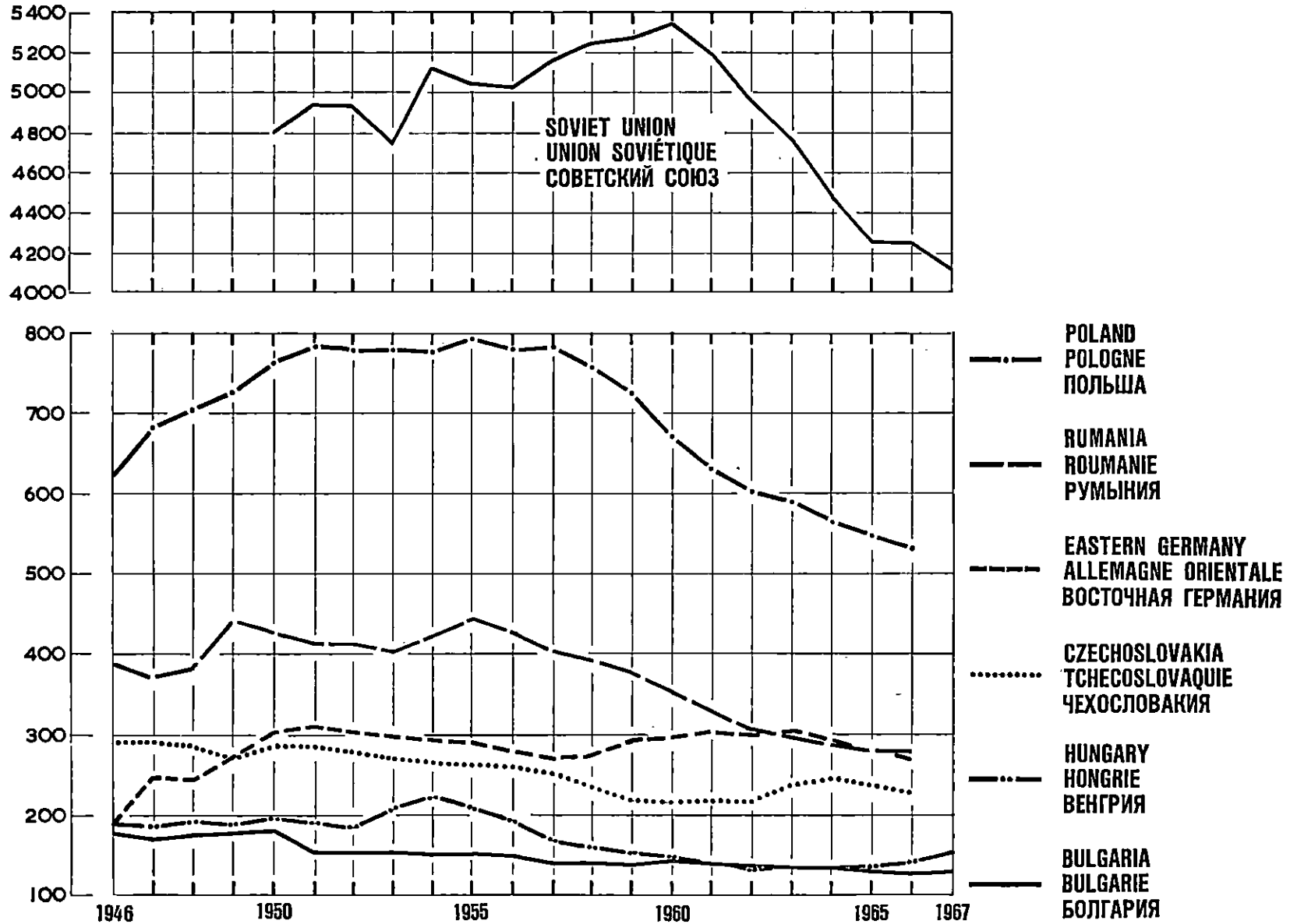


Sources for charts 1-7: National statistics, and projections shown in appendix I and II.

CHART 2

Annual number of live births, 1946 to 1967

(Thousands)



varying extent and at somewhat different onset years, as can be seen from chart 2. Compared with the peak year, the drop in the number of births amounted by 1967-1968 to around one-third in Bulgaria, Hungary and Poland, and to about one-quarter in the Soviet Union (where the decline set in only in 1960) and in Czechoslovakia. The most substantial fall, reaching nearly 40 per cent, occurred in Rumania and the least significant one (about 14 per cent) in eastern Germany, where the downward trend was least pronounced.

Such a shrinking of birth-cohorts had, of course, a significant impact on changes in the age structure of the affected populations during the period under review. Moreover, and even more importantly for the purpose of the present study, this trend in births will profoundly affect both the future size and the age structure of the population of working age (and indirectly that of the labour force) when the diminished birth cohorts arrive at working age. This effect is analysed in some detail below.

This is not the place to go deeply into the causes of the observed fertility declines. So far no research investigations carried out nationally have revealed the full and comprehensive picture of the forces at work.[4] Apart from the effect of strictly demographic factors, such as changes in the age structure of the female populations and the urbanization process, the most frequently adduced cause is the growing incidence of employment among married women, itself often associated with their growing professional aspirations and with the increasing role of material incentives in the face of a marked improvement in the supply of consumer goods and services (cars, private and co-operative housing, foreign travel, etc.). Among other factors, the still relatively poor housing conditions are often cited as a disincentive to larger families, at a time when family planning is being reinforced by the spread of birth control knowledge and means. The last few years have witnessed more awareness of population problems in several countries and the introduction of a variety of measures aimed at encouraging larger family size. Among these, at least three alternative approaches should be mentioned: abolition of liberal abortion laws (in Rumania), payment of special allowances after child-birth to previously employed women (Hungary), and steep increases in children's allowances, concentrated particularly on the third child (Bulgaria). It is too early to say how effective these recently introduced measures are, except perhaps in Rumania where the birth-rate jumped from 14.3 per thousand in 1966 to 27.4 in 1967, but even in this country the impact of " de-legalization " of abortion may be only temporary. Nevertheless, the decisions taken by several eastern European countries to encourage an increase in the birth rate make projections of future fertility trends particularly hazardous at the moment.

Changes in the age and sex structure of the population, 1950-1965

Trends in the number of births described above have largely influenced the age pyramids in 1965 at the youngest ages in chart 3. The number of survivors to older ages was, of course, also the outcome of previous trends in all the components of population growth: fertility, mortality and migration. Both the relative changes in numbers in the various age-groups and the concomitant changes in proportions of various age-groups which occurred during the period under review have been of major importance for the size and composition of the economically active population as well as for its relation to total population (i.e. the sum of the active and the non-active). The most relevant implications of these demographic trends for the study of the labour force can be discussed under three headings:

(*a*) Changes in the size of population of working age (defined here as population between the ages of 15 and 59 inclusive)[5] and in its relation to total population;

(*b*) The extent of " ageing " of population, defined as changes in the proportion of persons aged 60 and more;

(*c*) The extent of " ageing " of the population of working age, measured by the changing ratio of persons aged 40-59 in relation to persons aged 15-59.

A comparison of the last two columns in table 2 brings out the important fact that in most countries the working-age population was increasing during the period up to 1965 much more slowly (or in eastern Germany, fell much more) than the total population. The periods covered are not identical for all the countries (no age and sex distribution of the Bulgarian and Soviet population have been published for the period before the census dates of 1956 and 1959 respectively), but it can be seen that between 1959 and 1965 in the Soviet Union the population aged 15-59 was increasing at an average rate of about half that of the total population. In Bulgaria and Rumania, however, the two aggregates moved more in parallel in the period from mid-1950 to mid-1960.

Chart 3 (first pyramids) and the first and fourth columns of table 2 show the causes of these unfavourable trends. One common factor has been a rapid rise in the number of people aged 60 and more, in most countries at a rate more than double that of total population. This tendency was even intensified between 1960 and 1965 everywhere. On the other hand, the sixth decade witnessed, at least in Czechoslovakia, Hungary and Poland, a proportionately faster increase of the population below 15 than of

[4] Among studies throwing light on aspects of the fertility decline in the countries of the area, the following deserve special mention: The Soviet Union — B. Urlanis, *Proceedings of World Population Conference*, Belgrade 1965, Vol. II, p. 232; A. Vostrikova, *ibid.*, Vol. II, p. 239; V. Podyachykh, *ibid.*, Vol. III, p. 83; Hungary — K. Miltenyi, *Demografia*, No. 1, 1962; A. Klinger, *ibid.*, No. 3-4, 1964; E. Szabady, *ibid.*, No. 3-4 1965; E. Szabady and A. Klinger, *ibid.*, No. 2, 1966; A. Andorka, *ibid.*, No. 1, 1967; Poland — *Problemy Reprodukcji Ludnosci Polski*, Central Statistical Office, 1968; Z. Smolinski, *Wiadomosci Statystyczne*, No. 9, 1968; Rumania — I. Ferenbac, *Proceedings of World Population Conference*, 1965, Vol. II, p. 250. In western literature see D. V. Glass in *Population Studies*, No. 1, 1968 and P. Mazur, *ibid.*, No. 1, 1967.

[5] This definition is rather arbitrary. In contrast to western Europe, the statutory retirement age for men is 60 and that for women 55 in all eastern European countries, except Poland and eastern Germany where this age-limit is 65 for men and 60 for women. As shown in our data, quite a large proportion of persons at post-retirement ages continues in gainful employment.

TABLE 2

Eastern Europe: Growth of total population by broad age groups, 1950 to 1980

(Average annual rates)

Country	Period covered	Age groups				All ages	15-59
		0-14	15-39	40-59	60+		
Bulgaria	1956-1965	−0.1	0.4	1.5	3.3	0.8	0.8
	1965-1970	−0.5	1.1	1.3	2.8	1.0	1.2
	1970-1975	1.1	0.0	1.1	2.1	0.8	0.4
	1975-1980	0.8	0.6	1.2	0.0	0.7	0.8
	1965-1980	0.4	0.5	1.2	1.6	0.8	0.8
Czechoslovakia	1950-1961	1.6	0.5	0.2	2.4	1.0	0.4
	1961-1965	−1.2	1.2	0.8	3.6	0.8	1.0
	1965-1970	−0.7	1.2	−0.1	2.6	0.7	0.7
	1970-1975	1.0	0.8	−0.1	1.3	0.8	0.5
	1975-1980	1.2	0.8	1.2	−1.0	0.8	1.0
	1950-1965	0.9	0.8	0.4	2.7	0.9	0.6
	1965-1980	0.5	0.9	0.3	1.0	0.7	0.7
Eastern Germany	1950-1960	−1.3	−0.0	−2.4	1.6	−0.7	−1.1
	1960-1965	2.0	−0.6	−2.7	1.1	−0.1	−1.5
	1965-1970	−0.0	0.9	−1.4	1.0	0.2	0.0
	1970-1975	0.2	0.7	0.2	−0.5	0.2	0.5
	1975-1980	0.1	0.2	3.2	−2.3	0.3	1.4
	1950-1965	−0.2	−0.2	−2.6	1.4	−0.5	−1.2
	1965-1980	0.1	0.6	0.6	−0.7	0.3	0.6
Hungary	1949-1960	0.9	0.3	0.4	2.3	0.7	0.4
	1960-1965	−1.5	0.1	1.1	3.2	0.4	0.5
	1965-1970	−2.4	0.9	0.3	2.5	0.2	0.7
	1970-1975	−0.5	0.3	0.1	1.6	0.4	0.2
	1975-1980	1.3	−0.3	1.2	−0.6	0.3	0.3
	1949-1965	0.1	0.2	0.6	2.5	0.6	0.4
	1965-1980	−0.1	0.3	0.6	1.2	0.3	0.4
Poland	1950-1960	3.1	0.9	1.0	3.0	1.8	0.9
	1960-1965	−0.7	1.6	1.4	3.8	1.1	1.5
	1965-1970	−1.8	1.8	1.6	4.0	0.9	1.7
	1970-1975	−0.7	1.6	1.7	2.4	1.1	1.6
	1975-1980	1.8	0.8	1.9	0.6	1.2	1.2
	1950-1965	1.9	1.1	1.1	3.2	1.5	1.1
	1965-1980	−0.3	1.4	1.7	2.3	1.1	1.4
Rumania	1956-1965	0.4	0.8	0.7	3.3	1.0	0.8
	1965-1970	1.3	0.6	1.8	3.3	1.4	1.1
	1970-1975	0.5	0.5	1.7	2.4	1.0	1.0
	1975-1980	1.7	−0.4	2.6	−0.2	0.9	0.8
	1965-1980	1.1	0.3	2.0	1.8	1.1	0.9
Soviet Union	1959-1965	2.5	0.7	1.3	3.8	1.7	0.9
	1965-1970	−0.6	0.6	3,4	3.3	1.1	1.5
	1970-1975	−1.2	1.5	1.7	3.0	1.0	1.5
	1975-1980	−0.3	0.5	3.2	0.9	1.0	1.5
	1965-1980	−0.8	0.9	2.8	2.4	1.1	1.5

Sources: Population census results, and appendix I.

total population, thus contributing further to the deceleration in the rate of growth of population of working age. All these countries experienced, however, a marked decline in the youngest age-groups in the 1960-1965 quinquennium, offsetting the influences of changes in the oldest age group. Thus, in this group of countries, the unfavourable trend in the number of working-age people (in relation to total population) was reversed in the early 1960s.

Changes in the proportion of persons aged 15-59 inclusive can be compared over time and between countries in the first two columns of Table 3. Between 1950 and 1960 the drop in this percentage amounted to about 3 points in Czechoslovakia and Hungary and to nearly

TABLE 3

Eastern Europe: Some characteristics of the age structure of male and female populations, 1950 to 1980

(Percentages)

Country and year		15-59 age group as per cent of total		60+ age group as per cent of total		40-59 age group as per cent of 15-59 age group	
		Males	Females	Males	Females	Males	Females
Bulgaria	1956	61.7	60.8	9.7	11.7	38.0	37.9
	1965	61.4	60.7	12.3	14.2	39.8	40.2
	1970	62.0	61.3	13.7	15.3	39.9	40.6
	1975	60.7	60.2	14.7	16.2	41.1	42.1
	1980	61.2	60.6	14.2	15.6	41.8	42.9
Czechoslovakia	1950	62.9	62.7	10.5	13.0	40.6	42.1
	1961	59.6	58.4	11.8	15.6	39.7	41.1
	1965	60.4	58.7	13.3	17.3	39.1	41.0
	1970	60.6	58.6	14.8	19.0	37.6	39.6
	1975	59.9	57.7	15.2	19.6	36.5	38.5
	1980	60.7	58.5	13.8	18.1	37.0	38.8
Eastern Germany	1950	58.2	63.7	15.5	16.7	49.4	49.1
	1960	57.6	58.8	18.1	22.2	39.4	46.3
	1965	54.3	54.7	19.0	23.9	35.0	45.5
	1970	54.8	53.2	19.0	25.5	32.8	42.3
	1975	56.8	53.0	17.4	25.6	34.0	40.2
	1980	60.4	55.5	14.4	23.0	38.7	42.6
Hungary	1949	63.1	63.9	10.7	12.6	38.2	39.5
	1960	60.8	60.8	12.3	15.2	38.8	40.2
	1965	61.5	60.9	14.1	17.4	39.5	41.9
	1970	63.1	62.0	15.9	19.3	38.8	41.2
	1975	63.1	61.4	16.8	20.6	38.6	41.1
	1980	63.1	61.1	15.9	19.9	40.3	43.0
Poland	1950	61.7	62.7	7.3	9.8	34.7	36.4
	1960	56.9	57.1	7.9	11.2	34.4	37.3
	1965	58.5	58.3	9.2	12.6	33.7	37.4
	1970	61.3	60.2	10.9	14.5	33.6	37.2
	1975	63.2	61.4	11.6	15.5	34.2	37.0
	1980	62.9	61.2	11.1	15.0	35.7	38.0
Rumania	1956	62.6	62.5	8.6	11.2	35.7	36.8
	1965	61.6	61.4	10.9	13.4	34.3	37.3
	1970	60.5	60.3	12.2	14.6	35.9	38.5
	1975	60.6	59.7	12.9	15.7	37.6	39.5
	1980	60.5	59.2	12.0	15.1	41.2	43.1
Soviet Union	1959	59.8	62.4	7.1	11.4	27.8	36.6
	1965	58.2	58.7	7.7	13.3	28.3	37.9
	1970	60.3	59.3	8.7	14.7	32.5	40.3
	1975	63.0	60.2	9.7	16.3	34.1	39.5
	1980	65.1	61.5	9.6	16.3	38.3	41.8

Sources: As for table 2.

CHART 3

Changes in age- and sex-structure of the population in eastern Europe and Soviet Union, 1950-1980

(Absolute numbers in hundreds of thousands)

(In each pyramid the solid block area refers to the base year)

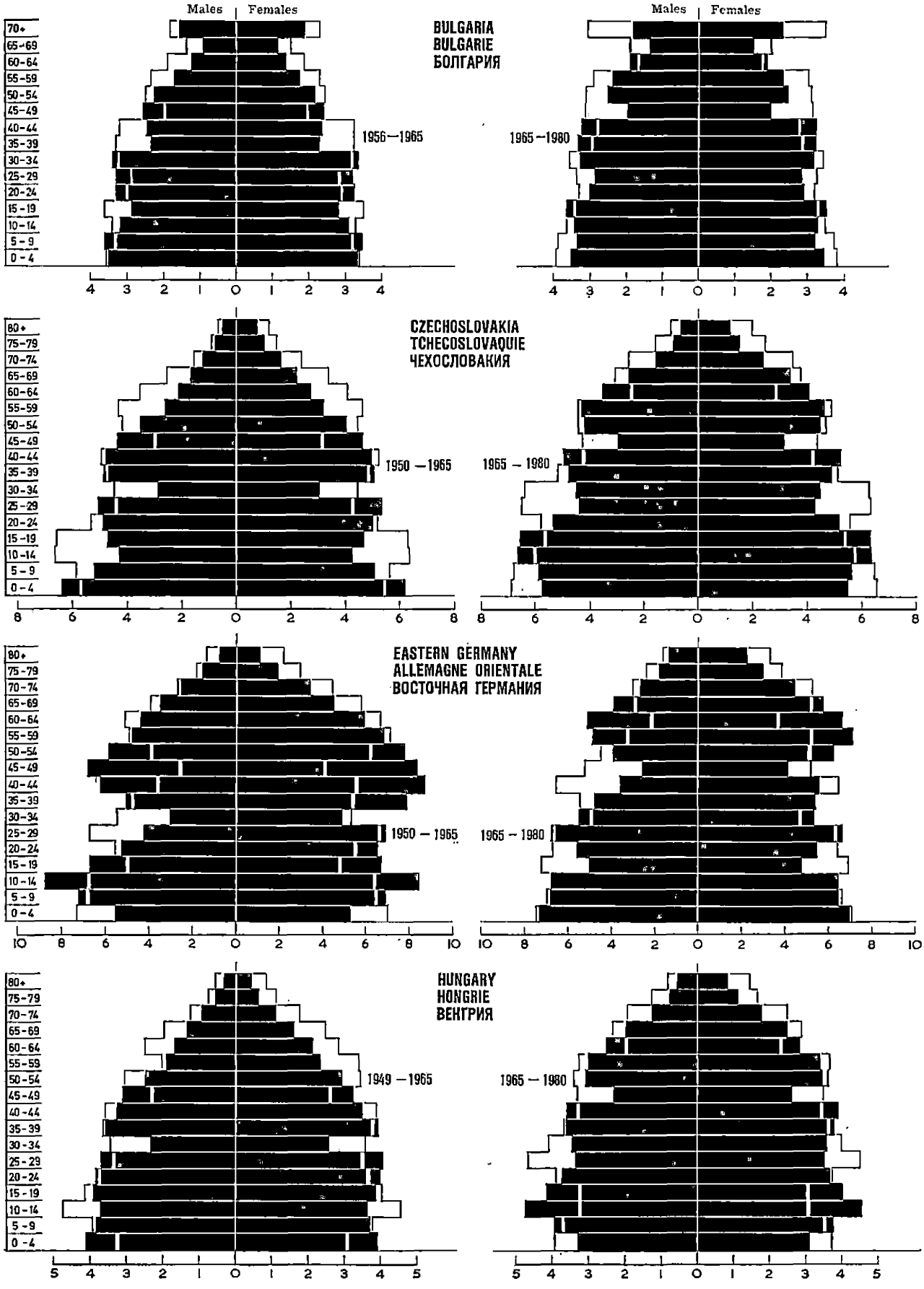
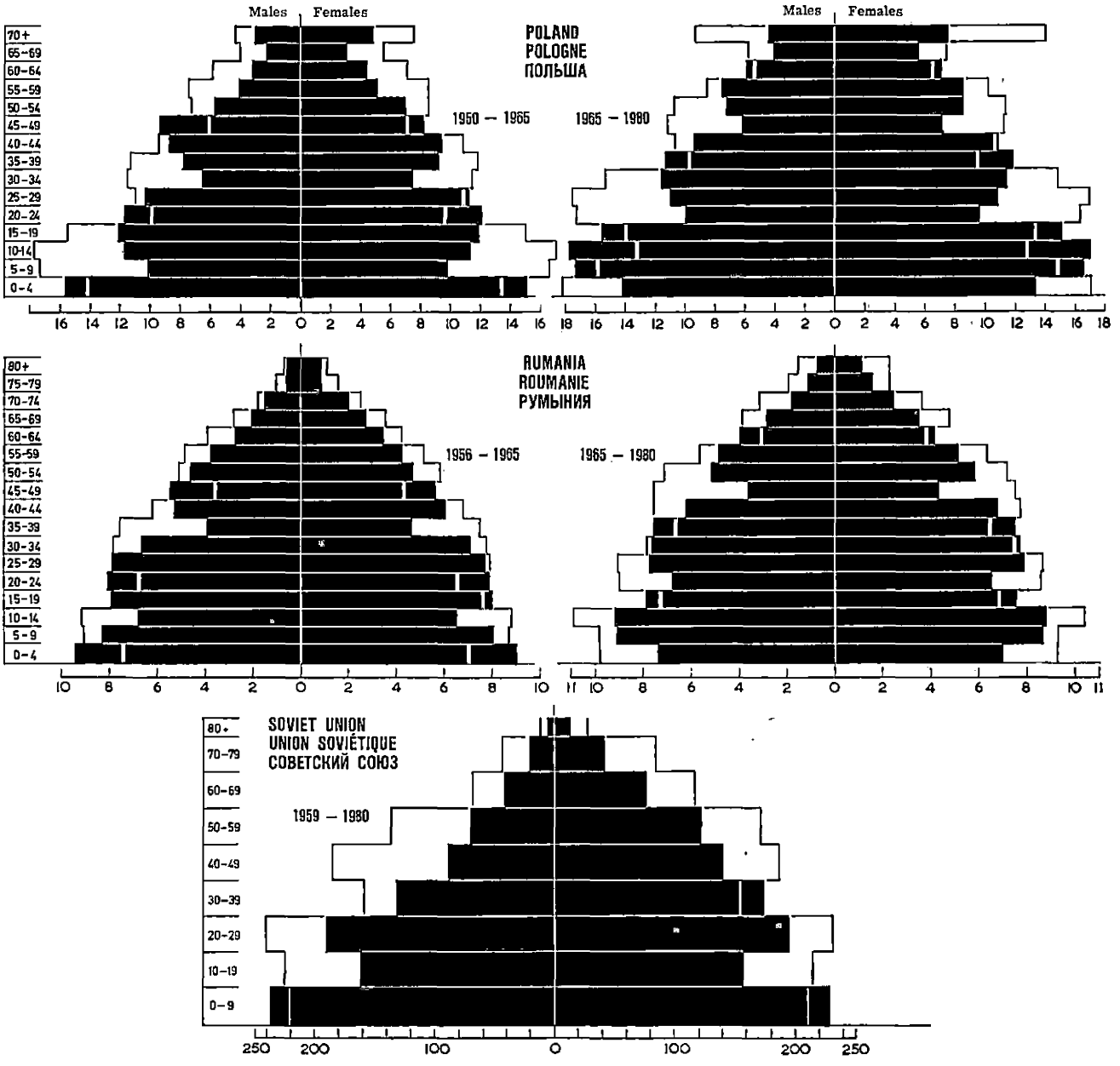


CHART 3 *(continued)*

Changes in age- and sex-structure of the population in eastern Europe and Soviet Union, 1950-1980

(Absolute numbers in hundreds of thousands)
(In each pyramid the solid block area refers to the base year)



5 points in Poland. Inter-country comparisons indicate a wide range of difference, varying—in 1965—from around 54-55 per cent in eastern Germany and 58 per cent in Poland and the Soviet Union to 61-62 per cent in Bulgaria, Hungary and Rumania. It will also be noted that the large differences between males and females in the earlier periods in eastern Germany and the Soviet Union had virtually disappeared by 1965.

Except in Czechoslovakia, eastern Germany and, to a lesser extent, Hungary, the populations of the area were still relatively "young" in the early 1950s, comprising not more than some 7-9 per cent of persons of both ages above the age of 60. The process of ageing of populations which has been apparent in developed countries throughout the world, and which has been associated with the long-term fertility declines and with the greatly increased expectation of life at higher ages, also took place in eastern Europe and the Soviet Union. Columns 3 and 4 of table 3 and chart 4 illustrate the extent of this development for males and females separately. It will be seen

TABLE 4

Eastern Europe: sex ratios in total population, by broad age groups, 1950 to 1980

(Number of females per 100 males)

Country and year		Age groups				All ages	of which: 15-59
		0-14	15-39	40-59	60+		
Bulgaria	1956	96	99	99	122	100	99
	1965	96	98	100	115	100	99
	1970	96	98	101	112	100	99
	1975	96	97	101	110	100	99
	1980	97	97	102	110	100	99
Czechoslovakia	1950	97	103	109	131	106	105
	1961	96	100	107	139	105	103
	1965	95	99	107	137	105	102
	1970	95	98	107	134	105	101
	1975	95	97	106	134	104	100
	1980	95	97	105	136	104	100
Eastern Germany	1950	96	137	135	135	125	136
	1960	95	110	146	150	122	124
	1965	95	101	156	150	119	120
	1970	95	98	146	158	117	114
	1975	95	97	127	168	115	107
	1980	95	97	114	180	112	103
Hungary	1949	97	107	113	127	108	109
	1960	96	105	111	133	107	107
	1965	95	102	112	131	107	106
	1970	95	100	111	129	106	104
	1975	94	98	109	129	105	103
	1980	95	97	108	131	104	101
Poland	1950	97	108	117	148	110	111
	1960	96	103	116	151	107	107
	1965	96	100	117	145	106	106
	1970	96	98	115	141	106	104
	1975	96	97	110	140	104	101
	1980	95	97	107	139	103	100
Rumania	1956	96	104	109	138	106	105
	1965	96	99	113	128	104	104
	1970	95	99	110	124	103	103
	1975	95	98	107	125	103	101
	1980	95	97	104	129	102	100
Soviet Union	1959	97	112	168	197	122	127
	1965	96	102	159	201	117	118
	1970	96	99	139	192	114	112
	1975	96	98	123	187	112	107
	1980	96	97	112	185	109	103

Sources: As for table 2.

first that, due largely to longevity differences, female populations age more quickly than their male counterparts, the divergencies being particularly great in the Soviet Union and eastern Germany, where war losses played an additional role. Secondly, it appears that by 1965 the proportion of the older age had varied from about 10 per cent (for both sexes) in Poland and the Soviet Union to as much as about 20 per cent in eastern Germany, the latter undoubtedly representing one of the highest incidences of population ageing in the world.

Finally, another relevant aspect of the age composition of the population is the extent of ageing within the working-age population, the latter representing broadly the potential labour force. This can be measured by relating the number of persons aged 40 to 59 to those aged 15-59 (see the last two columns of table 3). The intercountry comparisons reveal a considerable degree of variation. At the beginning of the decade, eastern Germany was again showing by far the highest incidence of ageing, followed at some distance by Czechoslovakia and Hungary, whereas at the other extreme the Soviet population was least affected. Considering trends over time, a rapid improvement in eastern Germany should be noted, particularly among men, the share of the older age-groups falling from nearly 50 per cent of the total working-age group in 1950 to only 35 per cent in 1965; but in other countries changes over time were rather insignificant.

The relative longevity of women has led everywhere to their numerical superiority over men (see table 4). This universal tendency was greatly accentuated in some countries of the area by the differential impact of war losses. Thus in eastern Germany in 1950 and in the Soviet Union in 1959 there were about a quarter more women than men.[6] As the distortions due to the war tended to diminish over time, the overall sex ratios became more balanced, in spite of an increasing proportion of old people in the populations amongst whom the ratio of women to men is the highest. But by 1965, these ratios were still sufficiently unbalanced in the higher working-age groups in most countries to reduce the activity rates in these groups and in the total population. On the other hand, the normalization of the sex ratios that occurred between 1950 and 1965 in the younger working-age groups played in many countries (particularly in eastern Germany, the Soviet Union and, to a lesser extent, in Poland and Hungary) a very positive role in improving both the quantity and the quality of labour supply.

Changes in the urban / rural composition of populations

The preceding paragraphs analysed the changes that occurred in the age and sex structure of the populations concerned in order to throw some light on their impact on trends in the overall activity rates during the period under study. The latter are also greatly influenced by the process of urbanization in so far as activity rates, however defined, are generally higher in the areas classified as rural, particularly so in the countries at lower levels of development. Thus, shifts of populations from rural to urban areas tend, *ceteris paribus*, to reduce the overall activity rate of the population. Moreover, given the relatively high activity rates in the youngest and in the older age groups in agriculture, differences in the age and sex structure between towns and villages are also of relevance.

All the countries of the area went through an extensive process of urbanization during the inter-censal period, accompanied by still more pronounced shifts away from agricultural employment.[7] Whilst comparisons between countries are vitiated by differences in definitions, the data in table 5 indicate that the percentage of the urban population rose by some 8-12 percentage points during the inter-censal decade in Bulgaria, Poland and Rumania, and by smaller margins in other eastern European countries. In the Soviet Union this percentage went up from 39 per cent in 1950 to 48 per cent in the census year of 1959.

As regards differences in the age structure, the first part of table 5 shows that almost everywhere rural populations had a higher proportion of children and old people than urban populations and that this became more pronounced over time. In some countries (Rumania, the Soviet Union) this has led to quite considerable differences between villages and towns in the " dependency burden " and to a relative diminution in the overall (" crude ") activity rates in the rural areas.

The second part of table 5 shows that the excess of women over men applied to both rural and urban populations at both dates in all countries except Bulgaria (where the distribution of sexes was balanced), although time trend data are not available for Czechoslovakia, eastern Germany and the Soviet Union. The numerical superiority of women over men tended to diminish over time in the urban areas of Poland, Hungary and Rumania, but to increase in the rural areas of the last two countries. By far the highest female-to-male ratios occurred in the older age groups. In both types of locality the female population was more " aged " than the male population, but it appears—perhaps contrary to expectations—that the gap between the sexes was larger in towns than in villages in all countries and at all dates for which data are available.

Future trends in population

For Bulgaria, Czechoslovakia, eastern Germany and Hungary official one-variant population projections covering the period up to 1980 have been published and they provide a basis for the present analysis. For Poland, several official and semi-official versions exist; the one chosen for this study was prepared by Dr. Jerzy Holzer

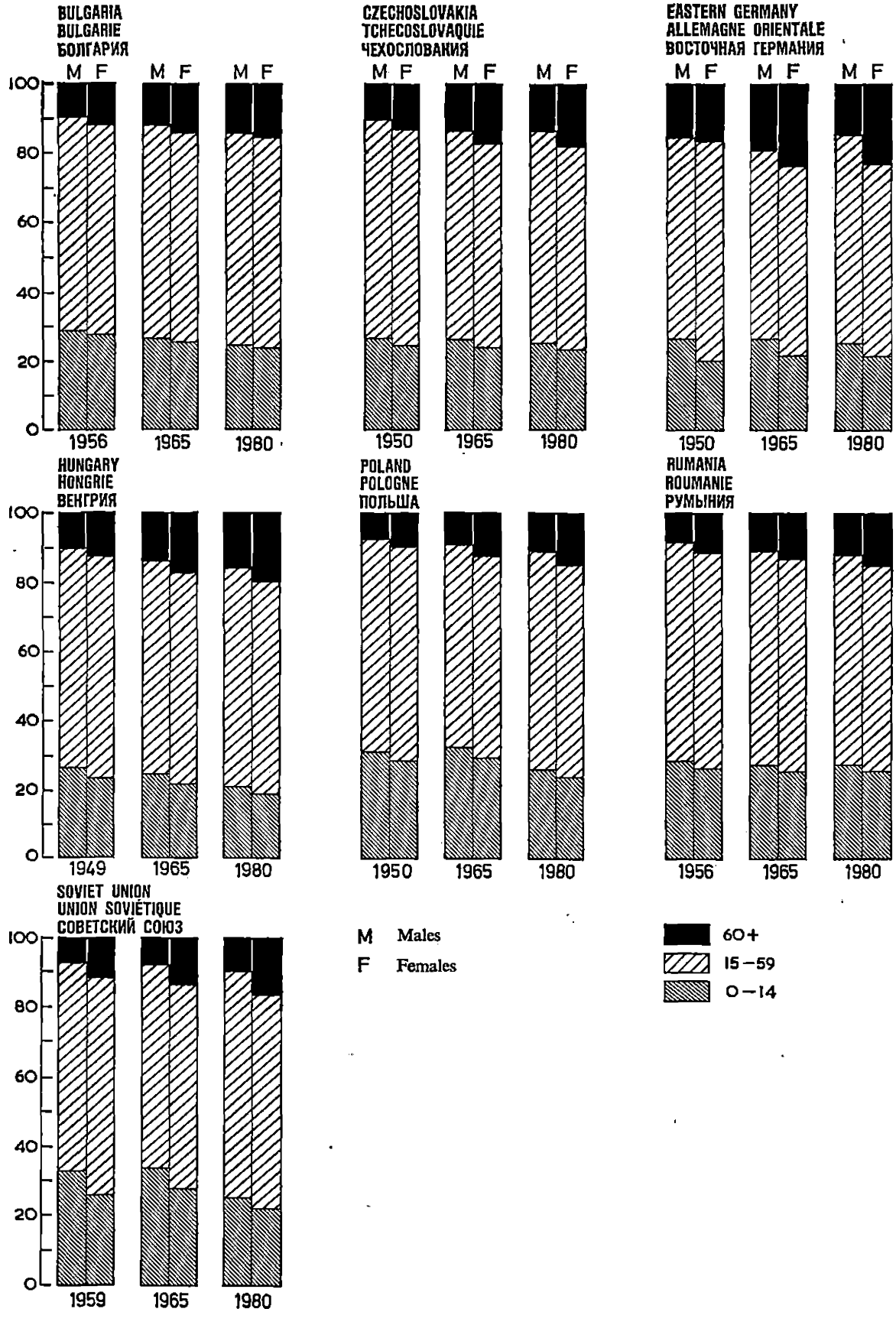
[6] According to the 1959 census there were about 20 million more women than men in the Soviet Union. For 1950 this figure was estimated at 22 million, giving women a 28 per cent margin of excess.

[7] For changes in composition of the population and of the labour force during the whole postwar period, see table 7.3 in *Incomes in postwar Europe: A study of policies, growth and distribution*, the SURVEY for 1965, Part 2, chapter 7.

CHART 4

Age structure of population: 1950, 1965 and 1980

(Percentages)



in 1964.[7a] No official projections by age and sex are available for Rumania or the Soviet Union. For the former country, a projection was prepared by the ECE secretariat, taking into account one variant of expected number of annual births suggested by Rumanian demographers. For the Soviet Union the study relies on the " low variant " projection prepared by the United Nations Population Division in New York, the totals being somewhat below the last official Soviet version. This version, incorporated in a direct communication from the Central Statistical Office of the Soviet Union, gives a figure of 272.5 million for the end of 1980, compared with one of 268.9 million emanating from the United Nations " low " variant.

The sources and assumptions underlying these projections are shown in appendix I. Briefly, all forecasts assume no external migration and a continuation of the decline in age specific mortality rates. For the reasons mentioned above, forecasts of future trends in births are more difficult and the expectations vary between countries, showing no clear pattern. Three projections (Czechoslovakia, Rumania, the Soviet Union) assume some decline in fertility up to 1970-1975, remaining constant thereafter, whereas an initial decline followed by an increase was postulated for Poland and Hungary. The Bulgarian projection is based on the rather unlikely assumption of an increase in age-specific birth-rates until 1975, whilst the east German variant envisages increasing age-specific birth-rates at some ages of women (17-26) but decreasing for others.

For the Soviet Union, Poland, Hungary and, to a lesser extent, Czechoslovakia (where the actual trend between 1965 and 1968 demonstrates that the projected growth rate of 0.7 per cent may be too high) our projections indicate a considerable slowing down in the

[7a] *Urodzenia i zgony, a struktura ludnosci Polski, 1950*, Warsaw 1964.

TABLE 5

Eastern Europe: urban and rural populations by age and sex

A. PERCENTAGE DISTRIBUTION BY AGE

(Thousands and percentages)

Country and year		Thousands		Males				Females			
		Males	Females	0-14	15-39	40-59	60+	0-14	15-39	40-59	60+
Bulgaria				Percentages							
1956	Urban	1 277	1 279	26	45	21	8	26	44	20	10
	Rural	2 523	2 535	27	37	25	11	26	37	24	13
1965	Urban	1 912	1 911	24	45	22	9	23	45	21	11
	Rural	2 202	2 203	25	34	26	15	24	32	27	17
Czechoslovakia											
1961	Urban	3 147	3 392	28	37	24	11	25	35	25	15
	Rural	3 557	3 649	29	35	23	13	27	33	24	16
Hungary											
1949	Urban	1 562	1 779	23	40	26	10	19	40	28	13
	Rural	2 861	3 002	28	38	23	11	26	38	24	12
1960	Urban	1 885	2 073	24	39	25	12	21	37	26	16
	Rural	2 918	3 084	29	36	23	12	26	36	23	15
Poland											
1950	Urban	4 322	4 921	28	44	22	6	25	42	24	9
	Rural	7 620	8 172	33	39	21	7	30	38	22	10
1960	Urban	6 923	7 478	33	41	19	7	29	39	21	11
	Rural	7 492	7 902	38	33	20	9	34	33	21	12
Rumania [a]											
1956	Urban	2 684	2 791	22	46	24	8	20	44	25	11
	Rural	5 820	6 196	30	39	22	9	27	39	23	11
1966	Urban	3 642	3 664	21	48	22	9	20	44	23	13
	Rural	5 709	6 089	28	39	21	12	25	38	23	14
Soviet Union [b]											
1959	Urban	45 208	54 769	39	38	18	5	32	36	23	9
	Rural	48 842	60 007	46	31	15	8	35	29	23	13

[a] The first two age groups: below 14 and 14-39.

[b] The first two age groups: below 20 and 20-39.

TABLE 5 *(continued)*

B. SEX RATIOS

(Females per hundred males in each age group)

Country and year	Age groups				All ages	15-59
	0-14	15-39	40-59	60+		
Bulgaria						
1956 Urban	97	99	97	129	100	98
Rural	96	99	100	118	100	99
1965 Urban	96	100	96	122	100	98
Rural	95	96	103	112	100	99
Czechoslovakia						
1961 Urban	96	105	109	147	108	106
Rural	96	96	105	132	103	96
Hungary						
1949 Urban	97	112	120	143	114	115
Rural	97	104	109	119	105	106
1960 Urban	96	104	114	150	110	108
Rural	96	106	109	122	106	107
Poland						
1950 Urban	97	111	127	166	116	116
Rural	97	107	112	140	107	109
1960 Urban	96	101	121	173	108	107
Rural	96	104	111	136	105	107
Rumania [c]						
1956 Urban	97	99	106	147	104	101
Rural	96	106	110	135	106	107
1966 Urban	96	92	108	139	101	97
Rural	95	103	118	124	107	108
Soviet Union						
1959 Urban	98 [a]	115 [b]	156	210	121	128 [d]
Rural	96 [a]	115 [b]	181	189	123	137 [d]

Sources: Population census results.

[a] Age group 0-19.

[b] Age group 20-39.

[c] Age groups: below 14, 14-39 and 14-59.

[d] 20-59.

rate of population growth after 1960 (see table 1). The rates for the whole area of eastern Europe show little divergence between the two 15-year periods, largely on account of the east German trend, where the actual decline in the 1950-1965 period (due to emigration) is likely to be replaced by some moderate growth of population in the future. As in the preceding 15-year period, the population of the Soviet Union is expected to grow faster than that of eastern Europe (by 17 per cent and 13 per cent respectively), but the gap is likely to be much smaller than before. By 1980, the total for eastern Europe and the Soviet Union should exceed the figure of 380 million people, an increase of more than 40 per cent over 1950.

Taking eastern Europe as a whole, little variation is expected over the quinquennial periods, but this hides some divergent trends between individual countries, above all between Rumania, where some deceleration is expected after the unusually high rate postulated for the 1965-1970 period, and Poland, where the growth rate is likely to accelerate towards the end of the period covered.

However, from the labour supply angle, the growth of the working-age population is more important than that of the total population. The comparisons of the last two columns of table 2 (see the last row for each country) show that in the Soviet Union, Poland and eastern Germany the population aged 15-59 will be growing—in the 1965-1980 period—much faster than total population. In other countries the two aggregates will move in parallel except in Rumania where a contrary trend is expected. The five-year growth pattern is much more complex and does not lend itself to generalizations. Its impact on and contribution to the future growth of the labour force in individual countries is discussed in the last section of Part 1 of this chapter.

The reasons for these generally favourable relative growth rates of the working-age population are to be

found in a deceleration, or even a decline, in the growth of the youngest age-groups, and in some slowing down of the process of ageing of population, particularly in the 1975-1980 quinquennium (see table 3); this development is clearly associated with the entry into the 60+ age-group during this period of the small cohorts born during the First World War and depleted during the Second World War. Nevertheless, as chart 4 shows, the percentage of males and females above 60 will by 1980 be higher than in 1965 in all countries of the area except eastern Germany. This is generally also true with respect to the ageing of the working-age population, as shown in the last two columns of table 3 (the exception being Czechoslovakia). This development will be particularly marked in the Soviet Union and Rumania, the two countries which enjoyed a rather favourable position in this respect in the early 1960s.

One demographic factor will have a generally and universally beneficial effect on the labour supply in the coming years, namely the change in the sex ratio. For total populations an almost complete balance of sexes will obtain by 1980 everywhere. In eastern Germany and the Soviet Union, however, some disequilibrium will still persist within the working-age population. But among old people the preponderance of women will persist everywhere and will be particularly marked in the two latter countries (see table 4).

Before leaving the subject of demographic influences on the future supply of labour, it is instructive to devote some attention to the expected changes in the absolute number of persons in the youngest contingents of the working-age population, say at ages 15 to 24. The supply of potential labour at these ages is of major importance to the labour market, since they represent the age of entry into the labour force and therefore determine to a large extent the employment situation and policy. Moreover, an adequate supply of young people is essential for creating favourable conditions for mobility of labour both with regard to occupation and place of employment.

In this connexion it should be noted that the fluctuations in the number of births—the decline during the war years, followed by an upturn until around the mid-1950s and then by a steep decline—which was characteristic of most countries of the area, had a profound impact on the numbers entering the labour force during the period from around 1955 onwards. Table 6 and chart 5 show this effect during the projected period until 1980. It will be seen, first, that in 1965 the markedly smaller number of persons aged 20-24 in relation to those aged 15-19 was the outcome of differences in birth levels between the 1940-1945 and the 1945-1950 periods, manifested particularly strongly in Poland and the Soviet Union. The relatively large 1945-1950 birth cohorts were also responsible for the generally substantial additions to population aged 20-24 in the 1965-1970 quinquennium. In the countries in which the number of births occurring in the years between 1950 and 1955 was above the 1945-1950 level, such as the Soviet Union, eastern Germany and, to a lesser extent, Poland and Rumania, some significant gains are expected to take place in the 15-19 age group during the current quinquennium, but in Bulgaria and in Czechoslovakia these populations will remain unchanged. A radical change will occur in the 15-19 age group over the years 1970-1975 everywhere. In Czechoslovakia, Hungary and Poland, these numbers will actually fall by significant margins, whereas they will remain stable in Bulgaria, eastern Germany and Rumania; and in the Soviet Union the increment will amount to about 2.1 million persons compared

TABLE 6

Eastern Europe: absolute increments in population aged 15-19 and 20-24, 1965-1980 (projections)

(Thousands)

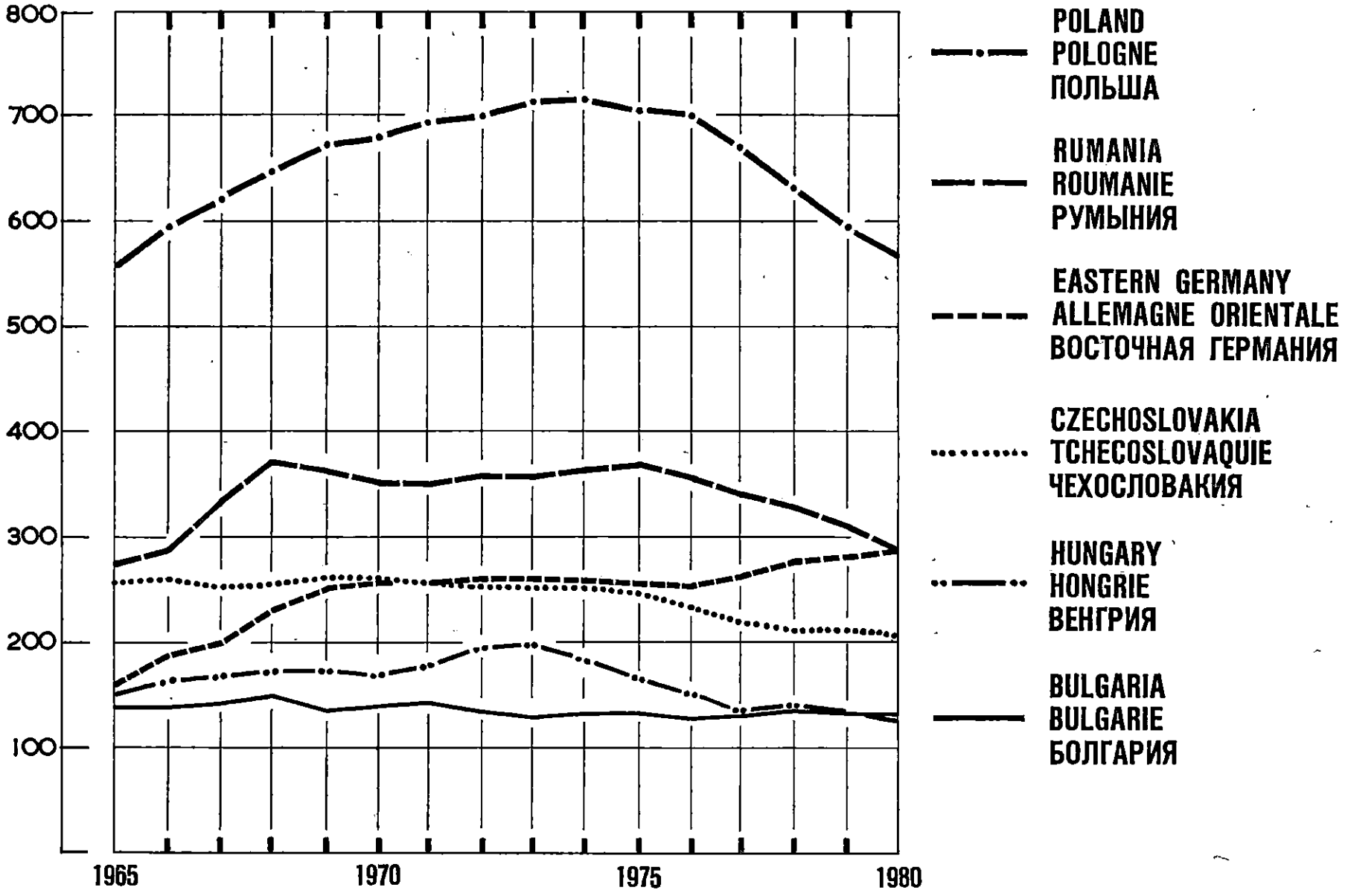
Country	*Age groups*	*Number in 1965*	*Increments over the periods:*		
			1965-1970	*1970-1975*	*1975-1980*
Bulgaria	15-19	714	−45	−19	19
	20-24	592	118	−46	−17
Czechoslovakia	15-19	1 288	7	−152	−34
	20-24	1 050	231	9	−152
Eastern Germany	15-19	976	333	9	95
	20-24	1 103	−132	331	9
Hungary	15-19	818	111	−164	−133
	20-24	742	73	111	−164
Poland	15-19	3 060	410	−100	−640
	20-24	1 960	1 090	410	−100
Rumania	15-19	1 546	241	−21	−351
	20-24	1 331	208	242	−21
Soviet Union	15-19	18 141	4 473	2 147	−1 460
	20-24	13 695	4 372	4 478	2 159

Sources: See appendix I.

CHART 5

Numbers of persons reaching the age of 18, 1965-1980

(Thousands)



with one of 4,5 million registered in the preceding quinquennium. The supply of young people will become even more of a problem in the following—1975-1980—quinquennium, when in several countries (Poland, Hungary, Rumania and Czechoslovakia) the absolute numbers will decline in both the 15-19 and the 20-24 age groups. Bulgaria and eastern Germany will register little change over this period, whereas in the Soviet Union a decline of about 1.5 million persons in the 15-19 age group will be accompanied by an increment of some 2.2 million people in the 20-24 group, the latter representing about one-half of the increments experienced in each of the preceding five-year periods.

Thus these data reveal that, starting in the 1970-1975 quinquennium, the eastern European countries and the Soviet Union will be faced with a diminishing supply of young people, with all the unfavourable repercussions that this entails, and that this problem will become very acute by the end of the period under study. This trend, it should be borne in mind, is subject to only very narrow " confidence limits " since, with the exception of some persons reaching the 15-19 age group in the 1975-1980 quinquennium, the numbers appearing in Table 6 refer to persons already born by 1960, so that the final deviations from the data shown can only be due to actual survival rates differing from those assumed here; such errors could not possibly affect the validity of the general conclusions reached.

(ii) Development of the active population, 1950-1965

The concept of active population

The term " active population ", which is used here interchangeably with the term " labour force ", differs normally in the eastern European statistical terminology from the current employment aggregates by the inclusion of the Armed Forces (including usually some units responsible to the Ministry of Interior), of apprentices (or "trainees"), of at least some categories of "unpaid family workers ", of persons seeking employment, etc. Persons living on un-earned income (including pensioners) are excluded from the economically active, although in Hungary they are included in a wider concept of income recipients who are distinguished from " active earners ". The treatment of these marginal categories has not, however, been entirely consistent between the postwar censuses in every country, and it has varied sufficiently between countries to vitiate international comparisons. In order to improve the temporal and spatial comparability, some adjustments were introduced into the census data analysed in this report. Thus the Polish figures for active population (by age and sex) in the 1950 and 1960 census were adjusted to include members of the Armed Forces.[8] The same adjustment was made for the Czechoslovak data for 1950 [9] which were further augmented by the addition of apprentices. Again, the Soviet 1959 data on labour force by age and sex were adjusted by the addition of 9,884 thousand family members of collective farmers and wage-earners working on individual agricultural plots: their age and sex distribution was partly estimated on the basis of distribution of peasants on private holdings provided in the 1959 census results.

Nevertheless, some significant inter-country differences in the definition of active population remain, particularly those resulting from different coverage of family helpers in agriculture.[10] These divergencies strongly affect the comparisons of activity rates among women, especially in the older age groups.

[8] Since their total numbers were known, this amounted to estimating their distribution by age and sex. The latter was derived from a comparison of data on the total population (by age and sex) in 1960 with a census tabulation which excludes the members of Armed Forces. It was then assumed that the age and sex distributions of 1950 were the same as in 1960.

[9] This procedure was more arbitrary than the adjustment of the Polish data. It was assumed that the total size of the Armed Forces amounted to 250,000 and that its age and sex distribution was the same as that of Poland in 1960.

[10] These are frequently based on an age-convention, most women in rural areas at working age being counted as employed in agriculture. Complicated procedures are applied in some countries. For instance, in Hungary in 1960 the number of unpaid family helpers on a farm was conventionally estimated in relation to its size.

TABLE 7

Eastern Europe: inter-censal changes in active population and population aged 15-59, by sex

(Percentage change over the period)

Country	Period covered	Active population						Population aged 15-59		
		Aged 15+			Aged 15-59					
		Total	Males	Females	Total	Males	Females	Total	Males	Females
Bulgaria	1956-1965	3.7	0.1	8.7	7.9	3.5	13.9	7.8	7.8	7.7
Czechoslovakia	1950-1961	6.1	0.3	15.9	5.4	−1.0	16.1	4.6	5.9	3.4
Eastern Germany	1950-1964	−4.6	−12.3	5.5	−8.5	−16.4	2.6	−16.8	−11.2	−21.0
Hungary	1949-1960	18.3	7.8	44.2	18.1	7.2	45.5	3.6	4.6	2.7
Poland	1950-1960	11.5	11.8	11.2	9.8	10.8	8.6	9.0	11.2	7.0
Rumania	1956-1966	−0.8	−0.7	−1.0	0.5	0.1	1.0	8.3	9.3	7.4

Sources: Population census data and appendix II.

TABLE 8

Eastern Europe: the growth of the active population, by sex, 1950 to 1980

(Average annual rates of growth)

Country and period	Actual			Projections					
				Variant I			Variant II		
	Total	Males	Females	Total	Males	Females	Total	Males	Females
Bulgaria									
1956-1965	0.4	—	0.9						
1965-1970				1.2	1.1	1.2	1.2	1.1	1.3
1970-1975				0.6	0.7	0.6	0.7	0.7	0.7
1975-1980				0.6	0.7	0.4	0.6	0.7	0.5
1965-1980				0.8	0.8	0.7	0.8	0.8	0.8
Czechoslovakia									
1950-1961	0.5	—	1.4						
1961-1965				1.1	1.1	1.0	1.3	1.1	1.6
1965-1970				1.0	1.0	0.9	1.2	1.2	1.3
1970-1975				0.8	0.9	0.7	1.0	1.0	1.1
1975-1980				0.7	0.8	0.5	0.9	0.9	1.0
1965-1980				0.8	0.9	0.7	1.1	1.0	1.1
Eastern Germany									
1950-1965	−0.3	−0.8	0.3						
1965-1970				0.2	0.5	−0.2	0.7	0.6	0.7
1970-1975				0.3	0.6	−0.1	0.7	0.7	0.7
1975-1980				1.0	1.2	0.7	1.4	1.2	1.6
1965-1980				0.4	0.7	0.1	0.9	0.9	1.0
Hungary									
1949-1960	1.5	0.7	3.4						
1960-1965				0.9	1.0	0.6	1.0	0.8	1.4
1965-1970				1.0	1.1	0.8	1.1	0.9	1.6
1970-1975				0.6	0.7	0.4	0.8	0.5	1.2
1975-1980				0.1	0.3	−0.2	0.4	0.2	0.7
1965-1980				0.6	0.7	0.3	0.8	0.5	1.2
Poland									
1950-1960	1.1	1.1	1.0						
1960-1965				1.5	1.5	1.4	1.7	1.7	1.7
1965-1970				2.0	2.1	1.8	2.3	2.3	2.2
1970-1975				1.9	2.1	1.6	2.0	2.1	2.0
1975-1980				1.3	1.5	1.1	1.5	1.5	1.5
1965-1980				1.8	2.0	1.5	2.0	2.0	2.0
Rumania									
1956-1966	−0.1	−0.1	−0.1						
1966-1970				1.0	1.1	0.8	1.2	1.1	1.3
1970-1975				1.2	1.4	1.1	1.4	1.4	1.5
1975-1980				1.0	1.1	0.7	0.9	1.1	0.7
1966-1980				1.1	1.2	1.0	1.2	1.2	1.2
Soviet Union									
1959-1965				1.2	1.8	0.5	1.4	1.9	1.0
1965-1970				1.6	2.1	1.1	1.9	2.3	1.6
1970-1975				1.8	2.2	1.4	2.1	2.4	1.9
1975-1980				1.5	1.9	1.1	1.6	2.0	1.1
1965-1980				1.7	2.1	1.2	1.9	2.2	1.5

Sources: See appendix II.

Trends in active population during the inter-censal periods

In the absence of regular and all-inclusive labour force data, the analysis of postwar trends in the economically active population must necessarily be restricted for all countries to inter-censal changes. (By contrast, all countries publish annually comprehensive data on employment in the socialized sector of the economy, outside the private and collectivized sector of agriculture, by economic sectors and branches.) Thus all figures given since the last census are projections.

As shown in the first column of table 7, inter-censal periods vary greatly between countries, covering roughly the sixth decade in Poland, Czechoslovakia and Hungary, and the one from the mid-1950s to the mid-1960s in Bulgaria and Rumania. But for eastern Germany the period under study encompasses the fourteen years between 1950 and 1964.

During the periods covered, a common characteristic feature of change in the size of the active population was the relatively slow rate of growth. As can be seen in table 7 and in the first column of table 8, only in Hungary and to a lesser extent in Poland did this rate exceed significantly an average of one per cent per annum. In Bulgaria and Czechoslovakia this growth was around one-half per cent, whereas in eastern Germany and Rumania the active population even declined.

It is clear that the main reason behind this sluggish rate of labour force expansion was the relatively slow growth of the working-age population, noted in the preceding section. Only in Hungary and eastern Germany did active population grow faster (or fell less in eastern Germany) than the population aged 15-59. In Poland and in Czechoslovakia these rates moved almost in parallel, whereas in the two least developed countries of the region—Bulgaria and Rumania—the working-age population rose faster than the active population. These differences between countries were, of course, the outcome of trends in overall activity rates.

Another salient feature of these trends was the faster growth of the female than of the male active populations, in spite of the opposite trend in the working-age populations. The growth of the female labour force was particularly fast in Hungary and—to a lesser extent—in Czechoslovakia. But it also played an important role in eastern Germany, where male labour declined markedly, and in Bulgaria, where the whole increase of the labour force consisted of women (see columns 2 and 3 in table 8). The extent to which the overall female activity rates increased can be seen in table 9. The rates least affected by changes in age structure of the female population are those referred to as " general activity rates " in the last column of the table. It will be noticed that the steepest increases, by about 15 per cent, took place in eastern Germany and Hungary, although marked changes occurred also in Czechoslovakia and Bulgaria.

It can thus be concluded that the population trend in itself contributed to a slowing down in the labour force expansion during the inter-censal periods everywhere, whereas the changing sex-ratio, reflected in a faster growth of the male than of the female working-age population, tended, by itself, to accelerate this expansion. The influence of at least two other strictly demographic factors needs now to be examined, namely that of changes in the age and in the urban/rural structures of population.

It was noted above that the share of the working-age population tended to decline everywhere during the periods under review, the rate of this decline being quite considerable in some countries, such as Poland, Czechoslovakia and Hungary. This trend had a substantial influence on " crude activity rates ", as can be seen by comparing them—in table 9—with the " general activity rates " (see definitions on page 181). It will be seen that the increases in crude rates are either smaller than those in general rates, or that they move in the opposite direction.

A high degree of negative correlation, particularly among women, will be noted between the crude activity rates and the degree of economic development, these ratios being highest in Rumania and Bulgaria, and lowest in eastern Germany, Czechoslovakia and Hungary. This cross-country relationship is largely explained by the relatively high rates of female participation in agriculture. It must be stressed again, however, that inter-country comparisons can at best provide only the orders of magnitude, on account of differences in definitions of economic participation. For example, the differences in overall female participation rates between Rumania and Hungary shown in table 9 are certainly grossly exaggerated.

The differences between the " crude and the " general " activity rates are the reflection of differences in the shares of the working-age populations in total population. In order to measure the impact of changes in the age-structure *within* the working-age population, one can calculate hypothetical general activity rates resulting from the combination of the age-specific rates of the earlier census with the age-structure of the population at the later date. This standardization exercise gives the following results:

		General activity rates	
		Actual (early census)	*Hypothetical*
Bulgaria	Males	91.0	90.7
	Females	68.7	68.3
Czechoslovakia . . .	Males	94.3	91.9
	Females	53.4	52.9
Eastern Germany . .	Males	93.9	93.9
	Females	48.8	48.3
Hungary	Males	92.9	92.9
	Females	34.3	33.7
Poland	Males	89.9	91.6
	Females	62.2	62.0
Rumania.	Males	94.4	94.5
	Females	74.3	74.1

It will be seen that, with few exceptions, changes in age-structure within the working-age population had a negligible effect on the overall activity rates. But in Czechoslovakia the 1961 pattern was definitely less favourable

TABLE 9

Eastern Europe: overall activity rates by sex, 1950-1980

(Variant II projections)

Country and year	Crude activity rates [a]			Coefficients of labour utilization [b]			General activity rates [c]		
	Total	Males	Females	Total	Males	Females	Total	Males	Females
Bulgaria									
1956	54	63	45	88	102	74	80	91	69
1965	52	58	45	85	94	75	80	87	73
1970	52	58	46	85	94	75	80	86	73
1975	52	58	46	86	95	76	80	87	73
1980	52	58	45	85	95	75	79	87	72
Czechoslovakia									
1950	49	63	36	78	101	57	73	94	53
1961	47	57	37	79	95	64	74	88	60
1965	48	57	37	80	95	65	74	87	61
1970	49	59	40	82	97	68	75	88	62
1975	50	59	40	84	99	70	76	89	64
1980	50	60	41	84	98	70	77	89	65
Eastern Germany									
1950	46	62	33	76	107	52	68	94	49
1965	47	58	38	86	106	69	75	88	64
1970	48	58	39	89	106	74	77	88	66
1975	49	59	41	90	104	76	78	87	69
1980	52	61	44	90	101	79	79	88	71
Hungary									
1949	45	67	25	71	106	39	62	93	34
1960	49	65	33	80	107	54	71	95	49
1965	50	67	35	82	108	57	72	94	50
1970	52	68	37	84	108	60	73	94	53
1975	53	69	39	86	109	63	75	94	56
1980	54	68	40	86	108	65	76	94	58
Poland									
1950	51	61	42	82	98	68	75	90	62
1960	48	56	40	84	99	70	76	90	63
1965	49	58	42	85	99	71	75	88	63
1970	53	62	44	87	101	74	76	89	64
1975	55	64	47	89	102	76	78	89	66
1980	56	65	48	90	103	78	79	91	68
Rumania									
1956	60	67	53	93	105	82	84	94	74
1966	54	61	48	85	95	76	78	87	70
1970	53	59	48	88	98	79	80	88	72
1975	54	60	49	90	99	82	81	88	74
1980	54	60	49	91	99	82	82	90	75
Soviet Union									
1959	52	56	49	85	93	79	79	88	73
1965	51	55	48	88	95	82	80	88	74
1970	54	58	50	90	95	84	81	88	75
1975	57	61	53	92	97	88	83	88	77
1980	58	63	54	92	97	88	83	89	77

Sources: See appendix II.

[a] Active population: total population.
[b] Active population: population aged 15-59.
[c] Active population aged 15-59: population aged 15-59.

than that of 1950, particularly among men, whereas the opposite was true of changes in Poland between 1950 and 1960 (among men).

In the less industrialized countries, the process of urbanization itself entails some reduction in the overall activity rates and therefore contributes to a slowing down in the rate of growth of the total active population. This is so because the overall activity rates tend to be higher in agricultural populations, due mainly to more intensive participation of women of all ages and of men in the marginal age groups. These differences can be seen globally in table 10 where—whenever available—crude activity rates and coefficients of labour utilization (the ratios of all active to population aged 15-59) are shown for urban and rural areas separately.

The data show that except in Hungary (where the census definition of female family helpers was more restrictive than in other countries) and Czechoslovakia, rural activity rates were significantly higher than those in the urban areas, the margin of difference declining somewhat over time in the two countries for which time trends could be established—Poland and Rumania. However, the urban/rural differential was much narrower among men, particularly for comparisons made in terms of crude rates. The coefficients of labour utilization show a wider spread because the proportion of working-age population was generally smaller in villages than in towns (see table 5 above).

In urban areas, about 30 to 40 per cent of all women were economically active, the rate being highest in the Soviet Union and Hungary (in the absence of a sex-breakdown for Czechoslovakia) and lowest in Bulgaria, whereas among men the range was from about 55 per cent in Poland and the Soviet Union to 60-65 per cent in Rumania and Hungary. In rural areas, the crude rate for women varied from about 30 per cent in Hungary to 50-60 per cent in Bulgaria, Rumania and the Soviet Union.

The coefficients of labour utilization indicate a high degree of reported exploitation of rural reserves in the early 1960s, particularly among men, although female rates were also very high everywhere except Hungary. However, the potential for further absorption of women into urban employment seemed to be not altogether exhausted.

TABLE 10

Eastern Europe: activity rates by urban / rural differential

A. CRUDE ACTIVITY RATES

Country	Census year	Both sexes		Males		Females	
		Urban	Rural	Urban	Rural	Urban	Rural
Bulgaria	1956	44.4	59.6	59.1	65.4	29.7	53.8
Czechoslovakia	1961	47.4	46.4	..	..	..	..
Hungary	1960	51.9	47.3	65.7	66.2	39.4	29.4
Poland [a]	1950	42.9	55.2	58.4	60.0	29.7	50.8
	1960	41.8	52.4	53.8	56.4	31.1	48.7
Rumania	1956	49.7	64.3	67.5	67.1	32.5	61.8
	1966	47.9	58.2	60.1	61.1	35.8	55.4
Soviet Union	1959 [b]	46.8	48.1	55.8	53.8	39.4	43.4
	1959 [c]	47.9	56.1	56.0	55.6	41.2	56.6

B. COEFFICIENTS OF LABOUR UTILIZATION

Bulgaria	1956	68.2	97.0	89.6	105.6	46.4	88.3
Czechoslovakia	1961	77.7	80.6	..	..	..	..
Hungary	1960	81.8	80.1	102.7	112.1	62.5	49.8
Poland [a]	1950	65.0	92.0	88.5	100.0	45.1	84.7
	1960	69.7	97.9	89.6	106.4	51.8	90.1
Rumania [d]	1956	71.2	104.6	95.7	109.6	47.2	100.0
	1966	69.4	96.8	85.5	102.5	52.8	91.5
Soviet Union	1959 [b]	75.1	86.7	94.1	105.1	60.8	73.6
	1959 [c]	76.8	101.2	94.3	108.5	63.7	96.1

Sources: Population census data.

[a] Excluding Armed Forces (both in total and in active population).
[b] Excluding unpaid family workers.
[c] Including unpaid family workers.
[d] Population aged 14-59.

Changes in age- and sex-specific activity rates

It has been shown that changes in overall activity rates, however measured, are to a large extent a function of purely demographic variables such as the age and sex composition of the population, or its rural/urban structure. In studying the determinants of labour supply it is helpful to isolate this set of influences from those due to changes in activity rates in specific age and sex groups, the latter being broadly identifiable with changes in demand for labour and/or in employment policies in general. But this dichotomy is by no means clearcut, the age-specific rates being also dependent to a certain extent on such demographic factors as the extent of urbanization or the proportions of married women at various ages.

The postwar census data [11] on age-specific participation rates, shown in Table 11 separately for men and women, allow a few cautions generalizations concerning the age and sex pattern of utilization of the labour potential, and the direction of its change over time.

The data reveal that main inter-country and temporal divergencies occur in marginal age-groups (15-19 and 60+), and among women in general. Without giving undue emphasis to inter-country variations which do not reflect faithfully the true magnitudes, one can safely conclude that, both among men and women, activity rates tended to decline over time in the youngest age groups. (The Hungarian data included apparently, at both census dates, a higher proportion of apprentices and trainees than other countries.) The reduced incidence of economic activity in the younger age groups was mainly associated in eastern—as well as in western—European countries with the increasing length of compulsory schooling and with the industrialization process, the use of marginal labour in the younger age groups being particularly pronounced in agriculture.

The latter influence also applies to changes in economic activity among persons in the older age groups, an additional factor being the spread of old-age pension schemes and their impact on the attitude of beneficiaries to gainful employment.[12] Nevertheless, the tendency towards reduced participation in the oldest age groups was by no means general. In fact, an opposite trend was registered, both among men and women, in the country with the most strained labour supply situation, eastern Germany, and little change took place in some other countries such as Czechoslovakia and—among women—in Hungary and Poland. Considering the counteracting influence of urbanization, it is not unlikely that female activity rates at older ages rose in those countries both in the towns and in the villages considered separately, but little statistical information exists to substantiate this hypothesis.

[11] See, however, appendix II, for comparability adjustments made for several countries.

[12] The non-working pensioners were normally not counted as active, but gainfully employed pensioners were not treated uniformly in the various countries of the area during the period under review. The very low activity rates among older females in Bulgaria in 1965 seem to be due to the extension of old-age pension schemes to the countryside in the late 1950s.

TABLE 11

Eastern Europe: activity rates, by age and sex, population census dates

Age groups	Bulgaria		Czechoslovakia		Eastern Germany		Hungary		Poland		Rumania		Soviet Union
	1956	1965	1950	1961	1950	1964	1949	1960	1950	1960	1956	1966	1959
Males													
15-19	59.6	44.1	85.8	45.9	89.8 [b]	63.1 [b]	77.6	78.9	62.3	51.0	82.2 [a]	40.3 [a]	60.5
20-29	89.1	86.8	96.5	95.4			94.7	97.2	92.0	93.3	96.0	94.3	91.6
30-39	97.5	97.5	99.1	98.1	96.6 [c]	97.7 [c]	97.9	98.9	97.9	97.3	98.2	98.3	95.6
40-49	97.6	97.5	97.7	96.5			96.7	99.1	98.1	95.8	97.8	97.4	94.1
50-54	96.0	92.8	89.8	93.0	92.0	94.6	93.6	96.7	96.4	94.2	96.5	94.0	89.8
55-59	92.4	83.8	80.8	84.8			88.5	93.4	94.0	91.1	94.1	89.7	82.8
60+	68.1	35.0	37.2	35.4	45.1	50.3	68.5	61.6	71.4	66.9	77.5	50.5	47.3
All 15+	87.9	78.6	86.1	79.5	83.6	78.6	89.5	89.5	88.0	86.9	92.4 [d]	81.2 [d]	83.3
Females													
15-19	52.4	39.2	71.0	53.7	72.9 [b]	54.7 [b]	55.6	52.5	59.1	43.4	75.0 [a]	42.8 [a]	62.0
20-29	69.2	77.9	55.9	62.9			39.3	52.0	64.5	65.5	76.2	76.7	80.3
30-39	74.7	85.8	48.4	62.4	45.9 [c]	69.3 [c]	29.6	49.9	62.4	65.2	73.5	78.6	77.7
40-49	75.6	86.4	52.4	66.8			27.3	50.6	63.9	68.9	75.4	77.0	75.4
50-54	64.7	68.4	48.3	59.3	34.4	58.5	25.4	46.3	60.4	65.4	72.6	71.3	67.4
55-59	54.2	35.4	41.5	42.4			26.6	30.6	55.0	60.1	67.7	58.8	48.8
60+	28.9	9.8	17.9	15.3	11.4	13.5	21.8	22.5	35.7	37.2	46.1	28.2	38.8
All 15+	62.2	60.7	47.3	50.4	41.0	48.4	32.2	43.4	58.7	58.9	70.1 [d]	62.5 [d]	66.8

Sources: Population Census results; direct communications from the Central Statistical Offices of Bulgaria (1965), Czechoslovakia (1950) and Rumania (1966).

NOTE. — The overall activity rates (all 15+) have been computed in relation to population of that age.

[a] 14-19. [b] 15-24. [c] 25-49. [d] All 14+.

On the whole, little change took place over the intercensal periods in economic participation of men in the central (20-59) age groups, where the rates have been very near the potential limit for some time. But this did not apply to women, whose age-specific activity rates outside the marginal age-groups rose everywhere, particularly steeply in eastern Germany, Czechoslovakia and Hungary. Again the differences between countries, appearing in table 11, were often a function of the importance of agriculture and/or the mode of counting the unpaid women working on farms and this explains why the rates were highest in Rumania and Bulgaria.

In view of the importance of urbanization to the levels and changes in activity rates, it is evident that a comprehensive investigation would necessitate separate surveys of the urban and the rural populations. Unfortunately, the required data—covering both census dates—are available for one country only—Rumania. For three other countries—Bulgaria (1956), Hungary (1960) and Poland (1960)—age- and sex-specific activity rates according to the urban/rural breakdown are available for at least one census year (see table 12 and chart 6). These figures confirm some suppositions made earlier in the text. It can now be seen that among men economic participation was much higher in villages than in towns in the younger and older age groups and that this pattern was not restricted to the extreme age groups—below 20 and more than 60—but applied also, though to a much lesser extent, to the more central age groups of 20-29 and 50-59. Among women, the rates were much higher in rural areas at all ages and in all countries except Hungary (partly for the statistical reasons already mentioned).

In urban areas, female activity, which is at its highest in the ages 20 to 39, falls off sharply at the age of 55, which is the statutory retirement age for working women in all countries of the area except Poland and eastern Germany where this limit is set at 60. At its peak age groups, female economic participation in the towns was shown to have varied between 50 and 60 per cent, but it was markedly higher in Hungary and was no doubt still higher in the three countries not included in Table 12 —Czechoslovakia, eastern Germany and the Soviet Union. Thus in Czechoslovakia, the 1964 employment estimates showed that in the city of Prague more than 74 per cent of all women aged 15-59 were gainfully occupied, [13] while the corresponding figure for East Berlin was 67 per cent.

[13] *Statistika*, No. 3, 1966, p. 124.

TABLE 12

Eastern Europe: activity rates of urban and rural populations by age and sex in four countries

Census date		*Country*	*Age-groups*							
			—19	*20-29*	*30-39*	*40-49*	*50-54*	*55-59*	*60+*	*All a 15+*
1956	*Bulgaria*									
	Males	Urban . . .	32.5	84.0	95.9	95.5	93.7	87.5	55.6	80.1
		Rural. . . .	71.3	92.1	98.6	98.5	97.5	95.1	72.5	90.4
	Females	Urban . . .	19.0	50.0	52.7	51.0	37.7	26.9	11.7	39.8
		Rural. . . .	72.3	80.7	87.3	86.3	75.2	65.6	35.8	73.1
1960	*Hungary*									
	Males	Urban . . .	71.0	95.6	99.0	97.5	96.0	90.8	45.0	86.0
		Rural. . . .	83.8	98.5	99.3	98.4	97.4	95.2	72.8	92.1
	Females	Urban . . .	53.1	67.4	62.5	58.7	51.4	33.6	17.7	49.6
		Rural. . . .	52.4	41.7	40.6	44.2	43.1	29.4	28.1	39.4
1960	*Poland* [b]									
	Males	Urban . . .	28.3	90.2	96.2	94.4	91.4	85.5	46.6	79.0
		Rural. . . .	47.0	95.8	98.1	98.2	97.5	95.9	80.4	88.4
	Females	Urban . . .	21.6	59.1	51.9	51.3	45.5	37.7	15.0	42.9
		Rural. . . .	46.1	72.2	79.9	85.5	84.0	80.4	56.8	71.9
1956	*Rumania*									
	Males	Urban . . .	66.5	91.6	97.1	96.2	92.6	86.7	59.3	86.3
		Rural. . . .	90.4	98.4	98.9	98.8	98.3	97.4	84.5	95.5
	Females	Urban . . .	45.6	50.4	44.6	44.0	37.6	29.5	16.7	40.8
		Rural. . . .	88.1	89.1	89.9	91.3	89.4	85.3	58.6	84.5
1966										
	Males	Urban . . .	27.7	89.8	98.0	97.1	91.9	83.3	29.6	75.7
		Rural. . . .	51.3	97.9	98.5	97.7	95.5	93.4	60.5	85.1
	Females	Urban . . .	21.9	62.1	62.7	57.7	46.6	24.2	10.5	44.5
		Rural. . . .	57.3	87.6	89.5	89.6	85.7	77.9	37.6	74.2

Sources: Population census results.

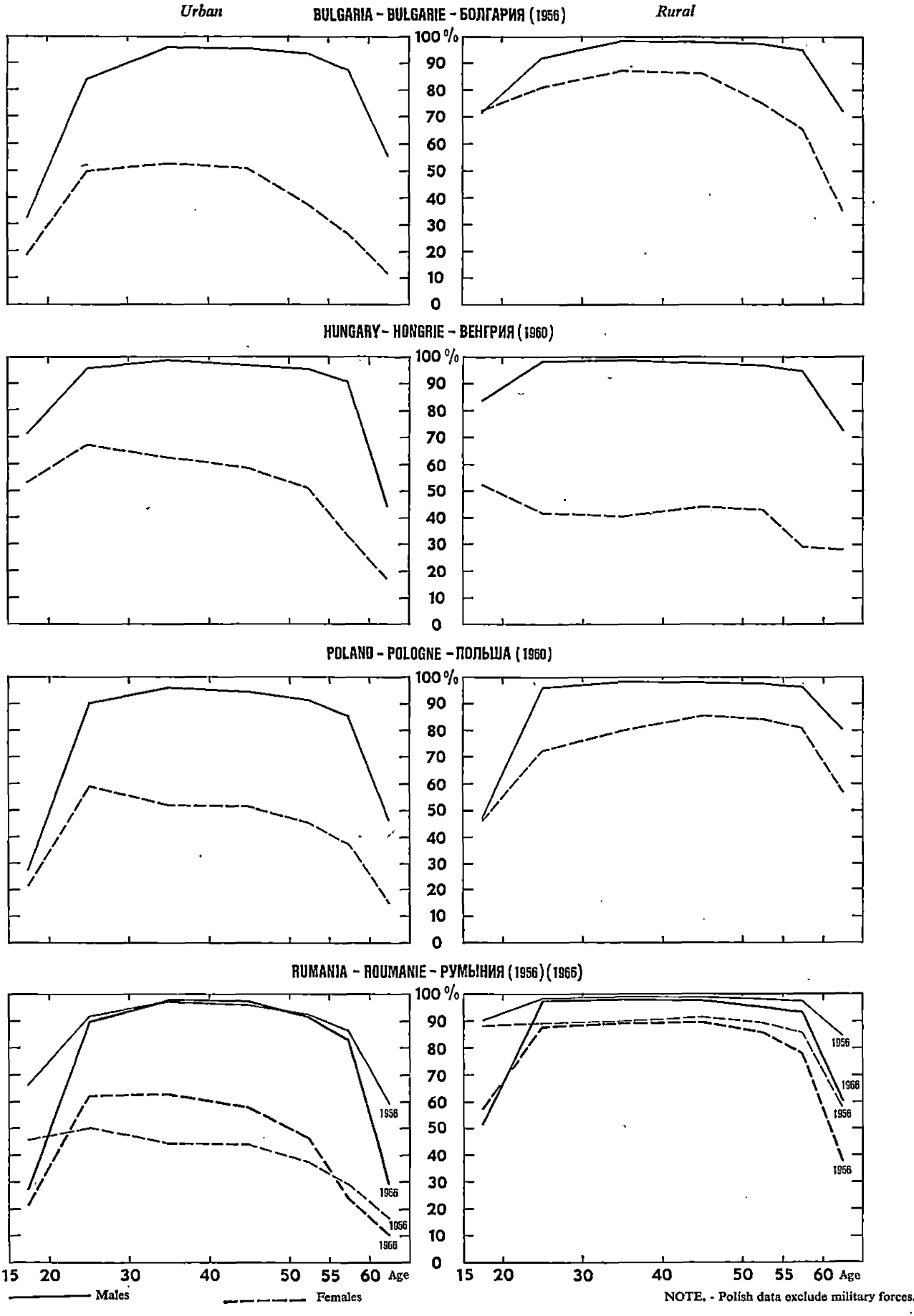
[a] In Poland and Rumania: All 14+.

[b] Excluding Armed Forces.

CHART 6

Activity rates of urban and rural populations by age and sex

(Percentage active)



NOTE. - Polish data exclude military forces.

In contrast to these static inter-country comparisons, Rumanian data throw some light on the direction of changes over time in a semi-industrialized type of economy undergoing a rapid process of urbanization. The following features of this evolution between 1956 and 1966 may be noted. Among males, there was a drop in activity in the youngest and the older age groups of about one-half in urban areas and about one-third in the rural ones. There were virtually no changes at central ages in either type of locality. Among women, too, activity rates declined substantially at marginal ages in towns and in villages, but in urban districts participation rose from around 45 per cent in 1956 to 60 per cent in 1966, at all age groups between 20 and 54.

There is no doubt that this was a general postwar pattern at least in the agricultural countries with an abundant supply of labour. In all countries, the continuous increase in the economic activity among urban women is corroborated by the current employment statistics and by household inquiries. But the extent to which the impact of this pattern of change on overall activity rates counteracted the influence of urbanization cannot be measured in the absence of relevant statistics.

The sources of labour force expansion in the inter-censal periods

The virtual absence of Rumanian type data broken down by urban and rural areas for other countries of the region seriously weakens the comprehensiveness of the analysis of factors responsible for trends in the labour supply after the war. Nevertheless, the data presented in the preceding paragraphs permit quantified answers to at least two pertinent questions: firstly, what was the contribution of female employment to the increase in the labour force during the inter-censal period and, secondly, what were the relative shares of the *sensu stricto* demographic factors (such as the growth of the working-age population) vis-à-vis those related to changes in activity rates, which for convenience may be referred to as " socio-economic " factors.

In table 13 the first row of figures for each country gives answers to these questions with regard to past (inter-censal) trends other rows referring to expected future trends, to be analysed in the following section. The first part of this table shows absolute increments in active population in thousands, as well as the percentage share of women, while the second part splits this increment into the two sets of factors named above, both for the totals and for men and women separately. In considering these absolute figures, reference should be made to table 7 above which shows what these increments represented in terms of rates of growth (or decline).

In the country with the most rapid rate of labour force expansion, Hungary, the contribution of women amounted to 70 per cent of the total increment between 1949 and 1960. The increase in activity rates, which was almost entirely restricted to women, was nearly twice as important as the contribution of the demographic factor proper. By contrast, the impact of demographic factors was concentrated largely on men. Or, about 60 per cent of the total increment of some 750 thousand persons was due to the increase in female activity rates, and somewhat more than 25 per cent to the increase in the number of males in the population, the contribution of the remaining two categories (male activity rates and female population growth) being very small.

In Poland, the second-ranking country with respect to the rate of growth of the labour force during the inter-censal period, the overall contribution of women was much less than in Hungary—about 40 per cent. Considering both sexes together, it would appear that the whole increment was due to demographic causes, activity rates declining slightly. However, a closer analysis shows that female activity rose a little, in contrast to that of males. But the growth of the male population was by far the most important single factor, accounting for more than two-thirds of the total increase in active population between 1950 and 1960.

In two other countries, Czechoslovakia and Bulgaria, the labour force rose by a rather small percentage. In Czechoslovakia, the whole of the observed increment was due to women. The relative shares of the various factors were greatly affected by a significant decline in male activity which nearly offset the increase in their numbers in total population. Among females, increased activity was responsible for about 70 per cent of their addition to the labour force. A somewhat similar picture obtained in Bulgaria, where the small increment in active population that materialized between 1956 and 1965 was also due entirely to women, and where male activity declined. However, in contrast to Czechoslovakia, female activity remained stable so that their contribution relied solely on their numerical increase in total population.

In Rumania, the active population in 1966 was at about the same level as in 1956, but this comparison hides marked differences in the behaviour of the various factors. Indeed, it appears that had the activity rates remained constant over the period active population would have risen by nearly 1.2 million persons (of whom 40 per cent would have been women), or by as much as 11 per cent. This potential growth of the labour force was, however, entirely offset by lower activity rates both among men and women, which were clearly the outcome of the urbanization process (see table 12).

During the fifteen years 1950 to 1965, the total active population declined in eastern Germany by some 8-9 per cent, this trend being associated with a 16 per cent fall among men and a 2½ per cent increase among women. Both among men and among women (but more among the latter) demographic factors (which include emigration) tended to reduce the labour force, the total loss on this account exceeding one million persons. This negative effect was to a large extent offset, however, by an increase in female activity rates which brought more than 800 thousand additional women into the labour force at a time when male activity was declining somewhat.

In the absence of official Soviet data for pre-1959 census dates, some western estimates show the absolute increment in the working age population between 1950 and 1959 as around 17.5 million persons (about 10 million of whom

TABLE 13

Eastern Europe: demographic and socio-economic factors in the growth of active populations, 1950-1980

(Percentages in italics)

Country and period	Total increment in active population (projections based on variant II)				Increments attributable to "Demographic factors" a				Increments attributable to "Socio-economic factors" b			Increments attributable to socio-economic factors as percentage of total increments c		
	Total	Males	Females	Females as per cent of total	Total	Males	Females	Females as per cent of total	Total	Males	Females	Total	Males	Females
	(1)	(Thousands) (2)	(3)	(Percentages) (4)	(5)	(Thousands) (6)	(7)	(Percentages) (8)	(9)	(Thousands) (10)	(11)	(12)	(Percentages) (13)	(14)
Bulgaria														
1956-1965	152	3	149	*98*	410	257	153	*37*	−258	−254	−4	*Neg.*	*Neg.*	*Neg.*
1965-1970	252	133	119	*47*	245	133	112	*46*	7	—	7	*3*	—	*6*
1970-1975	148	82	66	*45*	140	82	58	*41*	8	—	8	*5*	—	*12*
1975-1980	143	94	49	*34*	130	94	36	*28*	13	—	13	*9*	—	*27*
1965-1980	543	309	234	*43*	515	309	206	*40*	28	—	28	*5*	—	*12*
Czechoslovakia														
1950-1961	369	15	354	*96*	344	243	101	*29*	25	−228	253	*7*	*Neg.*	*71*
1961-1965	341	173	168	*57*	274	163	111	*41*	67	10	57	*20*	*6*	*34*
1965-1970	418	227	191	*46*	338	212	126	*37*	80	15	65	*19*	*7*	*34*
1970-1975	368	206	162	*44*	290	194	96	*33*	78	12	66	*21*	*6*	*41*
1975-1980	360	200	160	*44*	261	184	77	*30*	99	16	83	*28*	*8*	*52*
1965-1980	1 146	633	513	*45*	889	590	299	*34*	257	43	214	*22*	*7*	*42*
Eastern Germany														
1950-1965	−373	−548	175	*>100*	−1032	−391	−641	*Neg.*	659	−157	816	*>100*	*Neg.*	*>100*
1965-1970	263	144	119	*45*	64	106	−42	*Neg.*	199	38	161	*76*	*26*	*>100*
1970-1975	305	170	135	*44*	114	136	−22	*Neg.*	191	34	157	*63*	*20*	*>100*
1975-1980	601	299	302	*50*	398	277	121	*31*	203	22	181	*34*	*7*	*60*
1965-1980	1 169	613	556	*48*	576	519	57	*10*	593	94	499	*51*	*15*	*90*

Hungary														
1949-1960	747	226	521	*70*	280	201	79	*28*	467	25	442	*63*	*11*	*85*
1960-1965	250	128	122	*49*	213	157	55	*26*	37	−29	67	*15*	*Neg.*	*55*
1965-1970	290	143	147	*51*	255	180	75	*29*	35	−37	72	*12*	*Neg.*	*49*
1970-1975	205	85	120	*59*	153	118	35	*23*	52	−33	*85*	*25*	*Neg*	*71*
1975-1980	108	37	71	*66*	43	59	−16	*Neg.*	65	−22	87	*60*	*Neg.*	*>100*
1965-1980	603	265	338	*56*	451	357	94	*21*	152	−92	244	*25*	*Neg.*	*72*
Poland														
1950-1960	1 478	857	621	*42*	1 564	1 069	495	*32*	−86	−212	126	*Neg.*	*Neg.*	*20*
1960-1965	1 269	713	555	*44*	1 071	633	437	*41*	198	80	118	*16*	*11*	*21*
1965-1970	1 833	1 074	759	*41*	1 596	978	618	*39*	237	96	141	*13*	*9*	*19*
1970-1975	1 854	1 068	786	*42*	1 656	1 047	609	*37*	198	21	177	*11*	*2*	*23*
1975-1980	1 519	864	655	*43*	1 297	844	453	*35*	222	20	202	*15*	*2*	*31*
1965-1980	5 206	3 006	2 200	*42*	4 549	2 869	1 680	*37*	657	137	520	*13*	*5*	*24*
Rumania														
1956-1966	−87	−39	−48	*Neg.*	1 162	714	448	*39*	—1 249	−756	−496	*Neg.*	*Neg.*	*Neg.*
1966-1970	511	261	250	*49*	410	261	149	*36*	101	—	101	*20*	—	*40*
1970-1975	784	407	377	*48*	668	407	261	*39*	116	—	116	*15*	—	*31*
1975-1980	547	356	191	*35*	544	356	188	*35*	3	—	3	*1*	—	*2*
1966-1980	1 842	1 024	818	*44*	1 622	1 024	598	*37*	220	—	220	*12*	—	*27*
Soviet Union														
1959-1965	9 491	6 124	3 367	*35*	7 604	5 715	1 889	*25*	1 887	409	1 478	*20*	*7*	*44.*
1965-1970	11 937	6 931	5 006	*42*	9 847	6 458	3 389	*34*	2 090	473	1 617	18	*7*	*32*
1970-1975	14 604	8 188	6 416	*44*	11 917	7 472	4 445	*37*	2 687	716	1 971	*18*	*9*	*31*
1975-1980	11 787	7 634	4 153	*35*	10 958	7 319	3 639	*33*	829	315	514	*7*	*4*	*12*
1965-1980	38 328	22 753	15 575	*41*	32 722	21 249	11 473	*35*	5 606	1 504	4 102	*15*	*7*	*26*

Sources: Population census results and appendix II.

NOTE.— For each country, except the Soviet Union, the first period refers to the inter-censal years, all other periods introducing the projected data.
a Including basically growth of population in productive ages.
b Including factors influencing changes in age and sex-specific activity rates.
c But see footnote 29.

were men), roughly equivalent to a 15 per cent increase for both sexes combined, 20 per cent for men and 10 per cent for women.[14] Thus the share of women in the population aged 15-59 declined from about 58 to 56 per cent. At the same time, the share of women employed in the " national economy " (i.e., among workers and employees including state farms) remained constant at 47 per cent.[15] Moreover, it is most likely that among the categories of employment not included in the national economy aggregate the share of women rose, as witnessed by the sex ratio of employment on collective farms in 1959 —18.1 million women as against only 14.1 million men. There are thus strong grounds for presuming that female activity rose in the sixth decade (certainly in relation to that of men), constituting an important contributory factor in the growth of the labour force in the Soviet Union.

Some demographic aspects of the active populations

The age and sex structure of the active population has a bearing on some qualitative aspects of the labour force. Moreover, the structure of the active rural population, particularly that of population engaged in agricultural occupations, is relevant to the feasibility of further migratory movements from the countryside to the towns; and it was also shown above that the latter shifts are an important determinant of the overall activity rates in the population.

Considering again the inter-censal changes, some general tendencies can be detected in the age and sex composition of the labour force in the countries of the region (see tables 14 and 15). Thus it will be seen that the proportions of younger workers (15-19 age group) tended to decline everywhere, the extent of this decline being somewhat greater among women than among men. Nevertheless, even by the later census dates the share of this age group was markedly higher among women everywhere. Secondly, at both dates, about 45-50 per cent of the labour force was concentrated in the 20-30 age group, the variation between sexes showing no consistent trend. Thirdly, the incidence of the ageing of the labour force was not very marked, the effect of the ageing of population evidently being offset in most countries by a sharp decline in activity rates in the older age groups; but in eastern Germany and in Poland the share of persons above 60 rose, and in the former country reached the rather high figure of 13 per cent (16 per cent among men). Finally, the overall sex ratio (the number of women per hundred men at all ages) increased significantly everywhere except in Poland and Rumania, where it remained at the high level of the earlier census. The Soviet Union (in 1959) was the only country where there were more women than men in the active population, but inter-country differences in the definition of active women must be kept in mind. This *caveat* applies particularly to variations in the sex ratios by age, shown in Table 15.

In all the countries of the area, though to a varying extent, the agricultural labour force declined during the inter-censal periods:

Percentage change in population active in agriculture

	Period covered	*Both sexes*	*Males*	*Females*
Bulgaria	1956-1965	−29	−35	−23
Hungary	1949-1960	−15	−24	8
Poland	1950-1960	−7	−9	−4
Rumania. . . .	1956-1966	−19	−25	−13

Sources: See table 16.

It will be seen that in four countries listed the decline was considerably faster among men than among women. (In Czechoslovakia, the total population working in agriculture declined by one-third between 1950 and 1961.) Indeed, in Hungary female employment rose and in Poland it fell by only a very small margin.[16] As a result of these trends, the ratio of women to men working in agriculture rose everywhere, reaching particularly high levels in Rumania, Bulgaria and Poland (see column 1 of table 16). The Soviet data contained in this table exclude unpaid family workers; when these are included the ratio of women to men rises to about 160.

Our data show that in agriculture there has been a universal tendency for the proportion of young people, particularly men, to decline and for that of the old to increase. By the later census dates, the proportion of agricultural workers above the age of 50 (in the total population active in agriculture) ranged from more than one-third (Soviet Union) to more than half (Czechoslovakia) among men, and from a quarter (Bulgaria) to about 45 per cent (Czechoslovakia) among women.[17] The comparison of these proportions with the corresponding figures for non-agricultural employment illustrates the extent of the ageing of the agricultural labour force (see also chart 7):

[14] J. W. Bracket and J. W. De Pauw, *New directions in the Soviet economy*, 1966.

[15] *Strana sovietov za 50 let*, Moscow 1967, p. 235.

[16] A special survey carried out in Poland in 1966, but restricted to rural areas, showed that the population active in agriculture rose somewhat after 1960, and that the sex ratio increased from 123 to 131 (*Rocznik Demograficzny, 1945-1966*, Warsaw 1968, p. 82). However, it seems that the 1966 count, which was based on communal registrations, was more liberal with regard to classification of women as active than the 1960 census (*ibid.*, p. 2).

[17] However, the Czechoslovak figures include only the co-operative and individual farmers, leaving out about 360 thousand workers and employees employed on state farms, whose age and sex structure was certainly relatively more balanced. In 1965, the share of persons (both men and women) above 55 years of age in total agricultural employment (i.e., including state farms) was 33 per cent (*Plánované Hospodářství*, No. 1, 1968, p. 44), and this figure can be compared with one of 34 per cent pertaining to co-operative and individual farmers five years earlier.

TABLE 14

Eastern Europe: age and sex structure of active populations, 1950 to 1980

(Variant II projections)

(Percentages)

Country and year	Both sexes				Males				Females			
	15-19	20-39	40-59	60+	15-19	20-39	40-59	60+	15-19	20-39	40-59	60+
Bulgaria												
1956. .	6	49	36	9	6	48	36	10	7	51	35	7
1965. .	5	51	39	5	5	48	39	8	5	54	38	3
1970. .	6	48	40	6	6	46	40	8	7	51	39	3
1975. .	6	47	40	7	5	45	41	9	6	49	41	4
1980. .	6	47	41	6	5	45	41	9	6	50	40	4
Czechoslovakia												
1950. .	12	45	37	6	11	45	38	6	15	42	36	7
1961. .	8	47	38	7	7	47	39	7	11	45	38	6
1965. .	9	45	38	8	7	47	38	8	12	43	38	7
1970. .	9	46	36	9	7	48	36	9	11	44	37	8
1975. .	7	49	35	9	6	49	35	10	9	47	35	9
1980. .	7	49	35	9	5	51	35	9	8	48	36	8
Eastern Germany [a]												
1950. .	24	49	18	9	21	48	19	12	29	50	12	6
1964. .	16	50	21	13	15	49	20	16	16	53	23	8
1970. .	16	55	15	14	16	54	13	17	17	56	17	10
1975. .	18	55	13	14	18	55	11	16	19	55	16	10
1980. .	18	55	15	12	17	55	14	14	18	55	17	10
Hungary												
1949. .	13	44	32	11	10	44	35	11	18	44	27	11
1960. .	10	45	34	11	9	44	35	12	12	45	33	10
1965. .	11	42	35	12	10	42	35	13	12	43	34	11
1970. .	11	42	34	13	10	41	35	14	12	42	34	12
1975. .	9	44	34	13	8	44	34	14	9	45	34	12
1980. .	7	45	36	12	6	45	36	13	7	46	36	11
Poland [b]												
1950. .	12	46	34	8	11	47	34	8	13	46	33	8
1960. .	7	50	33	10	6	51	33	10	7	48	35	10
1965. .	9	46	34	11	9	47	33	11	10	43	36	11
1970. .	9	45	34	12	9	46	33	12	10	42	35	13
1975. .	8	46	33	13	8	47	33	12	9	44	34	13
1980. .	6	48	34	12	6	49	33	12	7	45	35	13
Rumania [c]												
1956. .	14	44	32	10	13	45	32	10	15	43	32	10
1966. .	8	50	34	8	7	50	34	9	9	49	34	8
1970. .	7	48	35	9	6	49	35	10	7	47	36	9
1975. .	6	47	37	10	6	47	36	11	7	48	36	9
1980. .	5	47	39	9	5	46	39	10	5	47	39	9
Soviet Union [b]												
1959. .	10	54	29	7	10	57	27	6	9	52	31	8
1965. .	9	53	30	8	9	57	27	7	9	49	32	10
1970. .	10	48	33	9	10	51	31	8	10	45	34	11
1975. .	9	48	33	10	9	49	33	9	9	45	34	12
1980. .	8	46	36	10	8	47	37	8	8	44	36	12

Sources: See appendix II.

[a] Age groups 15-24, 25-49, 50-59 and 60+.

[b] Including active persons below the age of 15.

[c] Including active persons aged 14.

TABLE 15

Eastern Europe: sex ratios in active population, by broad age groups, 1950 to 1980

(Number of females per 100 males of given age)

Country and year	Actual				Projections							
					Variant I				Variant II			
	15-39	40-59	60+	All ages	15-39	40-59	60+	All ages	15-39	40-59	60+	All ages
Bulgaria												
1956. .	78	70	52	72								
1965. .	87	75	32	78								
1970. .					87	77	31	79	87	78	33	83
1975. .					87	79	31	79	87	79	34	79
1980. .					86	75	31	77	86	77	35	78
Czechoslovakia												
1950. .	61	58	63	60								
1961. .	71	67	60	69								
1965. .					71	67	59	69	72	69	60	70
1970. .					70	68	58	68	72	71	60	71
1975. .					69	68	58	68	72	73	61	71
1980. .					68	66	59	66	73	72	63	72
Eastern Germany [a]												
1950. .	90	65	34	67								
1964. .	85	87	40	79								
1970					83	82	42	76	83	86	45	79
1975					83	77	45	73	83	85	50	79
1980. .					83	73	48	72	83	84	55	80
Hungary												
1949. .	46	32	40	40								
1960. .	57	51	46	54								
1965. .					56	51	48	53	59	54	49	56
1970. .					55	51	48	53	61	56	50	58
1975. .					54	51	47	52	62	59	52	60
1980. .					52	49	48	51	64	60	54	61
Poland [b]												
1950. .	79	74	74	77								
1960. .	72	81	84	76								
1965. .					71	82	80	76	72	83	81	76
1970					70	81	78	75	71	82	80	76
1975. .					69	77	78	73	72	80	81	76
1980. .					69	75	77	72	72	79	82	76
Rumania												
1956. .	83	82	82	83								
1966. .	83	85	72	83								
1970. .					83	83	69	81	85	85	69	83
1975. .					82	81	70	80	86	84	70	84
1980. .					80	79	72	79	85	81	72	82
Soviet Union [b]												
1959. .	98	125	140	108								
1965. .					89	118	144	100	90	121	144	102
1970. .					87	103	137	96	89	108	137	99
1975. .					86	92	134	92	90	99	134	97
1980. .					85	83	132	88	89	89	132	93

Sources: See appendix II.

[a] The age groups are: 15-24, 25-59 and 60+.

[b] Including persons below the age of 15.

TABLE 16

Eastern Europe: active population in agriculture, population census dates

Country and year	Thousands and ratios (in italics)	Age groups					
		—19	20-29	30-39	40-49	50-59	60+
		Percentages and ratios (in italics)					
Bulgaria							
1956 Total	2 663	8	21	21	21	17	12
Males	1 317	8	19	18	21	19	15
Females	1 346	8	22	23	22	16	9
Females per 100 males	*102*	*113*	*117*	*127*	*109*	*84*	*61*
1965 Total	1 891	6	17	23	23	22	9
Males	857	5	16	20	19	25	15
Females	1 034	6	18	26	25	20	5
Females per 100 males	*121*	*140*	*138*	*156*	*159*	*94*	*42*
Czechoslovakia [a]							
1961 Total	1 097	3	8	19	21	30	19
Males	485	4	8	15	18	30	25
Females	612	3	7	22	24	29	15
Females per 100 males	*126*	*106*	*115*	*178*	*167*	*123*	*76*
Hungary							
1949 Total	2 196	18	22	14	18	13	15
Males	1 545	14	21	16	20	14	15
Females	651	27	23	11	12	11	15
Females per 100 males	*42*	*81*	*46*	*30*	*27*	*33*	*42*
1960 Total	1 873	10	14	18	16	21	21
Males	1 171	9	14	18	15	22	22
Females	702	12	14	19	18	19	18
Females per 100 males	*60*	*85*	*60*	*62*	*71*	*52*	*50*
Poland							
1950 Total	7 016	13	21	18	22	15	11
Males	3 234	13	20	17	22	15	13
Females	3 782	13	23	19	21	14	10
Females per 100 males	*117*	*111*	*136*	*125*	*112*	*111*	*96*
1960 Total	6 546	7	16	21	18	21	17
Males	2 929	7	16	20	17	22	18
Females	3 617	6	16	23	19	21	15
Females per 100 males	*123*	*114*	*123*	*142*	*137*	*115*	*104*
Rumania							
1956 Total	7 278	15	23	17	18	15	12
Males	3 380	15	24	16	17	15	13
Females	3 898	14	23	18	19	15	11
Females per 100 males	*115*	*111*	*114*	*126*	*129*	*109*	*97*
1966 Total	5 920	9	19	23	18	18	13
Males	2 531	9	18	22	16	18	17
Females	3 389	9	20	24	19	18	10
Females per 100 males	*134*	*143*	*143*	*143*	*156*	*134*	*84*
Soviet Union [b]							
1959 Total	38 426	12	27	21	18	14	8
Males	17 662	13	30	20	14	13	10
Females	20 764	11	25	23	21	15	5
Females per 100 males	*118*	*95*	*99*	*135*	*184*	*134*	*59*

Sources: Population census results.

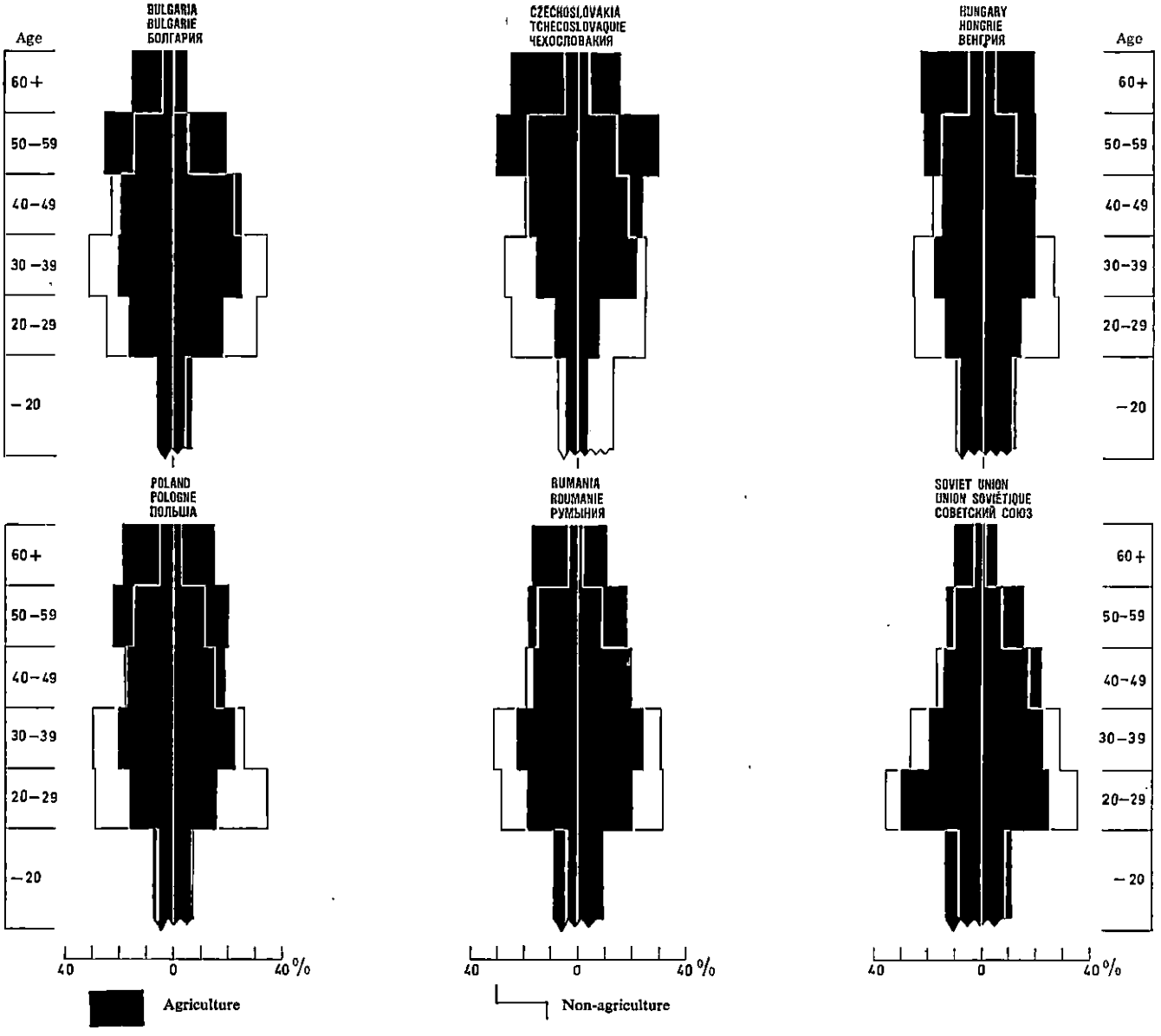
a Excluding 362 thousand workers and employees on state farms.

b Excluding 9.9 million unpaid family workers on individual plots.

CHART 7

Active population by age and sex in and outside agriculture

(Percentages)



NOTE. — In Czechoslovakia, workers and employees on state farms are included in the non-agricultural sector. Polish data exclude military forces, and those for the Soviet Union the unpaid family workers.

Proportions of active persons aged 50 and more

(A = outside agriculture B = in agriculture)

Country	Census date	Both sexes		Males		Females	
		A	B	A	B	A	B
Bulgaria	1965	13	31	17	40	6	25
Czechoslovakia . . .	1961	21	49	23	55	18	44
Hungary	1960	19	42	21	44	17	37
Poland	1960	18	38	19	40	16	36
Rumania	1966	16	31	18	35	11	28
Soviet Union[a] . . .	1959	11*	28*	13*	26*	9*	29*

Sources: Table 16 and appendix II.

[a] Including unpaid family helpers, estimated on the basis of Table 32 in *Itogi Vsesoyuznoi Perepisi Naselenya*, 1959.

Given the preponderance of women in agriculture and the high incidence of ageing, the combined proportion of women of all ages together with men above 50 in the total agricultural labour force varied from about two-thirds in Hungary to as much as 70-75 per cent in all other countries; and the situation was certainly even worse on collective farms.[18]

This unfavourable age and sex pattern of agricultural labour obviously has many serious economic and social implications. First and foremost, it affects labour productivity of the agricultural sector adversely by inflating the labour force with relatively low productivity employment categories. The rapidly shrinking availability of young men, who usually join non-agricultural pursuits (in or outside the village) after school or vocational training courses, or get absorbed into urban life after military service, is now felt not only in the countries with a chronic shortage of labour supply, such as Czechoslovakia (where short- and medium-term plans have for some time aimed—with limited success—at some return of young men to agricultural occupations), but also in those where supply was plentiful until recently, such as Hungary and even the Soviet Union. It is now generally considered that more attention must be given to qualitative aspects of agricultural manpower, and that the further reduction of agricultural labour, which in the long run is indispensable, must take into account the need for a better age and sex balance among those who remain. Since women and older men are less likely to move out of agriculture in great numbers, it may be expected that the outflow of agricultural population will slow down in most countries. This would mean that the impact of future shifts in the occupational structure of population on the overall activity rates may be lessened compared with recent experiences.

[18] In Czechoslavakia this percentage exceeded 80 among co-operative and individual farmers. In Hungary the percentage of men above 40 years of age was 70 per cent on collective farms compared with the 59 per cent of the total of agricultural male earners; among women the corresponding percentages were 58 and 54 (1963 data from *Munkaerőhelzyet*, 1949-1964, p. 22).

(iii) Future development of the active population, 1965-1980

Assumptions concerning future activity rates

Having ascertained, within a very small margin of error, future trends in the working-age population (see section (i) above), the growth of the active population during this period will become a straightforward function of the rate at which men and women of working age will decide to take up work defined as economic activity. In other words, this stage of labour force projections involves making assumptions concerning future changes in the age- and sex-specific activity rates, based partly on past trends and experiences and partly on the somewhat arbitrary and speculative assessment of future demand for employment, particularly from the marginal categories such as the youngest and oldest age groups and women in general. Moreover, the future impact of urbanization and possible migration needs to be taken into account, implicity or explicitly.

In the present report, two sets of assumptions concerning future activity rates are postulated, resulting in two variants of labour force projections. Variant I is based on the simple assumption that the age- and sex-specific activity rates prevailing at the last census will remain unchanged until 1980. This variant may be said to represent a benchmark, and perhaps also the lower limit of future growth. In the second variant, the direction of the expected changes is not uniform with regard to age, sex and country (for details see appendix II). Broadly speaking, some decrease in activity rates in the younger age groups is assumed in the countries where the last census rates seemed to be excessively high in relation to the general pattern (Czechoslovakia, Hungary and the Soviet Union). For older ages, some increases in activity rates are assumed, particularly in the countries with acute labour shortage problems such as eastern Germany and Czechoslovakia. Furthermore, a somewhat intensified activity of women in the central age groups is foreseen in all countries, on the grounds that the future expansion of female labour in the towns, in line with current policies and long-term targets, will more than offset the opposite effect of future urbanization.

While concern has been expressed in some countries that the incidence of female employment is already excessive and has had some adverse influence on such aspects of family life as child-bearing and child-rearing, the official employment policies still seem to count on further absorption of women, particularly of married women, among whom labour reserves still exist. Such policies were certainly implemented everywhere during the 1960s, that is during the initial stages covered by our projections. Few long-term targets are at present available but the policy objectives announced hitherto confirm the intention of the planners to pursue similar goals in the 1970s, although the emphases vary between countries according to the assessment of the reserve still available and according to the requirements of future demand.

Clearly, relatively little scope remains for increasing full-time activity rates among married women in Czechoslovakia and eastern Germany, where these proportions are already high.[19] In the former country it is expected that activity rates will go up in Slovakia, but will perhaps be partly offset by a downward movement in Czech towns.[20] The rapid expansion of the kindergarten and nursery network is still considered inadequate in both countries and future improvement is counted on to remove this obstacle to female employment; and it is believed that a wider spread of part-time employment is feasible and that it should be encouraged.[21] In eastern Germany, it is foreseen that, in spite of a proportionately more rapid increase in the male population of working age, the share of women in the total labour force will amount in 1980 to around 45 per cent, only little below the 46.7 per cent level registered in 1964.[22]

In the Soviet Union, where expansion of part-time employment is often advocated as a means for further absorption of women into the "national economy", a virtual liquidation of fulltime household duties and of women's work on individual plots remains a long-term objective.[23] In Hungary, the 1960-1980 provisional plan figures foresee a considerable increase in female activity rates outside agriculture.[24] In Poland, some increase in female activity outside agriculture was apparently incorporated into the 1966-1970 Plan [25] and into the long-term plans covering the period 1965-1985. The increases postulated in the latter were apparently modest and might have been too low.[26]

In general, all long-term plans, programmes or policies, whether formally announced or merely indicated, foresee very rapid rates of growth of employment in services, including the trade network, i.e. in occupational areas which lend themselves particularly well to female participation and which are often suitable for part-time employment. This development will certainly favour further expansion of female employment everywhere; and the shortening of the working week, which figures prominently in long-term policy objectives will also act in the same direction. The particular difficulty of finding employment outlets for married women in the place of abode of their husbands is likely to be somewhat eased by the avowed intention of the planners to re-activate economic life in the small towns, which was often allowed to stagnate somewhat in the past as the hard core of industrial expansion tended to be focused on large towns and new industrial settlements.

Finally, labour supply in individual countries may be affected by international migratory movements. Given some basic differences in the labour market situation between the various countries of the region, chronic labour shortages in some countries coexisting with ample supply in others, there have existed for some time objective circumstances favourable to inter-country labour flows.[27] For various reasons, often social or political rather than economic, little progress has been made in this field of international co-operation.[28] Attitudes and policies may change in the future, both with regard to the intra-regional and perhaps even to wider international movements, but quantified predictions would be entirely arbitrary at present and have not been made here.

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[19] In eastern Germany, among families of workers and employees, 70 per cent of wives worked (48.5 per cent full-time) in 1965. The figure varied from 79.5 per cent in the 18-25 age-group to 21.4 per cent among wives aged 60 or more (*Statistisches Jahrbuch DDR*, 1967, p. 453). According to the Czechoslovak census of 1961, 53.4 per cent of all married women worked in the whole country and 58.5 per cent in the Czech lands. Among married women aged 15-54, this proportion was nearly two-thirds.

[20] A. Buchova and M. Koubova, *Plánované Hospodářvství*, No. 11, 1966.

[21] H. G. Nultsch, *Studia demograficzne*, No. 15, 1968.

[22] W. Bernhardt, in a paper submitted to the First International Demographic Symposium, Leipzig 1966.

[23] See M. Sonin, *Aktualne problemy ispolzovanya rabochei sily v SSSR*, Moscow 1965. Female activity rates must have risen quite markedly during the first years of the projected period. The share of women in total employment outside collective farms rose from 47 per cent in 1960 to 50 per cent in 1965, in spite of the growing share of men in the total working-age population.

[24] The share of women in the total is to increase from around 38 per cent in 1964 to some 40-44 per cent in 1980. Janos Timar, *Planning the labour force in Hungary*, Eastern European Economics, No. 2-3, 1966, p. 21.

[25] A. Rajkiewicz, *Zatrudnienie w Polsce Ludowej w latach 1950-1970*, Warsaw 1965, pp. 249-251.

[26] A comment to this effect was made by W. Buch, former director of the Perspective Plans Department in the Planning Commission, *Gospodarka Planowa*, No. 11, 1966. Indeed, the proportion of women in total employment in the socialized sector, which rose from 33 per cent to 35 per cent between 1960 and 1963, was reported to have risen further, to 38 per cent, in 1968. (*Nowe Drogi*, No. 9, 1968.)

[27] See also the SURVEY for 1957, chapter VII, section 4.

[28] Writing about the Polish situation, A. Rajkiewicz says: "In future employment policy one ought to consider the possibility of transfers of labour to Czechoslovakia and to the German Democratic Republic, i.e. to countries with an acute shortage of construction and industrial workers. It seems that past prejudice could—in the light of changed political attitudes—give way to economic needs and to increased co-operation among socialist countries, the more so that transfers of labour are useful to both partners." (*Op. cit.*, p. 253.) Some movements of labour were reported recently between Hungary and eastern Germany, Bulgaria and the Soviet Union, and Poland and Czechoslovakia and eastern Germany, mostly linked to the setting up of jointly operated industrial enterprises. (International Labour Organisation, *Manpower aspects of recent economic development in Europe*, Geneva 1968, pp. 110-111.) The recent experience of some western European countries showed, however, that there are some disadvantages, as well as advantages, in short-term international labour movements. See for instance, the SURVEY for 1965, Part 1, chapter II, pp. 77-84.

All in all, the assumptions made in the present report concerning future changes in activity rates among men and women do not depart greatly from the current rates and, not being systematic at various age groups, do not lead to markedly different growth rates of the labour force compared with Variant I of the projections, although they do influence to a noticeable degree the future age and sex structure of the labour force. As far as overall activity rates are concerned, the impact can be seen in table 9. The general activity rates, which are little affected by future changes in the age structure of the population, are hardly different among men during the projected period, whereas among women they will increase by a few percentage points in Hungary and eastern Germany and, to a lesser extent, in all other countries except Bulgaria. This tendency will be more marked when measured by crude activity rates, particularly in those countries, such as Poland and the Soviet Union, where the share of working-age population will increase.

Growth rates of the labour force until 1980

In all the eastern European countries, except Hungary, the total labour force will be growing considerably faster during the projected period than it did during the inter-censal periods. The future rates are shown to vary between 1½ to 2 per cent in the Soviet Union and Poland and to oscillate around one per cent in other countries (on both variants), except that the lower variant foresees only about one-half per cent growth in eastern Germany and Hungary (see table 8). This trend is clearly associated with the accelerated growth of the working-age population and the improvement in the balance of sexes in the population, in line with the observations made in section (i) above. The contrast between the past and the future rates of labour expansion is particularly marked among men; whereas in the inter-censal periods the number of active men was stable in three countries (Bulgaria, Czechoslovakia and Rumania) and declined in eastern Germany, it will oscillate during the 1965-1980 period around one per cent a year in most countries and around two per cent in Poland and the Soviet Union. A more complex pattern appears among women. Czechoslovakia and Hungary will experience some deceleration in the rate of growth of the active female population compared with the past decade even according to Variant II projections. In Poland and Rumania this rate will rise, whereas in eastern Germany the outcome depends on the projection variant adopted (see table 8). In some countries—Soviet Union, eastern Germany and Poland—the changed sex-balance will tend to raise the proportion of married women in the population and, *ipso facto*, to reduce the overall female activity rate. But in the first two countries the differences in activity between the married and unmarried women are too small for this factor to have a significant influence.

However, the averages discussed in the preceding paragraphs refer to the whole period between the last census and 1980. Differentiation by quinquennial sub-periods indicates a clear downward trend. Apart from the special case of eastern Germany, the average quinquennial rates should reach their peak in most countries in the 1965-1970 period, both for men and for women, whereas the last (1975-1980) quinquennium will witness a sharp decline (see table 8). The reasons for international and inter-temporal differences in these growth rates are discussed below.

The sources of labour supply in the 1960-1965 to 1980 period

It is clear from the preceding analysis that in most countries of the area the future supply of labour will be largely determined by two factors: the growth of male population of working age and the increase in activity rates of women. The relative shares in the total increment of the labour force of these and of the two remaining factors (increase in female population and the change in male activity rates) in quinquennial sub-periods and in the whole 1965-1980 period are shown in table 13.[29]

Some similarity in the future pattern of influences can be detected in the two countries where the future growth of the labour force is likely to be most rapid—the Soviet Union and Poland. Thus over the projected period as a whole, the overall contribution of women is expected on both variants to exceed 40 per cent of the total increment in both countries. Little variation in this share will occur in Poland, but in the Soviet Union the peak will be reached in the 1970-1975 quinquennium and will be followed by a reversed trend. In both countries, virtually the whole of the male increment will be due to demographic factors, whereas among women socio-economic factors will be responsible for about one-quarter of the total (female) labour growth. Or, alternatively, it can be said that in these countries more than half of the total increment (both sexes) in the labour force will be due to the increasing number of men of working age and about one-third to a corresponding trend among women, the overall influence of intensified economic activity being rather small.

A very similar pattern applies to Rumania, but in Bulgaria the influence of demographic factors will be greater still, being responsible for abour 95 per cent of the total increment in the 1965-1980 period. In both countries, the relative contribution of women will be declining over time.

A somewhat different picture emerges from the projections for Czechoslovakia and, even more so, for Hungary and eastern Germany. In Czechoslovakia, about half of the total increment will be caused by the growth of the male population, whereas the influence of the expansion of the female population and of the increased female activity will be about equal, each

[29] The trends resulting from the "demographic factors" alone are in fact our Variant I projections since these have assumed no change in activity rates. Increments due to the socio-economic factors were obtained as the difference between the values obtained from Variant II and Variant I. It should thus be borne in mind that the assumptions of unchanged activity rates during the quinquennial periods listed in table 13 do not refer to rates at the beginning of these periods (except for the first post-census quinquennium) but to the rates prevailing at the last census. In a sense, therefore, the impact of socio-economic factors as measured for these five-year sub-periods is cumulative.

amounting to about a quarter of the total increment. In Hungary and in eastern Germany, the impact of the last factor will be still stronger, being responsible for about 40 per cent of the total increment. In the former country the trend in male activity rates is expected to have a slight negative effect. In both countries, the overall contribution of women will be very significant, exceeding 50 per cent in Hungary. In considering the trends within the 1965-1980 period, however, contrasting tendencies appear between these two countries: Hungary is expected to experience a sharp decline in the rate of growth of the active population by the end of the period, due entirely to demographic factors, whereas the opposite movement will take place in eastern Germany, caused by an increased supply both of men and women in the population and, partly, by some increase in female activity rates.

In conclusion, it can be said that, compared with past trends, the contribution of women to the further expansion of the labour force will be considerably smaller in most countries of the area, and that this will be due partly to male gains in the sex ratio in the population and partly to a deceleration in the expansion of female activity rates. Nevertheless, the contribution of female labour will remain important everywhere, particularly so in Hungary and eastern Germany. Secondly, the overall impact of changes in male activity is expected to be negligible everywhere, although the decline observed in some countries in the past is likely to be arrested in the future. It would seem that the likelihood of substantial falls in economic activity in the youngest and the oldest age groups is decreasing, since obligatory schooling has already been extended and retirement pensions have a rather wide coverage. Further changes and improvements in education and in pension schemes will certainly take place but their impact on economic activity is likely to be somewhat less sharp than in the past, the more so because the slowing down in the supply of agricultural male labour may put pressure on old-age pensioners to continue in gainful employment, which ends in most countries at the relatively early age of 60. It follows then that future labour force trends will, at least with regard to overall supply, be more an outcome of the population trends than was the case in the past; however, some demographic characteristics of the future labour force, such as its age and sex structure, will be somewhat influenced by postulated changes in activity rates.

Changes in the age and sex structure of the labour force, 1960-1980

The expected declines after 1970 in the increments of population aged 15-19 (see table 6), together with assumptions concerning some decrease in the activity rates in this age-group, will lead to a marked contraction in its share in the total labour force (see table 14). By 1980, most countries will have no more than some 5-7 per cent of their manpower below the age of 20, this percentage being somewhat higher among women than among men. The pattern can also be generalized at the other end of the agescale, as in most countries the continuing process of ageing of the population (at least until 1975, as shown in table 3) will be reinforced by the assumed increases in activity rates (particularly among women) in raising the share of the older age groups in the total labour supply. In eastern Germany male labour will be somewhat "rejuvenated", but its share will remain the highest in the region at some 14 per cent in 1980, to be approached only by Hungary and Poland.

Given the opposite tendencies appearing at the extreme ends of the age distribution of the labour force, little variation can be expected to take place in the central age group (20-59) taken as a whole. In some countries, however, fairly significant structural changes will occur within this large age category. In the Soviet Union in particular, the share of male workers aged 20-39 will be steadily declining, from less than 60 per cent (in relation to all ages) in the early 1960s to less than 50 per cent in 1980; whereas among women this decline will cover the range from around 50 per cent to about 45 per cent respectively; and an opposite movement will affect the 40-59 age group. In eastern Germany and Czechoslovakia, too, there will be some ageing within the central age groups of the labour force, though to a lesser extent.

The future ratio of women to men in the labour force will be the outcome of two conflicting forces. The lower ratio of womento men in the population will tend to lower the share of women in the total labour force; this effect can be seen in table 15, in the part dealing with Variant I projections. However, in several countries, above all in Hungary but also in Czechoslovakia and eastern Germany, this purely demographic influence will be offset—and in some countries more than offset—by the effect of assumptions concerning future activity rates among men and women (see Variant II projections in table 15).

PART 2

DETERMINANTS OF LABOUR SUPPLY IN WESTERN EUROPE, 1950-1980

(i) Demographic background

The growth of population between 1950 and 1965

From 1950 to 1965, the total population in the 18 countries of western Europe increased by 51.5 million. This is a rise of 16 per cent, or one per cent a year (see table 17).

In only one country, Ireland, did total population decline and there the decline, due to emigration, was reversed in the early 1960s. At the other extreme stands Turkey, with an annual rate of population increase of over 2½ per cent. Turkey, with only 6½ per cent of the total population of western Europe in 1950, was responsible for more than a fifth of the increase. Four other countries showed increases significantly in excess of the general average of 1 per cent: Switzerland (1.6 per cent a year, very largely due to immigration), the Netherlands, western Germany and Yugoslavia (all 1.1 to 1.3 per cent a year).

Developments in crude birth and death rates since 1946 averaged over five-year periods are shown in table 18. Turkey's birth rate of over 40 per thousand is one of the highest in the world. Five other countries emerge with a birth rate which was consistently high throughout the period (somewhat over 20 per thousand since 1950): Ireland, the Netherlands, Portugal, Spain and Yugoslavia. In the Netherlands the effect of a high birth rate was reinforced by an exceptionally low death rate, between 7 and 8 per thousand.

In the remaining twelve countries, the birth rate during most of the time since 1950 has been between 15 and 20 per thousand: higher figures were reached for short periods immediately after the war. The "baby boom" of that time was particularly strong in Finland and the Netherlands (birth rates of 30 per thousand in 1946); it also affected Denmark, France, Italy, Norway and (to a lesser extent) the United Kingdom. Since 1950, the development of the crude birth rate has varied a good deal in different countries. There has been a marked downward trend (as in eastern Europe) in Finland and Yugoslavia, where birth rates were high by western European standards in the early 1950s, and some evidence of a declining trend in France, Greece and the Netherlands. By contrast, the crude birth rate was tending to increase during the 1950s and the early 1960s in Austria, western Germany, Switzerland and the United Kingdom. Elsewhere there is no clear trend. But a very general feature is the fall in birth rates in 1966 and 1967 from the 1961-1965 level. Thus only in Greece, Norway and Sweden was the 1967 birth rate higher than that in 1961-1965.

It will be realized, of course, that the level of the crude birth and death rates is largely determined by the age composition of the population. Nevertheless it is remarkable that in 1961-1965 the birth rate in 11 of the countries was between 17 and 19 per 1,000. The exceptions above this range were Ireland, the Netherlands, Spain and Yugoslavia (all 21-22), Portugal (24) and, of course, Turkey (probably about 40). Only Sweden (15) was below this range.

The effects of migration

International migration has played a most important role in the postwar population changes in most western European countries, and the dominating role in several. For most countries, precise records of migration flows are not available, although several countries maintain statistics of the numbers of immigrants subject to various forms of control. The estimates used here are mostly derived from the net balance of changes in total population not accounted for by births or deaths (the national estimates of total population being derived either from censuses, or from inter-censal or post-censal estimates themselves based on natural increases plus some estimate of population movements across the frontiers). Most of the estimates of net migration are, therefore, subject to significant errors; they are necessarily affected by any errors in the censuses or in the records of births and deaths.

For much of the following analysis, therefore, the eighteen countries have been divided into two groups. Group II covers the eight "sending countries" or "emigration countries" where the migration balance, during 1950-1965 or in the latter part of this period, has consistently been negative and important: Finland, Greece, Ireland, Italy, Portugal, Spain, Turkey and Yugoslavia. Group I covers the other ten countries. Among these, five have on balance been receiving immigrants throughout 1950-1965: Belgium, France, western Germany, Sweden and Switzerland. The other five have shown either a small net emigration or a migration balance changing during the period (Austria, Denmark, the Netherlands, Norway and the United Kingdom). The countries in each group share

TABLE 17

Western Europe: the growth of population, 1950 to 1980

(Millions of persons and percentages)

Country	Including migration		Projected excluding migration	Including migration			Projected excluding migration				
	1950	1965	1980	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975	1975-1980	1950-1965	1965-1980
Group I	*(Millions)*			*(Average annual rates of growth)*							
Austria	6.9	7.3	7.8	0.0	0.3	0.6	0.5	0.4	0.5	0.3	0.5
Belgium	8.6	9.4	9.9	0.5	0.6	0.6	0.4	0.4	0.4	0.6	0.4
Denmark	4.3	4.7	5.3	0.8	0.6	0.8	0.8	0.8	0.7	0.7	0.8
France	41.6	48.7	53.8	0.7	1.0	1.4	0.7	0.7	0.8	1.0	0.7
Western Germany	49.6	58.6	62.8	1.2	0.9	1.2	0.6	0.4	0.4	1.1	0.5
Netherlands	10.0	12.2	14.4	1.3	1.3	1.4	1.1	1.1	1.1	1.3	1.1
Norway	3.3	3.7	4.3	1.0	0.9	0.8	0.8	0.9	0.9	0.9	0.9
Sweden	7.0	7.8	8.4	0.7	0.6	0.7	0.6	0.5	0.4	0.7	0.5
Switzerland [a]	4.7	6.0	6.7	1.2	1.7	1.8	0.8	0.7	0.7	1.6	0.7
United Kingdom [b]	50.3 [c]	54.4	59.5	0.3 [d]	0.6	0.8	0.5	0.6	0.6	0.6 [e]	0.6
Group II											
Finland [b]	4.0	4.6	5.0	1.1	0.9	0.8	0.7	0.6	0.5	0.9	0.6
Greece	7.6	8.6	9.6	1.0	0.9	0.5	0.8	0.7	0.6	0.8	0.7
Ireland [a]	3.0	2.9	3.7	−0.4	−0.6	0.4	1.2	1.7	2.0	−0.2	1.6
Italy [a]	47.2	52.2	58.5*	0.6	0.6	0.9	0.9	0.8	0.7	0.7	0.8
Portugal	8.4	9.2	11.3	0.4	0.6	0.8	1.4	1.4	1.4	0.6	1.4
Spain	28.4	32.4	38.2	..	..	1.2	1.2	1.1	1.0	0.9	1.1
Turkey	20.9	31.4	45.8	2.9	2.9	2.5	2.5	2.6	2.5	2.7	2.5
Yugoslavia [a]	16.6	19.7	23.0	1.3	1.0	1.2	1.1	1.0	1.0	1.2	1.0
TOTAL all countries	322.4	373.9	427.9	0.9	0.9	1.1	0.9	0.9	0.9	1.0	0.9
of which:											
Group I	186.3	212.9	232.9	0.8	0.8	1.1	0.6	0.6	0.6	0.9	0.6
Group II	136.1	161.0	195.0	1.1	1.1	1.2	1.3	1.3	1.3	1.1	1.3

Sources: See Appendix III.

NOTE. — Countries have been grouped largely according to their position with respect to migration. Group II includes countries which have been traditionally emigration countries while Group I covers all other countries.

a Absolute figures refer to 1951, 1966 and 1981, and annual rates of growth refer to 5-year periods starting in 1951.

b Projections 1965-1980 include migration.

c 1951.

d 1951-1955.

e 1951-1965.

certain other characteristics as well as, but clearly associated with, their migration balances. Thus the emigration countries (Group II) are the countries with the highest proportions of agriculture in their active populations: ranging from a quarter (Italy and Finland) to a recorded three-quarters in Turkey. In the Group I countries this proportion lies between 5 per cent or less (Belgium, United Kingdom) and about 20 per cent (Austria and Norway). For this and other reasons, the Group II countries also show high proportions of self-employed persons in active population—probably one-third or more (data are not available for all of them)—while this proportion is well under a third in all countries of Group I (only 7 per cent in United Kingdom). [30]

In Group II (the emigration countries) the rise in total population has been 1.1 per cent a year, in Group I 0.9 per cent a year (see bottom of table 17). The differences in the *natural* growth rates (excess of births over deaths) between the two groups are much greater, as will be shown. Moreover, although a considerable part of the western European migration flows originate from, or are directed towards, countries outside the region (and although there is some migration between countries within the same group), yet the bulk of the migration flows in the postwar period into Group I has come from Group II, and vice versa. Migration within the region has gone far towards producing rather uniform rates of increase in total population.

In the five main receiving countries (see table below), net migration between 1950 and 1965 was equivalent to as much as one-half of the total population increase in Switzerland, nearly one-half in western Germany, more than one-third in France, more than one-fourth in Sweden and about one-fifth in Belgium.

[30] See OECD, *Labour Force Statistics.*

Immigration and population growth in five main receiving countries, 1950-1965

Country	Population increase (thousands)	Net immigration		Annual rates of population growth	
		Thousands	Per cent of population increase	Including immigrants	Excluding immigrants
Belgium	803	179	*22,3*	0.6	0.5
France	7 125	2 665	*37.4*	1.0	0.7
Western Germany	8 994	4 166	*46.3*	1.1	0.6
Sweden	731	198	*27.1*	0.7	0.5
Switzerland	1 250	626	*50.1*	1.6	0.8
Total five countries	18 903	7 834	*41.4*		

Sources: Table 17; and OECD, *Labour Force Statistics.*

TABLE 18

Western Europe: birth and death rates, 1946-1950 to 1967

(Per thousand persons)

Country	Birth rates						Death rates					
	1946-1950	1951-1955	1956-1960	1961-1965	1966	1967	1946-1950	1951-1955	1956-1960	1961-1965	1966	1967
Austria	16.7	15.0	17.2	18.5	17.6	17.4	12.7	12.2	12.5	12.6	12.5	13.0
Belgium	17.6	16.7	17.0	17.0	15.8	15.2	13.0	12.2	11.9	12.0	12.0	12.2
Denmark	20.7	17.6	16.7	17.3	18.4	..	9.3	8.9	9.2	9.8	10.3	..
Finland	26.6	22.1	19.4	17.8	16.8	16.5	11.1	9.5	9.0	9.3	9.4	9.4
France	20.9	19.1	18.2	18.0	17.5	16.8	13.1	12.7	11.7	11.2	10.7	10.8
Western Germany	16.6	16.0	17.2	18.3	17.8	17.3	11.0	10.7	11.1	11.1	11.3	11.2
Greece	..	19.3	19.2	17.8	17.9	18.5	..	7.1	7.4	7.9	7.9	8.3
Ireland	22.2	21.4	21.1	21.9	21.6	21.1	13.3	12.5	11.8	11.8	12.2	10.7
Italy	21.2	18.1	18.1	19.1	18.9	18.1	10.8	9.8	9.5	9.8	9.5	9.7
Netherlands	25.9	21.9	21.1	20.7	19.2	18.9	7.9	7.5	7.6	7.9	8.1	7.9
Norway	20.6	18.6	17.9	17.4	17.9	18.0	9.2	8.5	8.9	9.5	9.6	9.2
Portugal	25.1	23.8	24.2	23.8	22.2	21.1	13.4	11.5	11.3	10.7	10.7	10.0
Spain	21.5	20.4	21.6	21.5	20.9	21.1	11.6	9.9	9.2	8.8	8.6	8.7
Sweden	18.2	15.2	14.3	15.0	15.8	15.5	10.2	9.7	9.7	10.0	10.0	10.1
Switzerland	19.0	17.1	17.6	18.7	18.3	17.7	10.9	10.1	9.8	9.5	9.3	9.0
Turkey [a]	38.8	42.2	44.0	..	..	..	17.6	14.1	12.6	..	..	..
United Kingdom	18.3	15.7	16.8	18.3	17.9	17.4	11.8	11.7	11.6	11.8	11.8	11.2
Yugoslavia	28.7 [b]	28.1	24.1	21.5	20.2	19.5	13.2 [b]	12.1	10.2	9.2	8.0	8.7

Sources: United Nations Statistical Yearbooks; United Nations Demographic Yearbooks; and national statistics.

[a] Estimate from the 1968-1972 Development Plan. [b] Average 1947-1950.

The total of nearly 8 million immigrants in these five countries accounts for some 30 per cent of the total increase of population in all the ten countries of Group I. If this number is deducted, the total population increase for the Group as a whole would be reduced from 16 per cent (0.9 per cent per year) to 10 per cent (0.6 per cent per year). [31]

The extent to which population growth in the emigration countries has been affected by this outward flow is shown below. The calculation is made for the five countries for which data are available.

The five million net emigrants are equivalent to almost one-third of the natural increase in the five countries mentioned above. The total number of emigrants in all eight countries of Group II (adding Finland, Turkey and Yugoslavia) in 1950-1965 was probably not far short of six million. Thus in the eight sending countries combined, emigration absorbed about one-fourth of their natural population increase. Without emigration, the rise in population of the countries in Group II would have been as high as 22 per cent (or 1.3 per cent per year), about twice as great as in the ten countries of Group I. It must be remembered, too, that the impact of emigration on manpower supply is far more important than that on population, since emigration most affects people in the working age-groups.

Chart 8 shows the influence on annual population growth of natural increase and of migration over the last twenty years, for ten western European countries in which net migration, in one direction or the other, was significant.

[31] This does not take into account the influence of immigration on the receiving country's natality. This could be almost negligible when immigrants represent a small share of the total population of the receiving country, or when they are mainly breadwinners leaving their families behind. But it could be important when immigration is significant and involves entire families. There is evidence that the birth rate is considerably higher among immigrants than among natives, largely because of their young average age.

[32] The categories defined as "vertriebene" and "zugewanderte" or "Sowjetzonenflüchtlinge" in *Bevölkerung und Kultur*, Reihe 4, various issues.

In western Germany the massive inflow of "expelled persons and refugees" [32] in the late nineteen-forties raised the total population increase to a peak rate of about 25 per thousand. In the first half of the nineteen-fifties, the inflow was still almost completely composed of persons classified as expellees and refugees of whom the number rose from 9½ to 12 million between 1950 and 1961. In the later nineteen-fifties, foreigners gradually represented an increasing proportion of total immigration and in the nineteen-sixties the inflow was almost entirely made up of foreigners. In the nineteen-fifties and into the nineteen-sixties immigration almost doubled, on average, the effect of natural increase, until economic recession led to a negative migration balance in 1967.

In Switzerland, immigration accounted on average for more than 40 per cent of the total population increase in the nineteen-fifties, rising after 1959 to about 70 per cent in 1961 and 1962. In 1961, its peak year, immigration raised the rate of total population increase from a normal 8.8 per thousand, due to natural growth, to almost 29 per thousand. Restrictive immigration policies were introduced in 1964 and reinforced in subsequent years; in 1965, the migration balance was even slightly negative. In 1966 and 1967, policy aimed at stabilizing, or only moderately reducing, the number of foreigners "under control". Meanwhile a number of foreigners of long-standing residence gained the right to permanent establishment, so that the effect was a resumed inflow of migrants.

Net immigration into France began to be important in 1955 and rose to 220,000 (or almost 80 per cent of the natural population increase) in 1957, but slowed down in the economic recession of 1958-1960. The exodus from Algeria produced a peak net immigration of 860,000 in 1962—four times the natural population increase.

In the United Kingdom, like France, the migration flows in both directions largely concern non-European countries; the net balance of migration with the rest of Europe (apart from the large inward flow from Ireland) was small over the period as a whole. During most of

Emigration and population growth in five sending countries, 1950-1965

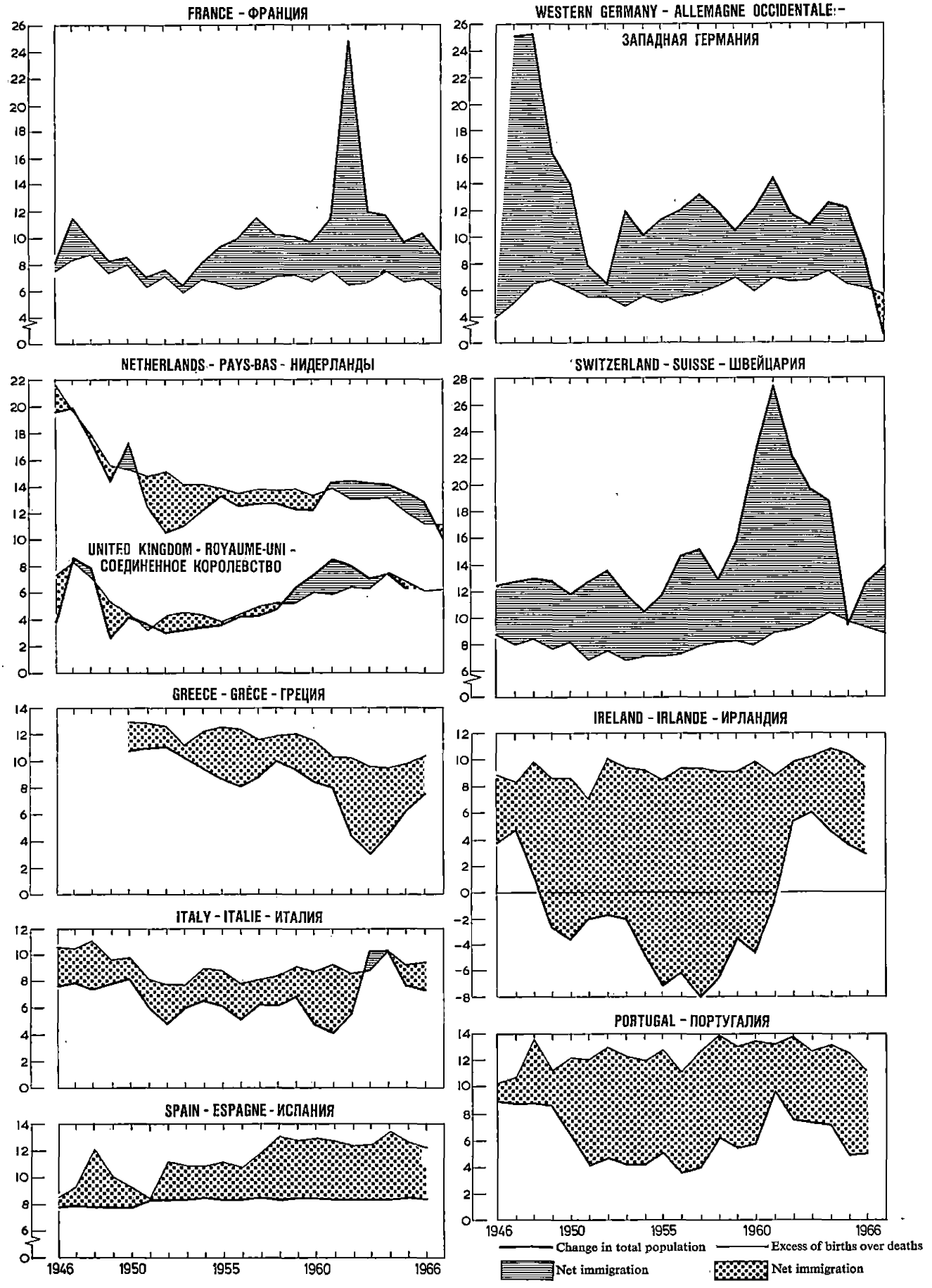
Country	*Natural population increase (thousands)*	*Net emigration*		*Annual rates of population growth*	
		Thousands	*Per cent of natural increase*	*With emigration*	*Without emigration*
Greece	1 377	393	*28.5*	0.7	1.1
Ireland	410	490	*119.5*	−0.2	0.9
Italy	6 459	1 533	*23.7*	0.7	0.9
Portugal	1 733	940	*54.2*	0.6	1.3
Spain	5 616	1 548	*27.6*	0.9	1.2
Total five countries	15 595	4 904	*31.4*		

Sources: Table 17; and OECD, *Labour Force Statistics.*

CHART 8

Natural population increase and net migration in ten western European countries, 1946-1967

(Rates per 1000 persons)



Source: OECD, *Labour force statistics.*

the years covered, the United Kingdom was losing population through net emigration, but the balance was sharply reversed in 1960-1962 by a large inward movement from Commonwealth countries, particularly the West Indies, India and Pakistan—a movement greatly slowed down from 1962 by the imposition of controls.

In Portugal, net emigration has been continuously around 70 per cent of the natural population increase since 1951. In Italy, Spain and Greece, emigration increased strongly in the early nineteen-sixties. The peak year for Italy was 1961, when emigration absorbed over half of the natural increase; during the following years Italian emigration fell off (mainly because of rapid economic development), but revived after the economic recession in 1964. In Spain, with a birth-rate considerably higher than that of Italy, emigration in the peak year (1964) was equivalent to 38 per cent of the natural increase. In Greece, a country with a relatively low birth-rate, a peak was reached in 1963 when emigration was equal to almost 70 per cent of the natural increase. It may be noted that it was not until the nineteen-sixties that emigration to the rest of Europe from Spain and Greece prevailed over emigration to other parts of the world.

Ireland is unique in that until 1962 the natural increase (at a rate of around 9 to 10 per thousand on average) was more than offset by emigration. The trend then changed. Net emigration fell to less than half its rate in the previous 10 years and total population has begun to rise.[33] As in Italy, better employment prospects within Ireland are mainly responsible. The rise in 1963-1965 in the natural increase was also significant.

The stability of natality in a period of high emigration is common to Greece, Italy, Portugal and Spain. This indicates that emigration did not seriously distort the sex- and age-composition of the remaining population. But it also suggests the existence of emigration flows of a temporary nature, with a high rate of turnover accompanied by frequent returns.

The expected growth of total population, 1965-1980

The growth in total population in the period 1950-1965 is compared with the expected growth in 1965-1980 in Table 17. The expected total populations for 1980 are derived from the most recent projections made for the individual countries. For nearly all countries the projections used here exclude any forecast of migration; they reflect the natural population increase only. (The assumptions underlying the projections used are summarized in Appendix III.) This partly explains the important fall in the annual rate of increase in certain countries and particularly those countries which were—in the past fifteen years—highly dependent upon immigration. Equally, it explains the rise in the growth rate for countries such as Ireland, Portugal and Spain, where population growth in 1950-1965 was strongly damped down by emigration.

The total increase expected from 1965 to 1980 for the 18 countries combined is 54 million, or 14 per cent (0.9 per cent a year); this is slightly below the 1.0 per cent a year recorded for the previous 15 years. The only countries for which the expected rate of natural growth exceeds the average for the whole region are the Netherlands and the following emigration countries: Ireland, Portugal, Spain, Yugoslavia and—above all—Turkey.

In the eight emigration countries (Group II) the expected annual rate of natural population increase is more than double that of the countries of Group I (1.3 per cent as against 0.6 per cent). On the assumption of no net migration, countries of Group II, which represented 43 per cent of the western European population in 1965, account for 63 per cent of the total increase expected from 1965 to 1980 (34 million out of 54 million).

It must be observed, however, that in Turkey alone the expected increase is 14.4 million, or over a third of the rise anticipated for the other 17 countries combined. Excluding Turkey, the expected annual rate of natural increase in the population of the emigration countries would be reduced from 1.3 per cent to 0.9 per cent.

Changes in age- and sex-structure of the population

The extent to which the growth of total population influences the supply of labour depends, primarily, on the way the global change affects the various age-groups and is distributed among males and females.

Chart 9 shows—for a number of countries—a direct confrontation between the age- and sex-pyramids in the years 1950, 1965 and 1980. The superimposed pyramids for the years 1950 and 1965 show the changes in the total population by sex and age (5-year age-groups) which actually took place. The superimposed pyramids for 1965 and 1980 show the expected changes between 1965 and 1980, again assuming no migratory movements.[34]

Some of the main facts which emerge from the chart are also summarized in tables 19, 20 and 21, which show respectively: the rates of growth of the main age-groups in the two periods 1950-1965 and 1965-1980; the age structure in the three years 1950, 1965 and 1980; and the sex ratio for each main age group in the same years.

One fact which is clearly manifest is the ageing of population in all countries between 1950 and 1965. The proportion of people aged 65 and over has strongly increased everywhere (see table 20). As women tend to live longer than men, the higher proportion of females in the old-age groups has increased considerably (see table 21). These trends will continue.

Between 1950 and 1965 the proportion of children (less than 15 years) in the total population increased considerably in Belgium, France, Norway, Spain and Turkey (in Turkey it reached as much as 42 per cent in

[33] There was a small increase in population just after the war. But from 1841 to 1961 every census showed a decline.

[34] The forecasts of age composition in fact imply that the immigrants already in the population remain there. Thus the " bulges " in the age group 20-40 in 1965 in western Germany and Switzerland reappear in 1980 in the 35-55 age-group. This is probably unrealistic. Even if the net migration balance were in fact zero during 1965-1980, existing younger immigrants would be more likely to leave and be replaced by a fresh inflow in the same age group; the bulge at 20-40 would remain.

TABLE 19

Western Europe: growth of total population by broad age groups, 1950 to 1980

(Average annual rates)

Country and period	*Age group: 0-14*	*15-19*	*20-39*	*40-64*	*65+*	*All ages*	*15-64*
Austria 1951-1965	0.4	0.8	0.3	−0.4	1.9	0.3	0.0
1965-1980	0.8	1.6	0.5	−0.6	1.4	0.5	0.1
Belgium 1950-1965	1.5	1.0	0.0	0.1	1.5	0.6	0.2
1965-1980	0.4	0.5	0.7	−0.1	1.0	0.4	0.3
Denmark 1950-1965	0.0	2.5	−0.0	1.0	2.2	0.7	0.7
1965-1980	1.2	−0.7	1.4	−0.2	1.8	0.8	0.4
Finland 1950-1965	0.2	3.1	0.4	1.2	2.2	0.9	1.1
1965-1980	−0.7	−1.3	1.7	0.1	2.2	0.6	0.6
France. 1950-1965	1.9	1.6	0.8	0.3	1.4	1.0	0.7
1965-1980	0.5	0.1	1.2	0.2	1.8	0.7	0.6
Western Germany . . 1950-1965	0.8	−0.1	1.5	0.6	2.6	1.1	0.9
1965-1980	0.8	2.2	−0.5	0.0	1.8	0.5	0.0
Greece. 1951-1965	−0.0	−0.5	0.8	1.7	2.9	0.8	0.9
1965-1980	−0.2	−0.2	0.1	1.8	2.6	0.7	0.8
Ireland 1951-1966	0.3	0.7	−1.3	0.1	0.1	−0.1	−0.4
1966-1981	2.3	1.0	3.2	−0.5	1.0	1.6	1.4
Italy. 1951-1966	0.2	0.3	0.5	1.1	2.2	0.7	0.7
1966-1981	0.7	0.6	0.2	0.8	2.3	0.8	0.5
Netherlands 1950-1965	1.1	2.4	0.6	1.5	2.8	1.3	1.2
1965-1980	0.5	0.2	1.9	0.7	2.2	1.1	1.2
Norway 1950-1965	1.7	2.2	−1.0	1.8	2.9	1.1	0.7
1965-1980	1.2	−0.4	1.9	−0.5	2.2	0.9	0.5
Portugal 1950-1965	0.5	−0.1	0.1	1.2	1.7	0.6	0.5
1965-1980	1.6	1.1	1.3	1.0	2.5	1.4	1.2
Spain 1950-1965	1.3	———	0.7	———	2.3	1.0	0.7
1965-1980	1.0	1.2	0.8	1.2	1.9	1.1	1.0
Sweden 1950-1965	0.8	2.2	−0.4	1.6	2.8	1.0	0.8
1965-1980	1.1	−0.6	0.9	−0.5	1.9	0.5	0.0
Switzerland 1950-1966	1.4	2.3	1.6	0.9	2.3	1.5	1.4
1966-1981	1.1	0.3	0.4	0.5	1.6	0.7	0.5
Turkey 1950-1965	3.4	1.4	2.8	1.9	3.9	2.7	2.2
1965-1980	1.9	3.4	2.8	2.7	3.7	2.5	2.9
United Kingdom . . . 1951-1965	0.8	2.2	−0.3	0.6	1.3	0.6	0.4
1965-1980	1.1	0.6	0.9	−0.5	1.4	0.6	0.2
Yugoslavia 1951-1966	0.9	0.1	1.6	1.1	2.6	1.2	1.2
1966-1981	0.2	0.2	0.9	2.0	2.2	1.0	1.2

Source: see appendix III.

NOTE. — Projected growth (the second row for each country) excludes migration, except for Finland and the United Kingdom.

1965). In all other countries it has declined or only increased very moderately.

Projections of child population up to 1980 are subject to the uncertainties of the future trend of births. The assumptions used in the projections imply that the child population will tend to increase faster than the total population in nine countries: Austria, Denmark, western Germany, Ireland, Norway, Portugal, Sweden, Switzerland and the United Kingdom. In the other countries, the share of children in the total population will not change much, or will decline.

For estimating future labour supply, the important question is the growth of population of working age (15-64), which is not affected, up to 1980, by the uncertainties of the future course of births.

Table 19 shows that, between 1950 and 1965, in only two countries of Group I did the population of working age grow at a rate greater than one per cent: the Netherlands and Switzerland. In Switzerland this was largely due to immigration. In the other four immigration countries (Belgium, France, western Germany and Sweden), in spite of the contribution of immigrants, the working-age population grew less than total population.

The population in the age-group 20-39 actually declined in Norway, Sweden and the United Kingdom and it did not grow at all in Belgium and Denmark. In countries

TABLE 20

Western Europe: age structure of total population, 1950 to 1980

(Percentages)

Country and year		*Age group: 0-14*	*15-19*	*20-39*	*40-64*	*65+*	*All ages*	*15-64*
Austria	1951	22.9	6.3	26.5	33.6	10.6	100	66.5
	1965	23.1	6.8	26.5	30.6	13.1	100	63.8
	1980	24.2	8.1	26.7	25.9	15.1	100	60.7
Belgium	1950	21.0	7.1	28.3	32.5	11.1	100	67.9
	1965	23.9	7.5	26.0	29.9	12.7	100	63.4
	1980	23.7	7.5	27.0	27.9	13.9	100	62.5
Denmark	1950	26.3	6.8	28.9	28.8	9.1	100	64.6
	1965	23.8	8.9	25.9	30.1	11.3	100	64.9
	1980	25.2	7.1	28.5	26.1	13.1	100	61.7
Finland	1950	30.0	7.7	29.5	26.1	6.6	100	63.4
	1965	26.8	10.6	27.4	27.2	8.0	100	65.2
	1980	24.6	8.0	31.8	25.3	10.3	100	65.1
France	1950	22.5	7.6	27.3	31.2	11.4	100	66.1
	1965	25.6	8.3	26.2	27.9	12.0	100	62.4
	1980	24.6	7.6	27.6	26.0	14.2	100	61.2
Western Germany	1950	23.3	7.2	27.5	32.6	9.4	100	67.3
	1965	22.5	6.1	29.1	30.5	11.8	100	65.7
	1980	23.8	7.9	25.4	28.5	14.5	100	61.7
Greece	1951	28.8	10.3	30.7	23.5	6.7	100	64.4
	1965	25.6	8.5	30.5	26.4	9.0	100	65.4
	1980	22.0	7.4	28.8	30.4	11.3	100	66.6
Ireland	1951	28.9	8.1	26.8	25.5	10.7	100	60.4
	1966	30.8	9.2	22.3	26.6	11.1	100	58.1
	1981	33.9	8.4	28.2	19.4	10.1	100	56.0
Italy	1951	26.1	8.5	30.3	26.9	8.2	100	65.7
	1966	24.3	8.0	29.1	28.6	10.1	100	65.6
	1981	23.9	7.8	26.8	28.8	12.7	100	63.4
Netherlands	1950	29.2	8.1	29.4	25.6	7.7	100	63.1
	1965	28.4	9.6	26.4	26.1	9.5	100	62.1
	1980	26.0	8.4	29.8	24.7	11.1	100	62.9
Norway	1950	22.6	7.3	32.7	28.0	9.3	100	67.9
	1965	24.7	8.4	23.8	31.0	12.1	100	63.2
	1980	25.4	7.0	27.3	25.3	15.0	100	59.6
Portugal	1950	29.5	9.6	30.2	23.7	7.0	100	63.5
	1965	29.0	8.8	28.3	25.8	8.1	100	62.8
	1980	29.8	8.3	27.9	24.4	9.6	100	60.6
Spain	1950	26.2	———	66.5	———	7.2	100	66.5
	1965	27.4	8.1	29.0	26.7	8.8	100	63.8
	1980	27.2	8.3	27.7	26.9	9.9	100	62.9
Sweden	1950	21.6	6.7	32.1	29.8	9.9	100	68.5
	1965	20.9	8.0	25.8	32.5	12.8	100	66.3
	1980	22.8	6.7	27.2	27.8	15.6	100	61.7
Switzerland	1950	23.6	7.0	29.1	30.8	9.6	100	66.8
	1966	23.3	7.9	29.7	28.1	11.0	100	65.7
	1981	24.7	7.4	28.4	27.1	12.4	100	63.0
Turkey	1950	38.0	11.3	28.0	19.1	3.4	100	58.4
	1965	41.7	9.3	28.1	16.8	4.0	100	54.2
	1980	38.9	10.5	28.6	17.2	4.8	100	56.3
United Kingdom	1951	22.6	6.3	28.8	31.5	10.9	100	66.6
	1965	23.3	7.9	25.3	31.5	12.0	100	64.7
	1980	25.0	7.9	26.8	26.8	13.6	100	61.4
Yugoslavia	1951	30.9	10.9	28.9	23.7	5.7	100	63.4
	1966	29.5	9.3	30.8	23.4	7.0	100	63.5
	1981	26.2	8.2	30.2	27.2	8.3	100	65.5

Source: see appendix III.

NOTE. — Projected age structures (1980 or 1981) exclude migration except those for Finland and the United Kingdom.

TABLE 21

Western Europe: sex ratios in total population, by broad age groups, 1950 to 1980

(Number of females per hundred males)

Country and year		Age group: 0-14	15-19	20-39	40-64	65+	All ages	15-64
Austria	1951	96	97	122	122	140	116	119
	1965	96	96	99	131	163	114	113
	1980	95	97	98	117	182	112	106
Belgium	1950	97	99	98	107	124	103	102
	1965	95	96	97	106	141	104	101
	1980	96	96	97	104	144	104	100
Denmark	1950	96	98	101	106	112	102	103
	1965	95	95	99	104	122	102	101
	1980	96	96	96	103	122	101	99
Finland	1950	96	97	108	119	167	109	111
	1965	96	96	97	120	168	107	106
	1980	96	96	97	110	163	105	102
France	1950	97	97	99	115	152	108	106
	1965	96	95	94	106	168	105	99
	1980	96	96	97	101	143	103	98
Western Germany	1950	96	96	124	122	124	114	120
	1965	95	95	95	131	158	111	110
	1980	95	96	96	110	168	108	102
Greece	1951	95	101	108	111	126	105	108
	1965	95	96	109	109	130	106	107
	1980	95	95	96	110	122	103	102
Ireland	1951	96	91	97	96	104	96	96
	1966	96	93	99	100	116	99	98
	1981	96	96	95	104	121	100	98
Italy	1951	96	98	103	111	122	104	106
	1966	96	96	99	108	137	104	103
	1981	96	96	97	105	129	103	101
Netherlands	1950	95	96	101	105	109	101	102
	1965	95	95	96	106	119	101	100
	1980	95	96	96	104	138	102	99
Norway	1950	96	97	99	108	126	103	102
	1965	95	95	96	103	124	101	99
	1980	95	94	95	100	114	99	97
Portugal	1950	96	101	104	121	154	108	109
	1965	96	103	112	116	152	110	113
	1980	95	95	101	117	147	106	106
Spain	1950	96	———	109	———	144	108	109
	1965	95	98	102	113	141	105	106
	1980	96	96	98	108	140	103	102
Sweden	1950	96	97	98	105	116	101	101
	1965	95	96	96	101	122	100	98
	1980	95	95	95	100	126	101	97
Switzerland	1950	96	100	106	113	133	108	108
	1966	96	99	99	108	147	105	103
	1981	95	96	99	105	142	104	101
Turkey	1950	91	87	98	112	160	98	100
	1965	93	88	100	99	139	97	98
	1980	97	97	92	102	114	97	96
United Kingdom	1951	96	103	104	113	143	108	108
	1965	95	96	98	106	164	106	102
	1980	95	95	97	101	155	104	99
Yugoslavia	1951	96	97	113	113	133	107	110
	1966	95	96	100	116	139	104	105
	1981	94	94	97	108	132	101	101

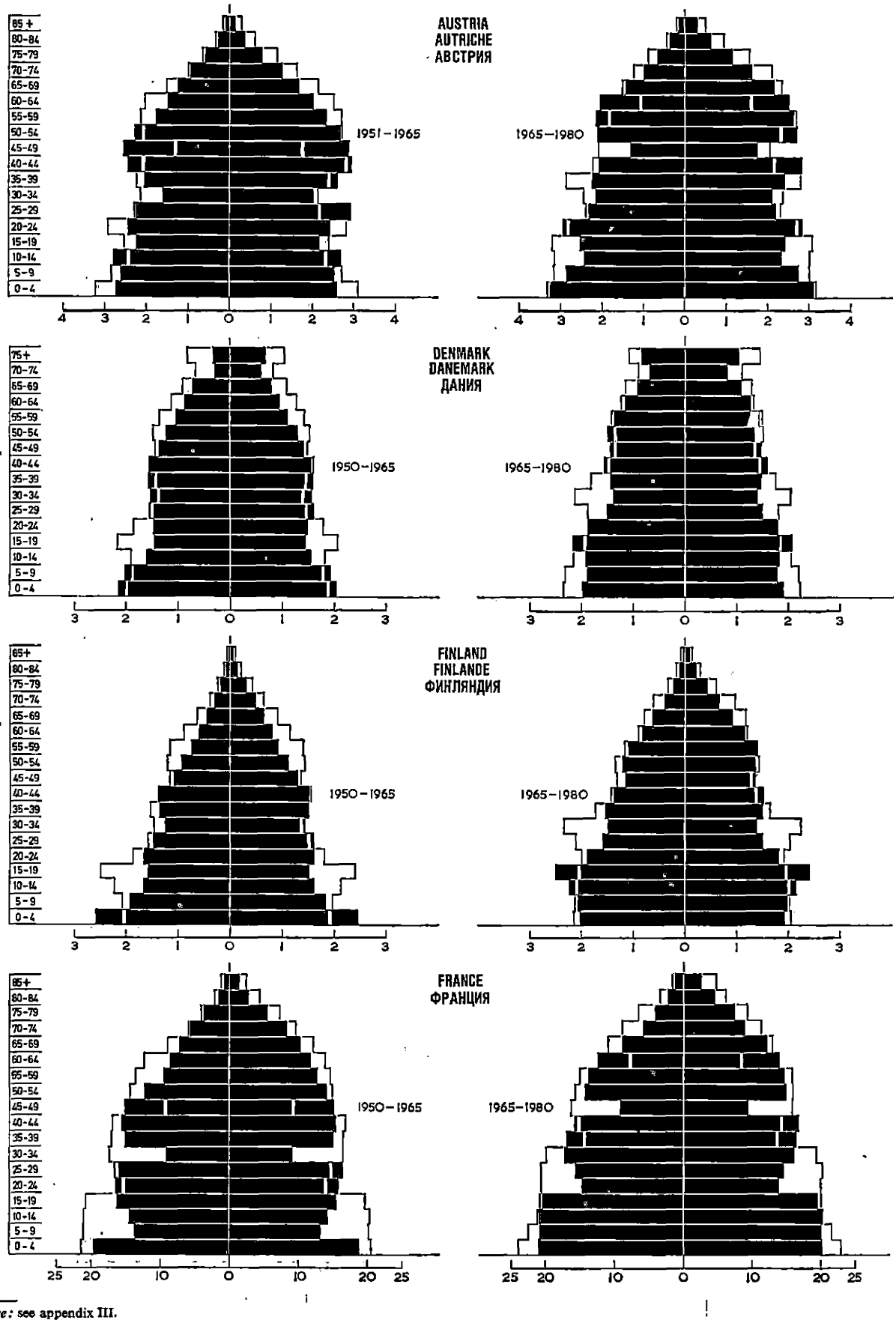
Source: see appendix III.

NOTE. — Projected sex ratios (in 1980 or 1981) exclude migration, except for Finland and the United Kingdom.

CHART 9

Changes in age- and sex-structure of the population in sixteen western European countries, 1950-1980

(Absolute numbers in hundreds of thousands)
(In each period the solid block refers to the base-year)



Source: see appendix III.

NOTE. — In France, Greece, and Turkey, the 1965 population in the 1950-1965 comparison (left hand pyramids) differs slightly from the 1965 population in the 1965-1980 comparison (right hand pyramids); in the latter it represents an earlier estimate on which the projection for 1980 was based.

CHART 9 *(continued)*

Changes in age- and sex-structure of the population in sixteen western European countries, 1950-1980

(Absolute numbers in hundreds of thousands)
(In each period the solid block refers to the base-year)

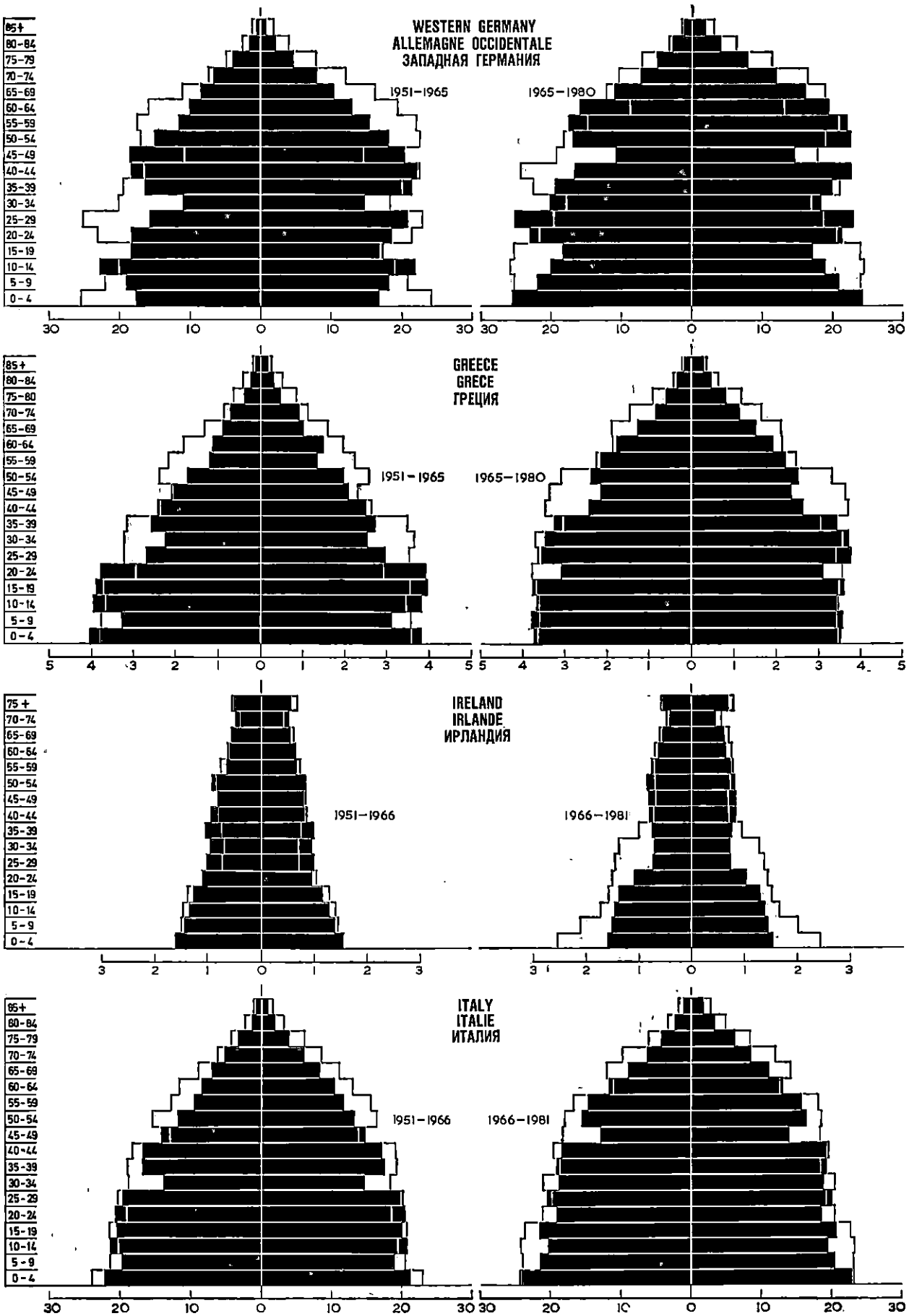


CHART 9 *(continued)*

Changes in age- and sex-structure of the population in sixteen western European countries, 1950-1980

(Absolute numbers in hundreds of thousands)
(In each period the solid block refers to the base-year)

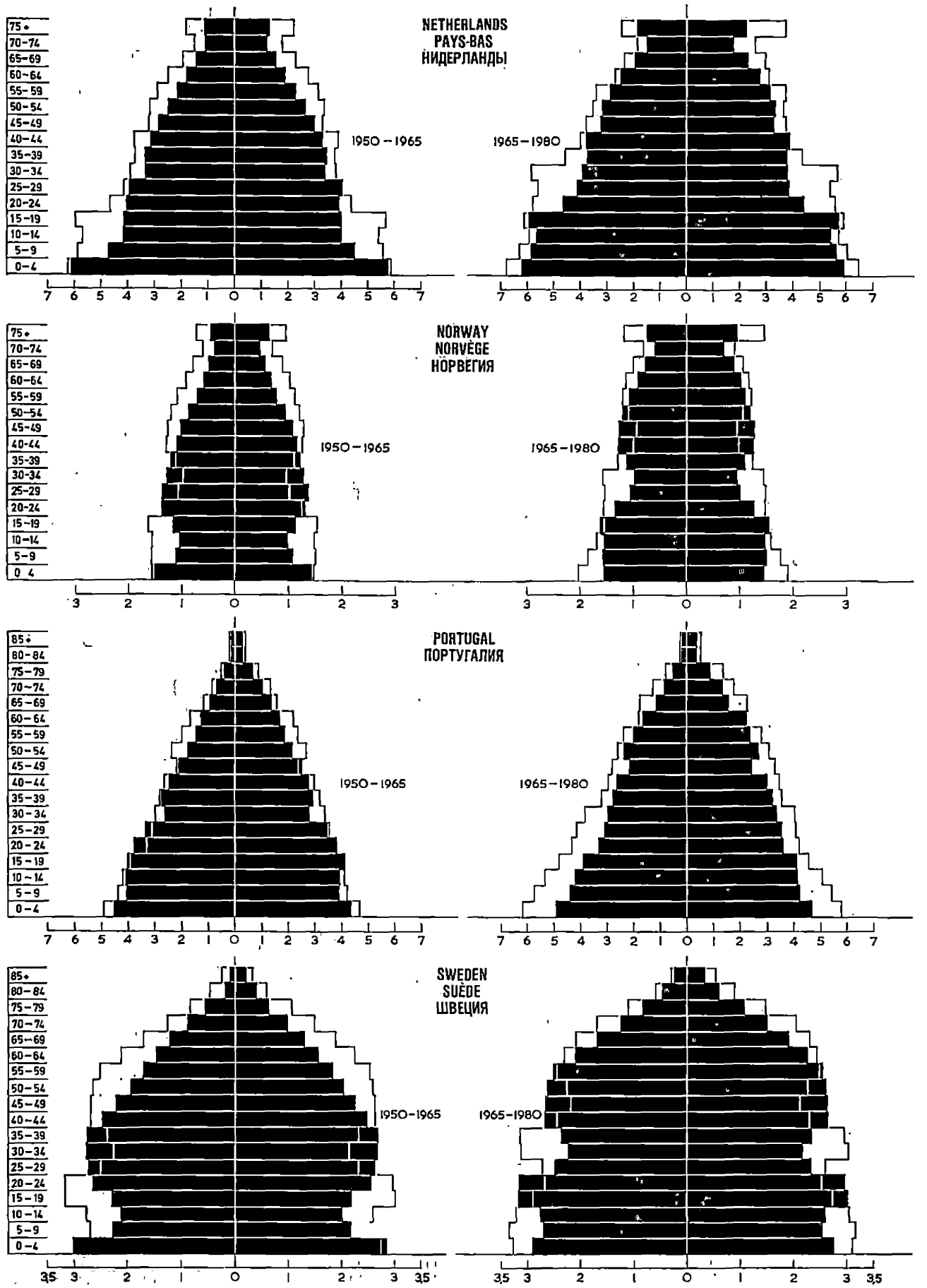
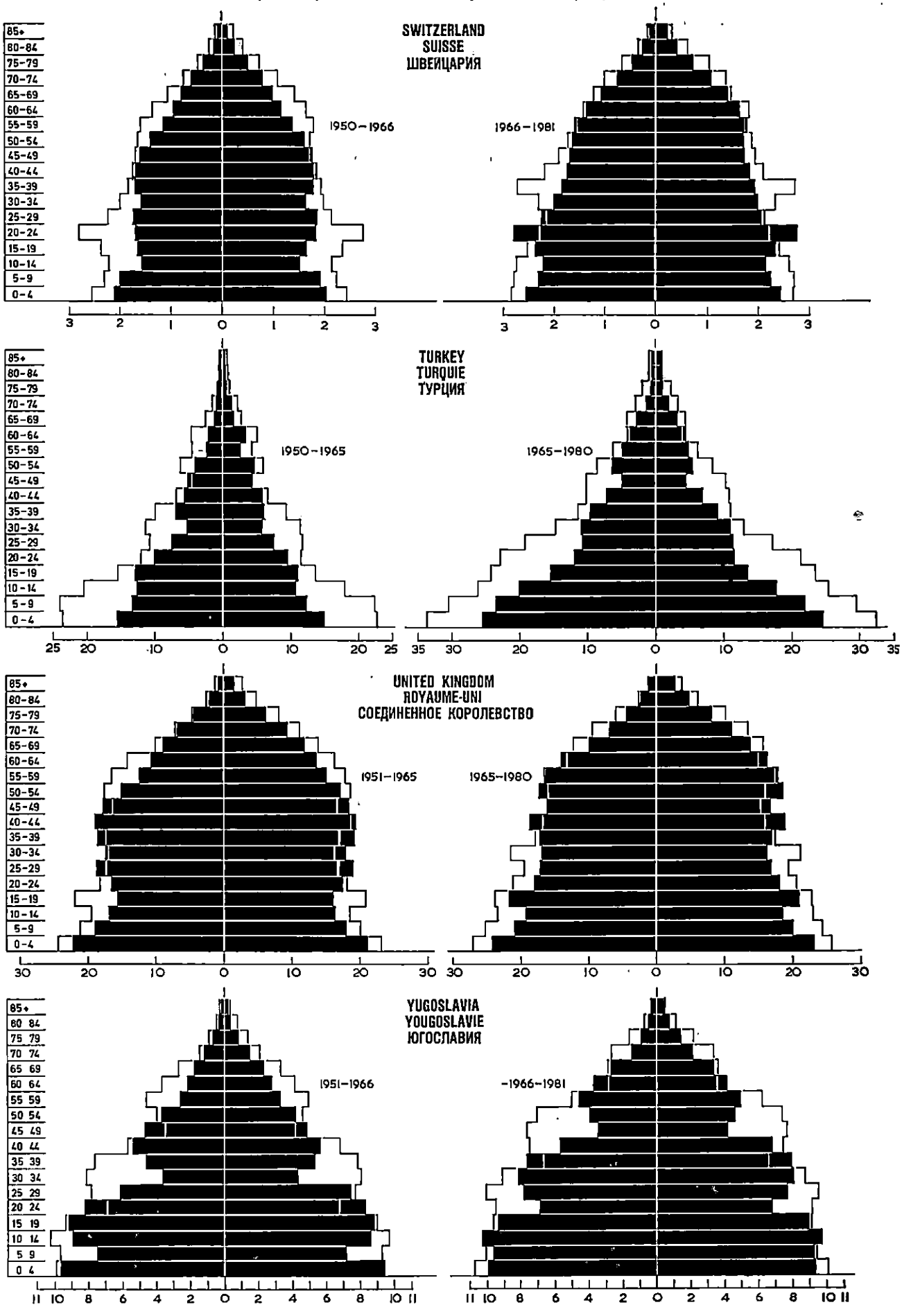


CHART 9 *(concluded)*

Changes in age- and sex-structure of the population in sixteen western European countries, 1950-1980

(Absolute numbers in hundreds of thousands)
(In each period the solid block refers to the base year)



of Group II this age-group was to a varying extent depleted by emigration. The age-group 40-64 increased considerably in Denmark, Finland, Greece, Italy, the Netherlands, Norway, Portugal and Sweden, while it rose modestly in Belgium, France, western Germany and Ireland, and declined in Austria.

In a number of countries, the population in the age-group 15-19 grew considerably between 1950 and 1965. This rise, generally concentrated in the early nineteen-sixties, was important in countries which experienced a postwar " baby boom " (such as Denmark, France, the Netherlands, Norway and the United Kingdom). The increase in the age-group 15-19 represented as much as 62 per cent of the total increase in working-age population in the United Kingdom and 31 per cent in France.

It may be observed that the rise in the potential labour force, even in absolute terms, was larger in the eight countries of Group II than in the ten countries of Group I (in 1950 the shares of the two groups in the total western European population of working-age were about 40 per cent for Group II and 60 per cent for Group I). This happened even though much of the rise in Group I took place at the expense of Group II, through migration.

Growth of the working-age population in western Europe, 1950-1965

	Total rise (thousands)	*Annual percentage rate of growth:*	
		With migration	*Without migration*
Group I	12 888	0.65	0.3-0.4*
Group II.	13 866	1.0	1.3-1.4*
Total western Europe .	26 755		

Source: As for table 19. For definition of Groups I and II, see table 17.

For the future, it appears that the working-age population of western Germany and Sweden, in the absence of immigration, will not increase at all. In Austria, Belgium, Denmark, Norway, Switzerland and the United Kingdom, the rise will be small (0.5 per cent per year or less). The Netherlands and, to a lesser extent, France are the only countries of Group I where the rise will continue to be important. Among countries of Group II, it seems clear that in Finland, Greece, Italy and Spain the natural growth of this age group will be considerably less important in 1965-1980 than it was in 1950-1965, which suggests, in itself, a reduced potential for emigration. The rise will still exceed one per cent per year in Ireland, Portugal and Yugoslavia and will be nearly three per cent per year in Turkey. In Turkey, the present high proportion of children in the total population will bring about a big increase in the age-group 15-19 before 1980.

The expected developments in the working-age population for the two groups of countries are summarized below:

Projected growth of the working-are population in western Europe, 1965-1980 (without migration)

	Total rise (thousands)	*Distribution of total rise (per cent)*	*Annual rates of growth (per cent)*
Group I	6 840	*25.3*	0.3
Group II.	20 202	*74.7*	1.2
Total western Europe .	27 042	*100*	

Source: As for table 19. For definition of Groups I and II, see table 17.

In the eight countries of Group II combined, the total increase, in millions, will be three times as great as that in the ten countries of Group I. And the rate of growth in Group II will be four times as great as in Group I. France and the Netherlands together (with a rise of 4.5 million) will account for about two-thirds of the total increase expected for Group I. And in Turkey, the expected increase of 9 million represents as much as one-third of the total increase expected for the whole of western Europe.

The female ratio in the population of working age will decline between 1965 and 1980, as it did in the previous fifteen years (see table 21).[35] This decline will be important in countries—notably Austria, Finland and western Germany—where the war resulted in a serious lack of balance between the sexes in 1950.

It must be repeated that these population projections assume no migration, and incorporate only factors which are relatively easy and reliable to predict. They are not directly influenced by economic conditions, nor can they be strongly influenced by policy, at least over the period considered here.

The experience of the past 15 years demonstrates that migration flows can in fact bring about radical changes in the rates of increase of population and labour supply. All that can be done here, however, is to set out the background required for consideration of growth policies and labour market policies, in respect both of migration and of other influences on the future trend of the active population.

[35] In 1950-1965 the female ratio declined in Finland, Greece, Italy, Spain, Turkey and Yugoslavia. It increased only moderately in Ireland. This means that emigration from these countries did not seriously distort the sex composition of the potential labour force. Only in Portugal did the female ratio increase strongly, especially in the age group 20-39.

(ii) Development of the active population, 1950-1965

Total changes in the active population between the two census years nearest to 1950 and to 1960, and between the 1960 census and 1965 or 1966, are shown on a comparative basis in table 22 for the 13 countries for which relevant data are available (absolute changes are shown in appendix V).[36] The effects of the two main

[36] " Census 1950 " and " Census 1960 " indicate the Census nearest to 1950 or to 1960, and 1965 indicates 1965 or 1966. The final year, 1965 or 1966, has been chosen according to the starting year for projections to 1980 or 1981.

TABLE 22

Western Europe: growth in the active population of all ages between 1950 [a] and 1965

(Percentage of active population (male and female) in 1950) [b]

Country	Total change	Attributable to demographic factors			Attributable to changes in activity rates		
	MF	MF	M	F	MF	M	F
Austria	0.6	1.4	2.0	—0.6	—0.8	—3.8	3.0
Belgium	4.0	4.0	1.0	—	3.0	—1.2	4.2
Denmark	6.5	13.6	8.8	4.8	—7.1	—2.1	—5.0
Finland	7.3	17.8	11.8	6.0	—10.5	—6.3	—4.2
France	9.6	12.3	9.5	2.8	—2.6	—1.4	—1.2
Western Germany	18.3	17.2	13.5	3.7	1.1	—1.1	2.1
Ireland	—12.5	—5.8	—5.0	—0.8	—6.7	—5.1	—1.6
Netherlands	14.6	21.2	16.3	4.9	—6.7	—4.6	—2.1
Norway	11.4	11.9	8.8	3.1	—0.5	—7.1	6.6
Sweden	11.1	12.0	8.4	3.6	—0.9	—8.2	7.4
Switzerland	24.9	25.5	17.8	7.7	—0.6	—2.6	2.0
United Kingdom	13.5	8.2	6.8	1.5	5.2	—2.2	7.4
Yugoslavia	16.8	20.1	15.3	4.8	—3.3	—6.2	2.8

Source: Appendix V.

[a] Census year nearest to 1950. All rates of growth adjusted to fifteen-year equivalent.

determinants of these changes are also displayed: demographic factors (changes in the size and sex- and age-composition of the population and migration) and changes in the specific activity rates (percentage of economically active to total population in each sex- and age-group: see definitions on page 181).

These determinants were isolated by applying the specific sex and age activity rates shown by the 1950 census to each sex- and age-group of the 1960 population. The difference between such "hypothetical" active populations and those actually recorded in the 1950 census represents the change resulting from "demographic" developments alone including changes due to migration. The difference between the hypothetical and the recorded active population in the 1960 census shows the impact of changes in activity rates alone. Appendix V shows only the total results for males and for females, but the calculation makes it possible to identify the age-groups at which the changes took place. For the period from the 1960 census to 1965, a similar technique has been used: sex and age-specific activity rates of the 1960 census were again applied to the 1965 estimated population by sex- and age. But since estimates of the age composition of the whole labour force are not available for most countries apart from the census, the impact of changes in activity rates since the 1960 censuses can be estimated only for total males and total females. Details of specific activity rates in each age-group are shown in appendix IV.

Table 22 covers only the 13 countries for which data for the two censuses are reasonably comparable and for which there is also a certain degree of consistency between censuses and annual statistics of the labour force. Five countries of southern Europe, for which the time series were not consistent, have had to be excluded (Greece, Italy, Portugal, Spain and Turkey).

It must be noted that the concept of "economically active" used in population censuses varies between countries, and in some countries, between censuses. These differences are bound to impair the comparability of activity rates. The difficulties of interpretation are particularly acute in countries where agriculture consists largely of family farms, which is the main reason for excluding from the historical analysis the five southern European countries just mentioned, but they also affect the numbers of married women and other "family helpers" recorded as active in other occupations. In some cases it has led, for example, to the recording as "active" of all able-bodied members of farm families.[37]

Over the whole period 1950-1965, the total active population in the 13 countries of western Europe for which reasonably comparable estimates can be made probably grew by about 11 million to 107 million—[38] a rise of about 0.7 to 0.8 per cent a year. In only two countries, western Germany (1.1 per cent a year) and Switzerland (1.6 per cent), was the rate of growth much faster—both countries of massive immigration throughout the period. In Yugoslavia, in spite of a consistent outward flow of migrants, and in the Netherlands, a country

[37] The possible lack of comparability is indicated by very big differences in the ratio of female unpaid helpers to male self-employed farmers—from 0.1 per farmer in Switzerland, Sweden, Portugal and Norway to 1.0 or more (up to 1.8) in Austria, western Germany and Turkey. The relative importance of unpaid female helpers in the total active population is shown in Appendix IV.

[38] Adding estimates for the remaining five countries, for which adequate historical comparison cannot be made, the total active population in 1965 was about 160 million in the 18 countries of western Europe.

with a rapid rate of natural increase, the growth of active population was about 1 per cent a year. At the other extreme were Ireland, with a decline of nearly 1 per cent a year because of emigration, and Austria where there was almost no change in the active population.

Demographic factors—the joint influence of natural increase and migration—were the major force making for a growing active population in most of the west European countries. The exceptions are Austria and Belgium where the demographic factors produced almost no expansion, and Ireland where emigration was responsible for the decline. Changes in activity rates showed a certain tendency—not always very strong—to counteract the demographic expansion. This tendency was evident in Denmark, Finland and the Netherlands, where around one-third to half of the demographic gain was lost in reduced activity rates. Elsewhere—in France, Norway, Sweden and Yugoslavia—only a much smaller proportion of the demographic gain was offset, while in Belgium a quite marked increase in activity rates, accompanying the disappearance of the heavy unemployment of the early postwar years, strengthened a weak demographic increase. In Ireland, by contrast, the falling activity rates contributed as much to the fall in population as the demographic factors (and the negative demographic factor was itself the result of emigration far more than balancing the natural increase). In the United Kingdom, on the other hand, rising activity rates—with a stronger influence than in any other country in the table—added almost half as much again to the moderate demographic increase. It is thus plausible to suggest that one of the influences determining activity rates, especially among women, is the strength or weakness of the natural increase in working-age population (or of migration movements) but it can be only one of a complex of interacting causal relationships.

The nature of the changes in activity rates may now be examined in greater detail, considering, first, men's activity rates, where the influence of changes is relatively small, and then women's activity rates, where a much greater variety is to be seen. Because sufficient data about changes in the age composition of the labour force since the last census are not available, this comparative examination must be confined to changes over the 10-year period between censuses. (Where comparable data by age for later years are available, they are given in appendix IV.)

Male activity rates

The general decline in male activity rates is almost wholly the result of falling activity rates in the extreme age-groups and is mainly the consequence of general trends towards extended education and earlier retirement (assisted in some countries by more comprehensive provision of retirement pensions). In the older age-groups, the decline in self-employment may have contributed something, and at both ends of the age-scale changing methods of recording unpaid family helpers may have had an influence.

Extended education reduced the labour force everywhere—most in Sweden and France, least in western Germany, Switzerland and the United Kingdom. The influence of earlier retirement was also strongest in France and weakest in western Germany and Denmark. The relatively small changes in activity rates in the main working ages generally have a positive influence—but not in Finland and Sweden.

Contribution of changes in male activity rates to changes in the total active population between the two censuses nearest 1950 and 1960

(Percentages (ten-year equivalents))

Country	*Change in the active population due to changes in male activity rates*	*of which attributable to:*			
		Educational ages		*Retirement ages (all declines over 60) b*	*Other ages*
		All declines under 29 a	*Of which in ages 15-19*		
Austria	−2.8	−1.1	..	−1.8	−0.1
Belgium	−2.0	−1.2	−1.1	−1.6	0.8
Denmark	−1.0	−1.0	−0.9	−0.2	0.2
Finland	−3.6	−1.9	−1.6	−1.3	−0.4
France	−3.2	−2.1	−2.1	−1.7	0.6
Western Germany	−0.3	−0.5	−0.3	−0.5	0.7
Ireland	−2.3	−1.5	−1.1	−0.9	0.1
Netherlands	−2.1	−1.3	−1.2	−1.5	0.7
Norway	−2.4	−2.1	−1.8	−0.5	0.2
Sweden	−5.0	−3.2	−2.1	−1.2	−0.6
Switzerland	−1.0	−0.5	−0.5	−0.9	−0.4
United Kingdom	−1.1	−0.9	−0.7	−0.7	−0.5

Source: As for appendix V.

a The effect of falling activity rates at ages 15-19 in all countries plus effect of falls at ages 20-29 in countries where such a fall occurred.
b The effect of falling activity rates at ages 65 and over plus effect of falls at ages 60-64 in countries where such a fall occurred.

Female activity rates

Changing age-specific activity rates of women have been an important element in the changing size of the total labour force in most countries (table 22). In eight, the effect was positive—adding to the influence of the demographic increase; in five, it was negative. The biggest positive effect was in the United Kingdom and Sweden, where increasing female activity rates added over 7 per cent to the total active population in 1950-1965—over half the total increase. The positive effect was also large in Norway but relatively small in Austria, Belgium, western Germany and Switzerland. By contrast, falling female activity rates in themselves had a significant negative effect in Denmark and Finland, and a small one in France, Ireland and the Netherlands.

One result of these changes, but only in four countries, was to change significantly the proportion of women in the active population:

Percentage of females in total active population

Country	*ca 1950*	*ca 1960*	*ca 1965*
Belgium	24 (1947)	27 (1961)	30
Norway	24	23	30
Sweden	26	30	33
United Kingdom	31 (1951)	32 (1961)	36

Source: Appendix V.

rate among girls of 15-19 reported in 1950. The changes among girls cannot be ascribed simply to extended education, as among young men. They may also be affected by earlier marriage and other factors; the proportion of girls reported as active varies widely between countries, falling as low as one-third in several. In Austria, Finland and France, declines in reported activity rates among women over 60 had some importance: these rates were relatively high in 1950 (over 20 per cent) and the reduction presumably reflected the decline of employment in agriculture. The figures (for 1950-1960) are summarized below and the activity rates for each age-group can be found in Appendix IV.

Changing activity rates among women in the central age-groups (20-59) have generally been much more important. The effect on movements in the total active population, male and female, over the ten-year period, varied from a decline of 3 per cent in Denmark to a rise of about 4 per cent in Austria, Sweden and the United Kingdom.

In six countries altogether, falling women's activity rates contributed to a fall in total active population: Denmark, Finland, France, Ireland, the Netherlands and Norway. The decline in activity rates spread over nearly all ages; in the Netherlands, it was particularly important in the age-groups between 30 and 44 and suggests withdrawal of mothers with young children from employment. Among the other six countries, where increasing women's activity rates added to the active population, increases appeared in nearly all age-groups

Contribution of changes in female activity rates to changes in the total active population between the two censuses nearest 1950 and 1960

(Percentages (ten-year equivalents))

Country	*Changes in the active population due to changes in female activity rates*	*of which attributable to:*		
		All declines under 20	*All declines 60 and over*	*Other ages*
Austria	2.2	−0.2	−1.4	3.9
Belgium	2.4	−0.1	−0.4	3.0
Denmark	−5.0	−1.8	−0.2	−3.0
Finland	−3.4	−1.1	−1.2	−1.0
France	−2.4	−1.5	−0.9	—
Western Germany	3.3	0.3	−0.2	3.2
Ireland	−0.7	−0.1	−0.3	−0.3
Netherlands	−2.4	0.3	−0.6	−2.1
Norway	−1.6	−0.5	−0.1	−1.0
Sweden	2.8	−0.7	−0.5	4.1
Switzerland	1.7	−0.1	−0.1	1.9
United Kingdom	3.5	−0.5	0.4	3.6

Source: As for appendix V.

The effects on the total active population of changes in female activity rates at the extreme ends of the age-scale are rarely as great as for men, simply because the numbers concerned are smaller. However, the effects are significant in certain countries: as in Denmark, where there was a reduction from a very high (over 80 per cent) activity from about 20 upwards in Austria, Belgium and Switzerland (where one reason may be the concentration of immigrants in the working-age groups). In western Germany, Sweden and the United Kingdom, however, the main increases were concentrated in ages above about 35, extending, in the United Kingdom particularly,

up to 64; in these three countries the increases in activity rates in later age-groups suggest a marked tendency for women increasingly to re-enter employment after their children have grown up. Special attention may be given to developments in Sweden. The rise in women's activity rates in the decade before the 1960 census was not exceptional. But since 1960 there has been a very significant acceleration—the increase between 1960 and 1965 being almost as large as in the whole previous 10 years in all age-groups from 35 to 64. By 1965 Swedish female activity rates, which were about average for industrial western Europe in 1960, may well have been close to the highest. This acceleration has been associated with a deliberate policy of meeting labour shortages by increased employment of women.

In the United Kingdom, too, the upward trend in women's activity rates continued with at least equal strength in the early nineteen-sixties. This was not, however, true of western Germany where falling activity rates at certain age-groups after 1961 resulted in a small net decline of the active female population. The following figures (from a source not wholly comparable with the census) show, however, that the reason for this is the increasing proportion of married women, with their generally lower activity rates than those of single women, in the total population. This much more than offset the increasing activity rates among married women themselves. (The accompanying decline in activity rates among single women was almost wholly confined to the youngest ages—up to 25.)

Western Germany: the effect of changes in female activity rates, 1961-1966

(Thousands)

Age groups	*Total effect of changes in activity rates* (1)	*Effect at constant 1961 marital status structure*			*Influence of shift in the marital status structure* (5)
		Never married (2)	*Married* (3)	*Widows and divorced* (4)	
Under 25	−342.0	−241.8	−13.2	0.6	−87.6
25-39	−110.0	−4.0	25.3	6.7	−138.0
40-64	394.2	34.3	270.4	147.2	−57.7
65 and over . . .	−30.7	−2.4	−12.6	−9.9	−5.8
All ages.	−88.5	−213.9	269.9	144.6	−289.1

Sources: Statistisches Jahrbuch and *Bevölkerung und Kultur*, Reihe 6 (various issues).

NOTE.— The calculation has been made from the annual "Mikrozensus" of the labour force. 1966 age-specific activity rates for each marital status were applied to the 1961 female population according to the marital status structure in 1961. The difference between the total influence of changes in activity rates, without taking account of the marital status (column 1), and those at constant marital status structure (columns 2 + 3 + 4), represents the influence of changes in marital status structure (column 5).

Some determinants of female activity rates

Women's activity rates are influenced by a wide range of social and economic factors differing from country to country; and changes in these rates are also diverse. Thus the general female activity rates (ages 15-64) in 1960 varied among the advanced countries between a maximum of 45-50 per cent in Finland and Austria to as little as 20-25 per cent in Norway and the Netherlands. No attempt at a detailed explanation of these differences between countries and over time is made here. However, it is worth calling attention to one important element—namely the varying relative importance of agriculture.

As pointed out above, there are real difficulties in determining, in the conditions of a family farm, whether members of the farmer's family should be classified statistically as "active" or not, and enumeration practices vary considerably. It would be helpful, of course, if it were possible to obtain separate activity rates for agriculture as distinct from other sectors. This is clearly impossible since the "potential" labour force available for agriculture cannot be distinguished from that available for other occupations. For some countries, as will be shown, the activity rate in urban areas can be shown separately from that in rural areas, which is of some assistance. But it is not to be supposed that people living in rural areas, however defined, can be regarded as available only for agricultural pursuits, or the reverse; especially in the more advanced and densely populated countries, agriculture is not necessarily the major activity, in terms of numbers employed, even in the most rural of rural areas.

However, a comparison of women's activity rates with the proportions reported as active in agriculture does afford some useful pointers to the general tendency. Very broadly (taking the 1960 census results) the countries with high over-all female activity rates are the countries in which a relatively large proportion of the women reported as active are found in agriculture, as in Finland, Austria and western Germany. And low over-all female activity rates accompany a small proportion of women in agriculture (Belgium, Norway, Sweden and the Netherlands).

Thus the agricultural proportion explains the more extreme inter-country variations in the activity rate of women; if this important influence were removed, it would appear that female activity rates were (in 1960)

Country	Female activity rates (15-64)		Agricultural proportions of active population 1960		Per cent of active females in agriculture classified as "unpaid family workers" 1960	Female activity rate in "urban" areas only (20-54)
	1960	Changes from 1950 (percentage points)	Females only	Total MF		
	(1)	(2)	(3)	(4)	(5)	(6)
Finland	48.6	−3.8	32	35	79	61
Austria	44.5	+0.7	30	23	69	..
Western Germany	41.7	+1.6	20	13	82	..
United Kingdom	37.6	+3.1	1	4	..	..
Denmark	36.9	−6.3	5	18	61	45
France	36.2	−1.5	19	20	74	45
Switzerland	35.3	+1.6	3	11	62	..
Sweden	32.7	+2.7	4	14	47	47
Ireland	29.4	−1.2	15	35	29	..
Belgium	25.8	+2.0	4	7	48	..
Norway	23.8	−2.1	4	19	10	37
Netherlands	23.0	−3.7	4	11	76	..

Sources: Columns 1 to 5: *United Nations Demographic Yearbook.* Column 6: analysis provided by International Labour Office.

relatively high in Denmark and the United Kingdom, but relatively low in France and Ireland.

Some further light is shed on differences in female activity rates when figures for urban areas only are examined (shown for ages 20-54 only, in the last column of the table above for a few countries for which the information is available).[39] Allowing for the small number of cases, this also suggests that female activity rates in the central ages, if the influence of differences in the agricultural proportion could be excluded, might fall within a much narrower range than overall female activity rates.

The *changes* in women's activity rates during the intercensal period (roughly 1950-1960) may similarly be associated with changes in the agricultural proportion.

Reduction in proportion of active females in agriculture	Change in overall female activity rate	Change in percentage of females active outside agriculture to total female population of 15-plus
Large		
(12-15 percentage points)		
Denmark	−6.3	−0.7
Finland	−3.8	−4.6
Netherlands	−3.7	+0.1
Austria	+0.7	+6.4
Western Germany	+1.6	+6.8
Moderate		
(6-9 points)		
France	−1.5	+2.0
Ireland	−1.2	+0.9
Small		
(1-4 points)		
Norway	−2.1	−0.9
Switzerland	+1.6	+2.1
Belgium	+2.0	+2.7
Sweden	+2.7	+3.3
United Kingdom	+3.1	+3.2

Again, the association is broadly as expected. But certain countries stand out for which other explanations are needed. Thus, western Germany and Austria showed significant increases in activity rates despite a large fall in the agricultural proportion. Moreover, the increases in female activity rates in Switzerland, Belgium, Sweden and the United Kingdom cannot have been to any great extent due to the small decline in an already very small agricultural proportion. At the same time, the fall in the activity rate in Norway was not obviously associated with the very minor change in the agricultural proportion.

The tentative conclusion that can be drawn is that there has been a rather common underlying tendency for women's activity rates to rise *outside* the agricultural sector. This is reflected in a limited way by the last column of the previous text-table. Further declines in the agricultural proportion in the countries where this proportion is still very large should, granted this general tendency, result in further increases in the relative supply of women's labour for non-agricultural occupations. It appears, however, that a few countries had not (by 1960) experienced this tendency, or only to a small extent: Denmark, the Netherlands, Ireland and Norway. These somewhat uncertain deductions should be taken into account in any assessment of future trends.

[39] These figures were kindly provided by the International Labour Office, derived from national censuses, and supplementing a general analysis of the nature of urban-rural differentials in activity rates in many parts of the world. See E. Denti, "Sex age patterns of labour force participation by urban and rural populations", *International Labour Review*, December 1968. An 'urban' area is defined as a locality with a population above 250 (in Denmark, Finland and Sweden) and above 2,000 in France and Norway. The lower limit obviously allows scope for many women in "urban" areas to follow an agricultural occupation. The same data also show urban female activity rates in some southern countries at a considerably lower level—Greece (27 per cent), Portugal (31 per cent), Spain (22 per cent) and Turkey (10 per cent).

Sources of labour supply for non-agricultural sectors

The importance of the agricultural proportion, and of its decline, may also be examined in relation to other sources of labour supply for the expanding sectors of the economies of western Europe. The following figures show the increase in non-agricultural civil employment and the extent to which it has been matched by increases in the total active population [40] and by declines in agriculture and (as a rule) in unemployment. The relatively small changes in the Armed Forces have also been included. This analysis is chiefly interesting for the Group I countries (those which are not consistently emigration countries), since these are the countries in which labour shortages have been a problem during part or all of the postwar period.

net immigration can reasonably be regarded as an addition to non-agricultural employment. Although the division of net immigration between earners and non-earners is necessarily imprecise, it is clear that immigration was responsible for nearly the whole increase in non-agricultural employment in Switzerland and France and for a large proportion of it in Austria, Belgium and western Germany (even without expellees and refugees).

Developments of active population in emigration (Group II) countries

The historical analysis of activity rates has excluded, for lack of comparable data, any account of recent developments in the active population in five of the eight

Balance-sheet of manpower supply sources, 1950 to 1965 [a]

(Percentages (15-year equivalents))

Country	*Increase in civil non-agricultural employment*	*Components (supply sources)*			
		Demographic factors and activity rates	*Unemployment*	*Agriculture*	*Armed forces*
Austria	23.1	5.0	1.9	18.7	−2.6
Belgium	15.5	7.5	3.8	5.5	−1.4
Denmark	36.0	17.4	6.8	11.8	—
France	24.2	6.5	0.4	16.9	0.3
Western Germany	48.0	28.0	9.6	13.4	−2.9
Netherlands	31.3	24.8	1.4	5.5	−0.4
Norway	16.1	6.8	−0.5	10.8	−1.0
Switzerland	41.7	35.3	0.5	5.9	—
United Kingdom	14.6	11.7	—	1.6	1.3

Source: Table 23.

[a] 1951-1965 for Austria, 1955-1965 for Denmark, 1954-1965 for France.

Falling agricultural employment most nearly approached the increase in non-agricultural employment in Austria, France and Norway, and contributed substantially in Denmark and western Germany. Elsewhere its contribution to rising non-agricultural employment was small.

Declining unemployment was most significant in western Germany (where unemployment fell from over 1½ million in 1950 to a quarter of a million in 1960 and 150,000 in 1965). It had its importance also in Belgium and Denmark, but not much elsewhere.

The influence of immigration on the total growth of the active population was important in certain countries. (The importance of immigration for the growth of *total* population was emphasized in section (i).) Most of the emigration countries: Greece, Italy, Portugal, Spain and Turkey. In these, as in other countries which are moving towards industrialization, it is, indeed, even more difficult to apply the statistical concepts of "economic activity" developed in more advanced economies. The difficulties apply particularly to agriculture but also to many of the service sectors (e.g. distribution and personal services) and even to branches of industry where small-scale enterprises, including family businesses, are still important. The dividing line between "employment" and "unemployment" is confused by the large number of marginal or casual workers for whom opportunities of full-time work over a long period rarely exist.[41]

[40] It is not possible to distinguish between agriculture and other sectors the separate influences determining the growth of the active population—natural increase, migration and activity rates. The same strictly applies to the changes in unemployment and the Armed Forces, but it is assumed that the effect was confined to the non-agricultural sectors. It is not, of course, suggested that, for example, the individuals leaving agriculture necessarily transfer into industry; many retire and some die. The comparison shows only the net balance of changes over the period.

[41] An analogy can be found in the social situation in earlier stages of development of the fully industrialized countries. See, for example, R. C. O. Matthews, "Why has Britain had full employment since the War?", *Economic Journal*, September 1968: "The characteristic of an underdeveloped country is that the supply of the co-operating factor capital is inadequate for jobs to be available for all the labour. There is therefore the phenomenon of a dual economy, with some workers engaged in relatively capital-intensive industries... or else in privileged occupations such as government service, while the rest of the labour force remains outside the circle in low-productivity employment or else without any employment at all." p. 565.

TABLE 23

Western Europe: sources of manpower supply for non-agricultural employment, 1950 to 1965 [a]

(Thousands)

Country and year or period	Increase in civil employment in non-agricultural sectors		Sources of supply:			
	Total	of which: Wage-and salary-earners	Increase in total labour force [b]	Decrease in unemployment	Decrease in agriculture	Decrease in Armed Forces
Austria						
Total in 1951	*2 192*					
Changes: 1951-1961	399	389	117	38	297	−53
1960-1965	116	..	−20	21	115	..
Belgium						
Total in 1950	*2 938*					
Changes: 1950-1960	190	241	71	54	111	−46
1960-1965	264	278	150	58	51	5
Denmark						
Total in 1955	*1 520*					
Changes: 1955-1960	175	..	80	..	50	..
1960-1965	190	..	96	24	70	..
France						
Total in 1954	*13 489*					
Changes: 1954-1960	969	1 154	109	72	1 028	−241
1960-1965	1 426	1 544	537	−30	647	273
Western Germany						
Total in 1950	*15 345*					
Changes: 1950-1960	5 970	5 634	3 510	1 348	1 402	−290
1960-1965	1 402	1 512	782	124	657	−161
Netherlands						
Total in 1950	*3 194*					
Changes: 1950-1960	590	621	481	31	100	−22
1960-1965	411	421	310	14	77	10
Norway						
Total in 1950	*1 084*					
Changes: 1950-1960	87	115	29	−8	74	−8
1960-1965	88	87	45	3	43	−3
Switzerland						
Total in 1950	*1 792*					
Changes: 1950-1960	436	438	356	5	75	—
1960-1965	311*	..	277	4	30*	—
United Kingdom						
Total in 1950	*21 277*					
Changes: 1950-1960	1 834	1 810	1 484	−29	200	179
1960-1965	1 268	1 270	999	27	147	95

Sources: OECD, *Manpower statistics 1950-1962 and 1954-1964; Labour force statistics 1956-1966.*

[a] 1951-1965 for Austria, 1955-1965 for Denmark, and 1954-1965 for France.

[b] The result of natural demographic development, net migration and changes in activity rates.

As an example, the following figures for Italy during a period of rapid development show how statistics of "total employment" may hide significant features of the growth process:

"Employment" in Italy in 1951 and 1965

(Annual averages, in millions)

	Permanent		Marginal		Total employment
	Self-employed	Wage-and salary-earners	All sectors	of which: Agriculture	
1951	6.9	8.7	4.1	2.9	19.7
1965	6.1	11.5	1.9	1.0	19.5

Source: Annuario Statistico Italiano, 1966.

NOTE.— "Permanent employment" covers people working throughout the year more than 32 hours per week, or those who work less than 32 hours but with a regular contract (such as teachers or part-time workers). Marginal employment covers people who take occasional or irregular jobs or who have worked—in any case—less than 32 hours per week.

The overall figures show effectively no change in total employment over a period when total national output doubled. A more significant comparison with the expansion of output is the increase by one-third in "permanent" wage- and salary-earners. The effective reserve of labour supply in 1951 is shown by subsequent developments to have been two or three times as great as the figure of 1½ million or so registered as unemployed at that time, and there is no reason to suppose that it is yet exhausted.

Similar problems exist in other countries, particularly in southern Europe. The projection of future trends in the labour force—the subject of the next section—is necessarily vitiated in such countries by the difficulties of estimating in a useful way not only past trends in activity rates, but also the present labour supply potential. Some of these difficulties could be surmounted by more detailed analyses, in population censuses or sample surveys, of the employment status and capacity for full-time work of the relevant groups of the population.

(iii) Future development of active population, 1965-1980

Future trends in the working-age population, always on the assumption of no migratory movements, have been reviewed in section (ii) above. The extent to which the potential labour force will generate an effective supply of labour depends on the socio-economic factors which influence the rates of participation in the labour force. We shall give statistical illustrations of a range of possible developments in specific activity rates by age and sex. A more general discussion will follow of the still more uncertain influence of migration.

Generally speaking, men's activity rates are likely to follow a rather uniform pattern, not very different from past trends. Activity rates are practically constant (and close to a hundred) for males between 25 and 55 or 60, and can be assumed to remain so. Extension of education chiefly affects the age-group under 20 but also tends to reduce activity rates at 20-24 and, to a certain extent, in the age-group 25-29.

The trend towards falling activity rates in old age groups has been rather general. It may be offset, in conditions of labour shortage, by increasing efforts to keep older men in employment, although there has been little evidence of positive results. The structural shift away from self-employment and especially the gradual disappearance of small family farms has been a major factor reducing activity rates for older people and is likely to persist.

Such factors as these are common ground in projections of the male labour force, and the range of uncertainty cannot much affect the total labour force.

To project female activity rates is much more complex and introduces much greater uncertainties. The forecasting problem mainly concerns women in the central age-groups—say 20-55. At the younger and older ends of the age-scale, much the same factors apply as to men (although the trend towards earlier marriage is an additional factor). But as the number of young girls and elderly women at work is smaller than that of men, the quantitative effect of changes in activity rates on total active population is smaller.[42]

Past experience, as examined above, shows divergent trends in the activity rates of women in the central age-groups. The interpretation suggested is that there has been in most industrialized countries an underlying tendency for specific activity rates to rise, but that in some countries it has been overlaid by certain other factors: for instance, the decline in agriculture, and in self-employment generally, reducing the number of family helpers on farms and in certain services, and, perhaps, the effect of younger marriage. Moreover, it is impossible on the "demand side"—to which the supply of women's labour is highly sensitive—to distinguish the influences of relative changes in the demand for labour generally (which may be only temporary) from structural changes in the economy such as the relative growth of sectors which employ proportionately more women. On the "supply side", too, the influences at work are diverse and are often contradictory. The growth of material prosperity can reduce the domestic load in some respects (greater mechanical facilities in the home and, especially, in less industrialized countries, the substitution of purchases in the market for domestic work) and may increase the educational level of women and remove cultural prejudices against their employment outside the traditional spheres. But economic development increases the domestic load in other ways—making it more difficult to find personal help in the home and increasing the isolation of families, while technological progress and factory organization may often render it more difficult for women who cannot pursue full-time work throughout their working lives to find suitable employment opportunities. At the same time, material progress may alleviate the economic need for wives to find paid jobs, while social progress may increase their wish to do so. Moreover, tax arrangements and family-allowance schemes can have a significant effect on the financial incentives for married women to seek jobs.

Studies of the trend of activity rates have not so far found a generally applicable answer about the net effect of these various influences. In particular, studies of historical developments in a wide range of industrializing countries have not satisfactorily solved the fundamental question of whether the transition from an agricultural to an industrial economy is likely to increase or reduce female activity rates.[43]

[42] On the other hand, elderly women on family farms are less likely than elderly men to seek alternative employment as agriculture declines. Again, it can be suggested that there is proportionately even more scope in most countries for increased education among girls than among boys.

[43] United Nations, *Demographic Aspects of Manpower*, Report 1, "Sex and age patterns of participation in economic activity", New York 1962.

To these uncertainties about the relative importance of the various determinants of the demand for, and supply of, women's labour must be added the purely statistical problems which have already been emphasized. The incomparability, over time, between countries and between sectors of the economy, of the concept of "economic activity" weakens any effort to elucidate the past trends by statistical analysis.

Moreover, the future trend of women's activity rates, as of the total demand for labour, depends on economic policy—both overall growth policy and specific policies for women's employment. The experience of Sweden, as noted above, appears to show that labour market policy can be successfully applied to bringing additional women into employment if that is desired.

It is not, therefore, possible to produce unequivocal forecasts of the "supply" of women's labour in particular or, therefore, of the total labour supply (even if we ignore the important uncertainties about future migration flows). The most that can be done is to give broad statistical indications of the range, on specified assumptions.

The manpower projections

We present below three categories of projections:

Variant I (described as a "constant activity rate" projection) is based on the simple principle of applying to each sex and age-group of the forecast populations of 1980 (described in section (i) the specific activity rates of 1965. This is not intended as a realistic forecast, for it implies that all the past trends in activity rates over time come to a sudden stop (or continue, but are later reversed), including even the changes due to extended education and earlier retirement or to the effect of declining manpower in agriculture. The purpose of the Variant I projections is simply to isolate the influence of future changes in the size and age and sex-composition of the population. It may serve as a convenient starting point for considering the effect of future changes in activity rates (and of migration).

Variant II ("national projections") is based essentially upon projections of past trends in activity rates as assessed by national authorities for countries where detailed projections have been made, supplemented by international sources and secretariat estimates. They are, of course, linked to the forecasts of the age composition of future population already used here. (The assumptions are described in more detail below: see page 240, and appendix VII.) These projections do not in general imply large deviations from recent trends or substantial changes in policy. They may be regarded largely as extrapolations.

Variant I and II for western Europe correspond broadly with the Variants I and II of the projections for eastern Europe and the Soviet Union.

Variants III, IV, V and VI (estimated for the ten Group I countries only) are calculations designed not in any sense as "forecasts" but as illustrations of certain *possible* assumptions. Thus, Variant III measures separately the effect of checking the general decline in men's activity rates at ages over 54. Variants IV and V measure the hypothetical effect of raising women's activity rates to what appear to be considered, in western European conditions, maximum levels. These three variants can be regarded as a way of evaluating the size of the potential "labour reserves" which, if it were thought desirable, might, rather theoretically, be mobilized by appropriate policies. Variant VI, on the other hand, is designed to show the effect on the total labour force if women's activity rates were to fall to the *lowest* expected in western Europe (those projected for the Netherlands).

Variant I—constant activity rate projections

Projections based on constant activity rates (i.e. the estimated rates in 1965) reflect, it will be remembered, exclusively the effects of demographic changes in the size, age and sex composition of the population during the years 1965 to 1980.[44] The effects of projections on this basis, for all western European countries in both Group I and Group II, are shown in table 24 (absolute figures for each country and the changes over 5-year periods, will be found in appendix VI). It will be clear that these projected changes differ from past trends not only because the demographic trend may be different from that of the past, but also because the projections take no account either of changing specific activity rates or o the influence of migration flows.

The demographic change will, by itself, result in rates of growth of the total active population varying, for the whole period of 15 years, between a rise of only 2 per cent in Sweden and a rise of over 50 per cent in Turkey (an exceptional case, with a rate of demographic increase twice that of the next greatest—Ireland). The countries may be roughly grouped as follows, in ascending order of the projected growth rate within each group:

Small increase	*Medium increase*	*Large increase*
Sweden	Switzerland	Spain [a]
Western Germany	Denmark	Netherlands
United Kingdom	Norway	Yugoslavia [a]
Austria	Italy [a]	Portugal [a]
Belgium	France	Ireland [a]
	Finland [a]	Turkey [a]
	Greece [a]	

[a] Class II countries—i.e. with persistent net emigration in 1950-1965.

Small increase — 0-7 per cent in 1965-1980, or under 0.5 per cent a year.

Medium increase — over 7-14 per cent in 1965-1980, or say 0.5 to 1 per cent a year.

Large increase — over 14 per cent in 1965-1980, or say about 1 per cent a year or more.

[44] Except for the few countries where an official estimate of age-sex composition in 1965 exists, the active population by age and sex is derived by applying 1960 census activity rates to the age-sex composition of the total population in 1965 (which is generally known) and adjusting *pro rata* to reconcile the resulting total with the actual active population shown in official statistics. Such estimates of the 1965 occupied population by age and sex are the base point for all the projection variants.

This ranking of countries differs in important respects from that shown by the past development of the active populations which includes the influence of migration and changing activity rates, over the previous 15 years (see table 22, which excludes, however, some of the southern European countries for lack of consistent historical data). If, indeed, net migration and changes in activity rates ceased entirely, the rates of increase in active population would:

Fall drastically in Switzerland (from 25 to 8 per cent over the two fifteen-year periods), western Germany (from 18 to 3 per cent), the United Kingdom (from 13½ to under 5 per cent), and Sweden (from 11 to 2 per cent). These are the countries in which the natural forces due to sex and age composition cannot alone maintain anything like past growth rates.

Accelerate greatly in Ireland (from a fall of 12½ per cent to an increase of 24 per cent), Austria (½ to 6 per cent), Finland (7 to 13 per cent) and the Netherlands (from 14½ to 20 per cent). In these countries, the natural demographic forces are far more than strong enough to sustain past growth rates, if not offset by other factors.

Remain of the same order in Belgium, Denmark, Norway and Yugoslavia.

The effect of the natural demographic factors will vary over the future fifteen-year period in several countries (see appendix VI). In Austria and western Germany, they would, taken alone, produce a small decline in active population in 1965-1970, followed by a growing rate of increase in 1970-1975 and 1975-1980. Future rates of increase also tend to accelerate over the three future five-year periods in Belgium, Italy, Portugal, Spain, Turkey and the United Kingdom. But their strength will diminish in Finland, Greece, Sweden (effectively no increase after 1970) and Yugoslavia. Elsewhere, the rates of growth should be relatively even over the period (Denmark, France, Ireland, the Netherlands, Norway and Switzerland).

The interplay over the fifteen-year period of three different kinds of demographic influence can be distinguished (table 24). The first is the different growth rate of the male and female population, which exercises its influence through the higher activity rates of males. The second is the shift in age-structure, within each sex, between the normal working ages and the dependent ages (under 15 or over 64). The third is the changes in age-structure within the working-age population. (If the sex and age composition, as well as specific activity rates, were to remain constant over time, the growth of the labour force would be the same as that of total population.)

Within the active population, the women's proportion will not change much on the assumptions of Variant I. It will tend to diminish slightly or remain constant in most countries; the exceptions are Belgium and Ireland where some increase can be expected. Changes in the balance of population between the dependent age-groups and the working age-groups will tend to reduce the active population in most countries. As was shown in section (i), the demographic change will generally result in an increasing number of dependants to each person of working age. This unfavourable influence on growth of active population will be strongest in Austria, Denmark, western Germany, Norway, Sweden and the United Kingdom, in all of which it affects both sexes but females most strongly in Austria and western Germany since the future increase in the number of older men will be limited by war losses in the generations affected. The demographic development in the Netherlands and in some of the southern European countries is, however, more favourable in this respect.

Changes within the working-age groups, by contrast, favour the growth of active population in most countries —most strongly in Austria, Finland, France, Norway and Portugal. Taken together, the balance of these two influences of the changing age structure is most often unfavourable to the growth of active population: it is favourable to a significant extent only in Belgium, Finland, France, Greece, the Netherlands, Turkey and Yugoslavia, but only in Turkey (where it adds 9 per cent) can it add more than 4 per cent to the total male and female active population over 15 years.

Variant II—national projections

In this set of projections, estimates of future changes in activity rates are superimposed upon the demographic forecasts of the age-sex composition of the populations. Broadly speaking, these projections of activity rates present extrapolations of past trends, but, to a varying extent, they also take into account the expected pressure of demand for labour in the light of national economic and social objectives, the expected result of adopting or improving manpower policies, and analogy with the general trend of manpower developments in other countries. In no country, it must be noted, do the projections explicitly assume a substantial influence of migration on the active population. The resulting set of projections is necessarily somewhat heterogeneous, but remains within a certain common framework of contemporary expert thinking about the future trend of activity rates.

For Belgium, Italy, Portugal, Sweden and the United Kingdom, recent authoritative labour force projections from national sources have been directly used. For the other countries, the main source is the set of labour force projections produced by the International Labour Office. These rest in part upon national projections (particularly upon those made for the OECD, which do not always stretch to 1980) in some cases modified and supplemented by the ILO and, where no national projections exist, upon the ILO's own estimates.[45] The sources and methods used are described in more detail in appendix VII, while appendix IV shows the projected specific activity rates together with corresponding data for the past.

Some features of the projections are common to nearly all countries—the decline in activity rates, for both

[45] The ILO has made use of a general model relating specific activity rates to the stage of economic development. See ILO, *Manpower Aspects of Economic Developments in Europe*, 1968.

males and females, in the younger and older age-groups continuing the clear trend shown in the past; there is, however, some difference between countries about whether the decline extends to the 20-24 age-group. Effective stability in activity rates among men in the central ages is also generally assumed.

The main interest lies in the future trend of activity rates among women in the central ages. The most common assumption is that these activity rates will increase, very markedly in all three Scandinavian countries —Denmark Norway and Sweden (in Denmark and Norway reversing the trend of the nineteen-fifties, but in Sweden continuing it). In Sweden, at least, this reflects continuation and strengthening of recent successful labour market policies to promote economic growth by increasing both job opportunities for women and the facilities which enable women to continue, or to resume, paid work after marriage. The need for such policies —to which the alternative might be increased immigration —is shown by the weakness of the demographic forces: Variant I projection for Sweden shows an increase in active population at constant activity rates of only 2 per cent over fifteen years.

Although to a lesser extent than in the Scandinavian countries, the projections for Belgium, Finland, France, Greece, Ireland, Italy, the Netherlands, Spain, Switzerland, the United Kingdom and Yugoslavia all envisage some increase in the specific activity rates in most of the central age-groups. In several of these countries it is true that these activity rates were tending to decline in the nineteen-fifties—in Finland, France, Ireland and the Netherlands (of the countries for which comparable data are available) whereas in Belgium, Switzerland and the United Kingdom the projections broadly continue previous trends. However, the previous downward trend, as has been shown in section (ii), was in Denmark, Finland, France, Ireland and the Netherlands associated with such special factors as the decline in agriculture which cannot be expected to continue with the same force in future; in other countries (notably the Netherlands), recent activity rates are particularly low.

TABLE 24

Western Europe: factors responsible for expected changes in the active population at constant activity rates, 1965 to 1980

VARIANT I

(Percentage of active population in 1965)

Country	Change in the active population at constant activity rates Both sexes	Males					Females				
		Change in the active male population	Attributable to:				Change in the active female population	Attributable to:			
			Change in the size of male population	Shifts in age structure				Change in the size of female population	Shifts in age structure		
				Between working and dependent ages	Within 15-64	Total			Between working and dependent ages	Within 15-64	Total
Austria	5.9	7.7	8.6	−2.9	2.0	−0.9	3.4	6.1	−7.4	4.7	−2.7
Belgium	6.6	5.9	6.4	−1.1	0.6	−0.5	8.4	6.2	−2.5	4.7	2.2
Denmark	7.9	9.1	12.4	−5.1	1.8	−3.3	5.6	11.6	−6.3	0.3	−6.0
Finland	13.3	15.6	9.9	1.8	3.9	—	9.7	8.1	−0.9	2.5	1.6
France	12.5	12.9	12.9	−2.4	2.4	−5.7	11.9	10.5	0.4	1.0	1.4
Western Germany	3.1	4.3	8.9	−4.3	−0.3	−4.6	1.0	5.6	−8.5	3.9	−4.6
Greece	14.2	16.1	12.5	1.4	2.2	3.6	10.0	10.5	−0.1	−0.4	−0.5
Ireland	23.7	22.9	27.2	−4.4	0.1	−4.3	25.7	27.6	−4.8	2.9	−1.9
Italy	10.3	11.1	12.9	−3.4	1.6	−1.8	8.3	11.4	−4.1	1.0	−3.1
Netherlands	20.5	21.5	17.0	3.1	1.4	4.5	17.1	18.4	−0.1	−1.2	−1.3
Norway	10.1	10.7	15.1	−6.5	2.1	−4.4	8.6	13.5	−6.7	1.8	−4.9
Portugal	22.7	24.3	25.7	−3.4	2.0	−1.4	17.9	21.0	−5.3	2.2	−3.1
Spain	17.8	18.5	18.9	−0.5	0.1	−0.4	15.5	16.6	−2.8	1.7	−1.1
Sweden	2.2	3.5	7.9	−6.9	2.5	−4.4	−0.3	8.5	−8.4	−0.4	−8.8
Switzerland	7.8	9.8	12.6	−4.4	1.6	−2.8	3.5	10.8	−4.9	−2.4	−7.3
Turkey	55.0	56.2	45.7	9.0	1.5	10.5	52.9	45.9	6.6	0.4	7.0
United Kingdom	4.4	5.2	9.8	−5.4	0.8	−4.6	3.0	8.3	−6.0	0.7	−5.3
Yugoslavia	20.7	24.1	18.2	4.5	1.4	5.9	14.6	14.8	2.9	−3.1	−0.2

Sources: As for tables 19, 20, 21 and appendix VI.

NOTE. — The basic data for the calculation shown in this table are the following:
Δ TP — percentage change in total population, all ages, for males and females, expected between 1965 and 1980.
Δ WAP — percentage change in the population of working age (15-64).
Δ AP — percentage change in the active population expected in the hypothesis of constant sex- and age-specific activity rates.

The contribution of shifts in the age structure is: Δ AP — Δ TP.
The contribution of shifts between the three age-groups 0-14, 15-64 and 65 and over is: Δ WAP — Δ TP.
The contribution of shifts within the age group 15-64 is: Δ AP — Δ WAP.

TABLE 25

Western Europe: growth in the active population of all ages, between 1965 and 1980

VARIANT II

(Percentages of active population (male and female) in 1965)

Country	Total change	Attributable to:					
		Demographic factors			Changes in activity rates		
		MF	M	F	MF	M	F
Austria	0.4	5.9	4.6	1.4	−5.5	−2.9	−2.6
Belgium	6.6	6.6	4.1	2.5	—	−2.1	2.1
Denmark	2.8	7.9	5.9	2.0	−5.1	−3.9	−1.2
Finland	7.6	13.3	9.5	3.8	−5.7	−4.5	−1.3
France	8.4	12.5	8.5	4.0	−4.1	−4.1	−0.1
Western Germany	0.6	3.1	2.8	0.3	−2.5	−1.0	−1.5
Greece	9.0	14.2	11.1	3.1	−5.2	−3.8	−1.4
Ireland [a]	22.3	23.7	16.9	6.8	−1.4	−2.7	1.3
Italy [a]	11.3	10.3	8.1	2.3	1.0	−0.1	1.1
Netherlands	16.1	20.5	16.4	4.0	−4.4	−3.8	−0.6
Norway	7.4	10.0	7.5	2.5	−2.6	−2.7	0.1
Portugal	18.3	22.7	18.0	4.6	−4.4	−3.4	−1.0
Spain	13.8	17.8	14.1	3.7	−4.0	−3.8	−0.2
Sweden	0.1	2.2	2.3	−0.1	−2.1	−4.7	2.6
Switzerland [a]	6.3	7.8	6.7	1.1	−1.4	−2.2	0.7
Turkey	50.7	55.0	34.8	20.1	−4.2	−2.2	−2.1
United Kingdom	3.2	4.4	3.4	1.0	−1.2	−1.9	0.6
Yugoslavia [a]	20.8	20.7	15.5	5.2	—	−1.7	1.8

Sources: Appendix VIII.
[a] 1966-1981.

The projections used for Austria, Portugal and Turkey envisage constant women's activity rates in most of the central ages. The projection for western Germany, allowing for small increases at some ages and small declines at others (declining in the child-bearing ages), on balance implies a decline in the ages between 25 and 64; there was a generally rising trend in the nineteen-fifties, but as pointed out above the depressing effect of earlier marriage has recently been significant.

The consequences of these assumed changes in activity rates, for males and females, on the total active population are summarized in table 25. The effect in 10 of the 18 countries is to diminish significantly the expansionary effects of the pure demographic influences shown by Variant I: the assumed increasing female activity rates in the central ages are not sufficient to offset the falling activity rates at the extreme ages. Only in Sweden is the big assumed rise in women's activity rates the major factor; while in Belgium, Ireland, Italy, Switzerland, Turkey, the United Kingdom and Yugoslavia, the combined effect of assumed changes in activity rates is on balance negligible over the period as a whole.

In the southern European countries, in which the agricultural proportion is still very high, its decline might obviously result, through its influence on activity rates for women and for older men, in substantially smaller increases in active population than those shown by Variant II (so might, in some of these countries, the introduction of a more restrictive definition of " active " persons).

Other projection variants

It is clear that neither the assumption of constant activity rates (Variant I) nor the comparatively small changes in activity rates assumed for most countries, in Variant II, exhaust the range of possibilities of future variations in the labour force. In the following paragraphs some more speculative possibilities are imagined, more to estimate the effects of certain theoretical possibilities than to suggest forecasts. They are applied only to the ten advanced countries of Group I; these include the countries where shortage of labour is still seen as a problem—one hitherto met in several of them by immigration. The hypothetical effects are summarized in table 27.

Variants III, IV and V are designed to estimate the size of certain " reserves " of potential manpower resources.

Variant III assumes that the generally expected decline in activity rates of men of 55 and over can be checked.[46] This age group represents an important proportion of the male labour force in several countries—20-25 per

[46] For measures which might assist this process, see International Labour Office, *Manpower aspects of recent economic developments in Europe*, Geneva 1968, pp. 142-145.

TABLE 26

Western Europe: overall activity rates

(Percentages)

Country and year		Crude activity rates		Coefficient of labour utilization		General activity rates		Dependency ratio
		M	F	M	F	M	F	MF
Austria	1951	64	35	96 [a]	51 [a]	91 [b]	49 [b]	1.1
	1965	59	35	91 [a]	54 [a]	89 [b]	52 [b]	1.2
	1980	56	32	88 [a]	53 [a]	86 [b]	51 [b]	1.3
Belgium	1947	63	19	92	28	88	27	1.4
	1965	56	23	87	37	86	36	1.5
	1980	54	25	85	41	83	40	1.5
Denmark	1950	64	32	100	50	95	47	1.1
	1965	63	34	97	53	92	50	1.1
	1980	58	31	93	51	89	49	1.2
Finland	1950	61	38	97	60	92	57	1.0
	1965	58	35	88	55	85	53	1.2
	1980	57	35	86	54	83	53	1.2
France	1954	61	30	91 [a]	46 [a]	86 [b]	43 [b]	1.2
	1965	58	28	91	46	87	43	1.4
	1980	55	28	88	47	86	45	1.4
Western Germany	1950	63	31	97	46	92	44	1.2
	1965	63	31	95	48	91	46	1.2
	1980	59	29	93	48	90	46	1.3
Greece	1965	64	28	97	42	89	39	1.2
	1980	63	27	94	40	89	39	1.2
Ireland	1951	63	22	191 [a]	36 [a]	91 [b]	33 [b]	1.3
	1966	56	20	96	35	88	32	1.6
	1981	53	21	94	37	87	35	1.7
Italy	1966	60	22	91	34	86	31	1.5
	1981	59	22	92	35	87	33	1.5
Netherlands	1947	61	20	94 [a]	30 [a]	90 [b]	29 [b]	1.5
	1965	57	18	92	28	89	28	1.7
	1980	57	17	89	27	87	27	1.7
Norway	1950	65	20	98	30	93	29	1.4
	1965	58	25	91	39	85	37	1.4
	1980	54	24	89	40	83	38	1.6
Portugal	1965	65	21	105	33	93	29	1.4
	1980	62	20	103	32	93	29	1.5
Spain	1965	61	18	96	29	91	27	1.6
	1980	58	18	92	29	89	28	1.6
Sweden	1950	65	23	98	35	93	34	1.3
	1965	59	30	88	45	84	44	1.3
	1980	53	30	84	49	81	48	1.4
Switzerland	1950	67	26	100	39	94	37	1.2
	1966	64	28	97	44	92	42	1.2
	1981	61	27	95	44	91	42	1.3
Turkey	1965	52	33	98	62	92	61	1.3
	1980	55	33	96	60	91	59	1.3
United Kingdom	1951	67	27	100	41	96	40	1.2
	1965	64	32	97	51	93	49	1.1
	1980	60	31	95	52	92	50	1.2
Yugoslavia	1953	63	31	100	48	92	44	1.2
	1966	60	32	95	50	88	47	12.
	1981	61	33	94	51	88	48	1.1

Sources: United Nations Demographic Yearbook 1955; and national statistics.

NOTE. — Crude activity rate: active population all ages, as percentages of total population all ages.
Coefficient of labour utilization: active population all ages, as percentage of total population 15-64.
General activity rate: active population 15-64, as percentage of total population 15-64.
Dependency ratio: non-active population to active population.

a Total population: 14-64 instead of 15-64. *b* 14-64 instead of 15-64.

TABLE 27

Western Europe: expected developments in the total active population, 1965-1980, according to six projection variants

Country	Active population in 1965	Projected active population in 1980						Total change 1950-1965	Total change 1965-1980					
		Variant I	Variant II	Variant III	Variant IV	Variant V	Variant VI		Variant I	Variant II	Variant III	Variant IV	Variant V	Variant VI
	(Millions)							(Percentages)						
Austria	3.36	3.56	3.37	3.38	3.37	(3.40)	(2.74)	0.6	5.9	0.4	0.8	0.4	(1.2)	(−18.5)
Belgium	3.70	3.94	3.94	3.94	4.26	(4.35)	(3.46)	4.0	6.6	6.6	6.7	15.3	(17.5)	(−6.4)
Denmark	2.30	2.48	2.36	2.40	2.36	(2.41)	(1.98)	6.5	7.9	2.7	4.5	2.7	(4.8)	(−13.9)
France	20.51	23.08	22.23	22.57	23.01	(23.40)	(18.99)	9.6	12.5	8.4	10.1	12.2	(14.1)	(−7.4)
Western Germany	27.01	27.85	27.19	27.38	28.04	(28.52)	(23.01)	18.3	3.1	0.6	1.4	3.8	(5.6)	(−14.8)
Netherlands	4.54	5.47	5.27	5.32	6.35	(6.43)	(5.27)	14.6	20.5	16.1	17.2	39.7	(41.6)	(16.1)
Norway	1.54	1.69	1.65	1.66	1.73	(1.82)	(1.48)	11.4	10.0	7.3	8.1	12.3	(18.3)	(−3.8)
Sweden	3.45	3.53	3.45	3.52	3.49	(3.59)	(2.85)	11.1	2.2	0.1	2.1	1.3	(4.1)	(−17.4)
Switzerland	2.73	2.94	2.90	2.95	3.06	(3.12)	(2.54)	24.9	7.7	6.4	8.0	12.1	(14.4)	(−6.9)
United Kingdom	26.10	27.25	26.93	27.08	26.93	(27.20)	(22.30)	13.5	4.4	3.2	3.8	3.2	(4.2)	(−14.5)
10 countries combined	95.22	101.79	99.30	100.21	102.60	(104.24)	(84.61)	13.0	6.9	4.3	5.2	7.7	(9.5)	(−11.1)

Sources: Appendices V, VI and VII and secretariat estimates.

NOTE. — Variants:
I. Constant 1965 activity rates.
II. Countries projections (on the basis of prevalent trends and unchanged demand and policies).
III. As for variant II, but activity rates for males aged 55 and over stable instead of declining.
IV. Males as in variant II, activity rates for females of all ages as in the United Kingdom in 1965.
V. Males as in variant II, activity rates for females of all ages as in the "high" Swedish projection for 1980.
VI. Males as in variant II, activity rates for females of all ages as projected for the Netherlands for 1980.

cent in Denmark, western Germany, Norway and the United Kingdom, and almost as much in Austria and the Netherlands.

Policies directed to finding more job opportunities for men in this age-group may well bring significant social benefits. But their quantitative effect on the total labour force—if restricted to maintaining the existing activity rates—cannot be large. It could not add much more than 1 per cent to the labour force in 1980 (as compared with the declining activity rates generally foreseen in this age-group).

Theoretical possibilities of drawing more fully on the women's labour force are of a much greater order of magnitude. Two imaginable (if improbable) hypotheses are illustrated by Variants IV and V. *Variant IV* takes the highest level of women's specific activity rates among the ten countries (as shown in appendix IV)—those for the United Kingdom in 1965 [47]—and applies them to the remaining nine countries.[48]

Variant V goes further still. A projection for 1980 made by the Swedish authorities might be regarded as near the maximum that could be achieved within the general economic and social systems of western Europe (while still allowing ample scope for the extension of education at younger ages).[49] The specific activity rates in this Swedish projection for 1980 are therefore applied to the other nine countries as well.

The following table summarizes the effects on the projections for 1980 of these two variants:

Active female population in 1980

Country	Variant II	Increase above Variant II		Decrease below Variant II
		Variant IV (United Kingdom 1965 rates)	Variant V (Sweden 1980 "high" rates)	Variant VI (Netherlands 1980 rates)
	(Thousands)	(Per cent)	(Per cent)	(Per cent)
Austria	1 310	—	1.9	−48.4
Belgium	1 284	24.9	31.4	−37.5
Denmark	829	—	5.7	−46.2
France	7 677	10.2	15.3	−42.2
Western Germany	9 326	9.1	14.3	−44.8
Netherlands	1 229	87.4	94.4	—
Norway	502	15.3	33.6	−34.1
Sweden	1 246	3.3	11.0	−48.3
Switzerland	915	17.2	24.1	−39.7
United Kingdom	9 459	—	2.9	−49.0

This calculation suggests a "labour reserve" in 1980 among women in the ten countries shown (in excess of the more cautious extrapolation of Variant II) of the order of 3 million if 1965 British activity rates could be reached, and of 5 million if it became possible in all these countries to reach the activity rates which it was thought might be achieved by 1980 in Sweden. These increases compare with a total active population of 99 million projected for 1980 under Variant II, of whom 34 million are women.

Finally, it is of some interest to calculate—again as a speculative hypothesis—the loss of labour that would be felt if women's activity rates in all ten countries fell to the lowest levels, namely those projected for the Netherlands under Variant II. The result, also shown above, is a loss, as compared with Variant II, of 15 million in the total active population.

The difference of 20 million (one-fifth of the total active population in 1965) between the extreme projection variants emphasizes, even if it exaggerates, the importance of women's activity rates as a major uncertain element in measuring the future trend of the total labour force. For the more advanced countries (Group I) taken together, the theoretical range over the period 1965-1980 lies between a reduction in the total labour force of about one-tenth and an increase of the same order.

Some conclusions on future activity rates in the advanced industrial countries

How far can such calculations be used to derive a firmer forecast of future developments in the labour force?

The present discussion is limited to the determinants of the *supply* of labour and it is not proposed here to enter into speculations about the future demand for labour which would introduce many other considerations concerning the rate and character of economic development. But the following results of the calculations are relevant (see table 27).

[47] Some of the activity rates in Austria (1961) are higher than those in the United Kingdom (1965), but are swollen by the rather extensive inclusion of unpaid family helpers in agriculture.

[48] Except that where the Variant II projections for 1980 already show higher rates than the United Kingdom rates of 1965 the Variant II projections are retained (Austria and Denmark).

[49] These projections would give an overall activity rate of 50 per cent for females of 15-69, and about two-thirds of the women of 40-54 would be in work. See National Central Statistical Bureau, "Forecasting information, 1966.2"; these projections were used for the 1966-1970 Plan (*Svenski Economi, 1966-70 med Utblick mot 1980*). Subsequently, however, the projections have been revised, with a less extreme increase in women's activity rates; these revised projections were used for Sweden itself in Variant II; for source, see appendix VII.

(*a*) Of the ten advanced countries there are four in which natural demographic forces will not in themselves be strong enough to maintain the growth of the labour force at the rates experienced over the 1950-1965 period. These are western Germany, Sweden, Switzerland and the United Kingdom.

These are the countries in which it may most plausibly be expected that labour shortages will result either in raising activity rates, or in immigration, if the momentum of economic growth is to be kept up. Yet, even in these four countries, the achievement of what may be regarded as near the maximum activity rates (Variant V) will still limit the growth of the active population to much less than past rates. In western Germany and Switzerland, the fast growth of the labour force in 1950-1965 was, as has been emphasized earlier, due chiefly to massive immigration. Maximum activity rates, as calculated for Variant V, would still give a growth for 1965-1980 of only 5½ per cent in western Germany against 18 per cent in the previous fifteen years (the growth of active population was already much reduced in the early nineteen-sixties, and would have declined had it not been for immigration), and in Switzerland of 14 per cent in future against 25 per cent in the past. In the United Kingdom, it is the changing demographic composition that is almost wholly responsible for the slowing down of the growth of active population. In western Germany and the United Kingdom, women's activity rates are already high and the scope for increasing them is in any case limited. The theoretical scope in Switzerland is considerably greater.

(*b*) In the remaining six countries natural demographic forces will be strong enough (assuming no migration) to allow the growth of active population to be maintained at about the 1950-1965 rate in Belgium, Denmark and Norway, and at a much faster rate than in the past in Austria, France and the Netherlands.

In France and the Netherlands, there appears to be no strong reason to expect special efforts to increase women's activity rates generally since the natural demographic forces are so strong (the Variant II projections envisage no significant increase in either country). But a continuing decline in the agricultural proportion in France may well bring about a continued increase in the number of women available for employment in other sectors.

Throughout we have discussed the supply of labour wholly in terms of the number of heads; but the figures imply certain changes in the composition of the labour force by age and sex which may be regarded as affecting its " quality " and productivity. For example, an increase in women's activity rates may involve a larger proportion of part-time to full-time workers.

Migration uncertainties

In the postwar years, it has been shown, immigration has played an essential role in the economic growth of several of the industrialized countries of western Europe. Immigration has contributed not only to sustaining the overall growth rate of output; it has also helped to break bottlenecks in labour supply in particular industries or occupations and has thus helped to smooth out distortions in the sectoral pattern of growth.[50] At the same time, emigration, mostly to these industrial countries, has helped to relieve unemployment and under-employment in countries of labour surplus—countries unable, partly through lack of capital, to achieve the rate of development necessary for full employment. If assisted, and sometimes regulated, by national policies, these migration flows have been for the most part a spontaneous response to the very different conditions in the labour markets of the two groups of countries.[51]

Broadly speaking, the pattern of natural demographic forces controlling national labour supplies will continue in rather intensified form in the future as in the recent past. It can be calculated from the data presented above that the growth of the labour force in the ten industrial countries in 1965-1980, were net migration to cease (the Variant II projections), would fall short by some 8 million of its growth during the previous fifteen years. At the same time, demographic forces will maintain or even accelerate the growth of the potential labour force in the less industrial countries. The easiest projection to make for labour supply is, therefore, simply to extrapolate, with perhaps minor modifications,[52] the main features of the migration flows of the past.

Such a solution provides a simple answer to the projection problem, for the continuance of past trends is generally regarded as the least implausible of forecasting assumptions. But this solution ignores the doubts that have arisen as a result of recent experience—both in receiving and sending countries—about the balance of economic and social costs and benefits arising from migration. This problem cannot be reviewed in detail here.[53] The immediate benefits of immigration are obvious, especially the private benefit to both the employers and workers directly concerned. The costs, both private and social, have become more apparent. For the receiving countries, the most prominent are the social costs of providing housing, schools and other collective facilities, especially when a genuine effort has been made to

[50] See C. P. Kindleberger, *Europe's postwar growth; the role of labour supply* (1967), which places very heavy emphasis on an elastic domestic or external labour supply as a factor promoting fast growth not only of output but also of productivity.

[51] In 1965 the number of foreign workers recorded in labour receiving countries approached 6 million. (This represents an upward adjustment of the preliminary estimates published in the *Economic Survey of Europe in 1965*, Part 1, Chapter II, page 79.) The figure covers foreigners only and does not take into account the inflow of expellees and refugees in western Germany (considered as nationals) and the repatriation of nationals from former colonies (Belgians from the Congo, French from Algeria, etc.). Moreover, foreign immigrants of long-standing residence, who have become naturalized or hold the status of " permanently established ", are not counted in the inventory of foreign workers in 1965.

[52] In particular, as regards the geographical origin of immigrants. There are demographic and other reasons for expecting the supply of potential emigrants to slow down significantly in Italy but perhaps to accelerate in Turkey.

[53] See *Economic Survey of Europe in 1965;* C. P. Kindleberger, " Emigration and economic growth " in *Banca Nazionale del Lavoro, Quarterly Review*, September 1965; Norman Scott, " Towards a framework for analysing the costs and benefits of labour migration ", in *Emigrant workers returning to their home country*, OECD 1967; and a number of national studies on the subject.

integrate the immigrants into the receiving society; the social conflicts that have arisen, especially when these efforts at integration have not been sufficiently successful; and the costs of training, accentuated frequently by high rates of turnover of short-period immigrants. These have to be set against the benefits derived from an additional, generally rather flexible, labour force.

For the sending countries, it is often suggested that migration deprives the labour force of the valuable and dynamic elements, and that the experience and new competence acquired abroad do not always serve as marketable skills when the migrants return. Moreover, the attraction of labour towards the centres of fastest industrial development, if it assists their growth, may accentuate the imbalances between rich and poor regions. These long-run drawbacks must be offset against the shorter-term benefits of the relief of unemployment and the foreign exchange remittances and against the perhaps longer-term opportunities for social transformation arising from the contact of migrants with more modern working conditions and techniques and ways of life.

This balance of costs and benefits may, of course, be adjusted by more organized policies for migration—for example, greater efforts towards the integration particularly of long-term immigrants, and by training of temporary immigrants in a way which would more directly assist them to take part in the development of their own countries on their return. Such measures might develop into a European " active manpower policy " calling for the co-operation of both receiving and sending countries.[54]

It may be pointed out, however, that there are various alternative paths of development at least theoretically open if international migration is not to play the role that it has played in the past fifteen years:

(*a*) The most obvious possibility is that national growth rates, in those industrial countries which have hitherto relied on substantial immigration, will be reduced to the lower rates imposed by natural growth of the labour force—an alternative which would considerably accentuate the unemployment problems of the emigration countries.

(*b*) A second possibility is that domestic reserves of potential manpower in the industrial countries will be more fully used. This means the drawing into employment of more women; the arithmetical calculations above have illustrated the theoretical extent—varying of course from country to country—of this reserve. Even on the extreme hypothesis (Variant V) the number of additional women that might be employed would be less than the cumulative net immigration over the past fifteen years, and the calculation is theoretical because—apart from other reasons—women cannot directly replace men in some of the main occupations using immigrants (e.g. construction). This second possibility also means the encouragement of further movements of labour, not always fully employed, from agriculture and elsewhere into the growth sectors. Again, this does nothing to solve the problems of the labour surplus countries, except to the extent that the faster growth of the industrial countries has a certain impact on their imports.

(*c*) The momentum of output growth might be maintained by a structural shift towards more capital-intensive technologies or branches.[55] Recent experience of the consequences of labour shortage and rapidly rising labour costs has shown that this is a slow process and one difficult to bring about.

(*d*) Finally, there is the possibility of the movement of capital replacing the movement of labour. It is tempting to see the north-south problem in Europe as a contrast between the labour-short and capital-surplus economies of the north and the labour-surplus, capital-hungry economies of the south. So far as this contrast is a true one, the solution of encouraging the movement of capital in preference to the movement of labour—" bringing the work to the workers "—may be appealing. This movement of capital (industrial enterprises in the northern countries establishing associated enterprises in the south) is already growing, and may assume increasing significance; it is not of course a direct substitute for migration where immigrants concentrate in non-transferable industries such as construction, transport or services. The scale on which this kind of shift of resources within Europe may serve to compensate for the unbalanced development of labour supply cannot be forecast.

The purpose of this summary discussion of migration and its alternatives has been to illustrate some of the uncertainties inherent in projections of labour supply and the limits within which such projections can be accepted, in the framework of western European economic systems, as a major determinant of the rate of economic development.

[54] See OECD, *op. cit.*, p. 83.

[55] Emphasizing the capital cost involved by immigration, Professor Svennilson points out that " without immigration, these same investments could be used to raise the amount of capital per worker". I. Svennilson " Swedish long-term planning ", *Skandinaviska Banken Quarterly Review*, 1966, 2, p. 42.

PART 3

A COMPARATIVE SUMMARY

Population trends

The gap between the population sizes in the two parts of Europe narrowed between 1950 and 1965, when the population of eastern Europe and the Soviet Union rose by some 23 per cent (or 1.4 per cent per annum), whereas that of western Europe increased by 16 per cent (or 1.0 per annum). In 1965, the two areas contained some 331 and 374 million people, respectively. However, the rates of growth of the "most probable" projection variants for the period 1965-1980 are similar for the two parts of Europe and amount to an average increase of 0.9 per cent per year:

Growth of population of eastern and western Europe, 1960 to 1980

	Millions			*Average annual rate of growth*	
	1950	*1965*	*1980*	*1950-1965*	*1965-1980*
Eastern Europe and the Soviet Union[a]	269.5	330.8	381.7	1.4	0.9
Western Europe[b]	322.4	373.9	427.9	1.0	0.9

[a] Seven countries: Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Rumania and the Soviet Union.

[b] Austria, Belgium, Denmark, Finland, France, western Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and Yugoslavia.

This expected equalizing of future growth rates is largely due to the dramatic fall in the crude birth-rates experienced by all the eastern European countries and the Soviet Union since the mid-1950s. As a result, these rates are at present at the level recorded in the most advanced countries of western Europe and in some cases even below it. At the same time, improvements in medical facilities and in social conditions brought down the crude death-rates in eastern Europe, while in much of western Europe the fall in age-specific mortality rates was offset —in its effect on the crude rate—by unfavourable changes in the age-structure of the population.

Another similarity in the demographic evolution of the two regions was the ageing of their populations. As a result of the past declines in fertility, and the past and future improvements in mortality at higher ages, the proportion of old people in the population increased everywhere and will no doubt continue to nine in the future. In most eastern European countries, and in the Soviet Union, the impact of this factor on the proportion of the working-age population (in the total population) will be largely offset by the shrinking proportion of children under 15. By contrast, in most of western Europe the proportion of the "potential labour force" has declined and is likely to continue to do so over the pro projected period until 1980. Indeed, it seems that the rate of growth of the working-age population will decline in most western countries (compared with the 1950-1965 period), but not in Ireland or southern Europe. In some (the Nordic countries and western Germany) the fall will be substantial. At the same time, an opposite trend is expected in the eastern region, particularly during the earlier projected quinquennia.

Future improvements in the balance of males and females in the working-age population are also likely to be greater in eastern than in western countries, as on the whole the eastern group sustained heavier losses during the last war. On the other hand, the decline in the annual number of births which occurred in eastern countries in the recent past will greatly reduce the intake of young people into the labour force in the 1970s, but such adverse demographic effects will influence only a few western populations, mostly in Scandinavia.

The projections used in this study are based on the hypothesis of no migration. In fact, in the 1950 to 1965 period, immigration accounted for between a quarter and one-half of the total population increment in the five main receiving western countries: Belgium, Sweden, France, western Germany and Switzerland. At the same time, net emigration from Ireland and southern European countries (Italy, Spain, Greece and Portugal) amounted to similar or greater proportions of the natural increase of the populations of these countries. In eastern Europe, emigration was of importance only in eastern Germany, mainly during the nineteen-fifties, and the margin of error introduced into the population and manpower projections by assuming no net migration in the future is not likely to be large.

Labour force participation

Given the wide differences between countries in the definition of active population, particularly in the treatment of unpaid family workers, as well as the frequent inconsistencies from one population census to another within the various countries of the area, any generalization concerning international and temporal comparisons should be made with the utmost caution. It can, nevertheless, be said that there has been a general tendency, in both the east and the west, for activity rates to decline at the extremes of the age-distribution of the population of

working age, i.e. at the youngest and at the oldest age-groups. These trends were common, being largely identified with the extension of education on the one hand, and with equally general improvements in the spread and scope of retirement schemes on the other. Moreover, these tendencies were intensified almost everywhere-though to a varying extent—by the continuous shifts in the structure of populations associated with industrialization and urbanization. This was so because in agriculture, and in rural areas in general, a larger proportion of the young and of the old work than in urban and industrial settlements.

It is more difficult to generalize thet rends in activity in the central ages. Among men, economic participation has remained near the potential limit. Women's activity rates showed a definite upward trend in all eastern European countries, but in the western countries experience was more diversified. In both groups of countries, the decline in agriculture and the spread of urbanization have played an important but not precisely identifiable part. Whereas in the east, women's activity rates outside agriculture have been generally rising, the limited evidence suggests that this is so only in some of the advanced western countries. The evidence is insufficient to establish whether this is also true of the less industrialized countries of western Europe, including Italy.

It is tempting to compare the actual level of women's activity rates between eastern and western countries. A simple comparison, taking the 20-54 age-groups, shows that the overall activity rates were, at the last round of censuses, almost universally higher in the east (table 28 shows the countries in descending order of activity rates within each group of countries).[56] It has, however, been emphasized throughout this study that variations between countries are greatly affected by the relative importance of agriculture and the extent of urbanization.

[56] Indeed the main exception is that Turkey shows a higher rate than Hungary. However, since the Hungarian definition of female activity in agriculture is very restrictive (urban activity rates are, contrary to the general rule, higher than rural rates) and the Turkish definition very liberal (counting most working-age women on farms as active), it may well be that on uniform definitions there would be no exceptions.

TABLE 28

Female activity rates in the 20-54 age-group in eastern and western European countries

(Last population census date)

Eastern Europe				*Western Europe*					
	Total	*of which: urban*			*Total*	*of which: urban*		*Total*	*of which: urban*
Bulgaria (1965)	81.5	49.6 [a]	Turkey (1960)		66.0	10	Sweden (1960)		39.6	47
Soviet Union (1959)	76.9	..	Finland (1960)		58.0	61	Switzerland (1960)		38.5	..
Rumania (1966)	76.7	59.6	Austria (1961)		56.3	..	Belgium (1961)		33.2	..
Eastern Germany (1964)	69.1 [b]	..	Western Germany (1961)		48.8	..	Italy (1961)		32.4	..
Poland (1960)	66.2	53.4	Yugoslavia (1961)		47.7	..	Ireland (1961)		29.6	..
Czechoslovakia (1961)	63.1	..	France (1962)		44.8	45	Norway (1960)		24.7	37
Hungary (1960)	50.2	61.3	United Kingdom (1961)		44.0	..	Netherlands (1960)		22.7	..
			Greece (1961)		40.6	27	Spain (1960)		18.1	22
			Denmark (1960)		40.2	45	Portugal (1960)		17.8	31

Sources: Population censuses; for western urban rates see E. Denti "Sex and age of labour force participation by urban and rural populations", *ILO Review*, December 1968.

a 1956 census data. *b* 21-54 age-group.

Thus to some extent the higher activity rates in eastern countries, as compared with the industrialized western countries, may be associated with the greater proportions occupied in agriculture in most eastern countries. But this explains only part of the difference. The high women's activity rates in the most industrialized eastern countries —the Soviet Union, eastern Germany and Czechoslovakia where the agricultural proportion is one-third or less— are clearly much greater than in any western industrial country.

The comparison with the less industrialized eastern European countries is rather more uncertain. Some help may be got by comparing women's activity rates (for the 20-54 age-group) in urban as against rural localities. The figures, for the few countries which report them, are shown in table 28. Although the definition of an urban area varies,[57] these data also suggest that, even apart from the influence of agriculture, the activity rates are somewhat higher in most eastern countries than in the industrialized west, although there may well be an overlap (thus Hungary shares with Finland not only a language root but also an "urban" activity rate of 61 per cent). However, it appears that while urban activity rates in the east range from 50 per cent upwards (for

[57] For the definition of urban and rural localities see *United Nations Demographic Yearbook 1967*, chapter I. The definitions used in the eastern countries shown in table 28 appear to restrict "urban" areas to rather larger conglomerations than those used in the western countries in the table (in the Scandinavian countries, units of 250 persons or more are treated as urban, which would allow women working on family farms within the boundaries of a village to appear as urban workers).

women of 20-54), in the west (apart from Finland) they range from 50 per cent downwards.

A more striking contrast is found between the less industrialized eastern European countries (Bulgaria, Rumania, Hungary and Poland) and the countries of southern Europe. The agricultural proportion is of the same order in the two groups. But the southern countries show urban activity rates of only 20 to 30 per cent (Greece, Portugal, and Spain) and fall as low as 10 per cent in Turkey. In most of the southern market economies, at least, the existence of an unused potential of labour supply may be regarded as established.

Since the proportion of single women working is normally high everywhere, the main differences between countries relate to the employment of married women. The fragmentary data available suggest a steep increase in the activity of married women in towns in eastern countries during the inter-censal periods and since. In eastern Germany and Czechoslovakia—countries with a chronic shortage of labour—more than two-thirds of married women worked in the mid-1960s, leaving relatively little margin for further expansion. But these rates were significantly lower in other eastern European countries (although not in the Soviet Union)—for instance, less than one-half in Hungary. The present strategy for economic growth, as embodied in medium- and long-term development plans, envisages a further utilization of the female labour potential in the foreseeable future. In industrialized western countries, activity rates for married women fall within a wide, but on the whole lower, band, varying from 15 per cent or less in the Netherlands, Norway and Switzerland to between a quarter and a half in most of the other countries (if unpaid family helpers were excluded, the proportion would probably not rise anywhere above one-third).[58]

Future trends in labour force

In western Europe, the current and the future rates of female activity are less an outcome of premediated development plans and long-term policy measures than in the east. For this reason prediction of future trends falls within wider probability limits in the west. Thus, short of dramatic policy changes, it is expected that female activity rates will not fall in eastern European countries and are even likely to rise—at least at central ages—in the near future. In most of western Europe, on the other hand, their future course depends upon the rate of economic development and upon policies still to be formulated, including policies in respect of migration in receiving countries; in some receiving countries, and in certain conditions, the attraction of immigrants can be regarded in a sense as an alternative to increased employment of women, while in sending countries the opportunities for participation of women in the economy depends in part upon the opportunities for emigration.

What can be ascertained with some degree of accuracy is the future impact on trends in active population of such strictly demographic factors as the size, and the age and sex structure, of the working-age population (table 29).

[58] See *United Nations Demographic Yearbooks*.

With a few exceptions, concentrated in the less industrialized countries of the region (Portugal, Spain, Turkey and Ireland), the working-age population will grow in western countries at a considerably slower rate in the forthcoming years than it did in the past. Indeed, in western Germany, Austria and Sweden, in 1980, the population at these ages will be hardly greater than in 1965, whereas in several other countries (United Kingdom, Belgium and Denmark) the average increase will be less than one-half per cent per year. It must be remembered that the past trends include the impact of labour migration, while the projections allow for no further migration.

No uniform pattern of change appears during the three quinquennia constituting the 1965-1980 projected period. In Austria and western Germany, the working-age population will be declining somewhat during the current (1965-1970) quinquennium, whereas it will remain stable in Belgium and in the United Kingdom. All these countries (except western Germany), as well as Italy and Switzerland, will benefit from an accelerated growth of the working-age population in the last (1975-1980) quinquennium.

In the east, the rates of growth of the working-age population (covering the ages 15-59 rather than those of 15-64 as in western Europe) in the forthcoming 15-year period will be either equal to or higher than those in the 1950-1965 period. The acceleration will be particularly noticeable in eastern Germany and Poland. In Poland and in the Soviet Union, working-age population will be increasing at the high rate of 1.5 per cent per annum, which represents the most rapid rate in Europe after Turkey.

All eastern European countries (including the Soviet Union) will experience a marked slow-down in the supply of young workers, especially towards the end of the projection period. A similar trend will take place in several western countries, including Finland, Denmark, Greece and Norway, where there will be fewer persons in the 15-19 age group in 1980 than in 1965; and in France, the Netherlands, Switzerland and Yugoslavia, the population in this age group will remain stationary.

The combined effect of the purely demographic factors and the expected trends in activity rates will result in eastern European countries in an acceleration in the growth of active population in the 1965-1980 period taken as a whole, compared with the past inter-censal periods. However, within the projected period the rate of increase will be declining in most countries. The contribution of women to the expected increase in the active population is likely to be lower than in the past virtually everywhere, in spite of the fact that eastern European projections assume some increase in female activity rates, particularly at central ages. As male activity rates are not likely to change much, the main determinant of future trends in the labour force will be demographic, i.e. the rate of increase in the working-age population and the relatively faster growth rate of males than of females.

In western Europe, increased participation of women contributed to the growth of the active population after

TABLE 29

Changes in the working-age population in eastern and western Europe, 1950 to 1980

(Average annual rates of growth)

Country	*1950-1965*	*1965-1970*	*1970-1975*	*1975-1980*	*1965-1980*
Eastern Europe					
Bulgaria	0.8 [a]	1.2	0.4	0.8	0.8
Czechoslovakia	0.6	0.7	0.5	1.0	0.7
Eastern Germany	−1.2	0.0	0.5	1.4	0.6
Hungary	0.4 [b]	0.7	0.2	0.3	0.4
Poland	1.1	1.7	1.6	1.2	1.5
Rumania	0.9 [c]	1.1	1.0	0.8	0.9
Soviet Union	0.9 [d]	1.5	1.5	1.5	1.5
Western Europe					
Austria	0.0 [e]	−0.3	0.1	0.6	0.1
Belgium	0.2	0.1	0.3	0.4	0.3
Denmark	0.7	0.5	0.4	0.4	0.4
Finland	1.1	0.9	0.4	0.5	0.6
France	0.7	0.6	0.6	0.6	0.6
Western Germany	0.9	−0.2	0.2	0.2	0.0
Greece	0.9 [e]	0.9	0.8	0.6	0.8
Ireland [f]	−0.4	1.4	1.4	1.4	1.4
Italy [f]	0.7	0.5	0.4	0.7	0.5
Netherlands	1.2	1.3	1.2	1.2	1.2
Norway	0.7	0.6	0.5	0.4	0.3
Portugal	0.5	1.2	1.2	1.2	1.2
Spain	0.7	0.9	1.0	1.1	1.0
Sweden	0.8	0.2	−0.1	0.1	0.0
Switzerland [g]	1.4	0.4	0.4	0.6	0.5
Turkey	2.2	2.8	3.1	2.8	2.9
United Kingdom	0.4 [e]	—	0.1	0.4	0.2
Yugoslavia [f]	1.2	1.5	1.1	1.2	1.2

Sources: Population censuses and projections.

NOTE. — For eastern Europe working-age population covers the ages 15 to 59, and for western Europe the ages 15 to 64.

a 1956-1965.
b 1949-1965.
c 1948-1965.
d 1959-1965.
e 1951-1965.
f 1951-1966, followed by five-year intervals.
g 1950-1966, followed by five-year intervals.

1950 in more countries than not, off-setting to a large extent the general decline in male activity rates at the extreme ages; but the decisive role was played by the demographic factors associated with the growth and age and sex structure of the population and the influence of migration. Should the past flow of labour migration continue, the future pattern of determinants of labour supply would not diverge greatly from the recent past. In particular, male and female activity rates at marginal ages can be expected to continue to decline, and female activity at central ages may well continue to increase in urban areas, unless there is a sharp falling off in the demand for labour. However, the margin of error involved in predicting future labour migration is bound to be wide, in spite of the fact that countries with labour shortages and with labour surpluses can as a rule be identified. As no quantified assumptions relating to future migration are made in the present study, close comparison of future and past factors contributing to the growth of labour supply is hardly feasible. Moreover, compared with eastern experience, the study of these factors is further complicated by a much wider range of possible trends in female activity in western countries. An assessment of future manpower supply is not unrealistic in centrally planned economies. In free market economies, manpower supply, within certain limits, must be regarded as one of the variables to be determined by the rate and pattern of economic development.

APPENDICES

APPENDIX 1

Eastern Europe: population projections by age and sex, 1965-1980

(Thousands)

Country	*Year*	*Sex*	*0-14*	*15-19*	*20-29*	*30-39*	*40-49*	*50-54*	*55-59*	*60+*	*Total*
Bulgaria	1965	M	1 028	363	587	653	518	248	234	502	4 133
		F	986	351	577	648	525	244	233	575	4 139
	1970	M	1 049	341	659	605	640	191	236	590	4 311
		F	1 007	328	639	603	644	195	236	660	4 312
	1975	M	1 105	331	696	578	634	306	182	660	4 492
		F	1 061	319	674	570	635	314	188	725	4 486
	1980	M	1 145	341	665	648	588	309	291	659	4 646
		F	1 105	328	643	633	592	311	304	726	4 642
Czechoslovakia	1965	M	1 824	656	968	923	790	419	429	920	6 929
		F	1 741	632	949	935	838	447	465	1 260	7 267
	1970	M	1 765	661	1 178	877	952	286	396	1 060	7 175
		F	1 682	634	1 147	873	1 001	309	433	1 424	7 503
	1975	M	1 856	584	1 303	952	896	468	271	1 136	7 466
		F	1 768	559	1 261	941	920	507	299	1 520	7 775
	1980	M	1 974	567	1 231	1 159	852	444	444	1 067	7 738
		F	1 880	542	1 189	1 139	859	469	492	1 452	8 022
Eastern Germany	1965	M	2 081	499	1 228	1 021	608	389	485	1 479	7 788
		F	1 982	477	1 213	1 077	971	624	713	2 220	9 277
	1970	M	2 075	671	1 045	1 209	817	245	367	1 510	7 938
		F	1 980	638	1 023	1 194	1 086	404	604	2 379	9 307
	1975	M	2 091	674	1 158	1 208	994	337	232	1 414	8 107
		F	1 996	644	1 110	1 201	1 056	539	391	2 380	9 318
	1980	M	2 105	722	1 330	1 028	1 178	446	319	1 195	8 323
		F	2 009	691	1 276	1 012	1 171	517	522	2 146	9 345
Hungary	1965	M	1 197	416	706	705	588	300	305	696	4 913
		F	1 140	402	721	738	654	346	340	911	5 252
	1970	M	1 047	474	785	671	710	223	289	793	4 992
		F	991	455	769	706	764	256	335	1 025	5 301
	1975	M	1 024	392	884	696	688	342	212	858	5 096
		F	967	373	854	715	725	379	249	1 107	5 369
	1980	M	1 090	325	860	776	655	342	327	828	5 203
		F	1 031	307	825	764	695	365	368	1 081	5 436

Poland	1965	M	4 910	1 550	2 080	2 280	1 550	720	740	1 410	15 240
		F	4 710	1 510	2 060	2 340	1 810	860	860	2 040	16 190
	1970	M	4 450	1 770	2 530	2 220	2 030	590	680	1 740	16 010
		F	4 280	1 700	2 470	2 230	2 250	700	840	2 450	16 920
	1975	M	4 300	1 740	3 290	2 050	2 220	890	570	1 970	17 030
		F	4 110	1 630	3 200	2 040	2 300	1 060	680	2 750	17 770
	1980	M	4 710	1 390	3 470	2 500	2 170	1 070	850	2 030	18 190
		F	4 480	1 340	3 340	2 450	2 200	1 140	1 030	2 820	18 800
Rumania	1965	M	2 561	785	1 447	1 538	976	511	482	1 016	9 316
		F	2 449	761	1 448	1 529	1 118	587	517	1 303	9 712
	1970	M	2 741	910	1 448	1 541	1 350	346	483	1 219	10 038
		F	2 612	877	1 412	1 558	1 415	426	565	1 513	10 378
	1975	M	2 812	902	1 680	1 423	1 495	588	330	1 369	10 599
		F	2 678	864	1 631	1 434	1 499	658	413	1 713	10 890
	1980	M	3 058	724	1 798	1 430	1 503	709	561	1 330	11 113
		F	2 911	691	1 735	1 402	1 533	723	641	1 717	11 353
Soviet Union	1965	M	36 220	9 177	17 204	17 964	8 970	4 536	3 957	8 204	106 232
		F	34 837	8 964	17 203	19 168	13 874	7 432	6 421	16 496	124 395
	1970	M	35 134	11 496	15 997	18 811	14 359	3 604	4 319	9 933	113 653
		F	33 760	11 118	15 696	19 135	17 964	5 883	7 180	19 097	129 833
	1975	M	33 033	12 623	20 551	16 990	17 541	5 013	3 445	11 702	120 898
		F	31 713	12 138	19 992	17 025	18 795	7 580	5 695	21 932	134 870
	1980	M	32 531	11 883	24 007	15 840	18 430	8 828	4 809	12 324	128 652
		F	31 204	11 418	23 173	15 568	18 815	9 862	7 349	22 824	140 213

Sources: Bulgaria: direct communication from the Government; Czechoslovakia: *Demografie*, No. 3, 1966; eastern Germany: *Voraussichtliche Entwicklung der Bevölkerung der D.D.R. und der Bezirke bis zum Jahre 2000*, 1966; Hungary: *Demografia*, No. 3, 1966; Poland: *Ludnosc Polski w latach 1945-1965*, 1966; J. Holzer, *Urodzenia i zgony a struktura ludnosci Polski 1950-2000*, 1964; Rumania: ECE estimates, *Revista de statistica*, No. 9, 1967 (for future trends in births); The Soviet Union: United Nations Population Division, Working Paper No. 11, 1967.

Assumptions:

Bulgaria: Life expectancy at birth (both sexes) to increase from 65.9 years in 1958 to 69.0 in 1980. The 1955-1958 age-specific fertility rates to increase gradually until 1975 and to remain constant thereafter.

Czechoslovakia: Life expectancy at birth (both sexes) to increase from 70.7 years in 1964 to 71.8 in 1985. Gross reproduction rate of 1.15 in 1961-1964 to decline to 1.10 in 1970, and to 1.09 in 1975.

Eastern Germany: Further gradual declines in age-specific death rates, ranging from 40-50 per cent for infant mortality to insignificant changes for persons above 60. Age-specific birth-rates to decline by 5-22 per cent for females below 16 and by 2-13 per cent for those above 27 years of age, but to increase by 2-12 per cent at ages 17-26.

Hungary: Some decline assumed in age-specific mortality rates, based on an extrapolation of trends observed in the period 1951-1959. Age-specific fertility rates to remain at 1962 level during 1966-1970 and to rise subsequently returning to the 1961 level in 1971-1975 and to the 1959-1960 level in 1976-1981.

Poland: Age- and sex-specific mortality rates to reach by 1980 the levels prevailing in Norway in 1960. Age-specific fertility rates to decline until 1970, but to increase somewhat afterwards.

Rumania: Age- and sex-specific mortality rates to decline to reach by 1985 the levels experienced by the Netherlands in 1965. General fertility rate of 111 per 1,000 women (aged 15-49) in the second half 1967 and in 1968 to decline by 10 per cent per year in the period 1969 to 1972 and to remain constant afterwards.

The Soviet Union: Life expectancy at birth (both sexes) to increase from 70.2 years in 1960-1965 to 71.7 in 1965-1970, to 73.0 in 1970-1975 and to 73.9 in 1975-1980. Sex-age adjusted birth-rate to decline from 22.0 thousand in 1960 to 18.0 in 1965 and to remain constant afterwards.

APPENDIX II

Eastern Europe: active population by age and sex; population census dates and projections until 1980

(Thousands)

Country	*Year*	*Sex*	*15-19*	*20-29*	*30-39*	*40-49*	*50-54*	*55-59*	*60+*	*All 15+*
						Actual				
Bulgaria	1956	M	137	582	557	483	215	158	250	2 382
		F	118	448	425	365	141	96	129	1 721
	1965	M	124	505	643	508	232	196	177	2 385
		F	107	448	554	453	167	84	57	1 870
						Variant I				
	1970	M	150	572	590	624	177	198	207	2 518
		F	129	498	517	556	133	84	65	1 982
	1975	M	146	604	564	618	284	153	231	2 600
		F	125	525	489	549	215	66	71	2 040
	1980	M	150	577	632	573	287	244	231	2 694
		F	129	501	543	511	213	108	71	2 076
						Variant II				
	1970	M	150	572	590	624	177	198	207	2 518
		F	129	498	517	556	133	88	68	1 989
	1975	M	146	604	564	618	284	153	231	2 600
		F	125	525	489	549	215	74	78	2 055
	1980	M	150	577	632	573	287	244	231	2 694
		F	129	501	543	511	213	125	82	2 104
						Actual				
Czechoslovakia	1950 [a]	M	359 (404)	801 (961)	759 (767)	887 (899)	316	211	235	3 568 (3793)
		F	326 (330)	567 (577)	383 (389)	494 (499)	194	132	148	2 244 (2269)
	1961 [b]	M	247	850	963	710	425	334	279	3 808
		F	281	552	635	519	286	183	167	2 623
						Variant I				
	1965	M	301	923	905	762	390	364	326	3 971
		F	339	597	583	560	265	197	193	2 734
	1970	M	303	1 124	860	919	266	336	375	4 183
		F	340	721	545	669	183	184	218	2 860
	1975	M	268	1 243	934	865	435	230	402	4 377
		F	300	793	587	615	301	127	233	2 956
	1980	M	260	1 174	1 137	822	413	377	378	4 561
		F	291	748	711	574	278	209	222	3 033
						Variant II				
	1965	M	298	923	905	762	390	367	336	3 981
		F	336	609	595	571	270	207	203	2 791
	1970	M	297	1 124	860	919	266	343	399	4 208
		F	334	751	567	696	191	202	241	2 982
	1975	M	260	1 243	934	865	435	237	440	4 414
		F	292	842	623	652	319	147	269	3 144
	1980	M	250	1 174	1 137	822	413	392	426	4 614
		F	280	810	769	621	301	253	270	3 304
						Actual				
Eastern Germany [c, d] . .	1950	M	1 071		2 420		971		571	5 033
		F	964		1 684		505		194	3 347
	1964	M	675		2 171		883		735	4 464
		F	573		1 851		813		294	3 530
						Variant I				
	1965	M	664		2 250		827		744	4 485
		F	561		1 879		782		300	3 522
	1970	M	736		2 517		579		760	4 591
		F	609		1 959		590		321	3 479
	1975	M	846		2 632		538		711	4 727
		F	700		1 892		544		321	3 458
	1980	M	878		2 801		724		601	5 004
		F	729		1 952		608		290	3 579

APPENDIX II *(continued)*

Eastern Europe: active population by age and sex; population census dates and projections until 1980
(Thousand)

Country	Year	Sex	15-19	20-29	30-39	40-49	50-54	55-59	60+	All 15+
						Variant II				
	1965	M		664		2 250		827	744	4 485
		F		561		1 879		782	300	3 522
	1970	M		736		2 517		579	797	4 629
		F		609		2 058		619	355	3 641
	1975	M		846		2 632		538	783	4 799
		F		700		2 086		600	390	3 776
	1980	M		878		2 801		724	696	5 098
		F		729		2 259		703	386	4 078
						Actual				
Hungary	1949	M	302	709	573	611	230	166	324	2 915
		F	215	317	193	185	75	62	131	1 178
	1960	M	299	665	718	540	299	258	364	3 141
		F	197	373	390	312	158	93	176	1 699
						Variant I				
	1965	M	328	686	697	583	295	280	429	3 298
		F	211	375	368	331	160	104	205	1 754
	1970	M	374	763	664	704	216	270	489	3 478
		F	239	400	352	387	119	103	231	1 829
	1975	M	309	859	688	682	331	198	529	3 596
		F	196	444	357	367	176	76	249	1 864
	1980	M	256	836	768	649	331	305	510	3 655
		F	161	429	381	352	169	113	243	1 848
						Variant II				
	1965	M	318	679	697	583	295	280	416	3 269
		F	211	394	387	347	168	109	205	1 821
	1970	M	352	747	664	704	216	270	460	3 412
		F	239	441	388	426	131	113	231	1 968
	1975	M	282	833	688	682	331	198	483	3 497
		F	196	514	413	425	203	88	249	2 088
	1980	M	227	802	768	649	331	305	452	3 533
		F	161	521	464	427	206	137	243	2 159
						Actual				
Poland [a]	1950	M	771	1 942	1 428	1 565	543	375	616	7 240
		F	705	1 514	1 044	1 134	423	282	455	5 558
	1960	M	498	2 123	2 048	1 324	755	592	757	8 097
		F	416	1 469	1 498	1 107	590	461	638	6 179
						Variant I				
	1965	M	791	1 941	2 218	1 485	678	674	943	8 730
		F	655	1 349	1 526	1 247	562	517	759	6 616
	1970	M	903	2 361	2 160	1 945	556	620	1 164	9 707
		F	738	1 618	1 454	1 550	458	505	911	7 234
	1975	M	887	3 070	1 995	2 127	838	519	1 318	10 754
		F	707	2 096	1 330	1 585	693	409	1 023	7 843
	1980	M	709	3 238	2 433	2 079	1 008	774	1 358	11 598
		F	582	2 188	1 597	1 516	746	619	1 049	8 296
						Variant II				
	1965	M	791	1 959	2 241	1 500	685	681	953	8 810
		F	655	1 376	1 556	1 272	574	527	773	6 734
	1970	M	903	2 406	2 202	1 985	567	632	1 188	9 883
		F	738	1 682	1 512	1 613	476	525	948	7 494
	1975	M	887	3 129	2 034	2 171	855	530	1 346	10 951
		F	707	2 224	1 412	1 681	736	434	1 086	8 280
	1980	M	709	3 300	2 480	2 122	1 028	790	1 387	11 816
		F	582	2 368	1 730	1 641	807	671	1 137	8 935

APPENDIX II *(concluded)*

Eastern Europe: active population by age and sex; population census dates and projections until 1980

(Thousands)

Country	Year	Sex	15-19	20-29	30-39	40-49	50-54	55-59	60+	All 15+
			e			*Actual*				*f, g*
Rumania	1956	M	751	1 527	1 031	1 045	443	352	565	5 714
		F	696	1 192	869	884	341	288	464	4 735
	1966	M	400	1 338	1 522	989	468	438	519	5 675
		F	407	1 078	1 208	890	413	317	374	4 687
						Variant I				
	1970	M	367	1 365	1 515	1 315	325	423	616	5 936
		F	375	1 083	1 225	1 090	304	332	427	4 836
	1975	M	364	1 584	1 399	1 456	553	296	691	6 343
		F	370	1 251	1 127	1 154	469	243	483	5 097
	1980	M	292	1 696	1 406	1 464	666	503	672	6 699
		F	296	1 331	1 102	1 180	515	377	484	5 285
						Variant II				
	1970	M	367	1 365	1 515	1 315	325	433	616	5 936
		F	375	1 115	1 262	1 122	304	332	427	4 937
	1975	M	364	1 584	1 399	1 456	553	296	691	6 343
		F	370	1 328	1 196	1 225	469	243	483	5 314
	1980	M	292	1 696	1 406	1 464	666	503	672	6 699
		F	296	1 412	1 169	1 252	515	377	484	5 505
						Actual				
The Soviet Union [g]	1959	M	5 166	17 379	12 559	8 186	3 601	2 409	3 144	52 440
		F	5 186	15 710	13 548	10 530	4 338	3 824	4 414	56 556
						Variant I				
	1965	M	5 552	15 759	17 174	8 441	4 073	3 276	3 880	58 155
		F	5 558	13 814	14 894	10 461	5 009	3 133	5 576	58 445
	1970	M	6 955	14 653	17 983	13 512	3 236	3 576	4 698	64 613
		F	6 893	12 604	14 868	13 545	3 965	3 504	6 455	61 834
	1975	M	7 623	18 825	16 242	16 506	4 502	2 852	5 535	72 085
		F	7 526	16 053	13 228	14 171	5 109	2 779	7 413	66 279
	1980	M	7 189	21 990	15 143	17 343	7 928	3 982	5 829	79 404
		F	7 079	18 608	12 096	14 187	6 647	3 586	7 715	69 918
						Variant II				
	1965	M	5 276	15 914	17 353	8 522	4 114	3 308	4 077	58 564
		F	5 280	14 227	15 334	10 780	5 158	3 288	5 856	59 923
	1970	M	6 278	14 941	18 360	13 785	3 301	3 645	5 185	65 495
		F	6 226	13 373	15 767	14 371	4 206	3 863	7 123	64 929
	1975	M	6 551	19 380	16 752	17 015	4 637	2 935	6 413	73 683
		F	6 457	17 553	14 454	15 487	5 579	3 218	8 597	71 345
	1980	M	6 167	22 639	15 618	17 877	8 166	4 097	6 753	81 317
		F	6 074	20 346	13 217	15 504	7 258	4 152	8 947	75 498

Sources: Population census data from published official sources, except for Czechoslovakia (1950), Bulgaria (1965) and Rumania (1966), for which countries the distributions of active population by sex and age were obtained directly from the Central Statistical Offices concerned.

Projection assumptions:

For all countries, Variant I projections are based on the hypothesis of unchanged age and sex specific activity rates since the last population census (1959 for the Soviet Union, 1960 for Hungary and Poland, 1961 for Czechoslovakia, 1964 for eastern Germany, 1965 for Bulgaria and 1966 for Rumania).

For Variant II projections, the following changes in relation to the last census activity rates were postulated:

Bulgaria: Female activity rates to increase in the 55-59 and 60+ age-groups by 5 per cent in 1970, 1975 and 1980.

Czechoslovakia: Male activity rates to decline in the 15-19 age group by one per cent in 1965, 1970 and 1975, but to increase, at the same dates, by one per cent in the 55-59 and by 3 per cent in the 60+ age groups.

Female rates to decline by one per cent in 1965, 1970 and 1975 in the 15-19 age group, and to increase by 2 per cent for all ages between 20 and 54 and by 5 per cent for older ages.

Eastern Germany: A 5 per cent increase in 1970, 1975 and 1980 in male activity rates above the age of 60. Female rates to increase at each date by 5 per cent in the age-groups 25-49 and 50-59 and by 10 per cent for women above 60.

Hungary: A 3 per cent decline—in 1965, 1970, 1975 and 1980—for males aged 15-19 and more than 60, and one per cent decline in the 20-29 age group.

For females, activity rates to go up by 5 per cent at each date for all age groups between 20 and 59.

Poland: A one per cent increase in 1965 and in 1970 for males aged 20 and more.

For females aged 20 to 59, a 2 per cent increase in activity rates and for those above 60 a one per cent increase in 1965, 1970, 1975 and 1980.

Rumania: Female activity rates to increase by 3 per cent in 1970 and 1975 in the 20-29, 30-39 and 40-49 age groups.

The Soviet Union: Male activity rates in the 15-19 age group to decline by 5 per cent in 1965, 1970 and 1975. A one per cent increase (at each date) in the rates among men aged 20 to 59 and a 5 per cent increase among those above 60. Among women, activity rates to decline by one per cent in the 15-19 age group, but to increase by 3 per cent in the 20-54 and by 5 per cent in the 55+ age groups.

NOTE. — The Polish and Soviet data include in the 15-19 age group active persons below the age of 15.

a Data adjusted to include military and para-military forces.

b Including apprentices.

c The age-groups are: 15-24, 25-49, 50-59, 60+ and All 15+.

d Excluding unpaid family workers and apprentices.

e 14-19 age group.

f All 14+.

g Data adjusted to include 9,864 thousand family helpers on individual plots.

APPENDIX III

Western Europe: sources for population projections and demographic assumptions

(Projected populations exclude external migration, except when expressly indicated)

Austria — Beirat für Wirtschafts- und Sozialfragen, *Zweite Vorausschätzung des Österreichischen Arbeitskräftepotentials bis 1980*, Vienna 1968.

Assumptions: Mortality rates of 1959-1961, by sex and age, were assumed as constant. Age-specific female fertility rates for 1959-1961 assumed as constant.

Belgium — F. Rogiers, " Les prévisions de la population active et de l'emploi dans le cadre de la programmation économique ", in *Revue Belge de Sécurité Sociale*, December 1965, for the period 1965 to 1975.

Assumptions: Mortality rates constant on the basis of new mortality tables for the period 1959-1963 (see *Bulletin de Statistique*, January 1965). Constant 1962 fertility rates.

For 1980, ILO estimates (see *Manpower aspects of recent economic developments in Europe*, ILO, Geneva 1968).

Denmark — OECD, *Demographic Trends 1965-1980, Supplement, Country Reports*, Paris 1966.

Assumptions: Constant 1960-1961 mortality rates. Constant 1961 fertility rates.

Finland — Central Statistical Office, *Regional projection of population and households to the year 1990*, Helsinki 1964.

Assumptions: Mortality rates of 1961 constant. Decrease in the birth rate and more regional convergence of natality. Projections without migration are not available. Net emigration assumed to remain at the same level as in the 1950s (7,000 per year).

France — Institut national de la Statistique et des Etudes economiques, *Projections Demographiques*, Paris 1963.

Assumptions: Decreasing mortality (life expectancy invreased from the 1961 level (67.4 for males and 74.1 for females) to 72.9 for males and 78.2 for females in 1985). Natality based on hypothesis of female nuptiality. The number of children per married couple has been assumed as constant (2.4) in the central hypothesis.

Western Germany — Statistisches Bundesamt. *Bevölkerung und Kultur, Reihe 1, Vorausschätzung der Bevölkerung für die Jahre 1966 bis 2,000*, Wiesbaden 1967.

Assumptions: Decreasing mortality, particularly in the ages under 5 and over 50. Constant fertility.

Greece — National Statistical Service of Greece, *Demographic trends and population projections of Greece, 1960-1985*, Athens 1966.

Assumptions: Decreasing mortality to reach in 1985 the level of Sweden in 1960. Decreasing natality, according to fertility trends in the period 1956-1963 (increasing fertility under the age of 24 and decreasing for other age-groups).

Ireland — OECD, *Demographic trends 1965-1980, Supplement, Country Reports*, Paris 1966.

Assumptions: Mortality below the age of 70 decreasing according to 1951-1961 trend and for ages above 70 constant 1961 level. Constant 1960-1962 fertility.

Italy — SVIMEZ, *Popolazione e forze di lavoro delle regioni italiane al 1981*, Rome 1968.

Assumptions: Decreasing mortality (extrapolation of 1901-1961 trends), giving in 1981 the level of Norway in 1960. Of the two fertility hypotheses, the low one has been taken, implying constant fertility in the Centre-North regions and decreasing fertility in the Southern regions (on the whole, more convergence between regions).

Netherlands — *Maandstatistiek van bevolking en volksgezondheid*, September 1967.

Assumptions: Decreasing mortality; decreasing fertility.

Norway — OECD, *Demographic trends 1965-1980, Supplement, Country Reports*, Paris 1966.

Assumptions: Decreasing mortality. Constant 1958-1959 fertility.

Portugal — *Centro de Estudos Demograficos, Revista*, no. 16, Lisbon 1965.

Assumptions: Decreasing mortality; constant fertility assumed as main hypothesis (out of three hypotheses).

Spain — Data supplied by the Technical Secretariat of the Development Plan.

Assumptions: Constant mortality according to mortality tables for 1960; constant natality according to crude birth rates for average 1955-1964.

Sweden — SBC, *Statistiska Meddelanden*, Be 1968, no. 3.

Assumptions: Decreasing mortality up to 1970 (extrapolating trend 1956-1965), then constant mortality; constant fertility 1961-1965.

Switzerland — *La Vie Economique*, September 1967 and data supplied by the Département fédéral de l'Economie publique.

Assumptions: Constant mortality on the basis of the 1958-1963 mortality tables; only slightly increasing fertility.

Turkey — *A summary of the second five-year development plan of Turkey* (1968-1972) and data supplied by the State Planning Organization.

Assumptions: Declining mortality; of the three hypotheses on natality, the central one has been taken: on the basis of the 1960-1965 birth rate of 41.13 per thousand, a decline of 5 per cent for each five-year period has been assumed.

United Kingdom — *Monthly Digest of Statistics*, April 1968.

Assumptions: Mortality declining, markedly under 40, progressively less at higher ages, but less for males than for females. Births: increasing gradually from 956,000 live births in the year mid-1967 to mid-1968 to 1,108,000 in 1980. Little change in completed family sizes for marriages after about 1958 or for future marriages. Population projections without external migration are not available. A net emigration of 47,000 in the year mid-1967 to mid-1968 and of 55,000 in the year mid-1968 to mid-1969, declining thereafter to 20,000 a year from mid-1977 onwards.

Yugoslavia — *Demografska Statistika*, 1964, Belgrade 1967.

Assumptions: Mortality: based on rates for 1958 and 1959, kept almost constant, with declines for low age groups. Female fertility by age on the basis of 1956 results: stable or declining according to region.

APPENDIX IV

Western Europe: sex- and age-specific activity rates

A. MALES

(Percentages)

Country and Year	Age groups											Active in agriculture	Of which: unpaid family helpers
	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+	15+	As percentage of total active	
Austria 1951	76.0 [a]	94.2 [b]			97.1			89.4		69.9	31.3	83.8 [c]	24.9	7.1
1961	66.3 [a]	91.3 [b]			97.4			90.5						
1961	72.7 [d]	90.2	96.9	98.4	97.5	97.0	96.2	93.9	87.0	66.0	15.1	79.1 [c]	17.9	4.4
1980	52.0 [d]	85.0	96.9	98.4	97.5	97.0	96.2	93.9	84.8	63.0	11.0	80.5 [c]		
Belgium 1947	66.8	82.2	95.2	96.5	96.3	95.5	93.8	89.6	82.9	73.4	24.7	79.8	13.6	3.5
1961	50.3	87.6	97.2	97.8	96.6	95.6	94.0	91.1	85.1	70.8	9.8	76.0	8.2	1.5
1980	33.5	80.0	97.5	98.5	96.7	95.7	94.0	91.5	82.5	70.0	10.0	72.2		
Denmark 1950	84.2	92.0	97.3		98.4		97.3		94.7	85.9	35.9	87.7	29.0	—
1960			97.6		98.3		97.5							
1960	74.9	91.3	96.6	98.6	98.7	98.5	98.0	97.0	94.7	87.5	34.5	85.2	22.9	—
1980	51.6	85.9	96.0	98.6	98.7	98.5	98.0	97.0	93.0	78.0	21.0	78.3		
Finland 1950	74.2	90.4	96.0		97.7		96.6		93.5	86.6	56.7	89.5	46.1	10.6
1960			96.2		97.3		95.5							
1960	58.3	86.1	94.9	97.5	97.4	97.2	96.5	94.6	90.4	79.1	39.7	84.2	37.8	7.1
1980	28.9	76.8	94.1	97.5	97.4	97.2	96.5	94.6	88.5	67.9	19.8	76.5		
France 1954	50.6 [d]	77.8	96.7		97.0		95.3		78.7		36.1	79.7 [c]	27.5	5.7
1962	49.2	85.8	96.7		96.9		93.9		78.6		27.2	78.6	20.1	3.0
1962				96.8										
1980	41.1	86.6		96.9			94.0		78.8		10.6	73.7		
Western Germany 1950	84.3	93.2	94.3	96.4	97.3	97.2	96.7	93.5	87.6	73.5	26.5	84.2	16.4	3.8
1961	81.3	91.1	96.2	98.3	97.8	97.1	96.1	93.8	88.7	72.3	22.3	82.9	9.6	2.2
1980	60.0	87.0	96.4	98.8	98.6	98.3	97.8	95.1	91.1	79.0	17.0	79.1		
Greece 1961	67.5	91.8	96.4	97.5	97.0	96.2	94.7	92.1	86.9	74.8	43.7	85.4	48.2	13.8
Ireland 1951	66.7 [d]	96.3	97.3	97.7	97.5	97.3	95.5		89.7		58.4	86.4 [c]	46.1	14.8
1961	64.3	90.9	96.3	97.4	97.5	97.4	96.4		88.9		51.5	84.2	42.3	11.7
1961				97.2										
1981	50.0	86.0		97.6			97.0		86.0		40.0	80.5		
Italy 1961	70.6	75.3	95.8	96.8	96.3	95.7	94.0	92.6	84.2	56.9	23.4	77.8	27.7	6.1
1981	68.0	76.8	96.2	97.3	96.9	96.4	95.2	93.2	85.4	61.1	24.2	77.9		
Netherlands 1947	66.0 [d]	92.2	97.1	98.2	98.1	98.1	97.2	96.0	91.6	78.0	35.5	85.1 [c]	19.8	3.8
1960	63.1	91.2	97.1	98.6	98.8	98.5	98.1	96.8	93.4	80.8	19.9	82.6	12.5	1.9
1980	43.3	85.2	97.0	98.6	98.8	98.5	98.0	96.8	93.0	78.0	10.3	77.5		

Norway	1950	71.7	86.1	94.1		97.7		97.5		95.6		88.3	41.8	86.6	31.4	4.7
	1960					98.1		97.9		96.0						
	1960	53.7	81.9	94.3	97.9	98.2	98.1	97.7	96.9	95.0	88.1	37.7	82.6		24.1	10.0
	1980	25.8	69.0	88.0	97.9	98.2	98.1	97.7	96.9	95.0	82.0	26.4	72.3			
Portugal	1960	86.5	95.0	98.0	98.4	98.1	97.2	96.2	93.5	89.4	81.8	62.6	91.0		47.9	6.2
	1980	80.4	95.0	98.0	98.4	98.1	97.2	96.2	93.5	89.4	76.9	51.3	87.9			
Spain	1960	74.0	90.4	96.3	97.4	97.7	97.7	96.9	96.4	95.2	98.0	55.5	89.0		..	..
	1965	72.6	87.0	95.4	98.2	98.4	98.1	97.5	95.2	92.3	81.3	29.2	85.7			
Sweden	1950	74.4	90.0	96.1	98.1	98.3	97.9	97.1	95.5	92.5	79.7	36.1	85.8		25.3	3.6
	1960	52.8	74.9	92.9	96.2	96.7	96.8	96.2	95.1	92.3	82.5	27.0	78.6		17.9	1.9
	1965	44.6	67.1	90.2	95.0	95.8	95.8	95.7	94.6	92.1	82.7	24.1	75.1			
	1980	26.8	59.0	87.0	95.0	95.5	95.5	95.3	94.0	90.0	80.0	12.8	69.2			
Switzerland	1950	73.8	90.8	96.1	98.4	98.7	98.6	98.2	97.1	94.9	87.9	50.7	88.7		21.5	5.5
	1960	69.2	91.2	97.0	98.8	99.0	98.8	98.6	97.8	95.9	88.8	41.9	87.2		14.6	3.5
	1981	60.0	88.5	97.0	98.8	99.0	98.8	98.6	97.8	95.9	76.0	27.0	82.1			
Turkey	1955	88.0	96.1	97.7	98.3	98.6	98.6	98.6	97.9	96.4	93.8	86.7	95.3		63.7	26.1
United Kingdom	1951	83.9	95.3		98.1		98.7		97.9	95.4	87.8	32.2	87.9		6.4	0.1
	1961	74.9	93.3		98.3		98.8		98.6	97.1	91.0	25.1	86.3		5.0	—
	1965	72.0	94.2	97.7	98.6	98.0	97.8	97.9	97.9	95.8	90.0	24.2	84.9			
	1975	56.6	91.9	98.8	99.6	98.7	98.4	98.9	99.0	97.1	90.6	20.5	82.0			
Yugoslavia	1961		79.0		96.9			96.7		86.3		56.3	88.4		50.7	15.1

APPENDIX IV *(continued)*

Western Europe: sex- and age-specific activity rate

B. FEMALES

(Percentages)

Country and Year		Age groups											Active in agriculture	Of which: unpaid family helpers
		15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+	15+	As percentage of total active
Austria	1951	62.9 [a]	65.5 [b]			45.4			39.8		25.9	13.4	43.8 [c]	43.4	30.0
	1961	59.7 [a]	70.8 [b]			53.6			43.8						
	1961	68.1 [d]	75.2	58.7	54.9	55.2	53.1	50.9	47.2	40.1	19.8	7.1	44.5 [c]	29.9	20.6
	1980	49.0 [d]	75.1	58.7	54.9	55.2	53.1	50.9	47.2	37.1	16.8	6.0	44.2 [c]		
Belgium	1947	41.8	40.5	29.5	25.6	25.1	24.0	22.0	19.8	17.3	13.3	5.4	23.5	7.4	4.8
	1961	40.6	52.2	36.5	31.2	30.0	30.0	28.4	25.3	20.1	9.4	3.7	25.5	4.4	2.1
	1980	39.0	65.0	50.5	42.2	41.6	44.0	38.5	33.6	24.3	9.7	3.4	32.7		
Denmark	1950	83.2	64.2	41.6		43.1		43.4		36.5	23.6	8.3	42.3	17.5	12.8
	1960			36.5		36.7		37.6							
	1960	66.7	58.9	38.7	34.4	35.8	37.7	37.9	37.4	34.3	22.7	7.4	36.5	5.4	3.3
	1980	47.0	62.0	54.0	53.0	59.0	59.0	51.0	43.0	33.8	22.2	6.8	41.2		
Finland	1950	53.4	64.4	56.9		59.9		59.9		52.6	42.0	20.6	53.3	45.7	36.5
	1960			56.2		58.4		58.3							
	1960	41.7	60.7	56.9	55.6	57.3	59.5	59.7	56.9	50.6	36.0	11.6	48.5	31.8	25.0
	1980	22.0	59.0	61.5	60.4	62.0	64.0	62.2	59.1	47.7	32.0	6.1	45.5		
France	1954	36.9 [d]	57.2	40.5		42.2		46.5		38.9		13.3	37.7 [c]	28.0	21.1
	1962	35.5	61.5	41.8		40.3		45.2		38.2		11.0	36.2	19.3	14.3
	1962				41.1										
	1980	32.5	61.2		47.2			46.6		34.9		6.6	36.9		
Western Germany	1950	77.1	70.4	50.5	40.5	36.9	36.1	36.6	34.6	29.9	20.8	9.3	39.6	35.2	27.6
	1961	78.2	71.9	50.7	44.6	46.3	45.4	42.3	38.1	32.8	20.9	8.0	41.1	19.8	16.2
	1980	60.8	66.5	50.5	42.3	44.5	47.4	45.1	39.0	34.0	21.0	4.4	36.9		
Greece	1961	46.8	52.2	43.6	38.6	37.5	36.7	36.3	32.5	27.3	21.0	9.9	35.5	65.5	55.3
Ireland	1951	48.7 [d]	64.8	41.5	27.0	21.2	20.2	21.2		21.8		17.0	30.6 [c]	20.8	9.5
	1961	53.8	67.2	38.7	24.0	19.1	19.2	21.0		22.5		15.0	28.9	14.7	4.2
	1961				24.8										
	1981	47.0	70.0		31.0			23.0		17.0		9.0	31.3		

Italy	1961	46.2	45.7	33.5	30.1	31.6	29.7	27.9	25.8	19.6	14.0	5.4	27.3	29.8	14.0
	1981	51.3	48.2	35.2	31.6	33.0	31.1	28.8	26.7	19.6	13.7	5.3	28.0		
Netherlands	1947	48.7 [d]	50.7	25.9	22.8	22.0	21.3	20.0	19.0	17.0	13.8	6.3	26.7 [c]	17.9	15.0
	1960	59.3	52.8	22.5	15.6	15.3	16.1	16.8	16.3	13.9	9.5	2.6	22.6	4.4	3.3
	1980	49.8	53.6	26.7	19.8	19.6	20.4	17.8	17.0	12.5	7.5	2.0	22.7		
Norway	1950	48.0	51.1	31.2	19.8		22.8		25.3		21.8	8.6	25.9	8.2	2.4
	1960				18.8		21.2		25.9						
	1960	42.5	47.7	25.6	18.8	18.7	19.9	22.5	24.9	27.0	23.1	7.6	23.8	4.0	..
	1980	26.0	59.2	43.3	33.6	36.0	39.0	35.0	37.0	36.0	30.0	8.3	31.5		
Portugal	1960 [e]	27.3	26.5	19.8	16.6	15.3	14.7	14.2	13.6	13.3	12.1	7.8	17.0	17.5	2.1
	1960 [f]	34.4	36.1	30.7	28.3	27.5	27.4	26.7	26.0	25.1	22.8	15.3	27.5		
	1980	34.4	36.1	30.7	28.3	27.5	27.4	26.7	26.0	25.1	22.8	12.2	26.6		
Spain	1960	27.1	28.2	18.1	15.1	14.5	15.8	16.9	17.2	16.4	15.4	10.2	17.7	..	..
	1965	40.7	44.8	26.0	21.4	21.0	23.2	23.5	23.7	22.5	17.9	7.1	24.9		
Sweden	1950	54.3	57.3	37.2	27.3	26.2	28.5	30.8	29.7	26.3	18.9	7.8	30.0	6.4	1.7
	1960	46.6	57.3	42.0	35.6	35.4	36.5	37.0	35.8	31.8	21.5	4.6	32.7	4.5	1.9
	1965	40.8	56.2	44.4	40.9	45.7	49.0	49.3	45.8	39.5	27.1	5.1	37.4		
	1980	27.0	54.6	49.2	42.1	49.1	56.7	57.5	57.9	54.4	36.3	2.8	38.0		
Switzerland	1950	64.0	67.6	40.8	28.5	27.2	28.0	28.6	28.4	27.1	23.8	11.9	33.7	4.7	2.5
	1960	63.2	69.9	43.2	32.1	30.2	29.6	30.5	31.2	30.3	25.4	11.0	35.3	3.0	1.9
	1981	59.0	68.1	51.0	37.0	38.0	38.0	35.0	33.2	30.3	17.4	7.0	35.4		
Turkey	1955	74.4	73.4	72.5	72.0	71.9	73.5	71.4	73.9	67.7	71.1	63.4	72.0	95.3	90.4
United Kingdom	1951	78.2	65.6	37.1		34.2		33.9		27.6	14.4	5.4	34.5	1.7	0.1
	1961	70.7	62.5	38.0		42.2		43.1		36.8	20.3	5.7	37.4	1.2	—
	1965	73.0	63.0	39.1	39.1	47.8	51.8	53.7	50.7	44.6	24.0	5.9	41.3		
	1975	56.3	54.4	39.2	39.5	52.0	57.7	58.5	57.3	50.6	26.0	6.2	40.0		
Yugoslavia	1961	60.0		50.5		42.7			28.1			14.3	44.2	68.4	51.4

Sources: United Nations Demographic Yearbook 1955 and *1964;* ILO, *Manpower aspects of recent economic developments in Europe,* Geneva 1968; national statistics and secretariat estimates.

a 14-17. *b* 18-29. *c* 14+. *d* 14-19. *e* Census activity rates. *f* Revised activity rates to include female family helpers.

APPENDIX V

Western Europe: determinants of changes in the active population, 1950-1965

(Thousands)

Country and Period	Total changes in active population			Attributable to:					
				Demographic factors			Changes in activity rates		
	MF	M	F	MF	M	F	MF	M	F
Austria									
Total in 1951 . . .	*3 361*	*2 056*	*1 305*						
Changes: 1951-1961	8.9	−45.7	54.6	26.8	47.4	−20.6	−17.9	−93.1	75.2
1961-1965	9.4	−10.5	19.9	9.1	14.1	−5.0	0.3	−24.6	24.9
1951-1965	18.3	−56.2	74.5	44.0	62.7	−18.7	−25.7	−118.9	93.2
Belgium									
Total in 1947 . . .	*3 481*	*2 660*	*821*						
Changes: 1947-1961	31.4	−80.5	111.9	11.5	17.6	−6.1	19.9	−98.1	118.0
1961-1965	134.0	73.0	61.0	25.0	20.0	5.0	109.0	53.0	56.0
1947-1965	165.4	−7.5	172.9	40.1	41.1	−1.0	125.3	−48.6	173.9
Denmark									
Total in 1950 . . .	*2 063*	*1 369*	*694*						
Changes: 1950-1960	30.2	78.5	−48.3	154.1	98.6	55.5	−123.9	−20.1	−103.8
1960-1965	105.0	61.0	44.0	99.9	67.0	32.9	5.1	−6.0	11.1
1950-1965	125.8	128.6	−2.8	262.1	169.0	93.1	−136.3	−40.4	−95.9
Finland									
Total in 1950 . . .	*1 984*	*1 176*	*808*						
Changes: 1950-1960	49.0	56.4	−7.4	186.8	127.3	59.5	−137.8	−70.9	−66.9
1960-1965	96.3	54.2	42.1	136.5	89.4	47.1	−40.2	−35.2	−5.0
1950-1965	145.3	110.6	34.7	353.6	235.0	118.6	−208.3	−124.4	−83.9
France									
Total in 1954 . . .	*19 151*	*12 505*	*6 646*						
Changes: 1954-1962	560	621	−61	1 197	984	213	−637	−363	−274
1962-1965	794	507	287	539	356	183	255	151	104
1954-1965	1 354	1 128	226	1 726	1 327	399	−372	−199	−173
Western Germany									
Total in 1950 . . .	*23 079*	*14 710*	*8 369*						
Changes: 1950-1961	3 743	2 180	1 563	3 053	2 257	796	690	−77	767
1961-1965	190	495	−305	358	505	−147	−168	−10	−158
1950-1965	3 933	2 675	1 258	3 703	2 905	798	230	−230	460
Ireland									
Total in 1951 . . .	*1 272*	*947*	*325*						
Changes: 1951-1961	−164.0	−125.7	−38.3	−125.6	−96.5	−29.1	−38.4	−29.2	−9.2
1961-1966	5.0	−2.5	7.5	47.1	23.2	23.9	−42.1	−25.7	−16.4
1951-1966	−159.0	−128.2	−30.8	−74.2	−63.5	−10.7	−84.8	−64.7	−20.1
Netherlands									
Total in 1947 . . .	*3 866*	*2 923*	*944*						
Changes: 1947-1960	302.2	317.7	−15.5	536.9	434.2	102.7	−234.7	−116.5	−118.2
1960-1965	373.1	228.4	144.7	411.7	293.6	118.1	−38.6	−65.2	26.6
1947-1965	675.3	546.1	129.2	984.5	758.2	226.3	−309.2	−212.1	−97.1
Norway									
Total in 1950 . . .	*1 380*	*1 053*	*327*						
Changes: 1950-1960	25.7	31.6	−5.9	81.2	64.9	16.3	−55.5	−33.3	−22.2
1960-1965	132.2	−8.3	140.5	72.8	47.7	25.1	54.9	−56.0	115.4
1950-1965	157.9	23.3	134.6	164.2	121.0	43.2	−6.3	−97.7	91.4
Sweden									
Total in 1950 . . .	*3 105*	*2 286*	*819*						
Changes: 1950-1960	139.4	−7.6	147.0	206.3	147.0	59.3	−66.9	−154.6	87.7
1960-1965	205.8	12.3	193.5	139.2	93.2	46.0	66.6	−80.9	147.5
1950-1965	345.2	4.7	340.5	371.9	260.5	111.4	−26.7	−255.8	229.1
Switzerland									
Total in 1950 . . .	*2 156*	*1 515*	*640*						
Changes: 1950-1960	356.8	240.8	116.0	343.0	263.1	79.9	13.8	−22.3	36.1
1960-1965	216.3	108.2	108.1	242.6	143.0	99.6	−26.3	−34.8	8.5
1950-1965	573.1	349.0	224.1	586.8	409.7	177.1	−13.7	−60.7	47.0

APPENDIX V (*continued*)

Western Europe : determinants of changes in the active population, 1950-1965

(Thousands)

Country and Period	Total change in active population			Attributable to:					
				Demographic factors			Changes in activity rates		
	MF	*M*	*F*	*MF*	*M*	*F*	*MF*	*M*	*F*
United Kingdom									
Total in 1951 . . .	*23 182*	*16 083*	*7 099*						
Changes: 1951-1961	1 435	565	870	953	831	122	482	−266	748
1961-1965	1 478	424	1 054	752	592	160	726	−168	894
1951-1965	2 913	989	1 924	1 783	1 464	319	1 130	−475	1 605
Yugoslavia									
Total in 1953 . . .	*7 849*	*5 169*	*2 680*						
Changes: 1953-1961	491.4	218.2	273.2	610.4	501.6	108.8	−119.0	−283.4	164.4
1961-1966	649.8	400.6	249.2	740.7	522.7	218.0	−90.9	−122.1	31.2
1953-1966	1 141.2	618.8	522.4	1 367.5	1 037.7	329.8	−226.3	−418.9	192.6

Sources: United Nations Demographic Yearbook, various issues; OECD, *Labour force statistics*, various issues; and national statistics.

NOTE. — For a description of the methods employed in obtaining these figures, see p. 151.

APPENDIX VI

Western Europe: projected active population 1965-1980 at constant 1965 activity rates

(VARIANT I)

(Thousands)

Country and Period	*Both sexes*	*Males*	*Females*
Austria			
Changes: 1965-1970	−21.8	3.9	−25.7
1970-1975	65.9	51.0	14.9
1975-1980	155.4	98.8	56.6
1965-1980	199.5	153.7	45.8
Total in 1980	*3 557*	*2 160*	*1 397*
Belgium			
Changes: 1965-1970	53.4	24.1	29.3
1970-1975	95.8	65.1	30.7
1975-1980	96.2	63.1	33.1
1965-1980	245.4	152.3	93.1
Total in 1980	*3 943*	*2 735*	*1 208*
Denmark			
Changes: 1965-1970	73.2	55.6	17.6
1970-1975	50.5	41.6	8.9
1975-1980	57.5	38.3	19.2
1965-1980	181.2	135.5	45.7
Total in 1980	*2 477*	*1 621*	*856*
Finland			
Changes: 1965-1970	123.4	82.1	41.3
1970-1975	84.5	62.8	21.7
1975-1980	75.3	56.4	18.9
1965-1980	283.2	201.3	81.9
Total in 1980	*2 413*	*1 488*	*925*
France			
Changes: 1965-1970	848	519	329
1970-1975	845	591	254
1975-1980	881	644	237
1965-1980	2 574	1 754	820
Total in 1980	*23 077*	*15 386*	*7 691*
Western Germany			
Changes: 1965-1970	−103	105	−208
1970-1975	231	233	−2
1975-1980	713	408	305
1965-1980	841	746	95
Total in 1980	*27 852*	*18 130*	*9 722*
Greece			
Changes: 1965-1970	201.6	155.8	45.8
1970-1975	192.6	148.3	44.3
1975-1980	163.8	131.0	32.8
1965-1980	558.0	435.1	122·9
Total in 1980	*4 485*	*3 133*	*1 352*
Ireland [a]			
Changes: 1966-1971	80.8	52.4	28.4
1971-1976	98.5	75.1	23.4
1976-1981	84.1	60.4	23.7
1966-1981	263.4	187.9	75.5
Total in 1981	*1 377*	*1 007*	*370*
Italy [a]			
Changes: 1966-1971	593	470	123
1971-1976	712	563	149
1976-1981	904	690	214
1966-1981	2 209	1 723	486
Total in 1981 . . .	*23 589*	*17 283*	*6 306*
Netherlands			
Changes: 1965-1970	325.4	247.8	77.6
1970-1975	288.9	243.9	45.0
1975-1980	316.3	255.1	61.2
1965-1980	930.6	746.8	183.8
Total in 1980	*5 473*	*4 216*	*1 257*
Norway			
Changes: 1965-1970	62.5	41.1	21.4
1970-1975	51.5	40.1	11.4
1975-1980	40.9	33.8	7.1
1965-1980	154.9	115:0	39.9
Total in 1980	*1 694*	*1 192*	*502*
Portugal			
Changes: 1965-1970	259.4	203.7	55.7
1970-1975	281.5	225.0	56.5
1975-1980	324.6	259.6	65.0
1965-1980	865.5	688.3	177.2
Total in 1980	*4 686*	*3 518*	*1 168*
Spain			
Changes: 1965-1970	674.5	547.0	127.5
1970-1975	756.4	594.3	162.1
1975-1980	825.8	641.5	184.3
1965-1980	2256.7	1 782.8	473.9
Total in 1980	*14 944*	*11 405*	*3 539*
Sweden			
Changes: 1965-1970	59.5	52.3	7.2
1970-1975	2.5	16.1	−13.6
1975-1980	15.2	12.0	3.2
1965-1980	77.2	80.4	−3.2
Total in 1980	*3 527*	*2 371*	*1 156*
Switzerland [a]			
Changes: 1966-1971	59.7	60.6	−0.9
1971-1976	60.2	55.0	5.2
1976-1981	92.3	66.4	25.9
1966-1981	212.2	182.0	30.2
Total in 1981	*2 941*	*2 046*	*895*
Turkey			
Changes: 1965-1970	2 022.8	1 312.5	710.3
1970-1975	2 567.8	1 616.9	950.9
1975-1980	2 783.4	1 741.9	1 041.5
1965-1980	7 374.0	4 671.3	2 702.7
Total in 1980	*20 791*	*12 976*	*7 815*
United Kingdom			
Changes: 1965-1970	121	159	−38
1970-1975	224	227	−3
1975-1980	808	499	309
1965-1980	1 153	885	268
Total in 1980	*27 248*	*17 957*	*9 291*
Yugoslavia [a]			
Changes: 1966-1971	649.0	472.7	176.3
1971-1976	649.2	481.8	167.4
1976-1981	564.6	441.4	123.2
1966-1981	1 862.8	1 395.9	466.9
Total in 1981	*10 853*	*7 184*	*3 669*

Sources: Appendices III and IV, and secretariat estimates.

[a] At constant 1966 activity rates.

APPENDIX VII

Western Europe: sources and methods for projections of activity rates

(VARIANT II)

NOTE. — When national sources have been used, they are indicated. The two main international sources, referred to as (1) and (2), are:

(1) OECD, *Demographic trends 1965-1980, Supplement, Country Reports*, Paris 1966.

(2) ILO, *Manpower aspects of recent economic developments in Europe*, Geneva 1968.

For some countries reference is made to the ILO model. This is fully described in the document J. N. Ypsilantis, *World and regional estimates and projections of labour force*, UN, ISLEP/A/VII/4, 1966. Briefly, in this model countries of the world were classified into 24 regions, grouped in four categories according to their level of development, this being measured on the basis of various indicators, the main one being the share of males active in agriculture (respectively 12, 35, 58 and 73 per cent). The pattern of sex and age specific labour force activity rates for a given region is estimated mainly on the basis of the regional trend between 1950 and 1960, but also by taking into account trends for countries in the upper region which had experienced similar levels of activity rates in the recent past.

Austria. — Age and sex specific activity rates of the last Census have been adjusted to obtain a total labour force in 1965 as in the annual estimate published in OECD, *Labour force statistics*. For activity rate projections, we have assumed that the national projections in source (1) are too conservative for activity rates for youths and for people aged 55 and over. For similar reasons we have not taken into account the recent national projection published in *Zweite Vorausschätzung des Österreichischen Arbeitskräftepotentials bis 1980*. Vienna 1968. From 1965 to 1980, activity rates have been projected as follows: males, reduction for longer schooling in the age groups 14-19 and 20-24; reduction for retirement in the ages 55 and over; constant in other age groups. Females: reduction for longer schooling in the ages 14-19; reduction for retirement in the ages 55 and over; constant in the other age groups (taking into account the large numbers in agriculture and the expected reducing effect of urbanization).

Belgium. — Age and sex specific activity rates of the last Census have been adjusted to obtain a total labour force in 1965 as in the annual estimate published in OECD, *Labour Force Statistics*. Then, activity rates have been projected up to 1975 on the basis of projected trends in F. Rogiers, "Les prévisions de la population active et de l'emploi dans le cadre de la programmation économique," in *Revue Belge de la Sécurité Sociale*, December 1965. The trends 1965-1975 have been extrapolated to 1980. The underlying assumptions are the following. Males: reductions in young ages for longer schooling (especially important in the age group 15-19); constant rates for all other ages. Females: reduction for longer schooling in the ages 15-19; and in 60 and over; constant in the ages 55-59; rising in all other ages.

Denmark. — Age and sex specific activity rates of the 1960 Census have been adjusted to obtain a total labour force in 1965 as in the annual estimate in OECD, *Labour force statistics*. Activity rates have been projected by starting from projections according to the ILO model for the region Northern Europe, as in (2). But, taking into account the substantial increase revealed by recent manpower surveys for females in the ages 20 to 54, activity rates for females in these age groups have been adjusted upwards. Activity rates for males and females aged 14 (respectively 20 per cent and 15 per cent in 1965) have been reduced to one per cent in 1980. Activity rates for males 15 to 29 and for men 55 and over have been reduced, while for the ages 30 to 54, they have been kept constant. Activity rates for females 15 to 24 and 55 and over have been assumed to decline and in other ages to increase.

Finland. — Age and sex specific activity rates of the 1960 Census have been adjusted to obtain a total labour force as in the annual estimate published in *Statistisk Årsbok för Finland*, 1967. Activity rates have been projected by following trends in (2). Rates for males 25-54 have been kept constant, and decline for the ages 15-24 and 55 and over. For females 15-24 and 55 and over, rates have been assumed to decline; for all other ages to increase.

France. — Source (2) has been used, where projected changes are mainly extrapolations of past trends. This implies quite significant declines for longer schooling (15-24 for males and 15-19 for females), modest declines for retirement for both sexes aged 55 and above, constant rates for males 25-54 and rates for females 25-54 rising modestly.

Western Germany. — Source (2) has been used, but by assuming sharper declines for longer schooling and for retirement. Activity rates for females between the ages of 25 and 49 have been kept constant, mainly by taking into account the overcounting in agriculture and the effect of expected shifts from this sector.

Greece. — Activity rates have been projected by taking into account trends projected in (2). These imply a considerable reduction for longer schooling in the age groups 10-14 and 15-19, and for retirement (65 and over for men and 55 and over for females), this being justified by the large share of self-employment.

Ireland. — Source (2) has been used, but declines for longer schooling, and for retirement have been assumed to increase. Activity rates for females between 20 and 54 have been assumed to increase.

Italy. — Projections have been taken from M. Livi Bacci and F. Pilloton, *Popolazione e forze di lavoro delle regioni italiane al 1981*, SVIMEZ, Rome 1968. In this work, projections for the whole country from 1961 to 1981 have been obtained from regional projections. The country has been divided into 16 regions (of which 8 developed and 8 less developed). For males, differences are mainly in young age-groups (longer schooling in developed regions). For females, the country has been divided into five zones with very different activity patterns, according to the degree of industrialization, but also according to local socio-economic factors. According to the SVIMEZ model, the gaps between regions with different levels of development will be considerably reduced by 1981. For males, there will be in 1981 complete equality of activity rates between regions. For females, increases in activity rates from 1961 to 1981 in developed regions will be very small; the less developed regions will roughly rise by one-third of the difference from the level in the upper zone. Having obtained the full series for the years 1961 and 1981, data for 1966 were obtained by ignoring the decline from 1961 which actually took place (but which was due to purely cyclical

reasons) in the ages between 20 and 59. Data for 1971 and 1976 were obtained by linear interpolation.

Netherlands. — Source (2) has been used. This implies the following assumptions. Increases in school attendance will result in marked declines in young ages (14-24), for both sexes but particularly for males. For females, increases in school attendance will be offset by increased activity among non-scholars. Decreases for retirement have been assumed to be smaller than in the period 1947-1960, when declines were strongly influenced by new regulations for pensions. Activity rates for unmarried women in the ages 25-49 will increase in the whole country to reach in 1980 the current level in Amsterdam. The same applies to married women, excluding family helpers. For married female family helpers, activity rates will decline because the number of male self-employed will decline. The result of these contrasting trends gives, on the whole, a very modest increase in female activity rates in central ages.

Norway. — Age and sex specific activity rates for 1965 given in (1) and (2) have been adjusted to obtain the total labour force as in the annual estimate published in OECD, *Labour force statistics*. Projections to 1980 have been made by following trends in (1) and (2). Activity rates for boys 15-19 have been reduced considerably for longer schooling; reduced slightly in the ages 20 to 29 and in ages after 60. Also for females, declines for longer schooling (15-19) and slight declines in the group 20-24 and after 60; moderate rises in the ages 25 to 59, but more significant between 35 and 44.

Portugal. — Projections taken from *Centro de Estudos Demograficos, Revista*, no. 16, 1965. The starting point for projections is activity rates of the 1961 Census, adjusted to include female helpers in agriculture. Activity rates for both males and females in the age group 10-14 have been assumed to decrease significantly; for males in the ages 15-19 and 60 and over and for females 65 and over, the assumption is a small decrease. In all other ages, for both males and females, activity rates have been assumed constant.

Spain. — Age and sex specific activity rates have been derived from *Encuesta sobre población activa*, 1965 (which gives a female labour force 37 per cent higher than in Source (2)). Then, activity rates have been projected according to the ILO model for southern Europe (reproduced in Source (2)) supplemented by secretariat estimates. This implies reductions for longer schooling (10-24 for males and 10-19 for females) and for retirement (50 and over for males and 60 and over for females). Activity rates for males in the ages 25-49 have been kept constant, as well as for females in the ages 50-59. For females in the ages 20-49, modest increases have been assumed.

Sweden. — Projected activity rates have been taken from projections of total population by sex and age (including 10,000 immigrants per year) and of active population by sex and age (also including immigrants) and have been applied to the projected total population excluding immigrants, by sex and age. (This implies equal activity rates for the domestic population and for immigrants.) Projected total population has been taken from *Statistiska Meddelanden*, Be 1968:3 and projected active population from *Avstämning av 1965 års långtidsutredning*, 1968:24. The projections assume a considerable decline in activity rates in ages 15-19 for both males and females; a significant decline in the ages 20-24 for males and a smaller one for females; a relatively small decline for males in the retirement ages (after 60); a rise in activity rates for females at all ages from 25 to 64, but the biggest increases are expected after 40; activity rates for unmarried females in the ages 25-59 are already extremely high (from 60 to 80 per cent), so that expected gains are rather small; instead big increases are anticipated for married women. A previous projection, which assumed considerably bigger increases in female activity rates, was published in SCB, *Information i Prognosfragor*, 1966: 2 (The supply of manpower in Sweden 1960-1980) and was used for the 1966-1970 plan.

Switzerland. — Activity rates for 1966 have been estimated by adjusting 1960 census data. Projected activity rates to 1981 are secretariat estimates. The assumptions are a slight decline, for males and females, in ages 15-24 and for retirement after 60; activity rates for females in the ages 25 to 49 are assumed to be increasing moderately.

Turkey. — Source (2) has been mainly used, but activity rates for females in the age groups 20 to 44 have been kept constant, instead of rising as in the ILO model.

United Kingdom. — The source used is *Ministry of Labour Gazette*, November 1966, complemented by source (2) for the year 1980. These assume a considerable reduction of activity rates in the ages 15-19, where school attendance is still very low; a very moderate reduction for retirement after 64; and female activity rates in the ages 25-34 almost unchanged and increasing moderately after 35.

Yugoslavia. — Source (2) has been used, taking projections according to the ILO model for the regions of southern Europe and eastern Europe. This implies a moderate reduction of activity rates in the educational ages (more marked for males); a marked reduction of activity in the ages after 64 (especially for males), connected with anticipated shifts out of agriculture; a very moderate rise in activity rates for females in the ages 25-64.

After completion of the present note, a new set of projections was issued in *Stanovnistvo*, 1968. The total active population as projected by age and sex in this source is some 1.7 per cent less than in Source (2), 0.9 per cent less for males and 3.9 per cent less for females. The main differences are for females in the age groups from 25 to 64.

APPENDIX VIII

Western Europe: determinants of changes in the active population, 1965-1980

(VARIANT II)

(Thousands)

Country and Period	Total change in active population			Attributable to:					
				Demographic factors			Changes in activity rates		
	MF	M	F	MF	M	F	MF	M	F
Austria									
Changes: 1965-1970	−122.1	−47.2	−74.9	−21.8	3.9	−25.7	−100.3	−51.1	−49.2
1970-1975	22.1	26.5	−4.4	52.1	43.5	8.6	−30.0	−17.0	−13.0
1975-1980	114.0	76.2	37.8	141.2	91.7	49.5	−27.2	−15.5	−11.7
1965-1980	14.0	55.5	−41.5	199.5	153.7	45.8	−185.5	−98.2	−87.3
Total in 1980	*3 371*	*2 061*	*1 310*						
Belgium									
Changes: 1965-1970	58.0	−4.3	62.3	53.4	24.1	29.3	4.6	−28.4	33.0
1970-1975	91.0	39.2	51.8	95.2	63.8	31.4	−4.2	−24.6	20.4
1975-1980	94.8	39.8	55.0	98.2	62.8	35.4	−3.4	−23.0	19.6
1965-1980	243.8	74.7	169.1	245.4	152.3	93.1	−1.6	−77.6	76.0
Total in 1980	*3 942*	*2 658*	*1 284*						
Denmark									
Changes: 1965-1970	35.7	27.2	8.5	73.2	55.6	17.6	−37.5	−28.4	−9.1
1970-1975	12.2	10.6	1.6	51.0	41.2	9.8	−38.8	−30.6	−8.2
1975-1980	15.3	7.2	8.1	54.9	36.4	18.5	−39.6	−29.2	−10.4
1965-1980	63.2	45.0	18.2	181.2	135.5	45.7	−118.0	−90.5	−27.5
Total in 1980	*2 359*	*1 530*	*82.9*						
Finland									
Changes: 1965-1970	82.3	53.8	28.5	123.4	82.1	41.3	−41.1	−28.3	−12.8
1970-1975	40.2	27.4	12.8	86.8	63.4	23.4	−46.6	−36.0	−10.6
1975-1980	38.3	24.9	13.4	75.5	56.0	19.5	−37.2	−31.1	−6.1
1965-1980	160.8	106.1	54.7	283.2	201.3	81.9	−122.4	−95.2	−27.2
Total in 1980	*2 291*	*1 393*	*898*						
France									
Changes: 1965-1970	270	87	183	846	517	329	−576	−430	−146
1970-1975	695	385	310	915	653	262	−220	−268	48
1975-1980	759	447	312	734	535	199	25	−88	113
1965-1980	1 724	919	805	2 573	1 753	820	−849	−834	−15
Total in 1980	*22 229*	*14 552*	*7 677*						
Western Germany									
Changes: 1965-1970	−334	−33	−301	−103	105	−208	−231	−138	−93
1970-1975	−69	83	−152	215	222	−7	−284	−139	−145
1975-1980	578	426	152	855	569	286	−277	−143	−134
1965-1980	175	476	−301	841	746	95	−666	−270	−396
Total in 1980	*27 186*	*17 860*	*9 326*						
Greece									
Changes: 1965-1970	143.2	93.6	49.6	201.6	155.8	45.8	−58.4	−62.2	3.8
1970-1975	117.7	107.2	10.5	189.0	146.8	42.2	−71.3	−39.6	−31.7
1975-1980	93.2	86.1	7.1	159.1	127.1	32.0	−65.9	−41.0	−24.9
1965-1980	354.1	286.9	67.2	558.0	435.1	122.9	−203.9	−148.2	−55.7
Total in 1980	*4 282*	*2 985*	*1 297*						

APPENDIX VIII (*continued*)

Western Europe: determinants of changes in the active population, 1965-1980

(VARIANT II)

(Thousands)

Country and Period	Total change in active population			Attributable to:					
				Demographic factors			Changes in activity rates		
	MF	*M*	*F*	*MF*	*M*	*F*	*MF*	*M*	*F*
Ireland									
Changes: 1966-1971	76.2	43.3	32.9	80.8	52.4	28.4	−4.6	−9.1	4.5
1971-1976	83.0	54.7	28.3	89.2	64.7	24.5	−6.2	−10.0	3.8
1976-1981	89.1	59.8	29.3	95.0	69.2	25.8	−5.9	−9.4	3.5
1966-1981	248.3	157.8	90.5	263.4	187.9	75.5	−15.1	−30.1	15.0
Total in 1981	*1 362*	*977*	*385*						
Italy									
Changes: 1966-1971	643	461	182	593	470	123	50	−9	59
1971-1976	780	560	220	706	558	148	74	2	72
1976-1981	999	689	310	909	685	224	90	4	86
1966-1981	2 422	1 710	712	2210	1 723	487	212	−13	225
Total in 1981	*23 802*	*17 270*	*6 532*						
Netherlands									
Changes: 1965-1970	260.9	193.1	67.8	325.4	247.8	77.6	−64.5	−54.7	−9.8
1970-1975	219.4	185.3	34.1	288.2	242.2	46.0	−68.8	−56.9	−11.9
1975-1980	250.0	195.6	54.4	309.8	249.1	60.7	−59.8	−53.5	−6.3
1965-1980	730.3	574.0	156.3	930.6	746.8	183.8	−200.3	−172.8	−27.5
Total in 1980	*5 272*	*4 043*	*1 229*						
Norway									
Changes: 1965-1970	47.0	25.9	21.1	62.5	41.1	21.4	−15.5	−15.2	−0.3
1970-1975	37.4	26.9	10.5	50.9	39.6	11.3	−13.5	−12.7	−0.8
1975-1980	28.9	20.5	8.4	41.8	33.7	8.1	−12.9	−13.2	0.3
1965-1980	113.3	73.3	40.0	153.9	115.0	38.9	−40.6	−41.7	1.1
Total in 1980	*1 652*	*1 150*	*502*						
Portugal									
Changes: 1965-1970	214.0	168.6	45.4	259.4	203.7	55.7	−45.4	−35.1	−10.3
1970-1975	226.2	182.2	44.0	277.0	221.5	55.5	−50.8	−39.3	−11.5
1975-1980	258.5	209.2	49.3	314.1	251.6	62.5	−55.6	−42.4	−13.2
1965-1980	698.7	560.0	138.7	865.5	688.3	177.2	−166.8	−128.3	−38.5
Total in 1980	*4 519*	*3 389*	*1 130*						
Spain									
Changes: 1965-1970	553.2	418.7	134.5	674.5	547.0	127.5	−121.3	−128.3	7.0
1970-1975	569.8	428.7	141.1	743.6	584.4	159.2	−173.8	−155.7	−18.1
1975-1980	625.0	458.0	167.0	808.4	623.3	185.1	−183.4	−163.5	−18.1
1965-1980	1 748.0	1 305.4	442.6	2 256.7	1 782.8	473.9	−508.7	−477.4	−31.3
Total in 1980	*14 435*	*10 927*	*3 508*						
Sweden									
Changes: 1965-1970	22.7	−31.9	54.6	59.5	52.3	7.2	−36.8	−84.2	47.4
1970-1975	−4.1	−23.9	19.8	2.0	16.9	−14.9	−6.1	−40.8	34.7
1975-1980	−15.1	−27.5	12.4	4.2	7.6	−3.4	−19.3	−35.1	15.8
1965-1980	3.5	−83.3	86.8	77.2	80.4	−3.2	−73.7	−163.7	90.0
Total in 1980	*3 453*	*2 207*	*1 246*						

Country and Period	Total change in active population			Attributable to:					
				Demographic factors			Changes in activity rates		
	MF	M	F	MF	M	F	MF	M	F
Switzerland									
Changes: 1966-1971	46.4	41.7	4.7	59.7	60.6	−0.9	−13.3	−18.9	5.6
1971-1976	46.4	34.4	12.0	59.3	54.1	5.2	−12.9	−19.7	6.8
1976-1981	80.3	46.4	33.9	91.3	64.5	26.8	−11.0	−18.1	7.1
1966-1981	173.1	122.5	50.6	212.2	182.0	30.2	−39.1	−59.5	20.4
Total in 1981	*2 902*	*1 987*	*915*						
Turkey									
Changes: 1965-1970	1 879	1 241	638	2 023	1 312	711	−144	−71	−73
1970-1975	2 370	1 510	860	2 542	1 602	940	−172	−92	−80
1975-1980	2 555	1 626	929	2 740	1 723	1 017	−185	−97	−88
1965-1980	6 804	4 377	2 427	7 374	4 671	2 703	−570	−294	−276
Total in 1980	*20 221*	*12 682*	*7 539*						
United Kingdom									
Changes: 1965-1970	114	85	29	121	159	−38	−7	−74	67
1970-1975	−111	−52	−59	220	217	3	−331	−269	−62
1975-1980	834	368	466	693	445	248	141	−77	218
1965-1980	837	401	436	1 153	885	268	−316	−484	168
Total in 1980	*26 932*	*17 473*	*9 459*						
Yugoslavia									
Changes: 1966-1971	723.0	454.9	268.1	649.0	472.7	176.3	74.0	−17.8	91.8
1971-1976	622.6	415.2	207.4	559.3	442.8	116.5	63.3	−27.6	90.9
1976-1981	520.8	370.8	150.0	486.5	404.3	82.2	34.3	−33.5	67.8
1966-1981	1 866.4	1 240.9	625.5	1 862.8	1 395.9	466.9	3.6	−155.0	158.6
Total in 1981	*10 857*	*7 029*	*3 828*						

Sources: Appendices III and VII.

NOTE.— The breakdown of total changes was obtained by using a similar technique to that employed in appendix V.

APPENDIX IX

Western Europe: projections by age and sex of total population and active population (VARIANT II)

(Thousands)

Country and year	Age groups										All ages		
	15-19		20-34		35-49		50-64		65+				
	M	F	M	F	M	F	M	F	M	F	M	F	MF
Austria													
Total population													
1965	251	240	737	714	557	701	622	794	360	589	3 378	3 856	7 234
1970	242	234	766	742	632	728	510	692	401	658	3 472	3 938	7 410
1975	283	273	775	755	648	661	485	694	421	717	3 562	4 011	7 573
1980	318	309	763	744	713	703	496	662	417	758	3 668	4 090	7 758
Active population													
1965	217 [a]	192 [a]	692	457	540	373	513	286	44	42	2 006	1 351	3 357
1980	199 [a]	181 [a]	710	472	691	375	416	236	46	45	2 061	1 310	3 371
Belgium													
Total population													
1965	356	343	901	878	882	887	820	894	496	693	4 598	4 786	9 384
1970	363	349	930	903	965	967	729	798	534	753	4 685	4 876	9 561
1975	386	370	999	962	915	909	757	806	559	800	4 789	4 964	9 753
1980	384	368	1 093	1 053	864	861	775	831	566	816	4 890	5 081	9 971
Active population													
1965	169	148	849	414	843	329	672	195	50	28	2 583	1 114	3 697
1980	129	143	1 002	557	825	356	645	200	57	28	2 658	1 284	3 942
Denmark													
Total population													
1965	216	206	475	467	442	451	398	422	243	293	2 347	2 385	4 732
1970	190	181	550	532	430	439	407	428	266	326	2 441	2 478	4 919
1975	187	179	588	564	423	426	412	434	291	358	2 542	2 575	5 117
1980	192	185	587	563	464	458	399	421	313	383	2 637	2 662	5 299
Active population													
1965	149	130	450	267	434	241	368	141	76	26	1 485	811	2 296
1980	99	87	550	316	456	259	358	140	66	26	1 530	829	2 359
Finland													
Total population													
1965	249	240	483	464	400	438	322	399	140	232	2 233	2 386	4 619
1970	220	213	574	553	418	431	318	403	161	262	2 317	2 461	4 778
1975	204	197	630	608	423	418	318	403	186	298	2 389	2 525	4 914
1980	205	197	643	621	443	433	333	401	197	322	2 455	2 580	5 035
Active population													
1965	129	87	439	275	389	264	282	194	47	23	1 287	843	2 130
1980	59	43	579	375	430	272	286	188	39	20	1 393	898	2 291

France													
Total population													
1965	2 035	1 959	4 719	4 453	4 264	4 253	4 005	4 365	2 186	3 667	23 474	24 733	48 207
1970	2 087	2 019	5 021	4 779	4 970	4 893	3 447	3 774	2 538	4 002	24 335	25 502	49 837
1975	2 074	2 001	5 530	5 335	5 809	4 646	3 631	3 908	2 867	4 285	25 353	26 370	51 723
1980	2 073	1 997	6 127	5 951	4 567	4 376	3 840	4 017	3 134	4 489	26 496	27 318	53 814
Active population													
1965	1 174	866	7 712 [b]	3 496 [b]	2 178 [c]	1 076 [c]	1 966 [d]	1 040 [d]	498	341	13 633	6 872	20 505
1980	852	649	8 573 [b]	4 409 [b]	3 008 [c]	1 472 [c]	1 787 [d]	851 [d]	332	296	14 552	7 677	22 229
Western Germany													
Total population													
1965	1 823	1 727	6 822	6 290	4 673	5 721	5 012	6 430	2 687	4 233	27 766	30 822	58 588
1970	1 994	1 903	6 583	6 146	5 524	6 033	4 188	5 736	3 072	4 795	28 692	31 583	60 275
1975	2 184	2 078	6 039	5 740	6 298	6 049	3 963	5 643	3 348	5 333	29 496	32 128	61 624
1980	2 521	2 410	5 906	5 673	6 594	6 159	4 160	5 341	3 394	5 689	30 241	32 548	62 789
Active population													
1965	1 243	1 154	6 475	3 432	4 594	2 619	4 426	2 129	646	293	17 384	9 627	27 011
1980	1 513	1 465	5 533	3 056	6 480	2 817	3 756	1 740	578	248	17 860	9 326	27 186
Greece													
Total population													
1965	376	362	1 007	1 060	780	845	625	669	320	422	4 225	4 415	8 640
1970	365	344	1 031	1 045	902	973	632	687	371	476	4 414	4 582	8 996
1975	378	358	1 040	1 010	1 004	1 080	641	713	433	535	4 588	4 735	9 323
1980	367	350	1 019	1 056	982	1 041	716	796	491	599	4 751	4 876	9 627
Active population													
1965	252	169	1 505 [b]	696 [b]	421 [c]	169 [c]	317 [d]	101 [d]	137	42	2 698	1 229	3 927
1980	207	133	1 673 [b]	778 [b]	600 [c]	251 [c]	333 [d]	86 [d]	139	25	2 985	1 297	4 282
Ireland													
Total population													
1966	139	129	251	246	236	242	224	219	149	173	1 456	1 446	2 902
1971	145	139	314	299	220	228	230	230	151	178	1 545	1 539	3 084
1976	151	144	386	366	213	216	225	235	158	189	1 677	1 672	3 349
1981	158	152	434	412	241	237	211	226	169	205	1 852	1 845	3 697
Active population													
1966	83	64	385 [b]	145 [b]	160 [c]	33 [c]	121 [d]	27 [d]	65	21	819	294	1 113
1981	79	71	575 [b]	236 [b]	134 [c]	33 [c]	121 [d]	26 [d]	68	18	977	385	1 362
Italy													
Total population													
1966	2 149	2 072	5 824	5 744	5 017	5 250	4 165	4 541	2 260	3 101	25 975	27 003	52 978
1971	2 009	1 941	6 050	5 912	5 531	5 690	4 050	4 476	2 557	3 446	27 160	28 125	55 285
1976	2 127	2 045	5 998	5 839	5 685	5 734	4 275	4 733	2 964	3 880	28 270	29 144	57 414
1981	2 368	2 270	6 201	6 025	5 662	5 642	4 559	4 955	3 297	4 243	29 324	30 070	59 394
Active population													
1966	1 504	936	5 207	2 086	4 790	1 571	3 308	918	547	167	15 560	5 820	21 380
1981	1 610	1 164	5 578	2 312	5 446	1 747	3 766	1 028	798	222	17 270	6 532	23 802

APPENDIX IX *(continued)*

Western Europe: projections by age and sex of total population and active population

Country and year	Age groups										All ages		
	15-19		20-34		35-49		50-64		65+				
	M	F	M	F	M	F	M	F	M	F	M	F	MF
Netherlands													
Total population													
1965	597	570	1 268	1 207	1 070	1 099	850	924	530	632	6 090	6 122	12 212
1970	565	538	1 462	1 394	1 131	1 141	874	955	580	728	6 418	6 478	12 896
1975	584	558	1 613	1 543	1 156	1 134	928	1 016	630	832	6 759	6 849	13 608
1980	615	588	1 730	1 661	1 237	1 194	965	1 052	672	929	7 129	7 247	14 375
Active population													
1965	351	348	1 202	399	1 054	187	770	123	92	16	3 469	1 073	4 542
1980	266	293	1 619	554	1 218	230	870	133	69	19	4 043	1 229	5 272
Norway													
Total population													
1965	163	154	339	325	368	362	320	332	211	253	1 867	1 868	3 735
1970	155	147	399	378	335	329	342	349	240	286	1 950	1 944	3 894
1975	157	149	447	422	308	302	355	358	270	315	2 045	2 030	4 075
1980	154	145	468	443	326	318	344	345	299	343	2 148	2 122	4 270
Active population													
1965	68	59	287	147	360	117	296	113	66	26	1 077	462	1 539
1980	40	38	398	201	320	117	313	118	79	28	1 150	502	1 652
Portugal													
Total population													
1965	393	407	938	1 049	762	859	607	723	295	448	4 348	4 785	9 133
1970	419	409	1 025	1 113	829	945	614	721	336	515	4 686	5 096	9 782
1975	436	419	1 132	1 167	862	992	652	766	382	574	5 061	5 433	10 494
1980	480	457	1 237	1 228	906	1 027	680	804	436	640	5 464	5 789	11 253
Active population													
1965	334	140	910	333	741	234	537	179	176	65	2 829	991	3 821
1980	386	157	1 200	390	881	279	596	200	224	78	3 389	1 130	4 519
Spain													
Total population													
1965	1 332	1 301	3 486	3 569	3 058	3 273	2 169	2 495	1 188	1 672	15 799	16 638	32 437
1970	1 394	1 290	3 611	3 609	3 357	3 530	2 234	2 621	1 341	1 858	16 787	17 560	34 347
1975	1 514	1 461	3 860	3 791	3 382	3 454	2 454	2 845	1 482	2 056	17 779	18 480	36 259
1980	1 611	1 546	4 188	4 021	3 364	3 483	2 732	3 050	1 580	2 218	18 778	19 399	38 177
Active population													
1965	967	530	3 260	1 101	2 998	736	1 956	538	347	118	9 622	3 065	12 687
1980	1 025	541	3 869	1 374	3 297	837	2 410	636	310	103	10 927	3 508	14 435

Sweden													
Total population													
1965	316	302	788	750	772	762	723	741	448	545	3 882	3 890	7 772
1970	275	261	885	839	723	712	746	759	492	615	4 005	4 022	8 027
1975	269	254	906	863	701	680	741	756	543	683	4 108	4 135	8 243
1980	290	275	853	817	778	743	705	723	579	731	4 189	4 220	8 409
Active population													
1965	141	123	649	361	739	366	653	281	108	28	2 290	1 160	3 450
1980	78	74	692	394	743	400	620	357	74	20	2 207	1 246	3 453
Switzerland													
Total population													
1966	237	235	704	688	526	550	459	513	264	388	2 898	3 055	5 953
1971	220	212	735	722	550	573	463	506	296	432	3 027	3 174	6 201
1976	231	223	727	720	594	599	462	502	325	468	3 149	3 288	6 437
1981	253	242	677	666	683	677	471	518	340	482	3 264	3 386	6 650
Active population													
1966	154	146	667	354	520	177	428	149	95	39	1 864	865	2 729
1981	152	143	641	345	675	251	427	142	92	34	1 987	915	2 902
Turkey													
Total population													
1965	1 537	1 360	3 353	3 401	2 148	2 057	1 471	1 460	532	735	15 946	15 445	31 391
1970	1 984	1 767	3 739	3 599	2 683	2 644	1 432	1 402	704	885	18 053	17 475	35 528
1975	2 313	2 159	4 599	4 190	2 976	3 036	1 576	1 554	859	1 019	20 529	19 891	40 420
1980	2 436	2 358	5 692	5 179	3 162	3 231	1 873	1 856	1 018	1 159	23 235	22 532	45 767
Active population													
1965	1 137	835	4 852 [b]	3 029 [b]	1 037 [c]	614 [c]	842 [d]	535 [d]	436	99	8 305	5 112	13 417
1980	1 656	1 368	7 518 [b]	4 468 [b]	1 835 [c]	1 058 [c]	937 [d]	526 [d]	736	119	12 682	7 539	20 221
United Kingdom													
Total population													
1965	2 207	2 096	5 341	5 125	5 254	5 251	4 817	5 278	2 485	4 072	26 597	27 998	54 595
1970	1 963	1 875	5 783	5 599	5 238	5 107	4 686	5 120	2 754	4 403	27 328	28 661	55 989
1975	2 100	1 997	5 999	5 850	5 049	4 833	4 714	5 086	3 005	4 697	28 213	29 440	57 653
1980	2 394	2 281	6 272	6 118	5 132	4 893	4 602	4 859	3 180	4 935	29 213	30 335	59 548
Active population													
1965	1 589	1 530	5 168	2 438	5 144	2 683	4 570	2 132	601	240	17 072	9 023	26 095
1980	1 308	1 263	9 512 [b]	4 623 [b]	3 237 [c]	1 940 [c]	2 832 [d]	1 321 [d]	584	312	17 473	9 459	26 932
Yugoslavia													
Total population													
1966	933	900	2 279	2 261	1 681	1 893	1 227	1 377	577	805	9 681	10 077	19 758
1971	1 019	972	2 380	2 337	2 110	2 246	1 120	1 314	696	922	10 298	10 605	20 903
1976	956	921	2 608	2 524	2 284	2 306	1 186	1 454	811	1 046	10 861	11 081	21 943
1981	967	910	2 864	2 752	2 184	2 179	1 492	1 730	824	1 084	11 438	11 570	23 008
Active population													
1966	591	506	3 456 [b]	1 946 [b]	702 [c]	317 [c]	665 [d]	231 [d]	310	108	5 788	3 202	8 990
1981	539	475	4 075 [b]	2 337 [b]	1 382 [c]	581 [c]	604 [d]	259 [d]	385	115	7 029	3 828	10 857

Sources: Appendices III and VII. [a] 14-19. [b] 20-44. [c] 45-54. [d] 55-64.

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Sales No.: 64.II.E.1 Price: $(US)4.00 Published in 1964

Economic Planning in Europe (*Economic Survey of Europe in 1962*, Part 2)
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Incomes in Postwar Europe: A Study of Policies, Growth and Distribution (*Economic Survey of Europe in 1965*, Part 2)
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