WORLD ECONOMIC SURVEY 1955

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FOREWORD

This report, *World Economic Survey, 1955*, is the eighth in a series of comprehensive reviews of world economic conditions published by the United Nations. It is issued in response to General Assembly resolution 118 (II), in which the Secretary-General was asked to prepare annual factual surveys and analyses of world economic conditions and trends. The report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of the world economic situation as a prerequisite for recommendations in the economic field, as well as to serve the needs of the general public.

Part I of the present survey complies with the request of the Economic and Social Council, contained in a decision of 6 December 1955, that in connexion with the celebration of the Council's tenth anniversary at the twenty-second session, the Secretariat should devote special attention, in some of the important documents relating to the world economic situation, to developments during the past ten years. To this end, chapters 1 and 2 review the growth of production and trade in the private enterprise economies during the first post-war decade; and chapter 3 covers the same ground for the centrally planned economies. Drawing upon the analyses in these chapters, the Introduction examines some of the major problems of balanced growth encountered since the war.

Part II of the survey is devoted to an examination of recent developments in the world economy. Chapters 4 and 5 deal, respectively, with the recent situation in industrially advanced and primary producing private enterprise economies. They also contain brief assessments of the economic outlook at the beginning of 1956, based largely upon replies by governments to a questionnaire concerning full employment and the balance of payments circulated by the Secretary-General in November 1955. Chapter 6 contains an account of recent changes in the centrally planned economies and of certain long-term economic plans of which details have recently been published.

There are published as supplements to this survey reviews of economic conditions in areas outside the scope of the work of the regional economic commissions of the United Nations: *Economic Developments in the Middle East, 1954-1955* (1956.II.C.2) and *Economic Developments in Africa, 1954-1955* (1956.II.C.3).

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

The survey was prepared in the Department of Economic and Social Affairs by the Bureau of Economic Affairs.

EXPLANATORY NOTE

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

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

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

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

A minus sign (–) indicates a deficit or decrease

A full stop (.) is used to indicate decimals

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

A slash (/) indicates a crop year or financial year, e.g., 1953/54

Use of a hyphen (-) between dates representing years, e.g., 1950-1954, signifies the full period involved, including the beginning and end years.

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

The term "billion" signifies a thousand million.

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

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INTRODUCTION

Introduction

BALANCED GROWTH: AN APPRAISAL OF THE POST-WAR RECORD

The economic progress of the first post-war decade cannot as yet be adequately evaluated. Viewed in terms of past history it appears truly impressive, but seen in relation to recognized international goals it seems to diminish in significance. Only future developments will show whether the smaller or the larger lens gives the more significant picture.

There can be little doubt that the economic record of this post-war decade is superior to that of the decade following the First World War. Though the damage and destruction of war were greater by far this time, the recovery and growth of output were more rapid and more widespread. Economic crises generated by the war were more readily overcome, and even long-standing problems of imbalance and stagnation yielded in part to the forces of growth.

Nevertheless, the history of the period does not justify untempered optimism; on the contrary, it provides ground for serious concern. Despite a record of unparalleled growth the problem of mass poverty in a large part of the world remains as stubborn as ever. Moreover, such growth as has taken place has been due only in part to favourable long-term forces; to a significant extent it has also been based on special and temporary supports, some of which have been disappearing in the course of the period. In only a few of the under-developed countries has per capita economic growth been consolidated to a point where it may be considered self-cumulating. Even fewer countries have been able to develop and diversify their economies sufficiently to strengthen their resistance to inflationary or deflationary shocks from abroad; indeed, some countries have even been made more vulnerable to outside shocks by the very process of economic development. And though the developed countries have demonstrated a remarkable capacity for growth, that growth has not been free from a considerable degree of instability. Indeed, it must always be borne in mind that the process of growth itself tends to generate powerful forces of instability which, if not compensated, may prove frustrating and lead to an economic reversal. One decade of prosperity provides no proof either that the world has acquired permanent immunity against the business cycle, or that the national and international remedies in its medicine chests would be sufficiently potent to cope with another outcropping of the disease.

A DECADE OF GROWTH

The dimensions of post-war economic growth will be reviewed in the following chapters. The earth has become capable of supporting a far larger population than ever before. The habitable area of the world has been expanded and the cultivated land made to yield larger quantities of food and of raw materials for industry. Industrial output has made great strides, production at the end of the decade being estimated at more than double the pre-war level.

In the under-developed countries expanded networks of transportation and communication have made a beginning towards overcoming the heritage of centuries of economic fragmentation. Increased energy utilization—together with the introduction of modern science and technology—is contributing towards higher productivity. New industries have been established to provide the nucleus for future growth. Increased exports combined with improved terms of trade have raised the capacity to import of most under-developed countries and have laid the basis for further economic development.

Perhaps the most significant advance in the under-developed countries to date, however, lies not so much in the physical expansion of productive capacity per capita as in the evolution of a social climate favourable to economic development. The change in social philosophy, especially in countries which have only recently acquired national independence, is of revolutionary proportions; the vision of economic and social progress is taking its place alongside religion and language as a basis for social integration. Its effects are visible not only in the market-place but in political and social institutions. Perhaps the outstanding change is to be found in the fact that governments are increasingly coming to view themselves and to be viewed by their peoples as engines for the promotion of economic and social welfare; this has already had far-reaching implications in converting the government budget into an instrument for the development of both natural and human resources. It underlies not only encouraging developments in fiscal policy and administration but also widespread reforms of private institutions—most notably in connexion with land ownership—which have in the past stifled economic development. Under its stimulus, a virtual revolution in public health has lifted life expectancy, and a strik-

ing advance in public education has made marked inroads upon illiteracy, perhaps the most confining bottleneck limiting the rate of economic development.

In the industrial countries full employment has been maintained in peace time after a decade of mass unemployment before the war. Under the stimulus of constantly rising effective demand, unemployment has been reduced to levels that would not have seemed possible earlier. In retrospect unemployment levels of pre-war years now seem almost unbelievably high. From levels ranging as high as 20 to 30 per cent of the labour force in the nineteen thirties, unemployment has dropped to a range of 1 to 5 per cent in the fifties. Even so-called structural unemployment has yielded in many instances to the forces of a dynamic effective demand.

Contrary to widespread fears, the low unemployment has been associated with a high degree of mobility of resources and flexibility of output. This is evident, above all, from the ease with which industrial countries converted from military to civilian output at the end of the Second World War and again at the end of the Korean hostilities. On a more continuing basis it is evident also from the speed with which new products are being introduced, new industries established and new regions developed within the industrial countries. Again contrary to widely held fears, the low levels of unemployment have generally been accompanied by sharply rising productivity, so that output has risen substantially in relation to manpower. This is not surprising since the high levels of employment have been due largely to continuing high rates of investment while the growth in productivity is essentially the fruit of the cumulated investment over the decade. It is worth remembering in this connexion that the economic loss of the depression of the thirties was a dual one: not only was a large portion of available resources kept idle but the global growth in productivity was also impeded by the curtailment of the rate of investment.

The growth in productivity and employment has produced a substantial rise in per capita incomes in industrial countries as compared with the pre-war period. Despite the smaller proportion of income generally devoted to consumption purposes, the level of living is significantly above pre-war levels. There have also been significant improvements in the distribution of income in many countries: labour income has become a higher share of total income and the degree of inequality in earnings between sexes, occupations and regions has in many instances also been reduced. Equally important has been the effect of highly progressive income taxes in levelling off incomes from the top and of government transfer payments in lifting incomes at the bottom.

The growth in output and productivity has also brought some progress in international economic balance. For the first time in a generation trade restrictions are being progressively removed, especially by industrial countries, and the volume of international trade has, since 1948, been rising not only in absolute amount but even in relation to world output. The terms of trade in the post-war decade have moved in favour of primary producers after a steady deterioration in the nineteen twenties, followed by a catastrophic drop in the thirties. And while the non-dollar world remains in deficit with the United States even after taking into account capital flow, the deficit is smaller than the amount of United States Government aid and military expenditure abroad, so that the rest of the world has in recent years been able to begin rebuilding its reserves.

Yet the record is not all on the plus side of the ledger. Political tensions have led to a division of the world economy into two virtually isolated sectors. East-west trade, which prior to the war accounted for about one-seventh of the world total, has dwindled to negligible proportions. The tensions have led countries in both sectors to devote a considerable proportion of their resources to military rather than civilian uses. This has checked the rise in the level of living and the growth in productive capacity, and has limited the contribution which countries are capable of making towards economic development.

In the private enterprise part of the world, the problem of international economic balance remains far from solved. A hard-core deficit remains with the dollar area, which is financed not by long-term capital movements but by extraordinary United States foreign outlays. Despite efforts both in lending and borrowing countries to encourage the international flow of private capital, the volume of such movements remains small by former standards, especially by standards prevailing before the First World War. This is not only because of the greater political and economic uncertainty which now attaches to foreign capital movements; it also reflects in part the greater pressure of demand for domestic investment in industrial countries, which leaves a smaller margin of savings available for foreign investment in underdeveloped countries. Recent increases in interest rates in industrial countries suggest possible further reductions in the supply of capital available for under-developed countries, as well as higher costs for such international financing as may take place.

The partial drying of the capital stream in itself tends to aggravate international disparities in levels of living, but such disparities are further widened by the virtual cessation of international migration, which, before 1914, contributed towards narrowing the spread between countries. Much of the improvement in the international balance which has been attained to date reflects not increased integration of the world

economy but rather a greater degree of compartmentalization of regions within the private enterprise part of the world. Economic relations within the dollar area, the sterling area, the European Payments Union area and even smaller subdivisions have been strengthened while trade and capital ties among areas have been loosened.

In the under-developed countries, economic growth —significant as it has been in many cases by pre-war standards—has not kept pace with the rate in industrial countries. While agriculture and manufacturing have each expanded at about the same rate in under-developed as in developed countries, the rise in total output has been smaller in the under-developed regions because agriculture, which expanded at a much lower rate than manufacturing in both regions, accounts for a much higher proportion of total output. Population growth, moreover, has been increasingly more rapid in the under-developed than in industrial countries. The combined difference in output and population is reflected in a striking disparity in per capita growth: whereas in the developed countries per capita output has risen about 45 per cent since before the war, in the under-developed regions the rise appears to have averaged about 5 per cent.

Since 1948 the increase in output of the under-developed countries has compared more favourably—or, more precisely, less unfavourably—with that of the developed countries; indeed, in the Middle East and Africa, owing to a remarkable expansion of output of petroleum and other minerals, the rate of increase has even exceeded that of western Europe on an absolute, though not on a per capita, basis. Though the improvement, as compared with pre-war trends, provides ground for considerable satisfaction, it seems too slender a reed on which to support a conviction that the wide spread between levels of living in under-developed and developed regions may soon be significantly narrowed.

In the countries of eastern Europe and mainland China, growth in the post-war decade has been conditioned by a revolutionary transformation of the economy from the private enterprise system to central planning along the Soviet pattern. Industry has been nationalized, and while most agriculture remains under private ownership—even expanded under agrarian reforms—it has been subject to an intense drive for collectivization, briefly interrupted in 1953-1954 but resumed, though with substantial modification, in 1955. With the process of economic decision-making removed from individuals and transferred to central planning authorities, these countries have been able to devote a high proportion of their output to investment and thereby to accelerate their rates of economic growth. All countries have given strong preferential treatment to the development of heavy industry as against light and consumer goods industries and—until recently—also agriculture; the major share of investment has gone into the expansion of basic metals, power and engineering industries. The rapidly growing stock of capital equipment in the producer goods sector and the enlarged flow of output from basic industry have broadened the base for further expansion of output and income. The level of living has, however, lifted much less than output has risen, owing to the low priority assigned to light industry and agriculture in the allocation of resources. In some countries, other than the Soviet Union, agriculture appears to have regained pre-war levels only by 1955, while the Soviet Union, whose farm output had risen about 10 per cent by 1952, experienced virtual stagnation thereafter until 1955. The slow rate of growth in agriculture is only in part due to inadequate farm facilities, equipment and fertilizers supply. Not only has agriculture until recently received a low priority in relation to industry, but output has also fallen far short of planned targets, owing partly to resistance to collectivization, and partly to the lack of incentives for farmers to increase their output in view of the system of compulsory deliveries at low prices and the shortages of industrial goods. Since mid-1953 economic policy has been revised with a view to increasing incentives for higher farm production; and while the new plans continue to assign highest priority to heavy industry, they give greater emphasis than heretofore to the concomitant expansion of agriculture.

Special factors aiding post-war growth

It would be imprudent to project the record of the first post-war decade into the second. In the under-developed countries capital expenditures have been financed not only out of increased production but also out of special sources, many of which are diminishing or disappearing. In the early post-war years many countries obtained international assistance through the United Nations Relief and Rehabilitation Administration or on a unilateral basis. Others were able to draw upon war-accumulated reserves of foreign exchange or upon war claims against allied industrial countries, but this source of finance has virtually disappeared. A number of countries continue to receive foreign economic or military aid from governments, on an uncertain year-to-year basis. It is not only these capital items, however, which are diminishing or uncertain. Certain doubts also attach to the income and production of under-developed countries. Most important in this respect is the benefit they have derived from the improvement in their terms of trade as compared with the pre-war period. In the aggregate, this has added far more to their import capacity in the post-war decade than have their capital imports. In view of the increasing gravity of problems of commodity surpluses, part of the improvement in terms of trade seems likely to be lost, particularly in the case of agricultural exporters. The fact that in the

United States farm-parity price ratios, which measure the terms of trade of agriculture with the rest of the economy, have already declined to pre-war levels—though certainly not conclusive—is not altogether without significance for the international terms of trade of primary producers.

Nor is the uncertainty confined to prices; it extends also to production in the under-developed countries. In country after country production of many commodities had been stimulated by world shortages or high prices. During the war, shortages of imported goods encouraged an expansion of industrial output in many under-developed countries, part of which has since proved unprofitable. In the early post-war years, the dollar shortage encouraged production of items in non-dollar countries even when the goods could be obtained more cheaply from the dollar area. With the gradual disappearance of shortages and the emergence of commodity surpluses, production in such instances has been adversely affected. Textile production in many under-developed countries has not yet regained the peak war-time levels. In agriculture, especially in wheat, cotton and sugar, where large-scale surpluses have appeared, production has had to be cut back in many countries. In the case of raw materials, especially rubber and textile fibres, where prices have been subject to violent fluctuation, the production of synthetic substitutes has been stimulated in industrial countries.

Nor can the rate of growth in industrial countries be projected without qualification from the first post-war decade to the second. The rate since the end of the war is misleading as a guide to what a normal rate may be under full employment. It is clear that it was considerably higher than can normally be expected since it did not all depend upon the creation of new capacity. A large part of the growth was in fact made possible through repair and rehabilitation of capacity damaged during the war, which required less time and resources than construction of new capacity. Moreover, the rate of growth was accelerated by adaptation of war-time innovations to post-war civilian use; the electronics, chemical and drug industries, in particular, have benefited enormously from war-time advances.

The special post-war factors affecting the capacity to grow may have been less important for the industrial countries, however, than those affecting the demand for growth. The vital role of pent-up demand in the inflationary pressures and balance of payments difficulties of the post-war years is well known. It is important to remember, though, that the pent-up demand had a highly favourable side also. In industrial countries growth is likely to be retarded as much from the demand side as from the supply side. It is the periodic inadequacy of effective demand to absorb full capacity output that has historically menaced the growth of industrial countries. In its milder form, when long-term investment remains unaffected, the outcome may be only a short-term inventory recession. When, in addition, long-term investment or consumption also reacts adversely, the result may be a depression of significant proportions. During the first post-war decade, as long as investment and consumption have been reinforced by a backlog of accumulated demand, the menace of depression has been absent. It would be foolhardy to assume, however, that the problem of ensuring adequate effective long-term demand for full employment and full utilization of resources has been permanently solved.

In this context the recent application of monetary policy to deal with actual or threatening inflationary tendencies and balance of payments difficulties takes on added importance. Interest rates have been raised in most industrial countries and new restraints placed upon business as well as consumer credit. Such restraints are, of course, desirable to the extent to which they choke off speculative stock-building, or an unhealthy investment boom in building based on anticipations of rising prices, or consumer hire-purchases based on over-optimistic expectations of future incomes; in these cases the restraints only head off a boom before it builds up to a probable collapse. There is always some risk, however, that if pressed sufficiently far, the application of general monetary restraints may unduly check demand even for necessary long-term industrial investment and thus hamper economic growth. And where the restraints are applied in the hope of releasing additional resources for exports to finance required imports, there can, of course, be no certainty that the markets for such exports will always be found. The policy has the best chance of success where export supplies have been lagging owing to pressure of internal demand, but even in this case the likelihood of success will depend in part upon the policies simultaneously adopted by other countries. If world demand continues strong, the enlarged export supplies may find ready markets; if, however, the rest of the world is simultaneously tightening the reins upon demand, the restraints may prove ineffective for expanding exports. In such cases it is necessary to remain alert to the danger that the monetary controls may provoke a recession in production and employment rather than yield significant long-term improvement in the balance of payments.

This is not the only source of such danger, however. Balance of payments difficulties may stem as much from a burden of excessive costs as from pressures of excess demand. High prices and wages may limit foreign demand for a country's exports as effectively as internal demand may siphon off supplies of exportable goods. However potent monetary restraints may be in curbing demand inflation, they are less likely to be effective in dealing with cost inflation. In modern industrial societies neither wages nor prices may be very sensitive to ordinary changes in monetary policies.

Attempts to deal with cost inflation by measures appropriate for demand inflation may generate socially unacceptable levels of unemployment before they produce any significant effect on the balance of payments.

Growth and economic stability in the post-war decade

If the menace of industrial depressions has been absent in the first post-war decade, the problem of economic instability has by no means been of minor importance. On the contrary, the record has only dramatized the powerful forces of instability which the process of rapid growth itself tends to generate. A major source of difficulty, as is well known, lies in the dual role of investment. On the one hand, investment is an element of current production, current income and current demand; on the other hand, investment adds to the stock of capital goods and therefore to the productive capacity of the economy. Its effect is not symmetrical, however, in the two roles which it plays. If investment should remain unchanged from year to year, it would constitute an unchanging element of current income and current demand, but it would continually raise productive capacity. Income would thus tend to lag behind capacity. For income to rise enough to absorb the output of an expanding capacity, investment must rise from year to year, unless other elements of demand are steadily increasing independently, so that the growth in demand may match the growth in capacity. Investment must not, however, rise too rapidly, for then demand would grow more quickly than the capacity to produce, and the economy would become subject to inflationary pressures. Thus, when an economy is operating at rates approximating full utilization of resources it becomes subject to the twin hazards of inflationary and deflationary pressures. Small increases in the rate of growth of investment demand may generate inflation; small decreases, on the other hand, may lead to recession.

The problem is complicated by the fact that investment is not the only element of effective demand which may be subject to fluctuation; all of the major elements which absorb the gross national product may vary their "take" from period to period. In recent years the government portion especially has fluctuated widely, but even consumer demand has been far from stable in relation to income; indeed, fluctuations in the consumption ratio have been a key element in post-war economic developments, both in the United States and in western Europe. Similarly, investment is not the only factor tending to increase productive capacity; technical innovations, for instance, may lift productivity and create new disproportions between capacity and demand. Changes in these elements may be sufficiently small and randomly distributed so that disproportions of demand and supply largely cancel each other, and economic growth may continue without interruption. Experience has shown, however—and the post-war period has been no exception—that one or another element or combination of elements of change may become predominant and carry the economy as a whole into a phase of inflation or deflation.

Over the short term the deflationary effect of inadequate demand and the inflationary effect of excess demand may be partly compensated by unplanned changes in inventories. Accumulation of inventories in the first instance and liquidation in the second instance may provide a breathing spell during which demand and supply may be adjusted without undue effects on prices or production. These changes are by their very nature of short duration, however. There is a floor below which inventories cannot be drawn down without curbing production, so that liquidation soon ceases and tends to change to renewed accumulation; and there is a ceiling above which producers cannot afford to finance inventories, so that accumulation changes to liquidation. In each case the gain during the breathing spell may be more than lost in the subsequent period unless the basic demand and supply factors can be adjusted in the meantime.

When the gap between demand and capacity is not universal but confined to only one country or group, it may also be moderated by foreign trade relations. The inflationary effect of excess domestic demand may be partly offset by a rise in imports and decline in exports; conversely, the deflationary effect of inadequate domestic demand may be partially compensated by a decline in imports and rise in exports. The resulting gain in internal balance may, however, lead to disproportionate losses in international balance. The rise in the import balance generated by excess demand may be relatively small in relation to the inflationary pressure but may still lead to an unbearable drain on the gold and foreign exchange reserves of the country. Conversely, a rise in the export balance generated by the deflationary pressure may be of minor consequence in moderating that country's recession but may nevertheless produce serious balance of payments difficulties in the rest of the world.

Perhaps of greatest significance is the effect of the oscillations in inflationary and deflationary pressures on the stability of commodity prices and, in consequence, on the economies of under-developed countries. Owing to inelasticities of both demand and supply for primary products with respect to changes in price, variations in import demand of industrial countries are reflected in disproportionately large fluctuations in commodity prices. Even relatively mild inflationary pressures in industrial countries may generate large increases in commodity prices; conversely, relatively mild deflationary pressures in industrial countries may lead to substantial deterioration in primary product prices. Given the importance of commodity exports in the national income of under-developed countries, it follows that relatively moderate changes in demand

pressure in industrial countries may considerably increase the burden of instability in under-developed countries.

The record of the post-war period is, in fact, one of rapid growth accompanied by oscillation between inflationary and deflationary pressure in industrial countries. Through 1948 virtually all countries were in the throes of severe inflationary pressures. At the end of 1948 came a brief recession in the United States, reflecting a temporary faltering of demand. This was reversed, however, in the second half of 1949, output reaching a new peak by the first half of 1950, before the outbreak of Korean hostilities. Expectations of sharply rising military expenditure quickened the pace of expansion in industrial countries in 1950 and 1951, but military budgets rose less than had been anticipated, and in western Europe output levelled off in 1952. In 1953/54 a mild recession set in once again in the United States as the economy adjusted to a cutback in military expenditure. Recovery set in around the middle of 1954, however, and renewed strength in housing, automobiles and other consumer durables carried output to new peaks in 1955. In the meantime the rate of growth in western Europe had been rising, and by 1954/55 several countries were again beginning to experience some inflationary pressure.

Moderate as these oscillations have been at the internal level, they have had far-reaching external effects. They have led to recurrent intensification and easing of balance of payments difficulties for most non-dollar countries of the world; in most under-developed countries they have superimposed upon domestic developments alternating waves of inflation and deflation from the foreign trade sector. Nor have these oscillations been without long-term effects. The most obvious effect, perhaps, concerns commercial policy; liberalization of trade and payments has been less than hoped for in developed countries and has made little progress in many under-developed countries. More important, however, is the adverse effect on the economic development of the under-developed countries; the extreme fluctuations in export prices have added to their difficulties in planning and executing stable long-term development programmes. Cycles in export proceeds have commonly generated cycles in imports, usually with a time lag. This has led to several problems; the flow of capital goods imports has been irregular and the lag between imports and exports has often led to balance of payments crises as imports of manufactures ordered in flush periods have continued to arrive long after export proceeds had turned downwards. It is significant that this pattern of fluctuating imports generated by export cycles is as characteristic—frequently more so—of countries with direct controls on trade and payments as of countries without such controls. The pressure of demand for imports generated by high export proceeds is evidently too great to be suppressed even under a system of controls; the export cycle tends to be accompanied by alternating waves of relaxation and tightening of controls.

National measures undertaken by under-developed countries to cope with the internal effects of the fluctuations in export proceeds have also been far from successful. Attempts to withhold supplies from the market to avoid sales at falling prices have frequently ended in failure. Measures to insulate the economy from price fluctuations in world markets through internal price stabilization programmes or through exchange controls have broken down in many instances and in others have discouraged production and exports. The effects of price fluctuations have been considerably aggravated in the case of several commodities where marginal production has been stimulated. High prices have encouraged the spread of production to marginal areas within countries, as well as to additional countries, some of which have then been eliminated as producers during periods of low prices. Where, on the other hand, the new producers have succeeded in establishing themselves permanently, the long-term effects on prices and on incomes of the old producers have been adverse. Moreover, the phase of rising prices has not only stimulated production of the same goods in competing regions but has also encouraged production of synthetic substitutes as well as greater economies in the use of materials. Once established, such new commodities or techniques permanently affect the demand for primary commodities. In all these ways, the instability of commodity prices has had a long-term adverse effect on incomes of primary producers.

Economic development and international specialization

Experience during the post-war decade has made it abundantly clear that sustained growth of industrial countries, essential though it may be, is not in itself sufficient to provide for an adequate rate of growth in under-developed countries. As will be seen in the following chapter, the demand of the industrial countries for primary products tends to rise much less than in proportion to the increase in their incomes and production. In the industrial countries consumption has, over a long period, accounted for a declining proportion of the gross national product, and food for a declining proportion of total consumption; in addition, the relative share of agricultural output in the retail value of food consumption has fallen with the increase in services and costs of processing and distribution. The share of raw materials in the value of the final product has also declined as the composition of output has changed in favour of industries using less raw material per unit of output, as goods have undergone more intensive processing and as synthetics have been substituted for natural raw materials. Assuming supplies of primary products to keep pace with demand so that terms of trade remain unchanged, the growth of income earned

in primary production would thus be considerably below the growth in income of industrial countries. The problem is aggravated by the fact that in many industrial countries farm output is expanding more rapidly than the rise in consumption, so that agricultural imports are a falling share of their total consumption. Clearly, therefore, the under-developed countries, if they are even to keep pace with the rate of growth of industrial countries, must expand their internal markets as well as their trade with one another, rather than rely entirely on expanded exports of primary products to industrial countries. Much as increased exports are necessary to finance essential imports, one-sided expansion of the output of primary products would only widen the gap between the developed and the under-developed countries.

The gap would be widened even if the expansion of primary production were such as to maintain the terms of trade unchanged. Should expansion of output go beyond this rate, the terms of trade would be adversely affected; and, given the relative sensitivity of demand for primary products and for industrial goods in response to changes in price, the gap might be expected to widen even further.

Even within the industrial countries themselves, the relatively low elasticity of demand for primary products in relation to income and industrial production has resulted in marked disparities in per capita income between primary producers and the rest of the economy. But whereas within a rapidly expanding industrial economy the problem can be met in the long run by transfer of excess manpower from agriculture to industry, opportunities for migration across national boundaries are limited. Differences among nations in per capita income thus tend to grow rather than to diminish. The only avenue which exists for reducing such disparities and achieving a better balance in the growth of the world economy lies in a more rapid development of the domestic markets of the under-developed countries as well as of their trade with one another.

It is now generally recognized that broad economic development is not inconsistent with international specialization. The gains from specialization and exchange are undeniable, at the international level no less than at the internal level. There are both the dynamic gains emphasized by Adam Smith—improvement of skills and techniques—and the static gains demonstrated by Ricardo—the optimal allocation of resources under given conditions of production. But specialization involves cost as well as gain; undue specialization makes for rigidity and renders the economy extremely vulnerable to shock. Man's superiority over animals lies in his peculiar combination of specialization and adaptability; natural history abounds in examples of over-specialized species which became extinct when faced with a drastic change in environment. The need for adaptability, for flexibility, would provide ample justification for broad economic development even if some immediate gains from specialization were thereby sacrificed.

It is not clear, however, that economic development necessarily involves a net reduction in specialization, since under-developed countries characteristically suffer from unbalanced specialization. They are highly specialized in relation to international trade, producing negligible proportions of the goods they import, and generally consuming negligible proportions of the goods they export. At the same time there is relatively little specialization in production of domestic goods, much of it being organized on a subsistence or handicraft basis. Economic development need not therefore necessarily represent a sacrifice of specialization; on the contrary, it should lead to a better balance in specialization. The decline in specialization involved in producing a portion of the imports and consuming a portion of the exports should be more than compensated by the increase in specialization in the internal market which is created by economic development.

The under-developed countries have had little of Adam Smith's dynamic gains—improvement in skills and production techniques—from their lop-sided specialization. Nor—with some notable exceptions—have they benefited overmuch from the Ricardian gains of comparative advantage. Comparative cost calculations are relevant only upon the assumption that resources used for broad economic development would otherwise be employed to expand exports. The choice in under-developed countries, however, is frequently not between exports and economic development, but between under-employment and economic development. Prices cannot be assumed to reflect comparative costs in an economy in which there is substantial unemployment, visible or disguised; there is no cost to the economy—only a net gain—in utilizing resources which would otherwise remain idle. If the effective supply of productive resources can be expanded, it is possible to increase the production of some goods without decreasing the output of any others. The problem is then no longer one of reallocating given resources from less efficient to more efficient uses; rather it is one of allocating resources not otherwise used to areas where they will make the maximum contribution to real income. Even if a shift of already employed resources from export industries to those competing with imports would lead to a reduction in total output, it by no means follows that under-employed or unemployed resources can always be put to use most productively in export industries; the maximum contribution from resources entering into new use may just as well be in goods competing with imports.

Relative prices may not be an appropriate guide to comparative advantage, moreover, even in economies in which there is no disguised unemployment. Prices

do not measure comparative costs in an economy in which substantial immobility creates wide disparities in earnings between industries. Where labour of similar quality earns significantly different wages in alternative occupations, relative prices can no longer serve as an index of real costs. It may be worth recalling that classical economists have long had reservations about the applicability of the comparative cost doctrine to countries with "non-competing" (that is, inadequately mobile) industrial groups; indeed some exponents of the doctrine have justified its applicability even to economically advanced countries only on the assumption that the industrial structures of such countries are fairly similar to one another. However useful, therefore, prices may be as a guide to comparative costs in a highly integrated, fully employed, industrial economy, they are of more limited significance in the typical dual economy of an under-developed country.

It is not immobility alone, however, which limits the applicability of the comparative cost doctrine in under-developed countries. A second qualification has gained widespread—indeed universal—acceptance. Economists have always recognized that even in industrial countries, prices cease to function as a guide to optimal allocation of resources whenever possibilities of so-called "external economies" of production exist. In their position on "infant industries", economists have readily granted that a country may profit by sacrificing immediate comparative advantage for greater long-term gains from improvement in the conditions of production. The objection that it is difficult to determine in advance whether a specific industry warrants treatment as an infant industry, however valid for industrial countries, is less relevant for under-developed countries where it is the economy—not a single industry—that is the "infant".

Needless to say, these comments do not justify the path of autarky in economic development; given almost complete dependence upon imported capital goods, not to speak of widespread need for imported food and raw materials, a great expansion of imports is required even under the most restrictive import policy. Nor is there an inherent preference for import-competing goods over exports. The extent to which imports of non-essentials can be reduced is limited in any event, and an expansion of exports is normally necessary to finance increased import requirements for capital goods and other essentials.

Neither does economic development imply expansion of industry at the expense of agriculture. On the contrary, a rise in agricultural supplies is normally needed along with the expansion of industry. This is true not only in countries dependent upon agriculture for foreign exchange; more important, typically, is the increased requirement for food consumption which is associated with economic development. In countries with low levels of living, any increase in private income that may be generated in the process of expansion is likely to swell the demand for food. Indeed, a substantial increase in food requirements would still emerge, even if the government were to tax away most of the increase in income. For industrialization is commonly associated with the migration of population from farms and villages to urban centres, and in countries with considerable subsistence farming, it cannot be expected that the transfer of population will naturally give rise to a corresponding transfer of food supplies. To ensure adequate food in the towns it is necessary both to stimulate higher farm production and to provide increased incentives to farmers to bring their surplus food to the market. Unless food supplies can be increased, the growth of industry may be prematurely checked by unbearable food shortages and inflationary pressures.

Nor does economic development imply a one-sided increase in heavy industry. In the course of industrialization, urban demand not only for food but also for industrial consumer goods, may be expected to rise. More significant, perhaps, is the fact that there will be little incentive for farmers to increase the supply of food to cities unless industrial goods can be obtained in return. Supplies of industrial consumer goods must therefore expand along with food supplies if industrialization is to proceed.

The problems of balanced specialization are not confined to one economic system or another; they are as relevant for centrally planned as for private enterprise economies. Indeed, it will be seen in chapter 3 that several of these problems were encounterd in acute form in the eastern European countries and by 1953 prompted revisions of economic plans to lessen the disproportions which were creating serious difficulties for future expansion.

It is sufficiently clear, therefore, that economic development involves a many-sided expansion of demand —for capital goods and for raw materials, for food and for industrial consumer goods. It would be as unreasonable to expect that all of this expansion in demand should normally be met only from imports financed by an increase in exports as that none of it should be so met. Clearly, such a many-sided expansion of demand requires a balanced expansion of output. What is needed is a shift from the unbalanced specialization of a dual market-plus-barter economy to the balanced specialization of an integrated market economy.

The dilemma of balanced growth

Significant as the post-war decade of growth has been in other respects, it cannot yet be said that the world has effectively come to grips with the problem of economic development. The translation of potential into actual growth has thus far proceeded on a very limited scale. Growth in many of the under-developed countries of the world, it will be seen in chapter 1, has

not been sufficient to raise levels of living significantly. In few areas have incomes from production—not counting gains from more favourable terms of trade—grown sufficiently since before the war to generate annual savings at a rate adequate to finance a continuing expansion of productive capacity per head of population. A large part of the increase in annual savings is not available to improve levels of living because it is absorbed in providing instead for an increasingly rapid growth in population. Such increases in production as have taken place have as yet made little inroad upon disguised unemployment or under-employment. Nor has there been much impact on the degree of diversification or on the vulnerability of the economy to shocks. Even the increase in production of primary products, apart from petroleum, has been no greater—in many items it has indeed been smaller—in under-developed than in industrial countries. And while the rate of growth in manufacturing has been approximately comparable with that in industrial countries, the increase has been on such a small base as to be of limited significance. Manufacturing in under-developed countries still represents only about 5 per cent of the total in private enterprise economies.

Fundamentally, the economic dilemma of the under-developed countries has been that their demand and capacity have over a long period been mutually adjusted at low levels of income and production which do not provide an adequate basis for growth. On the one hand, capital formation has generally been limited by savings inadequate to finance investment without inflation and balance of payments difficulties. On the other hand, the demand for investment in productive capital has frequently been insufficient even to absorb the whole of such savings as have taken place, so that part has not been used to finance investment in productive capital but has been dissipated or misallocated. The result of this equilibrium between low savings supply and low investment demand has been not balanced growth but economic stalemate.

It is a mistake—not uncommon, but a mistake nevertheless—to assume from the law of diminishing returns that capital must be relatively more productive in the under-developed countries because of its relatively greater scarcity in relation to land and labour. Despite the self-evident scarcity of capital in under-developed countries, investment opportunities for the private entrepreneur have in many cases been quite limited. They have been limited, on the one hand, by the low levels of income which restrict consumer demand. On the other, they have been limited by shortages of skilled labour and management and of technical "know-how", and by the absence of a social and economic "infra-structure" necessary for economic development. Even the industrial countries have their relatively depressed areas, and capital has not necessarily been found most productive in the regions where it has been scarcest. Modern technology is too capital-intensive for private investment to be able to flourish before the ground has been adequately prepared by vast outlays of capital for "social and economic overhead".

It is not only in goods which must compete with the output of the advanced countries that investment opportunities have appeared limited; opportunities in industries producing purely domestic goods have in many cases also seemed unattractive. In a dynamic economy in which output is simultaneously expanding in many directions, investment in each industry is supported by, and in turn helps support, investment in all other industries, since the additional income created in each industry provides the demand for the products of all others. Where output is sufficiently diversified, disparities between the responsiveness of demand and supply of individual commodities are likely to be sufficiently small so as to require little change in price in order to equate supply and demand. In under-developed countries, however, at least in the early stages of development, the entrepreneur cannot count upon an expansion in the rest of the economy to support his product but must bear in mind that the income generated in his own plant may be largely spent on other goods; thus, the stagnation of demand in most directions may depress investment demand in all directions. As a consequence, substantial portions of the savings of many under-developed countries have frequently been dissipated rather than invested at home in productive capital formation. Savings have been partly invested abroad or used to accumulate domestic hoards of jewels and specie; even when employed at home they have been partly invested in items such as luxury building where demand is not significantly affected by high costs of production, or accumulated in cash balances for financial transactions, notably for usurious rural credit and land speculation.

It does not follow, of course, that economic growth must from the very beginning take the form of a balanced expansion in all directions. If this were true, many of the countries which lack the resources to develop simultaneously in all directions might never be able to develop at all. The initial impetus to economic development may come from strategic growth in key economic sectors—in export goods or in goods competing with imports, for instance, where a market already exists, or in investment in social and economic requisites for development. Before balanced growth can be achieved in under-developed countries it may first prove necessary to break the economic stalemate by means of unbalanced growth.

If it is essential not to overlook the limitations which in many countries stem from inadequate investment opportunities, it is nevertheless true that where the process has already begun to gather momentum, the ultimate obstacle to economic development is set by the inadequacy of resources for rapid capital forma-

tion. A rise in investment generates increased incomes and higher demand for goods of all types—not only capital equipment, but also raw materials, industrial consumer goods and foodstuffs. The attempt to take out of the economy for consumption and investment more than it is capable of producing gives rise to the twin hazards of inflation and balance of payments deficits. The two hazards are, of course, closely interrelated; to avoid problems of external imbalance it is necessary to ensure internal balance. Unless savings can be increased sufficiently to finance the desired rate of capital formation, the excess demand is bound to spill over into higher demand for imports, at the same time as it siphons off part of the supply of exportable goods. If a wage-price spiral is permitted to develop, the external imbalance may be aggravated from the cost as well as the demand side; import demand may be additionally swollen, costs of production will rise and foreign demand for exports may even fall below the already reduced level of supply of exportable goods. Loss of confidence in the stability of the currency may encourage transfers of capital to foreign countries, further aggravating the deficit in the balance of payments, the shortage of foreign exchange and the pressure on the exchange value of the currency. It is true that countries may and do seek to dam off pressures on the external balance by trade and exchange controls or by the use of multiple exchange rates. Such controls tend to aggravate the internal imbalance, however, by curbing supplies while demand continues to rise, and by reinforcing the price-wage spiral. Moreover, in the face of really extreme internal imbalance, experience shows that direct controls on the external balance are not likely to prove effective.

It would be a mistake to assume, however, that internal and external balance are so closely related that the one will take care of itself once the other has been achieved; balance of payments difficulties may well limit the rate of capital formation even when savings might be adequate to finance a higher level of investment. Unless the resources which may be diverted from domestic use through increased savings can in fact be employed in increasing the output of goods which will either earn or save foreign exchange, the country will not have the foreign funds it requires to pay for its essential imports. In that case economic development will founder, not on the boulder of excess aggregate demand, but on the rock of excess import demand.

The problems of inadequate savings and foreign exchange earnings to finance desired rates of capital formation and of imports are, of course, not unique to under-developed countries. The industrial countries of western Europe have been faced with the same twin problems throughout the post-war period, in acute form in the early years of reconstruction and since then in milder but apparently chronic form. There is, however, an overwhelming difference in the scale of the problems faced by the under-developed countries. To take first the problem of external imbalance: if conditions adequate to achieve internal balance do not automatically guarantee external balance anywhere, the additional conditions necessary to ensure external balance are more difficult to achieve in under-developed countries. Given the lack of diversification and the high degree of concentration on only one or two export goods—and the concentration of sales of even these goods in one or two markets —given the high proportion of income produced on a subsistence basis and the relatively low mobility between the subsistence and the market sector, it is readily seen that an under-developed country may suffer a chronic external imbalance even when its savings might be sufficient to finance the desired rate of capital formation. The goods released from domestic utilization through higher savings are commonly not exportable and the resources not readily transferable to the export sector. The additional savings may then lead to more unemployment, visible or disguised, rather than to higher exports. Even when resources are transferable, there is little assurance that additional exports could find markets at prevailing prices; indeed, given the typically low elasticity of demand for primary products, an increase in volume might lower rather than raise export earnings.

Nor is the difference between industrial and under-developed countries confined to the export side of the balance; under-developed countries are typically much more dependent upon imports than are industrial countries. It is not simply that imports are usually larger in relation to incomes; it is also that a larger proportion of the imports are indispensable for economic growth. In under-developed countries, capital formation is dependent upon imported capital goods; if exports cannot be increased to finance an adequate rate of imports of capital goods, economic development may be completely frustrated. It is this factor which prompts under-developed countries to curb imports of non-essential goods, not only by means of high tariffs but also by direct quota restrictions, exchange controls and, in some countries, by multiple exchange rates.

The difference in scale of the problem of ensuring a rate of savings adequate to maintain internal balance is even more readily apparent. The margin of per capita income available for saving is low in most under-developed countries and increases slowly, both because a large proportion has to be devoted to the development of overhead capital which "matures" only over a long period, and because a large part of such savings as do take place are needed merely to keep pace with an increasingly rapid growth of population. The relatively large shares of the subsistence and handicraft sectors of the economy make it difficult to provide adequate incentives for liquid savings or to modernize and

develop fiscal policy and administration. Moreover, the tradition of government as an agency for the promotion of economic welfare is much more recent, and time is required to develop the social and political institutions and the climate of public opinion which alone can provide individuals and economic groups with the necessary willingness to sacrifice current needs to future growth.

In this, as in other economic problems, the primary responsibility rests with the countries themselves. Cumulative economic growth cannot be imported from without; it must be nourished from within. At the same time it is universally recognized that the responsibility is not confined to the under-developed countries, but is shared by the whole world. International help has been forthcoming in many ways, private and public, bilaterally and multilaterally. The almost universal acceptance of economic development as the world's overriding economic objective has led to a growing awareness and understanding of the special needs and problems of under-developed countries and to a more constructive attitude towards national and international measures for the promotion of economic development than has ever prevailed in the past. This attitude is reflected in the individual and joint efforts of governments, and in the operations of the United Nations and its specialized agencies. Bearing in mind, however, the benefits which economic development of the under-developed countries may bring, not only to them but to the whole world—as much in the enriched contribution to the world's store of science, technology and skills as in the development of new resources and markets—it may be questioned whether the scope and scale of present programmes represent the world's optimum contribution towards the accepted objective.

Part I

ECONOMIC GROWTH IN THE POST-WAR DECADE

Chapter 1

PRODUCTION IN THE PRIVATE ENTERPRISE ECONOMIES

The post-war decade has witnessed a remarkable world-wide expansion of economic activity. After a decade of depression prior to the war, growth has become an overriding social objective in the private enterprise economies.[1] The economic lethargy of the nineteen thirties has been shaken off, and the horizons of economic communities have been vastly extended. Governments have assumed new and increasing responsibilities for full employment, rising standards of living and economic development.

The war-time expansion of output in North America, especially in the United States, provided a striking demonstration of the potential for growth which had been obscured by the preceding decade of inadequate effective demand.

The influence of this example was not limited to the industrial countries which had experienced large-scale unemployment in the nineteen thirties. The conviction spread to most countries that they had latent potentialities for substantial growth, which should be exploited to achieve peace-time improvement in the level of living. In the devastated areas of western Europe and Asia, this objective was reinforced by the urgent need to increase output and productivity in order to overcome the war legacies of shortages, inflationary pressures and deficits in the balance of payments. In the under-developed countries which had escaped the ravages of war, a similar attitude was fostered by experience during the war, when domestic output had been significantly expanded in response to curtailment of imports or expanded foreign demand for exports. In Asia, added impetus to the drive for economic development was given by the post-war social revolution, which gave most of the peoples of the area national independence.

Not only government, but the public also, has experienced a profound change in economic climate. Not least among the significant changes affecting civilian demand has been the unanticipated rise in birth rates in industrial countries and the phenomenal decline in death rates in under-developed countries, which have given a sharp upward tilt to the growth curve of the world's population. Civilian demand has grown even more rapidly than population as per capita incomes have generally risen and consumers have displayed constantly expanding aspirations to raise their standards of living. Business investment decisions in industrial countries have been freed from the shackles of large-scale excess capacity and unemployment, and have become motivated instead by shortages of both capital equipment and manpower. Durable goods industries, formerly characterized by "feast and famine", have come to be viewed instead as the key to economic growth.

From Reconstruction to Long-Term Growth

On a world scale of economic activity, the post-war decade may be divided into four phases: the first conditioned primarily by the immediate post-war crisis; the second characterized by a general awakening to the long-term character of post-war economic problems; the third dominated by the raw material boom and collapse associated with the Korean hostilities; and the fourth, or current, phase marked by vigorous expansion, but encountering substantial obstacles. No precise line can be drawn in point of time separating one phase from another, not only because the timing has varied from area to area and from country to country, but, more importantly, because economic history resists such rigid compartmentalization. One phase tends imperceptibly to dissolve into the next, and where the dividing line is placed is inevitably somewhat arbitrary. While the guide-lines indicated below appear to be meaningful in sketching the chief features of production on a world-wide canvas, they necessarily involve sacrifice of precision in detail.

Immediate post-war crises

The world emerged from the Second World War faced with three major economic crises. The gravest of all — indeed a major cause of the other two — was the crippling cut in standards of living in the war-devastated areas. The shortage was most acute in food supplies but the story was much the same in the rest of the economy. In most of Europe, agricultural production had been disorganized by the war; not only had livestock been destroyed and land rendered unsuitable for cultivation, but productivity had also been impaired by dislocation of manpower and shortages of fertilizers, insecticides and agri-

[1] Economic growth in the centrally planned economies of eastern Europe and mainland China is reviewed separately in chapter 3.

cultural equipment. In Asia, although war devastation was less widespread, it was no less intensive in the war areas; on a per capita basis, moreover, output was substantially lowered in view of a large and general increase in population (see chart 1).

Increased imports from North America by the deficit countries, savings in food processing, lower feed requirements for livestock, and reduced exports from affected food exporting countries, helped to relieve the shortages. It is estimated, nevertheless, that per capita calorie consumption in Europe immediately after the war was about one-sixth below the pre-war level.[2] Data for Asian countries are less reliable but also suggest a significant drop from the already low pre-war level.

Industry in Europe was hit no less hard than agriculture. Although additions to plant and equipment for military production had more than kept pace with war destruction, civilian productive capacity had been sharply cut. Difficulties in converting war plant to civilian production, bottlenecks in transportation, shortages of power, fuels and raw materials, as well as dislocation of manpower, contributed to a drop in industrial production of about 30 per cent as compared with pre-war levels.

The shortages in food, raw materials and capital equipment not only posed an urgent problem of satisfying essential needs. They also exposed the war-devastated countries to inflationary pressure that hardly differed from that experienced during the war.

It was not merely that bottlenecks in supplies of key materials necessary for reconstruction pushed up the costs of production and hampered general recovery. More important was the fact that the reduction in the level of living was too severe to be acceptable. A price-wage spiral was thus inevitably created by mutually incompatible attempts of the major income-earning groups — business, labour and farmers — to protect themselves from the full impact of the cut. The upward pressure on prices from this source would have been sufficiently intense even if incomes available for expenditure could have been cut in proportion to the decrease in supplies. In fact, the urgent needs of reconstruction and the war-weariness of the public rendered this goal virtually impossible of achievement.

As compared with the pre-war years, public expenditure remained swollen by high military outlays, declining, it is true, in North America and western Europe, but rising in many parts of Asia which were beset by civil strife and other political disturbances. Civilian government outlays, too, were greatly expanded everywhere, not only on account of new and growing expenditure for the development of industry, agriculture and transportation, but also owing to enlarged subsidies and social welfare payments for safeguarding minimum standards of living. Despite a significant increase in government revenues over pre-war levels in many countries, expenditures were generally far in excess of revenues, thereby adding to private incomes and aggravating the pressure of consumer demand upon limited supplies. Only a few countries, where the tax structure had been revolutionized during the war, succeeded in maintaining a budget surplus during some part of this period as a result of pruning their military expenditures.

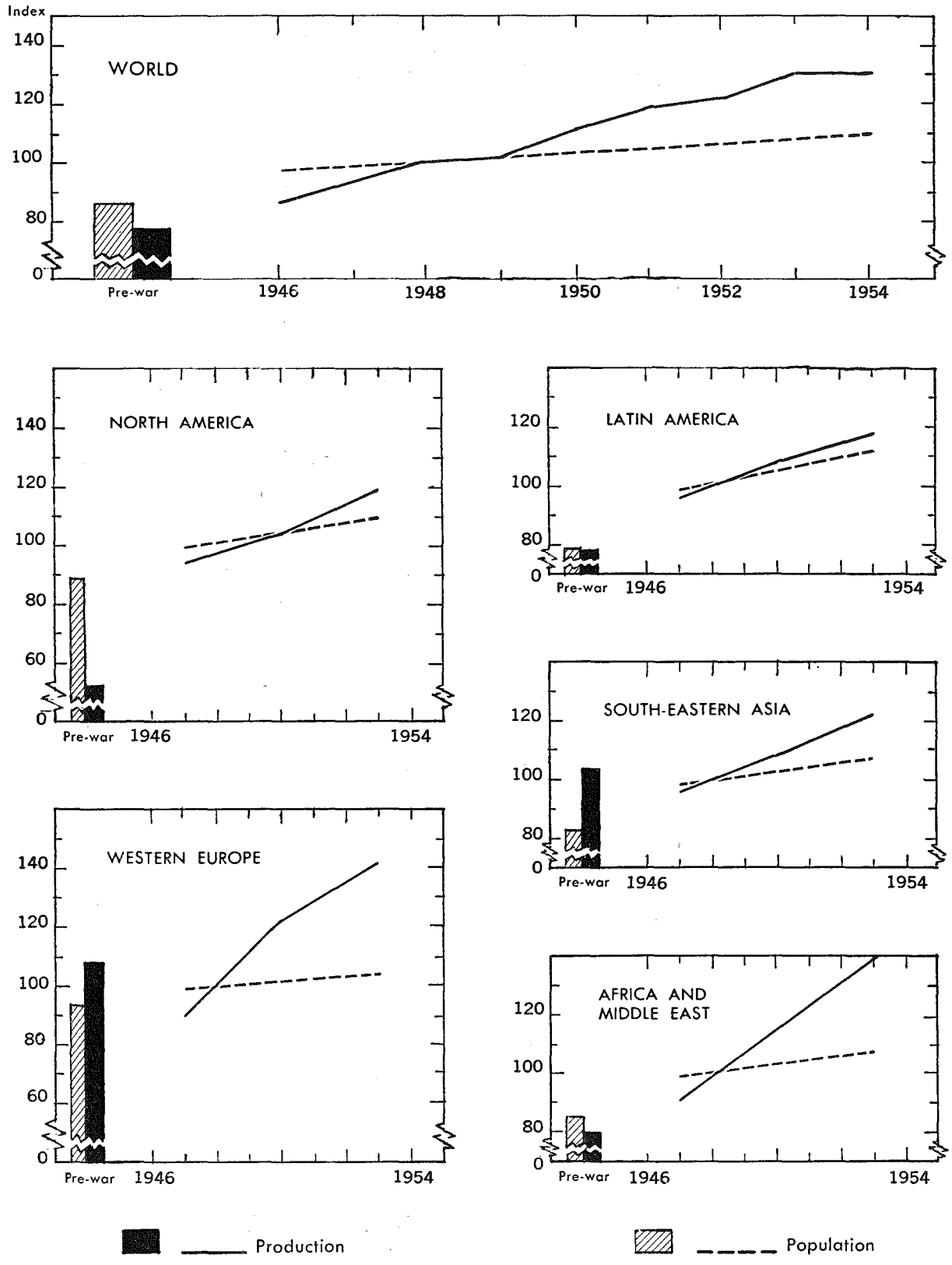
Demand for private investment was compounded of the need for rebuilding and replacing war-damaged housing, industrial and agricultural plant and equipment and transport facilities, for reconverting war industry to civilian use and for meeting the release of pent-up demand for consumer goods. Investment in plant and equipment was reinforced by intensified business demand for rebuilding inventories which during the war had been run down in relation to output and sales. Consumer demand was inflated by the requirements of returning veterans, by the need to replenish wardrobes depleted during the war and by the demand for consumption goods whose output had been sacrificed to war requirements. Virtually everywhere, pent-up demand was supported by excess liquid assets, and an abnormally high proportion of available personal income was devoted to consumption. In some countries where inflationary pressures were especially intense, consumers ceased to save, in an attempt to provide themselves with essentials or to rid themselves of depreciating liquid assets.

If even under war compulsion it was possible only to suppress rather than to eliminate inflationary pressure, it is not surprising that inflation proved so difficult to cope with in the early post-war years when the public had grown weary of shortages, controls and high taxes. In most countries, suppressed inflation quickly gave way to open inflation as controls were dismantled or became inoperative. A number of countries with particularly acute inflation replaced their old currency with new issues in order to lay the groundwork for the restoration of economic stability. In several countries, runaway inflation had led to a complete loss of confidence in the currency, and it was necessary to overcome this inflation before reconstruction could begin.

The countries of north-western Europe, and Australia and New Zealand, which retained their war-time system of controls during the first half of the post-war decade, remained in a state of suppressed inflation; even the budget surpluses which governments achieved through the maintenance of high taxes in the face of reduced military expenditures were inadequate to offset the pressure of private demand on scarce supplies. In their concern over the interest burden on the budget and their anxiety over possible

[2] Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture, 1955* (Rome), page 95.

Chart 1. Commodity Output and Population
(1948=100)



Source: United Nations Bureau of Economic Affairs. Data for regional output based on annual averages for the following periods: 1946-1948; 1949-1951; 1952-1954. See table 1 for definitions and methods.

long-term effects on employment and economic expansion, governments were determined to maintain low interest rates. In any event — and this is often overlooked — the excess holdings of liquid assets, not only by the banks but also by the public, left little scope for the application of credit policies, even if governments had been favourably disposed to their use. Through direct controls, these countries succeeded in maintaining a greater degree of price-wage stability than prevailed elsewhere, and in preserving the more equitable distribution of the national income and of consumption which had been achieved during the war. The controls proved, however, increasingly difficult to administer. With the economy straining for maximum employment and production, and with the balance of payments under continuing pressure, it was difficult to provide for adequate inventories; the United Kingdom, in particular, experienced several balance of payments crises as a result of inventory fluctuations. Moreover, despite the controls, prices and wages could not be entirely stabilized; with import costs rising as the rest of the world permitted free market operations, it became repeatedly necessary to adjust wages and prices.

The post-war shortages lay at the roots, not only of the inflationary pressures, but also of the acute balance of payments difficulties of much of the world. Devastation in agriculture and industry was reflected in curtailed export capacity and emergency import requirements, both in Europe and in Asia. The only major region in a position to fill this deficit was North America, where productive capacity in food, raw materials and capital goods had been greatly expanded during the war.

Thanks to international aid, provided through the United Nations Relief and Rehabilitation Administration (UNRRA), as well as directly by the United States and, on a more limited scale, by Canada and several other countries, the emergency requirements in food, materials and equipment were met more fully than after the First World War. If reconstruction and rehabilitation of production and trade proceeded more rapidly than after the First World War, the superior performance is due in large measure to the greater margin for investment which was made possible through such aid. By the end of 1948, less than four years after the end of the war, production in western Europe had recovered to pre-war levels, and by the end of 1949 even exports had regained those levels. By way of contrast, although the decline had been significantly smaller during the First World War, production regained pre-war levels only in 1924, and exports considerably later.

The recovery of output in western Europe made it possible to reduce the pressure of pent-up demand. In countries where direct rationing and price controls had been dropped, excess liquidity was gradually absorbed by increases in prices and wages, and the spiral slowed down considerably; in some instances prices even levelled off or began to fall. The United Kingdom, the Scandinavian countries and Australia, which had retained their war-time systems of direct controls, found it possible to deration and decontrol some items, to increase the rations of others and, in some instances, to reduce the degree of subsidy as well. Growing output also provided a margin for increasing exports and cutting imports, thereby reducing the extraordinary degree of dependence upon United States aid. Indeed, it became possible for the metropolitan countries of western Europe to permit freer use of the balances of countries and territories affiliated with them and in some instances even to extend loans to enable these areas to increase their imports and thus quicken the rate of recovery. By 1949 even Asia had achieved a significant degree of recovery in per capita food supplies.

From acute crises to chronic difficulties

The second phase, which may be dated from the beginning of 1949 to the outbreak of Korean hostilities, represents a period during which the structural problems which had been obscured by the immediate post-war crisis came to the surface. It became clear in the course of this period that the basic problems had not disappeared when the acute crisis conditions were overcome, but rather had emerged in a chronic, though somewhat milder, form. In particular, international disequilibrium, which took the form of a world-wide dollar shortage, persisted long after pre-war levels of output had been restored, emergency imports had ceased and pent-up demand had been largely met.

Fundamentally, international disequilibrium was related to the intense drive for recovery and expansion which has been the key economic feature of the post-war decade in industrial and under-developed countries alike. The drive for economic growth produced a continuing race between domestic demand and capacity in most of the world. In the United States, it is true, the gap between domestic demand and capacity was limited mainly to housing and other consumer durable goods; for the economy as a whole, capacity was, in fact, sufficient not only to satisfy growing domestic demand but even to provide for a substantial annual export balance to the rest of the world. Twice within the decade domestic demand even proved temporarily inadequate to absorb the full output of an expanding productive capacity, and mild, brief recessions were experienced.

Elsewhere, however, the gap between domestic demand and productive capacity was more general in scope, more deep and more lasting, and it was reflected in both internal and external disequilibrium—in generalized inflationary demand pressure and in a dis-

crepancy between import demand and export supply. The deficit persisted long after the export capacity of the non-dollar world had recovered, because increased exports were more than matched in the aggregate by a huge increase in import demand.

Even the recovery and expansion of output in western Europe did not suffice to solve the world's dollar problem, owing to structural changes in world production and trade, which limited the scope for trade between western Europe and the rest of the non-dollar world, and rendered them more dependent upon imports from the dollar area. In the drive for economic expansion and development, capital goods had top priority in both western Europe and the under-developed countries. Western Europe was unable to spare an adequate supply of capital goods from domestic use for export markets, and the under-developed countries were less interested than formerly in importing consumer goods, especially since in the meantime many had greatly expanded their own textile industries. The situation was similar for trade in the opposite direction in agricultural products; exportable supplies were reduced in primary producing countries because output had not yet fully recovered in some areas, because industrialization was in some instances competing with the output of agricultural exports and because in still other areas domestic demand for food had expanded with the rise in incomes and production. An aggravating factor for western Europe was the rupture in trade with eastern Europe, which had previously supplied it with grain and fuels in exchange for manufactures.

In the circumstances, it is not surprising that the dollar problem appeared so intractable; that governments felt compelled to maintain trade and exchange controls, especially in relation to the dollar area, even after production had been increased; and that even despite such controls, the balance with the dollar area could be settled only through substantial United States aid and oversea military expenditure.

In the under-developed countries, the expansion of productive capacity proceeded at a generally slower rate than in western Europe. The rate of expansion was particularly low in Asia and the Far East, which suffered not only from an under-developed industrial base and from inadequate resources for financing investment, but also from civil strife and other political disturbances. In Latin America the rate of investment was at first accelerated by means of large-scale liquidation of foreign exchange reserves that had been accumulated during the war, but this factor ceased to be of significance by 1949.

The expansion of productive capacity in many under-developed countries was further checked, though only temporarily, by a drop in export revenues generated by a brief recession in the United States. In that country this period marked the first temporary faltering of demand; it was followed, however, by rapid recovery which carried output to a new peak prior to the outbreak of Korean hostilities. A shortfall of demand below enlarged capacity levels had developed in the second half of 1948, but it was temporarily obscured by substantial inventory accumulation, only to re-emerge on an amplified scale in 1949, when accumulation changed to liquidation. The resulting decline in business investment in inventories from 1948 to 1949 was of the same order of magnitude as the total volume of residential construction in 1948. The recession was kept in check, however, through the operation of several built-in economic stabilizers, notably an automatic reduction in tax yields occasioned by the decline in incomes, and a rise in government outlays for unemployment insurance and farm support programmes. Renewed strength of both investment and consumption demand, especially in housing and automobiles, reinforced by several government measures, including lower tax rates and credit liberalization, brought the recession to a halt and initiated a new expansion phase by the end of the year.

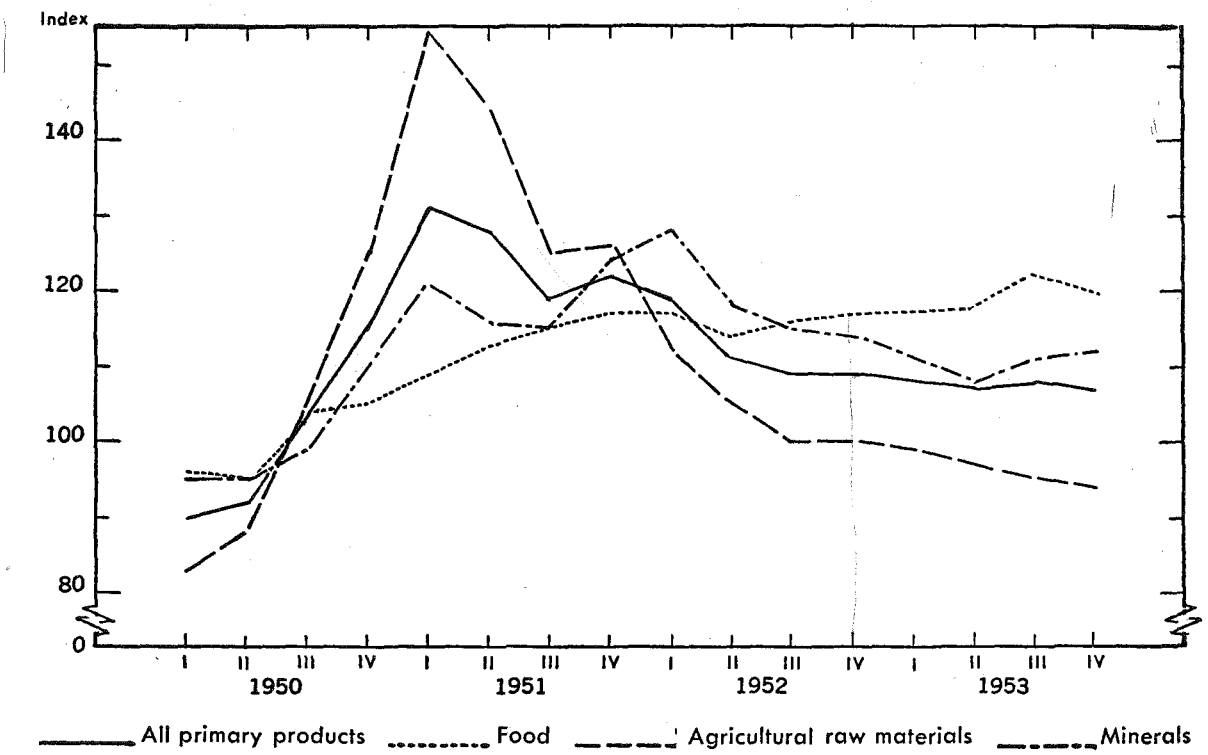
Mild as were the domestic consequences of the recession, it had far-reaching external repercussions as United States import demand fell far more sharply than output. World market prices of raw materials dropped, and the quantum of exports of primary producing areas, especially of the sterling area, registered a substantial decline. The resulting deterioration in trade balances of the oversea sterling area was probably an important factor—though by no means the only factor—contributing to the devaluation of sterling and other currencies in the autumn of 1949. By the first half of 1950 the recession had already been reversed, however, raw material prices had begun to climb upwards again, exports of primary products had recovered and the United States export balance had fallen to a post-war low.

The foreign exchange crises generated by the recession induced most countries, industrial as well as primary producers, to tighten their trade and exchange restrictions, especially against United States products. Thus, at the same time as domestic controls were being dismantled, foreign trade controls were made tighter and more discriminatory. In retrospect, it seems probable that the recession added to the determination of western Europe to accelerate the rise in productive capacity, both within the region and in affiliated areas, in order to reduce its abnormal dependence upon the dollar area.

The Korean phase

The third phase, from mid-1950 to the end of 1952, was dominated by the boom and collapse in raw materials which accompanied Korean hostilities, and the period of readjustment. New decisions to raise military expenditures and the extraordinary inventory

Chart 2. Prices of Primary Products in External Trade
(1950=100)



Source: United Nations, *Monthly Bulletin of Statistics*, June 1955.

cycle to which they gave rise were the key elements in economic activity. A sharp upswing in speculative inventory accumulation, and acceleration of orders for investment and consumer goods in anticipation of shortages and rising prices, set into motion a world-wide expansion of output and a raw materials boom of exceptional proportions (see chart 2). Concern over the developing surpluses and recessionary tendencies of a year earlier quickly gave way to anxiety over scarcities and inflationary pressures. Taxes were increased and credit restraints imposed to curb increases in consumption and release resources for heavy industry. In the United States, general price and wage controls were also established, but countries in western Europe generally permitted prices and wages to rise to offset higher import costs. No attempt was made to suppress inflation by means of the war-time apparatus of rationing, price controls and subsidies, although a number of raw materials in scarce supply were subject to international allocation.

Demand pressure was naturally most intense in the United States, where it was reinforced not only by greater involvement in the Korean hostilities but also by the forces of recovery from the 1949 recession. Output in western Europe did not lag far behind, however, as both private consumption and private investment spurted in response to revised expectations. Output also expanded in the under-developed countries under the stimulus of higher export earnings, which encouraged civilian demand for consumption and investment and increased government revenues available for public investment, at the same time as they made available additional foreign exchange reserves to finance increased imports. In these countries, however, the expansion in output got under way more slowly, partly reflecting the inelastic character of the supply of primary products, partly owing to the inevitable lag in translating higher export earnings into increased investment. In addition to the usual interval between higher profits and revised investment decisions, the lag in many under-developed countries arises from the dependence of investment upon imported capital goods in conditions of chronic shortages of foreign exchange. The trade and exchange control authorities must be persuaded to grant import licences and allocate necessary foreign exchange, orders must be placed in foreign countries and, in addition, long production periods for the required capital goods result in considerable delay between orders and shipments. Little wonder, then, that in many of these countries imports of capital goods continued to rise after the collapse of the raw materials boom, reaching a peak only in the first half of 1952, when export earnings had already fallen considerably.

The raw materials boom collapsed almost as quickly as it had begun when it became evident that military

operations and outlays would be limited. Although government expenditures and related private investment were still gathering momentum in industrial countries, inflationary pressures subsided and many world prices of raw materials tumbled when demand for inventory accumulation ceased and gave way to large-scale liquidation. Consumption also slackened, partly as a result of the anti-inflationary monetary and fiscal restraints that had been imposed earlier, partly as a reaction to the speculative and precautionary purchases of a year earlier. The growth of output slackened first in western Europe where, on the one hand, a slump of considerable proportions developed in the textile industry, and where, on the other hand, expansion in engineering industries had not yet gathered as much momentum as in the United States. The reaction in under-developed countries followed, but generally later than in western Europe. The decline in their export earnings led to downward revisions in their investment decisions, and the ensuing deficits in their balances of payments led in many instances to foreign exchange crises which induced many countries to tighten their trade and exchange controls once again and to revise the scale of their development programmes.

Current expansion

Since about 1953 the world has embarked on a new phase of expansion, interrupted only briefly by a mild recession in the United States in 1953/54. This expansion once again, in the course of 1955/56, revived fears of inflationary pressure and balance of payments deficits in several countries of western Europe. The new phase began as a period of readjustment to the cycle generated by Korean hostilities, but it soon developed dynamics of its own. At first the impetus came from the reversal of the downtrend in investment in inventories and from a recovery in consumer goods industries stimulated in part by the relaxation of the monetary and fiscal restraints imposed earlier. Soon, however, both investment and consumption gathered momentum and carried output to new peaks. Both in western Europe and in North America the forces of expansion were particularly strong in housing and in consumer durable goods, especially automobiles. In both areas demand was greatly stimulated by liberalization of credit policies; in western Europe the large-scale use of consumer credit to finance sales of consumer durable goods marks an institutional development of major importance.

The rise in output and incomes generated by increased demand in these sectors has brought a sharp upward revision in business expectations, and investment demand has received new stimulus in all sectors of the economy. In the United Kingdom, where output has been maintained at close to capacity throughout the post-war period, the upsurge in demand has created bottleneck problems in fuels and basic materials, notably steel. Symptoms of general inflationary pressure, from both the cost and the demand side, have also become visible in northern Europe, and the governments, in order to safeguard their balances of payments, have damped the rate of expansion by imposing new restraints on credit. At the same time, the growth of demand in this area has provided enlarged markets for several countries, notably Belgium, France and Italy, where there had previously been a greater degree of slack in the economy. Output in these countries has recently been expanding far more rapidly than in earlier years, and investment demand has also been accelerated.

The growth of output in the United States during this period has been based on essentially the same elements as in western Europe, namely, on record levels in housing and in consumer durables, especially passenger cars, and on continued strength in investment in plant and equipment. The demand in these sectors has been sufficiently intense, not only to fill the gap left by the reduction in military expenditures but also to carry output to a new peak. Unlike western Europe, however, where the impact of the adjustment to the cessation of Korean hostilities was relatively mild, in the United States a cutback in military outlays was accompanied by an inventory cycle which generated a recession in output in 1953/54 lasting about a year. Contrary to widespread fears based on the experience of 1949, this recession had little adverse effect on the world economy. Economic activity continued to expand, world market prices remained relatively stable, and the setback in the balance of payments of the world with the United States was readily absorbed.[3]

In the under-developed countries, where the principal determinant of the level of production is the agricultural harvest, total output has in general also continued to rise during this phase. There have been many local setbacks—flood damage in Pakistan, poor weather in Burma, frost in Brazil in 1953/54, drought in Argentina, Iraq and Turkey and bad growing conditions in Thailand in 1954/55, for example—but by and large it has been a favourable period for agriculture, particularly in south-eastern Asia, where the food situation has been improved by a succession of good monsoons. The general rise in agricultural output reflects not only favourable weather but also in many cases the results of earlier investment in the agricultural sector—irrigation projects in such countries as India and Mexico, improvements in seed and planting techniques in several Asian and African countries, increases in mechanization in Latin America. On the whole, it is the food importing countries in which agricultural development has been greatest, and the consequent expansion of production has posed serious

[3] For a more detailed review of these developments, see United Nations, *World Economic Report, 1953-54* (sales number: 1955.II.C.1).

problems for traditional exporters, such as Burma and Thailand—problems that have been aggravated by the existence of large surpluses in some industrial countries and by uncertainty with regard to their disposal.

In general, the expansion of agricultural production in under-developed countries has been for domestic consumption rather than for export; the upswing in activity in industrial countries has had relatively little effect on the output of most agricultural commodities. This reflects not only the effects of existing surpluses but also the failure of the demand for foods and fibres to rise significantly during the investment boom. Even in the case of rubber, demand for which rose to record levels in 1955, expansion of output of the natural product was relatively small, and in some producing countries—Burma, Ceylon and Indonesia, for example —output did not respond at all to the rise in price. The increase in the demand for metals in the industrial countries induced a somewhat greater expansion of output in the under-developed countries, notably of bauxite (particularly in Jamaica) and iron ore (particularly in Venezuela). Even in the case of minerals, however, the elasticity of supply has generally been low: notwithstanding the increase in demand and price, tin production declined in 1955, while copper output was lower in Mexico and Northern Rhodesia, and lead production in Mexico and Tunisia. The only mining activity in under-developed countries that has responded generally and positively to the rise in demand in industrial countries—not only during the recent upswing but throughout the post-war period—has been petroleum production, particularly in the Middle East.

The effects of changes in the demand for the exports of under-developed countries, however, are to be found less in changes in the level of production than in changes in incomes and foreign exchange receipts; in this respect a marked contrast has emerged in recent years between the exporters of minerals and rubber, on the one hand, and the exporters of fibres and foodstuffs, on the other. These changes in incomes, while chiefly affecting the external balances of the under-developed countries, have also exerted a major influence upon domestic investment and consumption.

Though it still represents a very small fraction of the world total, industrial production in the under-developed countries has continued to increase at a more rapid rate than primary production. In general, manufacturing capacity is confined very largely to the lighter industries, based on local raw materials and producing processed foods, textiles, clothing and shoes. In the recent period there has been some expansion of heavier industries: cement plants and, to a lesser extent, steel and engineering capacity has been installed or enlarged in a number of countries. This type of expansion characterizes the second five-year plan that is about to commence in India, although another important objective is the expansion of labour-intensive activities, especially rural handicraft and small-scale industries, which may curb the increase in unemployment in the towns—a problem that faces other under-developed countries (Brazil, Ceylon and the Philippines, for example) in the course of urbanization and industrialization.

The Dimensions of Post-War Growth

The major features of the current expansion phase are reviewed in some detail in part II. It is appropriate here, however, to view the current position in relation to the situation in 1948, when immediate post-war crises had been rendered less acute, and also in relation to the pre-war period, in order to place the growth of the post-war decade in longer term perspective.

The volume of output of the world's factories, farms and mines rose by about two-thirds from the pre-war period to 1954.[4] The increase since 1948 has been approximately as large as the rise from the pre-war level to 1948—of the order of 30 per cent in each period. On an annual basis the rate has thus been much higher in the recent period. The growth has been more rapid in developed than in under-developed countries, especially so in the phase from the pre-war years to 1948 owing to the extraordinary expansion of output in North America (see table 1).[5]

[4] The pre-war period referred to is 1938 for mining and manufacturing and the average level of 1934 to 1938 for agricultural production.

There are a number of well-known difficulties in measuring changes in output, particularly over a fairly long period of years. Of major importance are changes in the composition of output; any index of production extended over a period wherein appreciable changes in composition have occurred unavoidably suffers more or less serious distortion. Improvements in quality of output also elude measurement and introduce an element of underestimation. Moreover, national indices differ widely in method of construction, coverage and classification of branches of production; these discrepancies cannot be eliminated in constructing international measures. Wherever such measures could not be established by combining national indices — and this applies to the regional indices of industrial production for under-developed countries — they had to be constructed from available data on commodities and prices; the indices so constructed are particularly subject to deficiencies as regards their commodity and geographical coverage. Furthermore, in under-developed countries the recorded increases in production may overstate actual increases, since economic development is often associated both with the extension of the market economy and with the replacement of the unrecorded output of cottage industries by factory production.

[5] For the purposes of this chapter, developed countries include North America (Canada and the United States), western Europe, Australia, Japan, New Zealand and the Union of South Africa; the under-developed countries include all others except mainland China and eastern Europe.

Table 1. Indices of Commodity Output[a] and of Population, Developed and Less Developed Areas
(1948=100)

Area	Commodity output		Population		Per capita commodity output	
	Pre-war[b]	1954	Pre-war[c]	1954	Pre-war	1954
World total[d]	78	130	86	109	91	119
Developed areas[e]	75	131	91	108	83	122
Canada and United States	53	117	89	110	60	106
Western Europe	107	151	93	105	115	144
Less developed areas	90	126	83	110	109	115
Latin America	78	122	79	115	98	106
South-eastern Asia	104	125	83	109	125	115
Africa[f] and Middle East	80	144	85	109	94	132

Source: United Nations Bureau of Economic Affairs.

[a] The indices, which should be regarded as rough estimates, were obtained by combining the estimates of production in agriculture, mining and manufacturing shown in table 4.

[b] Pre-war data for mining and manufacturing refer to 1938, and for agriculture, to the average of 1934 to 1938.

[c] Pre-war data for developed areas refer to 1938, and for less developed areas, to the average of 1934 to 1938.

[d] Excluding mainland China and eastern Europe.

[e] Australia, Canada, western Europe, Japan, New Zealand, Union of South Africa and the United States.

[f] Excluding the Union of South Africa. Data for agricultural production relate only to six countries in the area.

Among developed countries the rise in output since 1948 has been higher in western Europe than in North America; this is true even after allowance is made for the striking recovery of western Germany from the low levels to which its output had sunk by 1948. Since western Europe had not yet fully recovered the pre-war aggregate level of output in 1948, whereas North America already exceeded that level by more than two-thirds, the data for the entire period since before the war record a much larger increase in output for North America than for western Europe. While in the former area output in 1954 was more than twice as high as before the war, in the latter area the increase was in the neighbourhood of 40 per cent.

Data on production are naturally more scanty and less reliable for the under-developed than for the developed countries. So far as data are available, they indicate that the growth in aggregate agricultural and industrial output of the under-developed countries since the pre-war period is of the same order of magnitude as in western Europe. Unlike western Europe, however, where the rise from the pre-war to 1954 levels is fully accounted for by the increase since 1948, in the under-developed regions only about two-thirds of the increase has taken place since 1948. Largely owing to the expansion of petroleum and other mineral production, the highest rate of growth in output since 1948 has taken place in the area comprising the Middle East and Africa. The rate was also high for most of Latin America, but the total for that region is heavily weighted by output in Argentina, which has remained virtually stagnant since 1948. Both areas had also achieved a considerable expansion of output during the war and early post-war years; in 1948 their commodity output was about one-fourth above pre-war levels. Their rates of expansion from the pre-war period to 1954 thus contrast sharply with the much lower rate achieved in south-eastern Asia where, owing to war devastation, aggregate output in 1948 was only approaching pre-war levels. By 1954 total commodity output in that region was only about one-fifth above pre-war levels, an achievement that had been surpassed in the other two areas by 1948. The rate of expansion in south-eastern Asia from 1948 to 1954 was somewhat higher than that achieved during the same period in Latin America as a whole, but not as high as the rate for Latin America exclusive of Argentina. Even after allowance for Argentina, the rate of growth in the under-developed regions since 1948 has been substantially below that reached in western Europe; if allowance is made, on the other hand, for the exceptional recovery of western Germany, the comparison with the rest of western Europe is much less unfavourable.[6]

Population growth has absorbed a substantial portion of the rise in output, more so, however, in under-developed than in developed countries. Although, as

[6] In contrasting western Europe with the under-developed regions, it is important to bear in mind that western Europe itself contains a region which is no more developed than many parts of the three continents—Asia, Africa and Latin America —commonly classified as under-developed. Available regional data for western Europe include southern Europe, where the level and structure of production have more in common with those of under-developed than of developed countries. A further statistical difficulty arises from the fact that Italy contains two separate economic regions, the industrial north and the under-developed south. On the problems of this area, see United Nations, *Economic Survey of Europe in 1953* (sales number: 1954.II.E.2).

has been noted, aggregate output rose approximately as much in under-developed countries as in western Europe (40 per cent since the pre-war period) per capita output in under-developed countries shows only a very small rise—little more than 5 per cent as compared with approximately 25 per cent in western Europe. Latin America, which had a relatively high rate of expansion of output among the under-developed areas, also had the highest regional rate of population growth; its output per capita has increased since before the war only about one-third as much as in western Europe, even though the rise in its aggregate output was about one-third greater.

The growth of population in the under-developed areas of the world has been accelerating over recent decades. In many instances, the current rates of increase in population markedly exceed those which were common in western European countries during their most rapid periods of population growth. The available evidence suggests that the rate of natural increase then rarely exceeded fifteen per thousand and that generally the maximum rate was somewhat lower.[7] By comparison, rates of natural increase exceeding twenty-five per thousand have been evident since the war in a number of under-developed countries, especially in Latin America but also elsewhere. The decline in European death rates was gradual; moreover, in the course of time it was accompanied by a falling birth rate. In contrast, most under-developed countries can now, through the application of modern public health techniques, secure reductions in the death rate in spectacularly brief periods of time. The birth rate in most under-developed countries, on the other hand, has not yet changed, but has thus far generally remained constant, and high.

Among the less developed countries of the Asian region, the annual rates of natural increase in a number of the smaller countries in the south and east have, during the post-war years, approached the high rates prevailing in Latin America. The rate of increase has remained lower in India, but it has been higher in the post-war years than in the nineteen twenties, although lower than in the nineteen thirties.

As a partial offset to the differential effect of population growth, a shift in the terms of trade since the pre-war period has made the disparity in rates of growth significantly smaller for per capita incomes than for per capita output. As may be seen in chapter 2, the improvement in terms of trade of primary producing countries since pre-war years has been substantial. The distribution of the gain from more favourable terms of trade has been extremely uneven, however, depending upon the particular commodities predominating in the exports of a given country. By far the greatest gains appear to have been those accruing to exporters of cocoa and coffee. Nevertheless, only four of the twenty-eight primary commodity groups studied in chapter 2 have risen less in price, since the pre-war period, than manufactures exported from the leading industrial countries—with the result that almost all of the primary producing countries for which data are available have recorded some gain from more favourable terms of trade since pre-war years.

The shift in terms of trade has done more than supplement the resources otherwise available from production; to a significant extent it has served as a catalytic agent in stimulating an expansion of output. Like a rise in income from any other source—domestic or foreign—the gain from an improvement in terms of trade is likely to have an added effect on production, depending, on the one hand, upon the extent to which the gain in income increases the demand for domestic goods and, on the other, upon the extent to which productive capacity is adequate or can be expanded to satisfy the increase in demand. The gain from improved terms of trade in the post-war period has in many instances affected profits relatively more than other sources of income; a significant part of the gain has therefore spilled over into savings and into luxury imports, and the effect on the demand for domestic consumption goods in many under-developed countries has been limited. Its impact on investment has been highly significant in many cases, however; not only have the improved terms of trade tended to lift profit expectations but they have also constituted a major source of saving for financing capital formation and of foreign exchange for financing required imports of capital goods. Of course, the effect on productive capacity of the economy depends upon the particular forms of investment into which the funds are channelled. In parts of Latin America, especially, a portion of the rise in income from improved terms of trade has been channelled into luxury housing rather than industrial plant and equipment; even such investment, it is true, is not without indirect effects on expansion of capacity in subsidiary industries, but its direct effect on productive capacity is naturally more limited.

In countries where private industrial investment has been only slightly responsive to changes in terms of trade, there has nevertheless often been a significant effect on public investment. For although public capital formation is not conditioned by profit calculations in the same sense as is private investment, it has, of course, been limited by the availability of national and international financing. The improvement in the terms of trade in the post-war period has provided an important source of government revenue as well as of foreign exchange in support of public investment.

To the benefits accruing from the improvement in the terms of trade must be added the support pro-

[7] United Nations, *The Determinants and Consequences of Population Trends* (sales number: 1953.XIII.3).

vided in the post-war period by foreign government aid, loans of the International Bank for Reconstruction and Development and the partial recovery in the international flow of private capital since the immediate pre-war period. This has enabled a number of under-developed countries to increase the quantum of their imports by more than the quantum of their exports. The distribution of such external financing among various countries has been very uneven, however, and, with few exceptions, the inflow has been small in relation to domestic output and also to domestic investment.[8] It should not be overlooked, however, that the size of such aid in relation to total investment is not a complete indication of its importance. It may represent a substantial supplement to scarce foreign exchange reserves. Furthermore, as is true of the improvement in terms of trade, the assistance obtained through international capital flow, both public and private, consists not merely of the direct supplement it provides to domestic output; perhaps of comparable significance is the stimulus it can provide to domestic output through the provision of facilities which create new outlets for private domestic investment and also through the diffusion of modern technology and of managerial skills associated with the international flow of capital.

Allocation of Resources to Investment and Consumption

It is no accident that the rate of increase in per capita output of the developed countries—aside from the setback to western Europe during the war—has been appreciably above that of the under-developed areas. The expansion in developed regions has been brought about through advances in technology and improvement in labour skills, accompanied by, and indeed largely determined by, increasing rates of per capita capital formation. In many under-developed countries, however, per capita national incomes have been too low to provide an adequate margin for the investment necessary to accelerate the expansion of output in relation to population growth to a comparable degree.

Expansion of investment

Capital formation—both cause and effect of the high and rising levels of output and income—has been substantially expanded in the developed countries, compared with the immediate pre-war years and with 1948. As may be seen from table 2, the rise since 1938 has been greater for real capital formation than for total national product, especially in Canada and in western Europe. In North America the expansion in relation to the gross national product had already taken place by 1948, reflecting the improved climate for investment associated with the change-over from pre-war depression to post-war full employment levels of economic activity. Although investment in 1948 was undoubtedly enhanced by the fact that war-time curtailment in some industries had not yet been fully compensated, the share of investment in total output in 1954 was little different from that of 1948, despite some recession in economic activity in the United States. The total increase in private investment in fixed capital in the United States from 1948 to 1954, however, was accounted for by a rise in construction, especially in residential building; investment in producers' durable equipment in 1954 was somewhat below 1948 in absolute amount, and in 1955 it apparently recovered only to about the 1948 level. Judging from the composition of purchases of durable

[8] The inflow of private capital was offset to some extent by substantial repatriation of United Kingdom capital in the early part of the post-war period, most notably in Argentina.

Table 2. Indices of Components of Real Gross National Product, Selected Areas
(1948=100)

Area and year	Gross national product	Gross fixed domestic capital formation	Private consumption	Public consumption	Exports	Imports
Canada:						
1938	56	41	60	61	61	65
1954	125	129	126	188	111	135
United States:						
1938	60	57	66	60	54	71
1954	123	121	120	197	106	136
Western Europe:						
1938	102	97[a]	101	100	137	116
1954	140	155[a]	129	135	188	135

Source: Organisation for European Economic Co-operation, *General Statistics*, No. 1, January 1956 (Paris). Data for exclusion of stocks from United States gross fixed domestic investment in 1938 were obtained from *The Mid-Year Economic Report of the President*, July 1952 (Washington, D.C.).

[a] Including stocks.

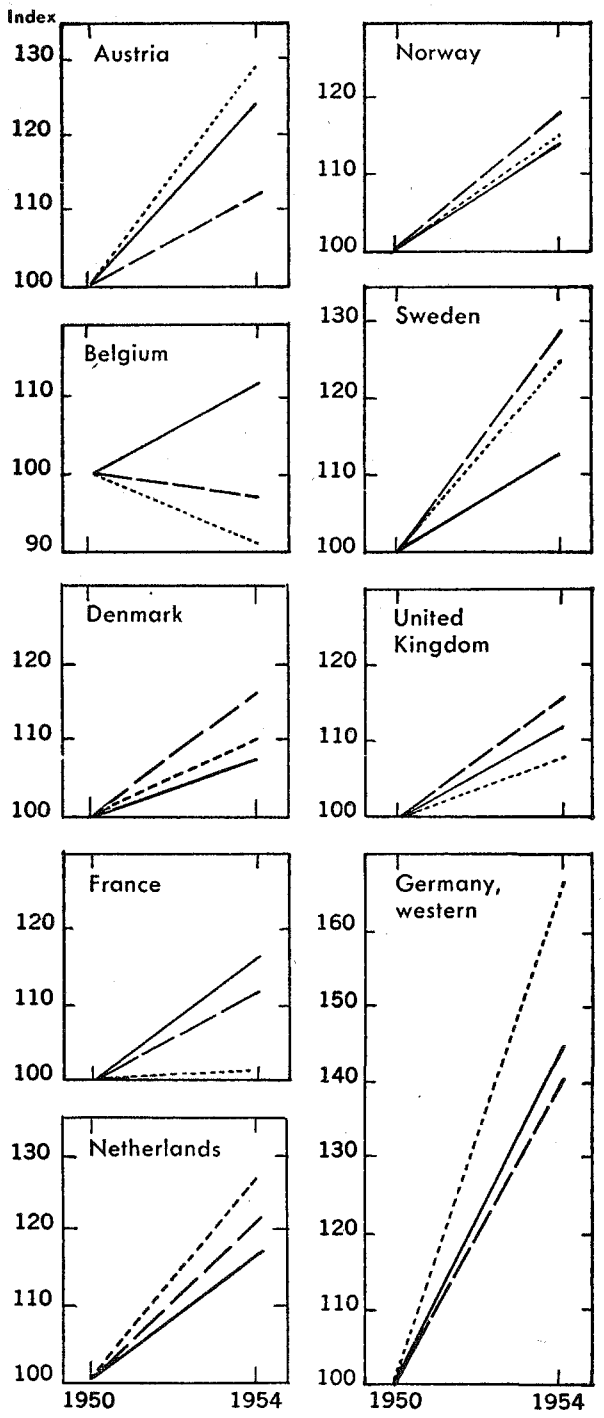
equipment in 1952, when the aggregate was somewhat above 1948 and 1954, the output of most types of durable equipment has in fact declined substantially since 1948, and only increases in metal-working machinery, electrical machinery and passenger cars for business use have kept the total from falling significantly.[9]

In western Europe, nearly all of the rise in the investment ratio has been accomplished since 1948. This increase has taken place despite the progressive decline and virtual disappearance of foreign economic aid, and despite some losses from deterioration in the terms of trade. Rising levels of income provided the margin of savings for financing a more than 50 per cent increase in capital formation from 1948 to 1954, even while public and private consumption rose, and an import balance was converted to an export surplus.

Significant as this increase appears to be in the aggregate, it may be noted that the ratio of investment to national product, even in a number of the advanced countries of western Europe, notably Belgium, France and the United Kingdom, is still below that of the United States (16 per cent in 1954), and the same is true of such less developed countries as Greece, Ireland and Portugal. As in the United States, residential construction has risen more sharply than total fixed capital formation; indeed, as may be seen from chart 3, when allowance is made for the increase in residential construction and investment in the public administration sector from 1950 to 1954, the remaining volume of gross fixed investment in many countries shows a smaller rise than the gross national product. In the crucial sectors, including manufacturing, mining and the construction industries, investment showed a remarkably small increase in most countries; from 1950 to 1954 it fell in relation to the gross national product even in countries such as Italy and Sweden, where total fixed investment had risen more than in proportion to output.[10]

Most governments in western Europe have engaged very actively in public investment during the post-war period. Indeed, about one-half of total capital formation has until recently been undertaken on public account, much of it in housing and in basic industries —coal, steel and transport. Government investment policy in post-war western Europe has been dominated by the objective of increasing productivity in order to lower costs of production and to improve internal

Chart 3. Gross National Product, Total Gross Fixed Investment and Gross Fixed Productive Investment[a]
(1950=100)



Source: United Nations, *Economic Survey of Europe in 1955* (sales number: 1956.II.E.2), pages 57 to 63.

[a] Excluding investment in the public sector (except for France) and in dwellings.

[9] Based on data in United States Department of Commerce, *National Income*, supplement to *Survey of Current Business* (Washington, D.C., 1954). Data on composition of purchases of durable equipment in the United States are not available for later years.

[10] For a detailed study of the progress and problems of investment in western Europe since 1950, see United Nations, *Economic Survey of Europe in 1955* (sales number: 1956.II.E.2).

and external economic balance. Even public investment in housing was motivated not only by immediate welfare considerations of improving housing standards, but also by the need to overcome a major impediment to labour mobility. Nevertheless, current bottlenecks in steel and their role in recent balance of payments problems may suggest a need for greater emphasis than heretofore on government policy to promote long-term expansion of basic industries.

As in the developed, so in the under-developed, regions, capital formation has risen significantly, not only in absolute amount but also in relation to output as compared with the pre-war period. It is estimated that gross fixed capital formation averaged about one-sixth of available goods and services in the post-war period as compared with about one-eighth in the late nineteen thirties.[11] There are, of course, considerable variations among the countries of the region; in Peru and Venezuela the average rate substantially exceeded 20 per cent, in Brazil and Colombia the rate was closer to the average for the region as a whole, while in other countries it was considerably lower. The relatively high share of the national income devoted to investment in Latin America has been made possible in large part through the striking improvement in the terms of trade, the benefits of which have accrued in relatively large measure to profits and to saving. In the early post-war years, Latin America was also able to draw upon foreign exchange reserves which had been built up during the war period. Subsequently, United States direct foreign investment, especially in petroleum and other minerals, significantly supplemented domestic resources available for investment in some countries. Despite the relatively high ratio of capital formation, however, per capita output in Latin America, after allowing for the recent absence of growth in Argentina, has risen since 1948 only about one-third as much as in western Europe. The main reason has already been indicated above, namely, an extraordinarily rapid rate of population growth, which has absorbed a very large part of the net increase in productive capacity.

South-eastern Asia, with a much lower per capita average income, has been able to devote only a smaller portion to capital formation—in the neighbourhood of 10 per cent of gross national product—than has Latin America.[12] Since about 1950, capital expenditure by governments in this area has been rising, and this largely explains the gain in the rate of capital formation in several countries of the region, including Ceylon and India. This tendency has been reinforced by increased governmental outlays for developmental purposes other than for fixed capital formation, including projects for social welfare and technical training and research. The rising volume and share of public investment in this region reflect the emphasis on development of agriculture through irrigation, power projects and other public facilities. In addition, private foreign capital has for various reasons not entered this area on a significant scale since the war.

Public investment in south-eastern Asia appears to have exerted a significant stabilizing influence on total capital formation. Total investment rose less than in Latin America during the Korean raw materials boom; but it continued to absorb a rising share of output even following the collapse of world prices of raw materials, whereas investment in Latin America fell off in relation to the gross national product. Public investment, being less dependent upon short-term profit expectations than private capital formation, is less affected by changes in terms of trade. Owing to their impact upon savings, revenues and foreign exchange reserves, terms of trade, it is true, do affect public investment, but they influence private investment even more effectively through changing profit expectations.

As in Latin America, large amounts of private foreign capital have been invested in the petroleum industry of the Middle East during the post-war years. Among the recipient countries, the marked increase in export proceeds from petroleum has permitted the accumulation of reserves facilitating the adoption of development programmes. A number of other countries in the region have also received substantial foreign governmental assistance. Within the area, investment outside the petroleum industry generally appears to have been mainly in the public sector. As in Asia and the Far East, the emphasis has been upon irrigation and other projects which are intended to stimulate agricultural production. In a number of countries, however, investment in new manufacturing industries has not been inconsiderable.[13]

Private foreign capital has also invested heavily in mineral industries in Africa during the post-war years, and other direct foreign investments have established local manufacturing industries. In addition, the metropolitan governments have, through grants and loans, assisted in financing development programmes. Funds for such purposes have been augmented, in some countries, by the utilization of surpluses accruing under price stabilization schemes for exports.[14]

Decline in the relative share of consumption

As may be surmised from the rising share of output utilized for investment, the relative share of output

[11] United Nations, *Economic Survey of Latin America, 1954.*

[12] United Nations, *Economic Survey of Asia and the Far East, 1955* (sales number: 1956.II.F.1), page 9.

[13] United Nations, *Economic Developments in the Middle East, 1945 to 1954* (sales number: 1955.II.C.2).

[14] United Nations, *Review of Economic Activity in Africa, 1950 to 1954* (sales number: 1955.II.C.3).

devoted to private consumption has fallen in most regions of the world as compared with the pre-war years. In North America, where per capita consumption was already substantially above the pre-war level in 1948, the shift in the proportion of output utilized for private consumption since 1948 has been relatively minor. During the Korean hostilities, the increase in national defence expenditures did contribute to a reduction in the relative share available for consumption, but by 1954 the cutback in military outlays, together with the decline in the export balance which had taken place in the meantime, had virtually restored the relative share of consumption to the 1948 level. Capital formation did not significantly affect the relative share of output available for consumption after 1948; as has already been noted, the percentage of output devoted to investment in North America has remained relatively stable since 1948.

In western Europe, where per capita consumption had been sharply reduced during the war, priority had to be given in the early post-war years to the restoration of minimum consumption standards. In that region, consumption began to lag significantly behind national output only in the course of the recovery after 1948. The discrepancy was a consequence not only of the rise in capital formation in relation to output but also of the need to eliminate the imbalance in external accounts which still burdened the region in 1948. During the Korean hostilities, the increase in military expenditures was even more important than capital formation in checking the growth in consumption, but after these expenditures levelled off in 1954 the ratio of public consumption to output was below that of 1948.

Even though private consumption since 1948 has lagged further behind output in western Europe than in North America, it has nevertheless risen at a more rapid rate in the aggregate, and still more so on a per capita basis. In North America, the rise in per capita consumption from 1948 to 1954 was about 10 per cent, but in western Europe it was somewhat over 20 per cent. As compared with the pre-war period, however, the gap in standards of living has greatly widened; the rise in western Europe's per capita private consumption is estimated at only 12 per cent while the increase in North America is in the neighbourhood of 50 per cent (see table 3).

It seems remarkable that the discrepancy between supplies of consumer goods and total income since the pre-war period has not been accompanied by any lasting pressure of excess demand. True, many countries have suffered from a recurrent, if not a continuous, wage-price spiral, but the pressure appears to have come more from the cost than from the demand side. In most industrial countries, the textile industry continues to operate far below capacity, while in North America food surpluses have become a problem of major importance. Although the demand for consumer durables in western Europe has recently shown signs of considerable growth, consumption of non-durable goods has for some time apparently been limited as much from the demand as from the supply side.

Part of the explanation lies in the high level of taxation, which has absorbed a far greater fraction of the national output than would have seemed feasible in private enterprise economies before the war. In North America as well as in several western European countries, the new tax structure is largely a carry-over, with modifications, of the systems developed during the war to finance military expenditure and keep inflation in check. In many other countries the tax system has been significantly improved in recent years. Thus, despite the very large increase in the public share of the national output, government budgets have in many instances been in better balance than before the war; indeed, in several important cases the budgetary position changed from a deficit in the depression years before the war to a surplus at the end of the post-war decade.

Table 3. Indices of Real Per Capita Gross National Product and Private Consumption, Selected Areas

Area and item	*1948 (1938 = 100)*	*1954 (1948 = 100)*	*1954 (1938 = 100)*
United States:			
Per capita gross national product	147	112	165
Per capita private consumption	133	109	146
Canada:			
Per capita gross national product	152	108	164
Per capita private consumption	142	110	155
Western Europe:			
Per capita gross national product	91	133	121
Per capita private consumption	92	122	112

Source: See tables 1 and 2.

Further contributing to internal balance, particularly in recent years, has been the tendency to save a larger proportion of income as real per capita income increased. This seems to have been an important factor both in North America and in most western European countries, although the relative contributions of personal and of business savings varied from country to country and fluctuated widely within countries from year to year. Comparable data on private savings for pre-war and post-war years are available for Canada, the United Kingdom and the United States. In all three instances the major contribution to private savings since before the war has been made by corporate savings, but the increase in personal savings associated with the rise in personal disposable income has by no means been unimportant. This is especially true of the United States, where the ratio of personal savings to disposable income rose from 4.1 per cent in 1939 to 6.2 per cent in 1955.[15] Data for western European countries other than the United Kingdom are available only for post-war years; these indicate that the rate of personal saving has generally been of growing significance in recent years. In the early post-war years of intense inflationary pressures generated by shortages, pent-up demand, excess holdings of liquid assets and expectations of rising prices, personal saving generally fell below the pre-war rate and in some countries vanished altogether. With the growth in per capita income, the gradual elimination of the pressure of excess demand and the greater stability of prices in recent years, the rate of personal saving has shown a remarkable recovery in many instances. This recovery is all the more striking when it is considered that in many countries the share of labour income in the total has risen as compared with that before the war. In Canada, the United Kingdom and the United States, labour income (including social security transfer payments) rose from about two-thirds of total personal income before the war to approximately three-quarters at the end of the post-war decade.

Consumption trends in under-developed countries are much less certain, owing to inadequacies in the available data, especially on agricultural production. For Latin America, estimates suggest that private per capita consumption rose 5 per cent from 1948 to 1954, approximately as much as the total per capita product of the region, but rather less than the regional income when allowance is made for the improvement in the terms of trade. The lag in private consumption compared with income, however, appears to be accounted for by a rise in the relative share of public consumption, largely in connexion with government stabilization measures for export goods, rather than of investment in fixed capital.

Data for Asia and the Far East suggest that from 1948 to 1954 per capita consumption also rose in that region by less than the increase in output, the lag being accounted for by higher development expenditure in relation to output. The same factor together with a considerable rise in the export balance, owing to high petroleum proceeds, would seem to account for the apparent discrepancy between consumption and the rise in per capita incomes of the Middle East area.

It is interesting to note that, just as in the developed countries, pressures of excess demand appear, with some notable exceptions, to have subsided rather than increased from 1948 to 1954, despite the fact that supplies of consumption goods rose less than incomes. While the data are too weak to permit an adequate interpretation of this phenomenon, two important elements may be mentioned as of outstanding significance. First is the elimination of the grave shortages of basic foods which still plagued many countries in 1948; this was bound to lessen inflationary pressure even if supplies of consumer goods were not increased at the same rate as total output or income. A second major factor is to be found in the greater responsibility assumed by governments in formulating fiscal policies and improving their tax administration in order to finance the rising share of public consumption and investment and to keep inflationary pressures from frustrating the process of general economic development in their countries.

Demand for Primary Products

The widening of the gap between the developed and less developed areas since the pre-war period is reflected to a much smaller extent in individual sectors of economic activity than in total output. The growth in agriculture, mining or even manufacturing has not been of a greatly different order of magnitude in the latter than in the former areas (see table 4 and chart 4).[16] The disparity is due rather to the great difference in weight of primary production in total output, as output of primary products has everywhere lagged considerably behind manufacturing. Whereas manufactures doubled, approximately, from the pre-war period to 1954 in developed and under-developed countries alike, primary production rose only about one-third; and if petroleum, which registered an exceptional rise during this period, is excluded, the in-

[15] *Economic Report of the President* (Washington, D.C., January 1956), page 177.

[16] For a detailed study of agricultural production in the post-war decade see Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture, 1955.*

crease in primary production is nearer one-fourth than one-third. Since primary production may account for about four-fifths of the total commodity output of the less developed countries but for less than a third of the total in the industrial countries, it is evident that the discrepant rates of expansion between primary products and manufactures since before the war must make for a considerable lag in output of the less developed countries.

Past experience suggests that, as incomes rise, manufactures tend to increase more rapidly than primary production, although less rapidly than tertiary industries. During this period, however, manufactures have increased so rapidly that they may even have outstripped the service industries; this appears to be the case—at least in a number of industrial countries—where there has been a significant lag in civilian public consumption, largely owing to the prior claims of defence and public investment expenditure on government revenue. In any case, it does appear that the historical lag between manufactures and primary production has been magnified since the beginning of the Second World War.

Low income-elasticity of demand for food

Much of the lag between manufactures and primary production reflects the smaller proportionate rise in

Table 4. Indices of Volume of Output in Agriculture, Mining and Manufacturing, Developed and Less Developed Areas
(1948=100)

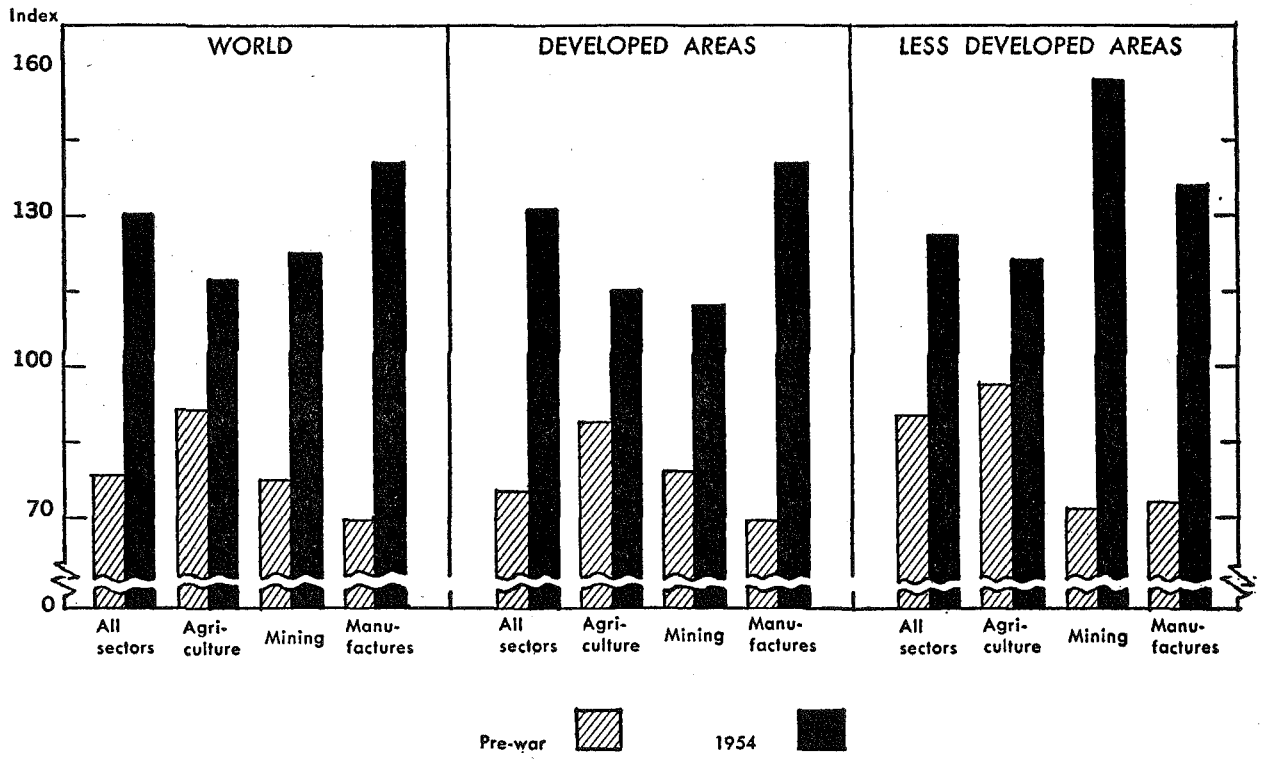
Area and sector	*Pre-war*[a]	*1954*
Developed areas	76	131
Agriculture	89	115
Mining	79	112
Manufacturing	69	140
Less developed areas	90	126
Agriculture	96	121
Mining	71	157
Manufacturing	73	136
World total[b]	78	130
Agriculture	91	117
Mining	77	122
Manufacturing	70	140

Source: United Nations Bureau of Economic Affairs, based on the following data: Agriculture, weighted average of national indices of agricultural production supplied by the Food and Agriculture Organization of the United Nations; mining, estimates of production of twenty-five minerals, supplied by the Statistical Office of the United Nations; manufacturing, for developed areas, national indices; for less developed areas, estimates of production of some forty-five manufactured commodities, supplied by the Statistical Office of the United Nations; world and area totals, tentative estimates based on weighting of individual sectors of production valued generally in 1948 United States dollar prices.

[a] Pre-war data for mining and manufacturing refer to 1938, and for agriculture, to the average of 1934 to 1938.

[b] Excluding mainland China and eastern Europe.

Chart 4. Volume of Output in Agriculture, Mining and Manufacturing
(1948=100)

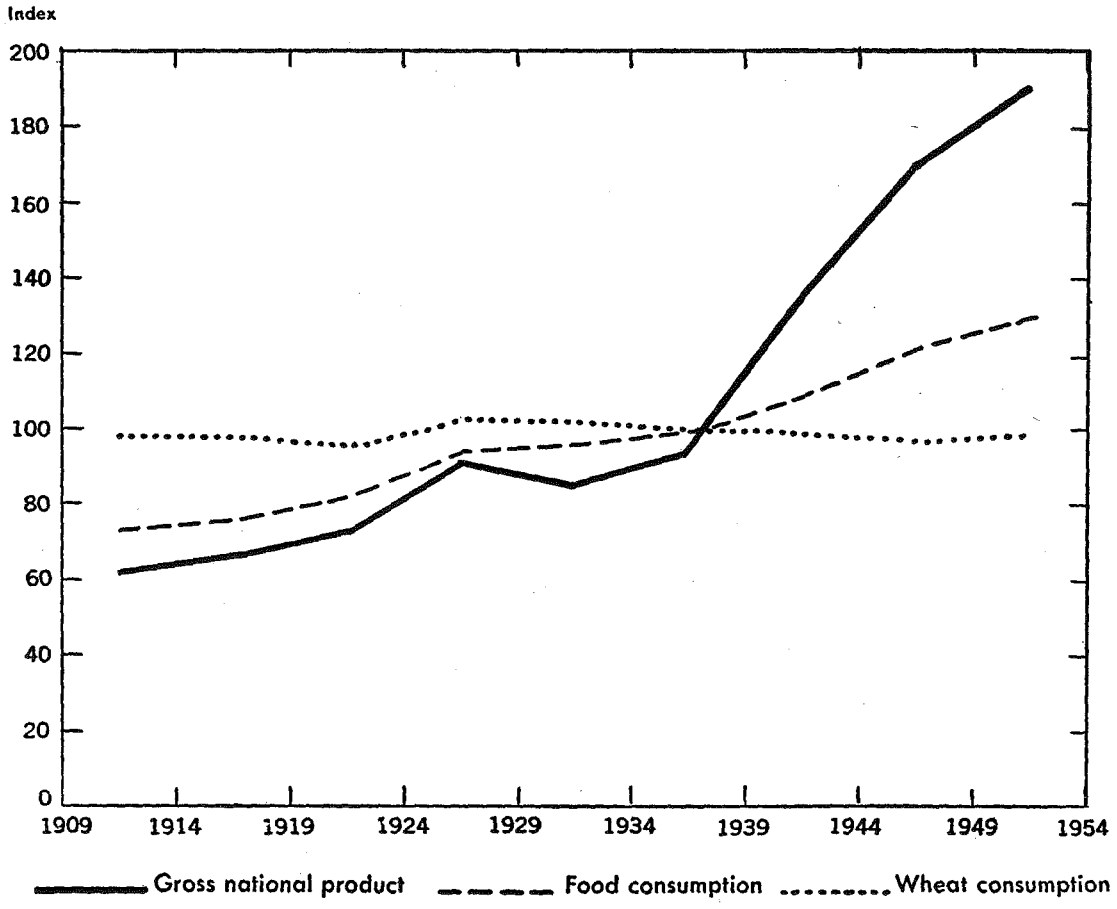


Source: United Nations Bureau of Economic Affairs. See tables 1 and 4 for definitions and methods.

food consumption than in total production. This is partly owing to the larger share of government revenue in total output noted above, as a result of which private incomes have not risen as much as production. There is, however, an additional factor at work. Economists have long called attention to the fact that at higher levels of income demand for food tends also to be higher, but only in lesser proportion than income (Engel's Law). For the United States, the relationship is shown in chart 5, which compares total national income and food consumption. During the post-war period the decline in the relative share of income devoted to food has generally been reflected in a higher share spent on other consumer goods and services, but part of the unused margin appears recently also to have gone into savings. The demand for food, in other words, has been a declining share of total consumer demand, while consumer demand itself appears in recent years to have fallen in relation to income, as per capita incomes have increased from the relatively depressed pre-war levels. This relative shift in allocation of income from food to other goods and services and to savings is an element in the lag in food production behind manufactures. It also helps to explain how pressure of excess demand gradually diminished during the post-war period, even though per capita income generally rose more than per capita food supplies.

It was not in the advanced countries only that inflation was overcome without food supplies rising to the same extent as incomes; this phenomenon was characteristic also of under-developed countries, where it might have been expected that relatively high proportions of additional income would be spent on food. Although the data are inadequate for a full explanation—and it may even be that the recovery in food supplies in under-developed countries, especially in south-eastern Asia, is somewhat underestimated—apparently per capita cereal consumption has reached the levels at which Engel's Law begins to operate. It is possible, however, that consumption of food has risen more than might be suggested by the increase in farm supplies, for improvements in transportation,

Chart 5. United States: Gross National Product, Food and Wheat Consumption[a]
(1935-1939=100)



Source: United Nations Bureau of Economic Affairs, based on national sources.
[a] Indices are plotted for annual average of five-year period, beginning with 1909-1913.

storage facilities and food processing have undoubtedly contributed to a significant reduction in food waste and spoilage.

Of course, not all foods are equally affected by a rise in per capita incomes. It is the demand for the staple energy foods—cereals and root crops—which is least sensitive to changes in income; the demand for meat, dairy products, fruits and vegetables is generally much more elastic so that, with rising income, their share in total food consumption tends to increase significantly. The shift towards high-income foods has been especially marked in North America, where during the post-war period per capita cereal consumption has been substantially below pre-war levels while per capita meat consumption has increased by some 20 per cent. A similar development has been observable in western Europe since the recovery of food production in that area. During the early post-war years of food shortages, when total calorie consumption was well below pre-war levels, cereal consumption was actually higher than before the war on a per capita basis while meat consumption was lower by nearly one-fourth. Since then, however, per capita cereal consumption has gradually dropped and meat consumption has gradually increased to pre-war levels. No significant shift to animal products is as yet visible in the under-developed countries where, as previously noted, per capita incomes are not only much lower than in the developed regions, but have also registered a much more limited increase since before the war. There does, however, appear to have been a shift from coarse grains to wheat and rice, and the consumption of sugar as well as fats and oils has in many instances increased significantly.

Impact on traditional food exporting areas

The pattern of food production has been affected, perhaps more than that of any other major sector of economic activity, as much by broad social considerations as by profit expectations. The post-war pattern of output has been associated with a drive towards greater self-sufficiency in importing countries and with some lessening of emphasis on food production in traditional exporting countries. In part, these developments stem from the war and post-war crises, but to a significant extent they represent a continuation of long-term developments. As in the period following the First World War, the world emerged from the war with an extraordinary regional imbalance in farm output—an expansion of over one-third in North America contrasting with a drop of about one-fourth in Europe and a smaller decline in south-eastern Asia. Naturally the war-devastated areas were determined to make good their losses in agriculture which added so much to their post-war difficulties—food shortages, spiralling prices and wages, and deficits in their international accounts, especially with the dollar area.

In response to government encouragement and intense market demand, the pre-war volume of food output outside North America was generally passed by 1949/50. Despite the much greater expansion in world incomes and industrial production, the recovery in agriculture had unfavourable repercussions on a number of the traditional exporting areas, particularly on those countries in which output had been greatly increased during the war. With the lag in world demand for many major agricultural products, exporters were soon confronted with shrinking export markets and falling farm prices. Even though exportable supplies in some countries had not yet recovered to pre-war levels, shortages were increasingly converted into surpluses, and many exporting countries found themselves faced with the need to withhold supplies from the market and deliberately to cut back production in order to protect the income of their farm communities.

Post-war developments, however, have only accelerated a trend towards greater self-sufficiency in agriculture which has been in the making over a longer period. In part this is attributable to the extreme instability of world agricultural prices, which adds to the tendencies in deficit and surplus countries alike to reduce the degree of dependence upon foreign trade for farm commodities. Deep-seated social and economic considerations have also been influencing both importing countries and some exporting countries. One of these is a tendency to favour industry rather than agriculture in some advanced primary producing countries as part of the process of general economic development. There are also influences tending to reduce dependence upon foreign trade in the net importing countries. While industrialization has been given a high priority in the less developed countries as well, the rate of industrialization in most of them is generally inadequate to absorb more than a fraction of the annual increment to the labour force; since the bulk of the population continues to be employed in agriculture and since the low per capita levels of income are largely due to low farm productivity, the expansion of farm output and increased productivity are of necessity primary social as well as economic objectives. In those countries which are net importers of food, relatively small increases in farm productivity are likely to lead to a reduction in the proportion of food supplies that must be imported.

Even in western Europe and North America, where agricultural productivity is much higher and where employment opportunities in non-farm activities have been absorbing surplus farm manpower, governments have been under considerable pressure to provide special support to agriculture. For though mobility from agriculture to industry is considerable, neither the "push" nor the "pull" is generally sufficient to raise the average value of output per man in agri-

culture to the levels prevailing in industry. This immediately poses a problem for the industrial countries to support farm incomes and to narrow—or at least prevent the widening of—the gap between urban and agricultural per capita incomes. Inevitably the farm support programmes stimulate farm production; in the food deficit countries they reduce import requirements, while in traditionally exporting areas they lead to mounting surpluses.

The drive towards greater self-sufficiency has been largely concentrated on output of the staple energy foods—cereals and sugar—and it is in these foods that the most burdensome commodity surplus problems have developed. In the major cereal crops, production outside the major exporting areas not only made good the loss suffered by the end of the war, but by 1954 had reached levels about 20 per cent above pre-war. At the same time, aggregate production of cereals in exporting areas other than North America had only slightly surpassed the pre-war level (see table 5). North American production, greatly expanded during the war, has been reduced in recent years, but large surpluses have none the less emerged as importing areas have become more self-sufficient. Surplus problems arose even in rice exporting countries, whose production in the aggregate has not yet recovered to the pre-war level; traditional rice importers were not only satisfying a larger proportion of their food requirements from domestic production but were also consuming a larger proportion of other cereals, particularly wheat.

Similarly, in the case of sugar, production has advanced considerably in the net importing areas, particularly in western Europe. At the same time, exportable supplies from Asia were reduced because consumption increased much more than output. Surpluses nevertheless emerged in the sugar exporting countries of Latin America, which had greatly increased their production during the war, but which have been compelled more recently to restrict output as the import requirements of other countries have declined.

Developments in the case of meat have been similar to those in cereals and sugar in the sense that importing areas are now relying on their own resources for a larger proportion of their supplies. This has not, however, created a problem for the traditional exporters, owing to the fact that the demand for meat tends to rise much more steeply in relation to income than demand for the basic staples; therefore, import demand has been sustained even while domestic production of the importing countries has increased. Indeed, the same phenomenon of relatively rapid advances in meat consumption has even led to a reduction in exportable supplies in some of the traditionally exporting countries, where output has lagged.

Table 5. Indices of Production of Selected Foodstuffs

(1934-1938 average=100)

Commodity and area	Average annual output, 1934-1938 (millions of metric tons)	1946/47 (1934-1938 average =100)	1954/55 (1934-1938 average =100)
Wheat:			
All areas	94.6	107	124
Canada and United States	26.7	164	129
Argentina and Australia	10.8	81	111
Other areas	57.1	85	123
Coarse grains:[a]			
All areas	168.8	116	128
Canada and United States	79.7	149	145
Argentina and Australia	10.1	88	77
Other areas	79.0	87	117
Rice (paddy):			
All areas	99.1	93	115
South-eastern Asia, exporting countries[b]	17.9	71	90
Other areas	81.2	98	121
Sugar:			
All areas	24.4	104	149
Cuba	2.8	206	160
South-eastern Asia, exporting countries[b]	3.0	11	100
Meat:			
All areas	...	105	134
Latin America	5.1	104	116
Australia and New Zealand	1.4	100	126
Soya beans:[c]			
All areas	2.3	263	461
United States	1.2	468	802
Ground-nuts:[c]			
All areas	6.4	109	131
South-eastern Asia	3.8	106	125
Africa	1.9	141	192
Cotton-seed:[c]			
All areas	10.0	69	118
United States	4.9	65	105
Coffee:			
All areas	2.4	80	101
Latin America	2.1	80	95
Brazil	1.4	63	72
Africa	0.1	159	236
Cocoa:			
All areas	0.8	90	105
Africa	0.5	82	95
Latin America	0.2	106	125
Tea:			
All areas	0.5	94	137
Tobacco:			
All areas	1.9	119	140
Canada and United States	0.6	180	177

Source: United Nations Bureau of Economic Affairs, based on data published by the Food and Agriculture Organization of the United Nations. "All areas" excludes mainland China and eastern Europe.

[a] Rye, barley, oats and maize.

[b] Burma, Cambodia, Laos, Thailand, Viet-Nam for rice and Indonesia, Philippines and China:Taiwan for sugar.

[c] Including output for non-food purposes.

Cocoa, coffee and tea, fruits and oil-seeds are too localized in production by climatic requirements to have been significantly affected by a drive for self-sufficiency. Nevertheless, in the post-war period, traditional exporters have accounted for a declining share in total production as shortages and high prices stimulated production in new areas. This has been especially marked in the case of coffee: Brazil's share in production has dropped sharply while other countries in Latin America and Africa have come to account for a significant part of total output. A similar phenomenon, though on a lesser scale, has occurred in cocoa production: the African share has fallen and that of Latin America has risen. In oil-seed production curtailment of war-time supplies from the Far East induced the United States to embark upon a programme of large-scale production. Since the war, production has recovered in the Far East and has been considerably expanded in the African dependencies of western Europe; and although a rise in consumption in the Far East has tended to limit exportable supplies, surpluses have begun to accumulate in the United States. Thus far, however, the scale of the problem has been limited by the continuing strength of import demand in western Europe, though synthetic substitutes have been gaining rapidly in non-food uses.

Declining raw material content of finished output

Perhaps even more striking than the low income-elasticity of demand for food has been the lag in demand for raw materials in relation to manufactures. Here too the tendency is of long standing, though it appears to have been accelerated since the beginning of the war. For the United States the relationship between manufacturing output and consumption of raw materials is shown in chart 6.[17] Although comparable data are not readily available for other countries, there can be little doubt that the same broad tendencies have manifested themselves elsewhere.

The explanation is based in part on factors similar to those affecting the demand for food. The demand for consumer goods in general, as well as for food, has been affected by the fact that private income has not risen in proportion to total output. Since consumer goods generally have a higher raw material content in relation to the value of the final product than do investment goods, the resulting shift in the composition of output has of itself increased the value added in manufacturing in relation to the demand for raw materials. Even within the consumer goods category itself there has been a relative shift in demand from simple non-durable to more complex durable goods, tending to have a similar effect. Of particular importance has been the failure of textile production to keep pace with total manufacturing; whereas the world manufacturing index doubled from 1938 to 1954, the index of textile production rose only one-third.[18]

Apart from this shift in the composition of manufacturing, technological progress has wrought great changes in the demand for raw materials. First among these changes may be mentioned the growing complexity of durable goods, which has increased the degree of fabrication and processing, and consequently raised the value of the final product in relation to the raw material content. No doubt developments along these lines will continue with the spread of electronics and automation in industry, calling for greater and greater precision and specialization in the manufacturing process. Equally significant are the scientific advances, much accelerated by research during and after the war, which have made it possible to economize greatly in the use of raw materials and to reduce the amount of waste. The study referred to above[19] cites the fact that, in 1899, 7.05 pounds of coal were consumed in the production of one kilowatt-hour of electric energy in the United States, whereas by 1950 only 1.19 pounds of coal were needed for the same output; and such examples could certainly be multiplied. Finally, the vast development of synthetics in recent years has greatly reduced the amount of natural raw materials required for a given volume of manufacturing output, since the raw materials necessary for the production of synthetics are invariably less than the raw materials which they displace.

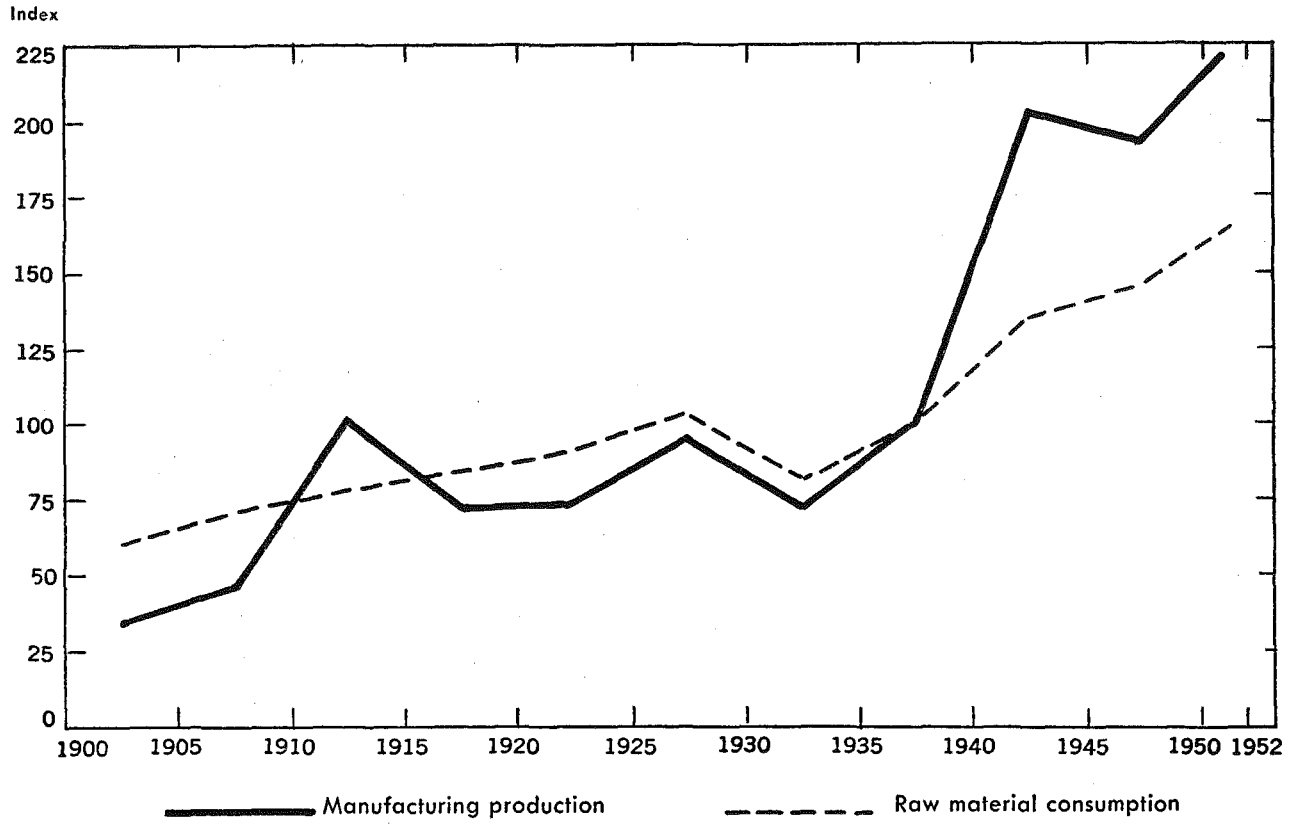
The impact of structural and technological change has probably been greatest upon the demand for agricultural raw materials. Not only have the industries which are the main consumers of these materials expanded much more slowly than industry as a whole, but synthetic and other materials have replaced agricultural products in many uses. Rayon, nylon and other man-made fibres have been substituted for cotton, silk and wool in apparel, rugs and cordage; paper has been substituted for burlap; concrete, plastics, aluminium and steel for wood; plastics for leather, and synthetic for natural rubber. These substitutions have resulted from factors operating on the side both of demand and of supply. The new synthetics frequently possess physical properties which can be employed to increase the usefulness or adaptability of the final product; moreover, being the

[17] The report from which this chart is derived estimates that the gross national product in the United States amounted to eight times the aggregate of raw materials consumed in 1950, compared with four times the aggregate in 1900. (United States Department of Commerce, Bureau of the Census, *Raw Materials in the United States Economy*, Working Paper No. 1 (Washington, D.C., 1954).)

[18] United Nations, *Monthly Bulletin of Statistics*, July 1955, page ix.

[19] Footnote 17.

Chart 6. United States: Manufacturing Production and Raw Material Consumption[a]
(1935-1939=100)[b]



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

[a] Excluding food.

[b] Indices are plotted for annual average of five-year period beginning with 1900-1904.

result of industrial fabrication rather than an agricultural crop, they also offer to the raw material consumer a stability in price and assurance of supply which is lacking in the natural materials, supplies of which do not respond so readily to changes in demand. But, apart from these considerations, the search for substitutes was unavoidable where supplies from the traditional exporters were cut off during the war, or where they failed to grow in line with demand after the war either because of a shift in cultivation towards foodstuffs or because of unsettled political conditions in some of the leading Asian producers.

The combined effect of the changing composition of manufacturing, economy in use and the replacement of agricultural by non-agricultural raw materials was that, whereas world manufacturing doubled from 1938 to 1954, the rise in output of agricultural raw materials, excluding wood, was only about 15 per cent. Of major importance were developments in the textile field: not only did the output of textile manufacturers rise much less than world manufacturing as a whole, as indicated above, but the consumption of natural textile fibres did not increase in proportion to the increase in finished textile production. The share of cotton, wool and silk in total world consumption of apparel fibres is estimated to have dropped from 92 per cent in 1934-1938, on the average, to 87 per cent in 1948 and still further to 79 per cent in 1954, owing mainly to a nearly fourfold expansion in the use of rayon and other man-made fibres. Apart from apparel fibres, the demand for jute, employed largely for the manufacture of sacking, was permanently reduced as a result of steps taken to overcome war-time and post-war shortages through increased use of bulk handling and paper sacks (see table 6).

Synthetic rubber has likewise been developed to the point at which it accounts for about 30 per cent of total world consumption of rubber. This has not, however, prevented a rise in output of natural rubber by more than four-fifths since the pre-war period in response to greatly expanded demand for commercial and military road and air transport and, until recently, for stockpiling. The greater expansion in production of rubber than of other agricultural raw materials

has been accompanied by a relatively much smaller advance in prices since pre-war years, on the average.

Only in one major agricultural commodity—wood for construction and for the paper industry—has a supply shortage persisted throughout the post-war period. Despite increased use of substitute products, demand for lumber for the construction industry has been rising more rapidly than supply. Similarly, wood-pulp production has failed to keep pace with the rising industrial demand for paper for packaging and newsprint. The strongly rising demand for newsprint reflects not only population growth but also the improvement in literacy and education in the under-developed countries of the world.

Table 6. Indices of Production of Selected Agricultural Raw Materials
(1934-1938 average=100)

Commodity and area	Average annual output, 1934-1938 (thousands of metric tons)	1946/47 (1934-1938 average =100)	1954/55 (1934-1938 average =100)
Cotton:			
All areas	5,400	70	115
United States	2,800	68	107
Other major producers[a]	1,900	68	95
Other areas	700	86	200
Wool:[b]			
All areas	790	107	124
Australia, New Zealand and Union of South Africa	370	108	143
Argentina and Uruguay	120	157	129
Jute:			
South-eastern Asia	1,530	66	71
Linseed:			
All areas	2,680	89	100
Argentina	1,702	61	28
United States	209	275	505
Rubber:			
All areas	970	86	185
Industrial wood:			
All areas	...	108	126

Source: United Nations Bureau of Economic Affairs, based on data published by the Food and Agriculture Organization of the United Nations; data for rubber from International Rubber Study Group, *Rubber Statistical Bulletin* (London). "All areas" excludes output of mainland China and eastern Europe.

[a] Brazil, Egypt, India, Pakistan.

[b] Clean basis.

Production of agricultural raw materials has been less subject to shifts in regional distribution than has food production; such shifts as have occurred seem, in contrast to the situation in food, to have favoured the primary producing countries. The most striking illustration is perhaps to be found in cotton, where high United States support prices have stimulated production in under-developed countries while surplus supplies have accumulated in the United States. A similar shift to primary producers has resulted from the fall in United States production of wool since before the war. However, the shift in production of agricultural raw materials towards primary producing countries has been offset by the reduction in the share of these materials in total demand in favour of substitutes and synthetics produced almost entirely within the industrial countries for their own consumption. Thus, for example, while the share of exports from primary producing countries in the consumption of natural fibres by the industrial countries has increased since pre-war years, the corresponding share in their total fibre consumption must have fallen. Again, while the United States still imports all of its natural rubber from under-developed countries, the entire increase in total United States rubber consumption from 1948 to 1954 was absorbed by the synthetic product.

The doubling of world manufacturing output from 1938 to 1954 was accomplished with a rise of little more than one-third in production of metallic minerals (see table 7). Even these figures understate the full extent of the lag in output of metallic ores, since the production of the world's metal-using industries has increased even more sharply than manufacturing output as a whole. Although there is an upward secular trend in supplies of scrap, this has been of small importance in explaining the divergence between production of ores and manufactures since 1938.

Table 7. Indices of World[a] Output of Metallic Minerals
(1948=100)

Item and area	1938	1954
All metallic ores[b]	93	127
Bauxite	48	191
Copper	88	115
Iron	68	119
Lead	125	129
Tin	109	116
Zinc	101	133
Total output:		
Developed areas	88	117
Less developed areas	101	142

Source: Statistical Office of the United Nations and Bureau of Economic Affairs; see table 4.

[a] Excluding mainland China and eastern Europe.

[b] Excluding gold and silver.

The lag in production has been common to all the major metallic ores, with the outstanding exception of aluminium. Besides the progressively greater elaboration of finished output in the engineering industries, there have been economies in the use of metallic ores and replacement of dearer by cheaper metals or by non-metallic materials. A remarkable example of economy in the use of metallic raw materials is provided by the motor vehicle industry of the United States, which is estimated to have reduced its consumption of copper by nearly 30 per cent between 1925 and 1950.[20] Or again, in tin, introduction of

[20] The President's Materials Policy Commission, *Resources for Freedom*, vol. II (Washington, D.C., 1952).

the electrolytic plating technique has led to substantial economies in manufacture of tin-plate for containers.

While the exceptional rise in production of aluminium is partly related to its extensive use in such rapidly expanding branches of manufacturing as the aircraft industry, it also reflects the increasing demand for this metal as a substitute for others. This process of substitution has been greatly stimulated, both by the reductions achieved during the war in the cost of producing aluminium and by the advances which have heightened the technical interchangeability of aluminium with other metals. Aluminium as an alternative raw material has encroached especially upon steel, copper and zinc. It appears that more than half the aluminium consumed throughout the world is in direct competition with iron and steel.[21] However, the competition of aluminium has probably had its greatest effect on copper. The process of substitution was no doubt stimulated by the post-war failure of output of copper to meet demand and the consequent widening in the margin between copper and aluminium prices. While increased use of aluminium in preference to other metals has greatly expanded output of bauxite, this shift has, nevertheless, widened the gap between output of metallic ores and of finished goods, since the value of aluminium required to manufacture a given amount of finished product is generally less than that of the metals which it has displaced.

The lag in consumption of metallic ores and metals in relation to manufacturing output since before the war has probably been greatest in the United States. At the same time, rising costs resulting from the depletion of deposits and other factors have restricted the increase in output of that country's mining industry. Domestic production of most metallic minerals has not increased in step with demand, and imports have accordingly risen. The post-war increase in imports of metallic raw materials has, in fact, been more than in proportion to the advance in basic metal production and consumption.

Western Europe has traditionally been much more dependent than the United States upon imported supplies of metallic ores. Hence, although the region's output of metallic minerals has, as in the United States, lagged behind consumption, the post-war increase in its imports has been much less spectacular in proportion to the pre-war level. For example, the total rise in imports of non-ferrous metals required for a growth of about 90 per cent in output of metal manufactures in western Europe[22] from 1938 to 1954 was only 13 per cent.

The increases in imports of the United States and western Europe have been associated with the development of new sources of supply in other countries and regions, principally in the Western Hemisphere and Africa. United States capital has aided development, particularly in the former area, while, in the latter, there has been considerable Belgian and British investment in the mining industry. Production of metallic ores for domestic consumption has also increased in many less developed countries over pre-war output. Even so, the increase in output of metallic minerals between 1938 and 1954 in the under-developed areas was certainly much less than the increase in world manufacturing output. Since 1948,[23] however, the increase has been of the same order (see tables 4 and 7).

Shifts in fuel requirements

Concurrently with the development of economies in the use of fuels, as of other raw materials, there has been a remarkable shift in the components of the world's energy supplies. This is illustrated by the following figures, which show each source of energy as a percentage of world[24] energy production:

	Coal and lignite	*Petroleum and other liquid fuels*	*Natural gas*	*Water*	*Total*
1937....	73.7	19.9	5.2	1.2	100
1948....	63.5	26.1	8.9	1.5	100
1953....	56.2	30.1	11.9	1.8	100

Source: "World Energy Requirements in 1975 and 2000", United Nations, *Proceedings of the International Conference on the Peaceful Uses of Atomic Energy*, vol. 1 (sales number: 1956.IX.1.vol.1).

The enhanced share of liquid fuels in total energy production and consumption partly reflects the growth of road and air transport. In addition, however, the advance in utilization of liquid fuels (as of natural gas) represents a substitution for solid fuels induced by technological progress and by economies in use in such fields as steel production, railway locomotion and shipping as well as in the heating of homes. This progress has been stimulated by the tendency for the prices of coal and petroleum to diverge increasingly over the years as supply conditions in the two industries have changed: from 1937 to 1953, for example, coal prices in France, the United Kingdom and the United States rose in relation to wholesale prices by amounts ranging from 22 to 33 per cent while fuel oil prices similarly computed declined from 1 to 15 per cent.[25]

Since large-scale production of crude petroleum is limited to a small group of countries, its greater use throughout the world as a principal source of com-

[21] Economic Commission for Europe, "Competition between Steel and Aluminium" (mimeographed document, E/ECE/184), page 65.

[22] Excluding western Germany, owing to lack of data on pre-war metal imports by that area.

[23] For a recent detailed study see United Nations, *Non-Ferrous Metals in Under-Developed Countries* (sales number: 1955.II.B.3).

[24] Including eastern Europe and mainland China.

[25] "The World's Need for a New Source of Energy", United Nations, *Proceedings of the International Conference on the Peaceful Uses of Atomic Energy*, vol. 1 (sales number: 1956.IX.1.vol.1).

Table 8. Energy Production, Consumption and Net Imports, Developed and Less Developed Areas
(Millions of metric tons, coal equivalent)

Area	Production			Consumption			Net imports[a]		
	1937	1949	1954	1937	1949	1954	1937	1949	1954
World total[b]	1,623	2,010	2,496	1,643	2,010	2,424			
Developed areas	1,479	1,722	2,037	1,554	1,872	2,227	51	128	221
Canada and United States	848	1,083	1,280	815	1,121	1,333	—8	32	57
Western Europe	538	531	628	640	637	735	44	82	134
Other countries[c]	93	108	129	99	114	159	15	14	30
Less developed areas	144	288	459	89	138	197	—41	—127	—224
Latin America	68	134	195	33	59	93	—34	—67	—91
Latin America, excluding Venezuela	32	44	60	22	56	84	5	22	37
Asia and the Far East	51	53	72	44	53	68	—1	3	2
Middle East and Africa	25	101	192	12	26	36	—6	—63	—135

Source: Statistical Office of the United Nations. The difference between world consumption and world production is accounted for by stocks, net imports from eastern Europe and the exclusion of bunker supplies from consumption figures.

[a] Net exports indicated by a minus sign.
[b] Excluding mainland China, eastern Europe and northern Korea.
[c] Australia, Japan, New Zealand, Union of South Africa.

mercial energy has considerably enhanced the dependence of most areas upon imported fuels for their supplies of energy. The extent to which the dependence of each region on imports has been increased is shown by table 8, which summarizes production, consumption and net trade in energy in terms of a common unit.

During the inter-war years, when there was a large trade in coal within western Europe, that region was nearly self-sufficient in energy supplies. But, in the post-war years, its enhanced demand for energy coupled with difficulty in raising coal production brought about a major expansion in imports of petroleum. Trade in coal within the region declined to about a fifth less in 1954 than in 1938.

In North America, the balance between domestic consumption and production of energy has been more closely maintained, because of the area's relatively rich endowment in all the primary sources of energy. However, displacement of coal by petroleum since before the war has gone much further there than in western Europe, solid fuel consumption accounting for about 28 per cent of total energy consumption in 1954 compared with 57 per cent in 1937, while in western Europe, the corresponding proportions were 72 per cent in 1954 and 87 per cent in 1937. The rapidity of the consequent growth in consumption of petroleum products resulted in United States imports of crude petroleum being multiplied tenfold between 1938 and 1954.

In many of the primary producing countries, other than the principal petroleum exporting countries in Latin America and the Middle East, dependence upon imported fuels has likewise increased during the post-war years, the increase in consumption of imported petroleum products being especially marked in Latin America (excluding Venezuela).

While continued expansion in world manufacturing production will, of course, call for significantly higher output of raw materials, it seems likely that this demand will be of considerably lesser proportion than the rise in output of finished goods. A substantial difference of opinion, it is true, does remain among economists as to whether the supply of raw materials is likely to keep pace with the growth in demand or may prove an ultimate bottleneck, raising costs of production and shifting the terms of trade in favour of primary producers. Whatever position may be taken on this question, it seems generally agreed that the demand for primary products is not likely to rise even approximately in proportion to final product.

Growth in Manufacturing

The expansion in manufacturing has been the chief force contributing to post-war growth. On one hand, the high level of demand for manufactures, particularly for investment goods, is a major source of the expanded world demand for primary production; on the other hand, the growth in productive capacity in all parts of the world and in all sectors of the economy has depended largely upon the accelerated rise in output of heavy industry in the advanced countries.

The basis for expansion of heavy industry has been provided, primarily, by higher post-war rates of domestic capital formation as compared with the nineteen thirties, and by rising governmental expenditure on defence equipment. In the major producing countries

of western Europe, the post-war shift in the composition of foreign demand from consumer to capital goods has also transformed their engineering industries into principal export industries. A further stimulus to the engineering industries of western Europe has been generated by the growth in consumer demand for durable goods, particularly in recent years. In the United States, both foreign and consumer demand have been of less importance in accounting for the industry's high rate of growth in the years since 1948.

In terms both of rates of increase in output and of investment, the chemical industry—including petroleum refining—has been a leader in the post-war decade. Technological advances have been most apparent in this industry, and besides creating numerous products which serve as substitutes for natural raw materials, these advances have led to increasing use of chemical technology in other industries.

By contrast with the chemical and engineering industries, output of staple consumer goods industries has been relatively slow in expanding, both because private incomes have risen less than national output and because demand for these products has not risen parallel with the rise in private real incomes. In addition, the shift in foreign demand to durable goods has reduced their importance as export industries, particularly in the case of western Europe's textile industry (see table 9).

Table 9. Indices of Output in Major Sectors of Manufacturing, North America and Western Europe
(1948=100)

Area and sector	*1938*	*1954*	*1955*[a]
Canada:			
All manufacturing	46	117	123
Food, beverages and tobacco	51	113	119
Textiles	49	90	106
Basic metals	53	119	140
Metal products	40	128	125
Chemicals	44	128	133
United States:			
All manufacturing	45	122	135
Food, beverages and tobacco	61	106	108
Textiles	51	90	103
Basic metals	32	100	131
Metal products	31	145	158
Chemicals[b]	40	137	153
Western Europe:			
All manufacturing	103	162	178
Food, beverages and tobacco	103	140	146
Textiles	111	135	133
Basic metals	114	167	195
Metal products	94	169	195
Chemicals	96	201	225

Source: Organisation for European Economic Co-operation, *General Statistics*, January 1956 and *Industrial Statistics, 1900-1955* (Paris, 1955).
[a] Provisional.
[b] Data do not agree with those published in the United States.

The shift to heavy industry in the developed regions

The metal products industry forms the largest single sector of manufacturing production in both the United States and western Europe. In the United States, gross investment in producers' durable equipment has increased much more slowly since 1948 than the output of the metal products industry (see table 10). Whereas output of metal products was some 58 per cent greater in 1955 than in 1948, gross investment in equipment, at constant prices, was only some 2 per cent larger.

Table 10. Indices of Categories of Real Expenditure and Output of Metal Products Industry, United States and Western Europe
(1948=100)

Area and item	*1953*	*1954*	*1955*[a]
United States:			
Gross domestic fixed capital formation	116	115	125
Gross investment in producers' durable equipment	108	98	102
Defence expenditure	368	299	270
Output of metal products industry	160	143	158
Output of consumers' durable goods	126	115	145
Western Europe:			
Gross domestic fixed capital formation	149	162	177
Defence expenditure	171	165	162
Output of metal products industry	151	169	195

Source: Organisation for European Economic Co-operation, *Industrial Statistics, 1900-1955* and *Seventh Annual Report* (Paris, 1956); United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), February 1956; *Economic Report of the President*, January 1956.
[a] Provisional.

Likewise, expenditure on consumers' durable goods—which consist mainly of metal products—has not increased as markedly as total demand for metal products; and the production of the former has accordingly lagged behind the increase in output of the metal products industry as a whole; this was true even in 1955, when output of consumer durables rose to an exceptionally high level because of the record production of passenger cars during the year.[26] In contrast to these items of expenditure, defence expenditure was about three times as great in 1955 as it had been in 1948; while a substantial portion of it represents payments for services and goods other than those produced by the metal products industry, the rise in total defence expenditure has undoubtedly generated a major part of the increased demand for the output of that industry. Foreign sales absorb a relatively small

[26] The production of certain consumer durable goods — such as television sets — has expanded enormously during the post-war years, but their net value in the industry's total output is small; moreover, their added contribution has probably been offset by the relative decline in the contribution of the less novel and more slowly expanding branches of the consumer durable goods industry.

proportion of its output; in 1954 only about 7 per cent of machinery and transport equipment produced was exported. These exports have also tended to decline recently from the high levels of the early post-war years, as larger supplies of metal products have become available from western Europe; in 1954 they were some 12 per cent less than in 1948.

By comparison with the United States, both gross investment in producers' equipment and the export trade have been of considerably greater importance in western Europe in accounting for the post-war rise in output of metal products. As may be seen from table 10, gross domestic fixed capital formation has risen more steeply in western Europe than in the United States over the years since 1948; estimates for the years 1950-1954 indicate that the proportionate rise in gross investment in equipment was only moderately below the increase in total investment.[27] The general increase in investment throughout the region has led to an expansion of intra-regional trade in capital equipment. Moreover, post-war development programmes initiated in the less developed countries have likewise increased demand for imported capital goods. The importance of western Europe's metal products industry as an export industry has thus been considerably enhanced during the post-war years. A rough estimate suggests that the volume of engineering exports both to countries within western Europe and to other areas may have doubled between 1948 and 1954, and probably accounted for about 30 per cent of the region's total production in 1954 compared with 25 per cent in 1948.

Unlike United States output, western European production of consumer durable goods has expanded with especial rapidity during the post-war years, appearing to exceed the rate of increase in the industry as a whole. Production of passenger cars, for example, increased by no less than 270 per cent between 1948 and 1954.[28] This movement partly reflects the development of a new export trade in passenger cars,[29] but there has also been, in recent years, a marked rise in consumption of cars and other durable goods within western European countries, as real income per capita has begun to rise appreciably above pre-war levels. Relaxation of post-war restraints on consumption and the extension of consumer credit facilities, which have been events of the past two or three years in many western European countries, have further favoured this growth.[30]

The highest rates of growth during the post-war years in both western Europe and North America have been established by the chemical industry.[31] Undoubtedly, progress in chemical technology has been the primary condition of these high rates; the industry, in fact, provides a spectacular example of the impact which advances in applied science may have upon the structure of manufacturing production. These advances have not only enlarged the range of the industry's products manufactured for direct sale to final consumers but have also fostered an increasing use of chemical technology by the industrial system as a whole in the processing of other raw materials. The great diversity of these products makes it difficult to assess quantitatively the relative importance of the industry's various branches in contributing towards the high rates of growth. But it would appear that the expansion is to be ascribed primarily to growth in output—and diversity—of industrial chemicals (including chemical fertilizers) for use by other industries in the processing of their non-chemical products. These account for the largest single part of the industry's production, both in the United States and western Europe; and, although in the post-war period it has greatly expanded its supply of the newer chemical materials, such as detergents, plastics and synthetic fibres, these remain only a minor part of its output.

The chemical industry is one of the most capital-intensive of industries, and the introduction of new products and processes arising from advances in chemical science has accordingly entailed high rates of investment during the post-war years.[32] In western Europe, the industry's level of investment has also been raised by the post-war programmes for developing and extending domestic petroleum refinery capacity (to which the development of the petroleum chemical industry has been an adjunct). As a result of these programmes, output of petroleum products increased some fivefold between 1948 and 1954, and, whereas less than half of the region's domestic consumption

27 United Nations, *Economic Survey of Europe in 1955*, pages 57 to 63.

28 Output of certain other durable consumer goods, such as motor scooters, domestic washing machines and refrigerators, is also known to have increased greatly. For example, production of domestic washing machines in the United Kingdom, and domestic refrigerators in France, both increased about sixfold between 1948 and 1954. The rapid growth in output of these products may, however, have been largely offset by relatively slow rates of increase in production of other products which have long been in common use. Nevertheless, the marked expansion of the passenger car industry has, in itself, been sufficient to enhance the relative importance of the consumer durable goods branch of the metal products industry, both during the post-war years and as compared with the years immediately before the war.

29 Exports of passenger cars from France, western Germany and the United Kingdom amounted to 711,000 units in 1954, compared with 286,000 units in 1948 and 160,000 units in 1938; the figure for 1938 includes all Germany.

30 See chapter 4 below.

31 The industry, as here defined, includes petroleum refining.

32 In the United Kingdom, for example, gross investment in the chemical industry during 1953 amounted to about 19 per cent of all gross fixed capital formation in manufacturing industries (and about one-third of the chemical industry's investment was in mineral oil refining). See United Kingdom, Central Statistical Office, *National Income and Expenditure, 1955* (London).

was met from local refineries in 1948, output in 1954 was virtually adequate to supply all requirements.

Partially as the obverse of the rising trend in expenditure upon consumer durables, the textile industry in industrial regions has been slow to increase output. Textile production in the United States has shown no tendency to rise during the post-war years; but, as compared with 1937 output, has been about one-half greater. In western Europe as a whole, on the other hand, textile production in 1954 was only some 13 per cent greater than the level of output in 1937. The difference reflects, in large part, the greater rise in the level of real consumption which has taken place in the United States since before the war; but it also marks the relatively greater importance of the export sector of the industry in western Europe, and the stagnation of this sector in the post-war years. Thus, since the nineteen thirties, the largest textile exporting countries in western Europe are those which have experienced the least expansion of total textile output, although, in a number of textile importing countries, the industry has grown quite rapidly through the process of import substitution.

The food, beverage and tobacco industries as a group have shown a somewhat stronger tendency to expand than the textile industry. In North America their combined output was substantially greater in the early post-war years than immediately before the outbreak of the war; during the post-war period it has been marked by a steady, though small, increase. In western Europe, although production has expanded quite rapidly since the war, the absolute increase over pre-war levels of output has been substantially less than in North America, owing to a smaller increase in food consumption.

Rise of industry in the less developed regions[33]

Manufacturing in the less developed regions is, in the main, directed to the production of consumer goods. Output of certain consumer goods has increased sufficiently to raise the percentage of the less developed regions in world production. Heavy industry, on the other hand, is still of small dimension and the increases in output have been overshadowed by developments in the economically advanced regions. The contrasting position of the under-developed regions in share of manufacturing output and in production of selected consumer and producer goods in the world (excluding mainland China and eastern Europe) are shown at top of next column.

	1938	1954
Total manufacturing	5	5
Sugar refining	51	54
Cotton yarn	18	23
Cigarettes	20	22
Cement	9	15
Wheat flour	9	13
Motor spirit	14	11
Nitrogenous fertilizer	11	8
Lumber	7	7
Crude steel	2	2

In a comparatively few countries, which are emerging as new industrial centres in the less developed regions, there has been a relatively more rapid growth of heavy industry than of consumer goods. Principal among these new centres are Brazil and India; among other countries in which post-war changes in the structure of manufacturing production have exhibited trends similar to these are Mexico, Chile and Turkey. By contrast, there is a larger group of countries in which post-war growth of manufacturing production has been limited mainly to the development of domestic consumer goods industries and to export industries processing local raw materials; the rates of growth in the consumer goods industries of these countries have generally tended to be higher during the post-war years than for similar industries in countries with developing heavy industries.

The growth of an iron and steel industry is a major element in the development of heavy manufacturing industries; it provides the nucleus around which other branches of heavy industry may develop. That such growth has been restricted to a few countries is strikingly illustrated by the steel statistics recorded in table 11. While production of crude steel throughout the less developed regions as a whole increased between 1946-1948 and 1952-1954 by 77 per cent, the expansion took place almost entirely within the five major producing countries. The increase in output was particularly high in Brazil (as well as Chile, where production is a recent development). In India, whose steel industry remains the largest and has been longer established, output increased more slowly. The growth of steel production in the major producing countries has received considerable impetus during the post-war years, both directly from the assistance given to the industry by the governments of these countries and, indirectly, through the growing demand for steel, created in part by governmental development programmes. Domestic production of crude steel, as a percentage of consumption, rose substantially between 1936-1938 and 1952-1954; but the increase in the absolute levels of consumption between the two periods was sufficient to raise the level of net imports except in Chile and India.[34] Further substantial additions to capacity are planned in some of these countries; in India, construction of three new steel mills, recently announced, to be built with the aid of financial and technical assistance from western Germany, the Union of Soviet Socialist Republics and the United Kingdom,

[33] See United Nations, *Processes and Problems of Industrialization* (sales number: 1955.II.B.1).

[34] The pre-war statistics for Indian consumption, however, include consumption in Pakistan.

Table 11. Crude Steel Production and Consumption, Less Developed Areas
(Thousands of metric tons)

Area and country	Annual average				
	Production			Consumption[a]	
	1936-1938	1946-1948	1952-1954	1936-1938	1952-1954
Less developed areas:					
Total	1,225	2,141	3,783	5,044	9,935
India	933	1,289	1,615	1,360	1,986
Brazil	81	404	1,027	430	1,438
Mexico	120	280	484	326	821
Chile	...	27	292	141	273
Turkey	–	91	162	164	429
Above countries as percentage of total	93	98	95	48	50
Australia, New Zealand and Union of South Africa	1,323	1,860	3,191	2,374	4,392

Source: Statistical Office of the United Nations.
[a] Apparent consumption.

will together increase the country's steel capacity by three million tons.[35]

In the post-war years, the engineering industries in some of the larger steel producing countries—and in a few other countries—appear to have entered a phase of rapid extension. In India, machinery production rose by 90 per cent between 1948 and 1953, and there appears to have been similarly marked expansion in Argentina, Brazil, Chile, Colombia and Mexico. Development of the industry has been fostered by various governmental measures and, in some instances, with the aid of direct investment by foreign enterprises. By and large, however, the engineering goods produced in these countries are as yet limited to those which involve only relatively simple manufacturing processes; textile machinery, railway equipment and construction materials, as well as motor vehicles and other consumer durables assembled partly from imported components, are among the more important. Local supplies of engineering products generally fall far short of domestic requirements, however; these few producing countries have, like other less developed countries, greatly increased their imports of engineering products during the post-war years.

The location of the chemical industry in the less developed regions is geographically more diverse than in the case of the metal industries. Mineral deposits suitable for the manufacture of certain chemicals occur in many countries, and there is commonly a local demand for some chemicals as materials in the fabrication of consumer goods. Certain branches of the chemical industry also assume importance for some countries as export industries. The post-war production of widely used chemicals, such as sulphuric acid and caustic soda, has increased substantially in many, and fertilizers from mineral deposits have also been more extensively produced.[36] Generally, however, the production of industrial chemicals remains limited in the less developed regions to a few inorganic chemicals, and, even within this group, few countries have achieved self-sufficiency in more than one or two products. The greatest diversification in the range of the industry's production has been achieved in those countries where the metal industries have made most progress.

Greater geographical diversification of production is evident in the cement industry. The five countries which accounted for 95 per cent of steel production in the less developed regions as a whole during 1954 contributed only 43 per cent of total cement production. Diversification of the industry has been aided, not only by protective policies, but by such economic factors as the high ratio of transport costs to the value of imported cement and the availability in most countries of the raw materials necessary for the industry; the increase in output has been encouraged by the decline in costs of cement production relative to costs of other building materials and by high post-war levels of construction activity. Between 1948 and 1954, the greatest increase in production was recorded in Asia and the Far East. There, net imports as a percentage of consumption fell from 22 per cent in 1948 to 14 per cent in 1954, although consumption rose by 153 per cent between the two years. In Latin America, consumption increased by 33 per cent between 1950 and 1954, while net imports as a percentage of consumption declined from 17 per cent to 8 per cent.

Other major heavy industries operating in the less developed regions are those which process raw materials for export, principally the petroleum refining and non-ferrous ore smelting industries. Output of crude petroleum and non-ferrous ores has increased

[35] Countries with smaller output of steel include Argentina, Colombia, Egypt, Peru, Rhodesia and Nyasaland, Pakistan and the Belgian Congo, and of these, all but the latter two had begun production at least before the end of the war.

[36] The only countries, however, which manufacture synthetic nitrogenous fertilizers on an extensive scale are India and Mexico.

more in the less developed than in the industrial regions since pre-war years. A corresponding shift in location has not, however, been common to all the processing industries. In petroleum refining, the share of the less developed regions in world production—taking output of motor spirit as an indicator of all refining—has changed little from the level of 14 per cent in 1938. Of the copper and lead ore mined in the less developed regions, a fairly high proportion was smelted locally before the war; this proportion has not been markedly different in the post-war years.[37] Smelter production of aluminium remains, as yet, very largely confined to the industrial countries.

The group of countries in which major consumer industries have expanded at the highest rates includes the industrially most backward in the less developed regions. These have, in the post-war years, established or expanded light industries whose output meets the domestic demand for manufactures that were in many cases previously imported. Among the industrially more developed countries, on the other hand, some had already reached self-sufficiency, or were approaching it, in the production of major consumer goods by the end of the war.[38]

The textile industry provides the outstanding example of development of a local consumer goods industry through substitution of domestic products for imports. Textiles have long been manufactured in some less developed countries by their cottage industries; but mill production, and its extension to the point of national self-sufficiency, is, in a number of instances, a fairly recent development.[39] This has been particularly true of countries in Asia and the Far East during the post-war years. As may be seen from table 12, mill production of cotton yarn—which is the best single indicator of textile output in the less developed regions—increased some fivefold in Asia and the Far East (excluding India) between 1946-1948 and 1952-1954. In Latin America and Africa and the Middle East, the increase in output was much greater during the war years than in the post-war period. The rayon industry, however, has been substantially expanded in Latin America during the latter period, output having increased nearly threefold between 1946-1948 and 1952-1954. The production of rayon yarn had been undertaken in Brazil and Argentina before the war, and since then it has been started or expanded in a number of other countries within the region. In the other regions, the only producers are Egypt, India and Turkey, where production was started in the post-war period. In all three regions, woollen textile production was considerably greater after the war than it had been immediately before; but it remains a relatively unimportant branch of the textile industry in the less developed regions as a whole, and, during the post-war years, the only evidence of further expansion has been in Asia and the Far East (because of the industry's development in China: Taiwan).

To sum up, the geographical dispersion of factory production of certain consumer goods has been widened during the war and post-war period. Govern-

[37] Zinc smelting, however, as a percentage of ore output, rose from 15 per cent in 1938 to 23 per cent in 1954. On the other hand, the proportion of tin that was smelted locally declined from 59 per cent in 1938 to 45 per cent in 1954, partly because of the establishment of smelting capacity in the United States during the war.

[38] India, in fact, emerged in the early post-war years as the world's largest exporter of cotton cloth.

[39] Mill production was, for example, first begun in Burma in 1951 and in Indonesia in 1953.

Table 12. Production of Cotton Yarn, Less Developed Areas

Area and country	Annual average (thousands of metric tons)			Percentage increase	
	1937-1938	1946-1948	1952-1954	1937-1938 to 1946-1948	1946-1948 to 1952-1954
Latin America:[a]					
Total	42	87	99	108	14
Argentina	25	67	81	168	21
Mexico	8	6	5	—25	—17
South-eastern Asia:[b]					
Total	575	647	831	13	28
Total, excluding India	17	21	133	24	533
Africa and Middle East:					
Total	40	79	113	98	43
Egypt	19	45	60	137	33
Turkey	18	29	37[c]	61	28
Australia, New Zealand, Union of South Africa	5	13	21	160	62

Source: Statistical Office of the United Nations.
[a] Not including Brazil.
[b] Not including Japan.
[c] Unofficial estimate.

ment policies of industrial development have been of major importance in promoting the diffusion of manufacturing production over a larger area of the world. Import substitution has been a significant factor in contributing to the growth of some branches of the consumer goods industries in many less developed countries. The movement towards geographical dispersion has been sufficiently strong in certain branches of manufacturing to raise the share of the less developed regions in world output of particular products. Some major branches of manufacturing are, however, virtually non-existent, or exist only in an embryonic state, in the less developed regions; and since rates of growth in these branches—as, for example, the engineering industry—have been at a high level in the industrial regions, the share of the less developed regions in world manufacturing output as a whole has not increased during the post-war years.

The Contribution of Higher Productivity

The widening gap between developed and underdeveloped countries in per capita output and in their stock of capital equipment is reflected in disparate trends both in labour productivity and in productive employment. In most industrial countries the rise in output since the pre-war period has generally been sufficient not only to absorb the annual increment to the labour force but also to wipe out the large-scale unemployment of the pre-war period (see table 13). Only in Belgium, Denmark, western Germany and Italy has unemployment been an important problem during the post-war period; in 1955 even this unemployment was significantly reduced in Belgium and western Germany.[40] Not only has employment increased considerably in the industrial countries, but it has also been possible, owing to the expansion in capital equipment and a constantly improving technology, to employ the additional manpower under conditions of continually rising productivity.

Statistics of labour force and employment are less adequate in many industrial countries than data on production, so that it is difficult to arrive at reasonably accurate estimates of the rise in productivity that has taken place. An indication of changes in global output per man may be obtained from estimates of the gross national product and total employment. In the United States the gross national product more than doubled in real terms from pre-war to 1954 while total (including agricultural) employment increased by about 37 per cent, denoting a rise in average output per man of about one-half. In Canada, similar calculations yield an even larger increase in average total output

[40] In western Germany, unemployment fell to 2.7 per cent, and symptoms of labour shortage developed, in the third quarter of 1955.

Table 13. Employment and Unemployment, Selected Industrial Countries

Country	Index of employment[a]			Unemployment[b]			
	1938	1954 (1948 = 100)	1955	1938	1948 (percentage)	1954	1955
Austria	70[c]	106	112	...	2.3	7.9	5.7
Belgium	...	99	...	18.4	4.0[d]	8.1	5.7
Denmark	...	...	...	21.3	8.6	8.0	9.7
France	95	105	107	...	...	...	...
Germany, western	...	128	135	...	4.2	7.0	5.1
Italy	...	...	...	4.3	8.9	10.0	9.8
Netherlands	71	...	...	...	1.0	1.9	1.3
Norway	...	112	113	...	1.0	1.3	1.2
Sweden	...	...	...	10.9	2.8[d]	2.6	2.4
United Kingdom	...	106	107	12.0	1.6[d]	1.5	1.2
Canada	72	115	121	11.4	2.2[d]	4.5	4.4
United States	67	106	110	19.0	3.4	5.0	4.0

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

[a] Excluding employment in agriculture.

[b] Percentage of unemployment is not comparable among countries because of differences in coverage; for details of national statistics, see source.

[c] 1937.

[d] Statistical coverage changed from that in earlier years.

Table 14. Change in Industrial Distribution[a] of Labour Force, Selected Countries
(Percentage)

Country and period	Increase in			
	Agriculture	Industry	Services	Total economically active population[b]
Canada, 1941 to 1951	—18	44	44	26
Denmark, 1940 to 1953	—11	25	9	7
Italy, 1936 to 1954	—4	27	36	16
Sweden, 1940 to 1950	—26	18	15	4
Switzerland, 1941 to 1950	—14	16	14	8
United Kingdom, 1931 to 1951	—11	14	4	7
United States, 1940 to 1950	—19	38	32	15

Source: International Labour Organisation, *Yearbook of Labour Statistics*, 1945 and 1946, 1955 (Geneva).

[a] Agriculture includes agriculture proper, forestry and fishing; industry includes mining, manufacturing, public utilities, construction; services include commerce, transport and communications, public and domestic services, professional services (armed forces included).

[b] Activities not specified and persons seeking employment for the first time are included here, but not in the separate branches of economic activity.

per man. For western Europe, it has been estimated[41] that total man-hours of employment rose about one-sixth from 1938 to 1954; since the gross national product rose over one-third, a rise in average output per man-hour of about the same order as the increase in employment is indicated. The lower figure for labour productivity, as for total output in western Europe as compared with Canada and the United States, is due to the disruptive effects of the war; since 1948 western Europe's campaign to raise productivity has borne fruit in a larger rise in average output per man than has occurred in North America.

The increase in gross national product per man reflects not only changes in productivity within each economic activity but also shifts in employment between economic sectors. Both in North America and in western Europe, major shifts have occurred in the distribution of employment from activities with relatively low, to activities with relatively high, average values of output per man. The most striking feature of these shifts has been the transfer of manpower from agriculture to other activities; as may be seen from table 14 decreases in the agricultural labour force since before the war range from about 10 per cent in countries such as the United Kingdom and Denmark to about 20 per cent in Canada and the United States and over 25 per cent in Sweden. Both in western Europe and in North America the labour force in industry has risen by two to three times the percentage increase in total labour force.

Within the industrial sector itself there have also been important relative shifts in employment in favour of construction and of durable goods, and away from non-durable goods industries, which would tend to raise the average value of output per man for industry as a whole. For the United States this is illustrated in table 15, in which the industries recording an increase in the share of industrial employment are typically characterized by significantly higher levels of value added per man than those whose shares registered a decline from the pre-war period.

Significant as has been the change in the distribution of employment, it is evident that a major part of the rise in the national average output per man in North America and western Europe is accounted for by increases in productivity within the individual branches of economic activity. Progress has been pronounced in agriculture, where output rose considerably while at the same time manpower was released to industry. In the United States, farm output per man has more than doubled since the war, and average hours worked per week have declined. Although the increase has not been quite so great in western Europe, in several countries the improvement was nevertheless greater than that registered in other activities combined, or, in some instances, even in industry. The progress reflects the importance that has been attached since the war to expansion of agriculture in most industrial countries. War and post-war food shortages with their attendant problems of inflationary pressures—and in western Europe also of the dollar shortage—have prompted most of these countries to give high priority to agriculture in their policy formulation. Government measures have ranged from technical assistance and research to price-support programmes coupled with a high degree of protectionism. These measures have lifted the share of farm income in the total as compared with the pre-war period, facilitating a revolutionary expansion in capital formation on the farms. No less significant in raising output per man and per acre have been technological advances in hybridization, insecticides and soil conservation, combined with intensive use of commercial fertilizers.

[41] Organisation for European Economic Co-operation, *Sixth Report* (Paris, 1955), page 59.

Table 15. United States: Productivity and Employment[a] in Major Branches of Manufacturing

Branch	Increase in employment (percentage of total)[b]		Net value added per man-year, 1954 (thousands of dollars)
	From 1937 to 1947	From 1948 to 1954	
Chemicals and allied products	9	14	9.2
Machinery and transport equipment	38	101	6.4
Basic metals and metal products	21	30	5.8
Food, tobacco and allied products	7	–	5.3
Miscellaneous products	17	—6	5.0
Textiles	8	—39	3.3
All manufacturing.	100	100	5.6

Source: United States Department of Commerce, *National Income, 1954* (Washington, D.C., 1955) and *Survey of Current Business*, July 1955.

[a] Employment measured in man-years of full-time employment of wage and salary earners or the equivalent in work performed by part-time workers.

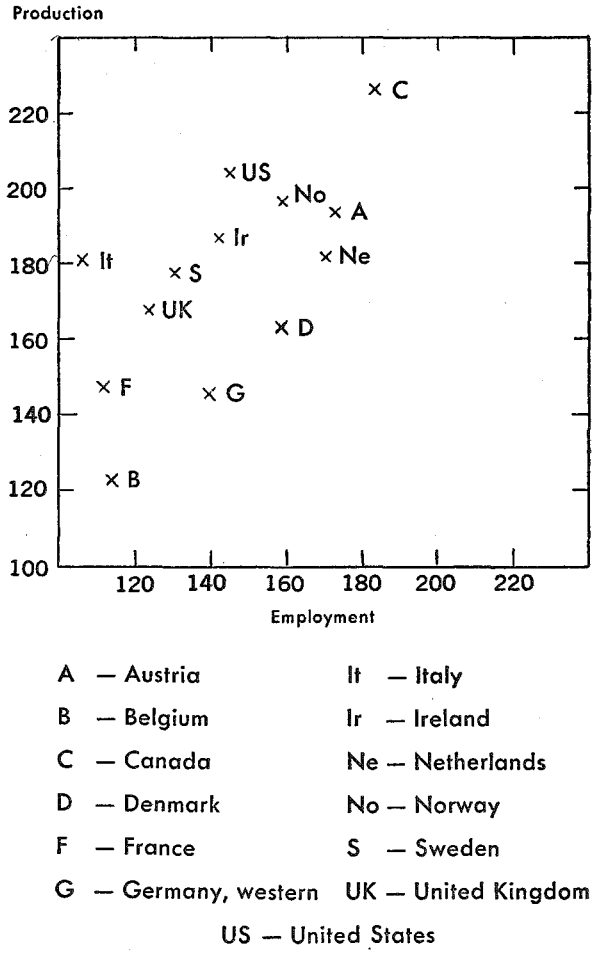
[b] Increase in employment in given branch as percentage of total increase in employment in all manufacturing. The industrial classification of basic data was slightly changed in 1947, affecting the comparability of figures for the two periods.

Of greater quantitative importance, in view of its weight in total economic activity, has been the increase in productivity in industry. Though generally smaller than the rise in farm productivity, it accounts for most of the increase in the national average. As was suggested by the increases in gross national product per man, the rise since before the war has been considerably greater in Canada and the United States than in western Europe (see chart 7). Although the war-time experience has clearly left its mark on the post-war levels of productivity, the gap between countries has tended to narrow since 1948. Countries with a late start in reconstruction, such as Austria and western Germany, have experienced the largest rise in productivity since 1948, while others, such as the United States and Canada where productivity rose significantly during the war, have recorded much smaller increases in the post-war years.

It is western Europe's success in raising its productivity levels which has so profoundly altered the economic landscape of the world since the end of the war. It has enabled the region to regain and indeed to exceed its pre-war level of living even while devoting a higher share of output to investment for future growth, to improvement of the balance of payments and to defence. Since consumer demand does not normally rise by the full absolute amount of an increase in income, the rise in productivity has provided a margin of supply which could be devoted to other uses in addition to raising current consumption. Part was in fact used to increase the share of output devoted to investment. Even investment and consumption combined, however, rose less than did incomes, with the result that the pressure of home demand against supplies subsided and the extra margin could be used to increase exports, reduce imports and thus overcome the enormous balance of payments deficits with which the region was saddled immediately after the war. Not only were Europe's balance of payments deficits thus overcome but also the world's problem of dollar shortage was reduced to manageable proportions as Europe increase its export capacity of capital goods previously available chiefly in North America, and at the same time assisted the less developed areas affiliated with it to expand their exports of primary products which Europe had earlier been compelled to buy mainly from the United States.[42]

[42] Elements contributing to the easing of the post-war dollar shortage are reviewed in chapter 2.

Chart 7. Industrial Production and Employment, 1954
(1938=100)[a]



Source: United Nations Bureau of Economic Affairs.

[a] Belgium, Canada and United States: 1937 = 100.

Table 16. Ratio of Industrial Employment to Male Population,[a] Selected Primary Producing Countries
(Percentages)

Country and year	Ratio of total industrial employment to total male population[b]	Ratio of increment[c] in industrial employment to increment[c] in male population[b]	Country and year	Ratio of total industrial employment to total male population[b]	Ratio of increment[c] in industrial employment to increment[c] in male population[b]
Australia:			*Brazil*:		
1938/39.....	25		1940.....	6	
1948/49.....	35	163	1950.....	9	20
1950/51.....	36	39	*Colombia*:		
New Zealand:			1945.....	5	
1938/39.....	19		1953.....	8	21
1947/48.....	22	37	*Egypt*:		
1951/52.....	24	...	1945.....	8	
Argentina:			1951.....	8	2
1937.....	13		*Mexico*:		
1946.....	22	74	1940.....	5	
1954.....	23	28	1945.....	8	24
Union of South Africa:			*Turkey*:		
1938/39.....	13		1939.....	1	
1947/48.....	19	51	1950.....	6	28
1951/52.....	22	62	*India*:		
Chile:			1938.....	2	
1937.....	9		1948.....	2	6
1949.....	10	15	1953.....	2	1

Source: United Nations, *Demographic Yearbook* (sales number: 1955.XIII.6); national industrial censuses and other official publications.

[a] Tentative estimates of male population, aged 15 to 64, made from latest available census data. Both the definition of industrial employment and the minimum size of establishment covered by industrial censuses differ from country to country. The ratios given in the table are therefore not exactly comparable among countries.

[b] Aged 15 to 64 years.

[c] From preceding year shown.

In contrast to the rise in productivity in the developed countries, the progress in under-developed countries generally appears quite limited. It is not possible to obtain meaningful estimates of productivity for these countries, since the labour force can hardly be defined, let alone measured with any reasonable degree of accuracy, in countries in which unpaid farm labour constitutes such a large part of total manpower. It is evident, however, that the record of rising productivity in the developed countries finds little parallel in the under-developed areas of the world. Far from declining, the agricultural population in such areas has grown substantially since the pre-war period. It has been estimated that from 1937 to 1952 the increase amounted to approximately one-fifth.[43] While this is less than the percentage rise in total population it is of the same order of magnitude as the rise in farm output in the under-developed regions of the world as a whole. Not only does agricultural productivity remain extremely low by standards of developed countries but the volume of disguised unemployment on the farms appears to have increased, at least in absolute numbers, if not in relation to total farm population.

Such limited increase as has taken place since before the war in per capita output in less developed countries appears to have been due primarily to non-agricultural activities. The available data are not adequate for measuring the extent to which the rise in per capita output represents increased productivity or a rise in the proportion of population that is employed in industry. Some increase in that proportion appears to have taken place, at least in Latin America, although, except in Argentina, the proportion remains very small compared with that prevailing, for instance, in the advanced primary producing countries, Australia, New Zealand and the Union of South Africa (see table 16). It seems fairly clear, however, that industrialization has thus far not progressed sufficiently fast to provide productive employment opportunities for more than a small fraction of the annual increment to the labour force.

[43] Food and Agriculture Organization of the United Nations, *Yearbook of Food and Agricultural Statistics, 1953*, vol. I (Rome, 1954), page 17.

Chapter 2

INTERNATIONAL TRADE AND PAYMENTS

The Expansion in World Trade

Despite the many difficulties and obstacles in international trade, and the persistence of symptoms of disequilibrium throughout the post-war period, the expansion of world trade during the past ten years has been much more rapid than during the corresponding years following the First World War. By 1955 the total volume of world trade[1] was of the order of 50 per cent higher than in 1948, and exceeded the level reached in 1938 by approximately the same proportion (chart 8). In contrast, in 1928, the tenth full year after the end of the First World War, the volume of world trade was less than 30 per cent above the level of 1913.[2]

Since the Second World War, world trade has grown even more rapidly than production, in terms of post-war prices, as is indicated clearly in the data presented in table 17.[3] This was primarily due to the fact that the war was more disruptive of trade than of production. Consequently, the increase in trade was greatest, relative to production, during the first five years or so of recovery after the war; after 1951 the expansion of trade began to slow down in relation to production. For the period 1938 to 1955 as a whole, available data suggest a somewhat smaller rate of growth in world trade than in world production.

Very similar phenomena were observed after the First World War. The *World Economic Survey* for 1931/32 of the League of Nations noted that while world trade rose more rapidly than world production from 1921 to 1929, the opposite was probably true of the entire period from 1913 to 1929, on the average.

The most important reason that the rise recorded in world trade is smaller than that in world output since 1938 is almost certainly the fact that production has risen most in countries whose trade is low in relation to their output. In particular there has been a

Table 17. Indices of World Production and Trade[a]
(1948=100)

Item	*1938*	*1954*
All commodities:		
Production	78	130
Exports	99	145[b]
Primary commodities:		
Food:		
Production	90[c]	117
Exports	104[c]	112
Raw materials:		
Production	84	120
Exports	103	140
Manufactures:		
Production	69	140
Exports[d]	92	150[b]

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

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

[b] Excluding "special category" exports of the United States, commodities to which security restrictions apply regarding the publication of certain detailed export statistics.

[c] Annual average, 1934-1938.

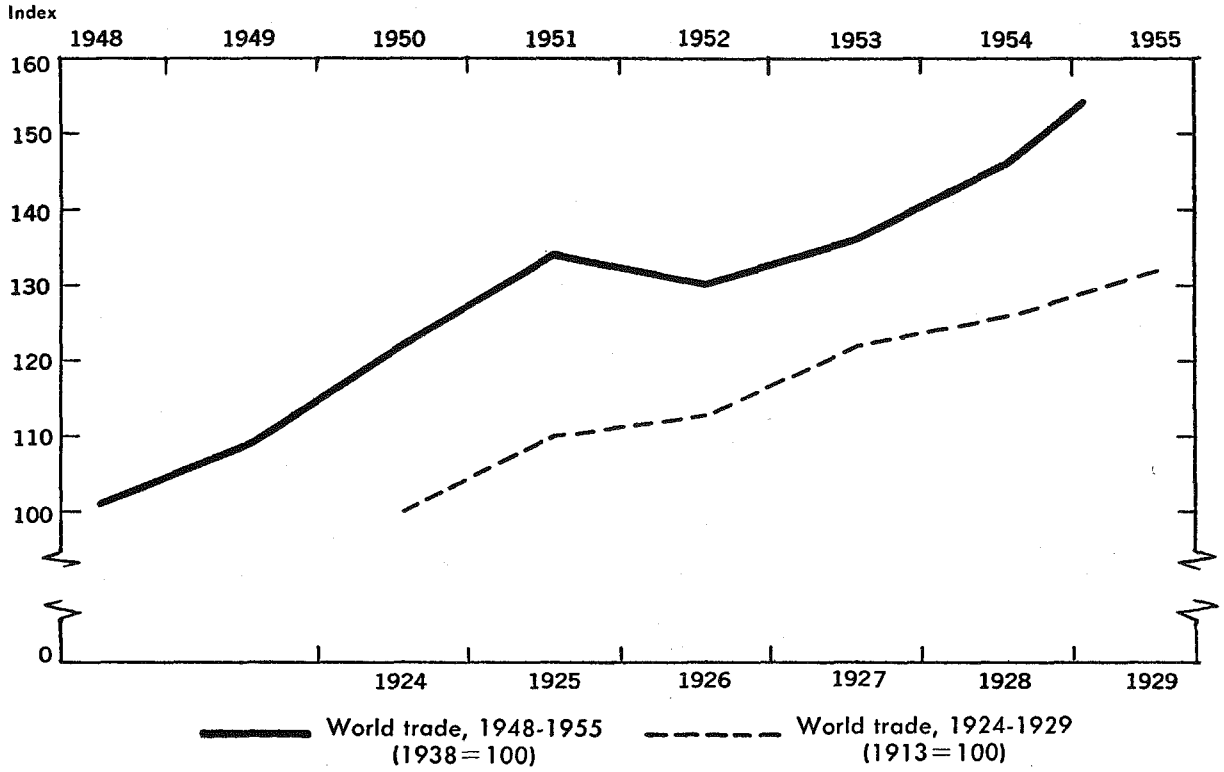
[d] Exports of Belgium-Luxembourg, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States. German data for 1938 refer to pre-war area of Germany (1937 boundaries).

[1] Excluding exports of the centrally planned economies and special category exports of the United States. For an analysis of the trade of the centrally planned economies, see chapter 3.

[2] Data given on page 60 of League of Nations, *Review of World Trade, 1938* (Geneva, 1939), suggest a rise in the volume of world exports from 1913 to 1928 of 24 to 29 per cent. On the other hand, according to United Nations, *Growth and Stagnation in the European Economy*, by Ingvar Svennilson (sales number: 1954.II.E.3), table A.58, the quantum of world exports in 1928 was only 13 per cent higher than in 1913.

[3] Comparisons of this kind between trade and production present formidable difficulties on account of limitations inherent in the basic data. While the various methods of estimating world indices of the volume of output and trade do not normally produce very different results for changes from year to year or even over a short period of years, a much larger dispersion of estimates may emerge from an examination of trends over a long period. This is particularly true if important changes in the relative prices of different products and in the composition of trade or of output are involved — as was certainly the case both from 1913 to 1928 and again from 1938 to 1955. It has, for example, been shown in *International Trade Statistics*, edited by Allen and Ely (New York, 1953), page 195, that the change in the volume of United Kingdom exports from 1938 to 1947 may be estimated either as a rise of 11 per cent or as a fall of 1 per cent, depending upon whether the 1947 exports are revalued at prices ruling in 1938, or whether the opposite procedure is followed. Similar, though on the whole lesser, discrepancies between equally valid methods arise in estimating changes in production over long periods, as is pointed out in chapter 1. Moreover, any volume index of world trade or world output cannot avoid all the difficulties implicit in the individual national indices, and the additional complication that there are wide differences in practice among countries in the methods they employ. For an account of the method used by the Statistical Office of the United Nations in calculating indices of world industrial production and world trade, see *Supplement to the Monthly Bulletin of Statistics* (1954).

Chart 8. Expansion of World Trade after the First and Second World Wars
(Indices of export quantum)



Source: United Nations Bureau of Economic Affairs; League of Nations, *Review of World Trade, 1938* (Geneva, 1939).

marked relative increase during the past twenty years in the contribution to world output of the United States, which has by far the lowest ratio of imports to total national output of the thirty countries listed in table 18. This fact alone would suffice to cause a significant discrepancy between the gain in world trade and in world output.[4] It will be shown below that changes in the distribution of world production since before the war have accounted for a major part of the lag in world trade.

There are, however, other factors pulling in the same direction. The most important of these are the tendencies in many countries to import less for a given structure of output, and to shift towards patterns of production requiring fewer imports; in many cases the effects of these two types of change, which are examined further below, are inextricably linked.

The general tendency for the volume of world trade to rise more slowly than world output does not mean that imports have declined as a proportion of national income in all or even in most countries. The data assembled in table 18 show, in fact, that from 1937 to 1954 the ratio of imports of goods to national income (or to some other national aggregate of production or expenditure) rose in the majority of the countries listed. In interpreting this fact, it must of course be borne in mind that the national income reflects the output not only of agriculture and industry but of other goods and of services as well; and that the changes in the ratio also depend on the relative movement of international trade prices and internal prices in each country.

All countries in table 18 for which data are available—except Japan, where special circumstances prevailed—reduced the proportion of their incomes spent on imports from 1929 to 1937. It is likely that this reflected, in many cases, both a reduction in the ratio of imports to income in real terms[5] and a greater decline in import prices than in domestic prices. In the industrial countries, import prices for primary products certainly fell much more sharply than domestic prices, but in addition new barriers were imposed upon trade during the early nineteen thirties. The latter was also true of many primary producing countries, but their price movements were more heterogeneous.

[4] For the world as a whole, including the centrally planned economies, the lag is further emphasized by the rise in the share of world output produced in the Union of Soviet Socialist Republics, which probably has an even lower ratio of trade to output than the United States.

[5] Data available for fifteen countries, most of them industrial, with only two exceptions, show declines—and usually sharp declines—in the ratio of import volume to industrial production from 1929 to 1937.

Table 18. Ratio of Imports of Goods to National Income, by Country
(Percentages)

Category and country	1929	1937	1948	1954
Countries with declining ratios, 1937 to 1954:				
Argentina	...	16.8[a]	16.4	6.8
Austria	45.3	25.7	11.5	23.9
Belgium	45.3[b]	42.1	35.1	38.4
Ceylon[c]	...	39.7[d]	37.8	29.7
Finland	34.1	32.4	21.7	22.2
France[e]	23.8[f]	15.5	12.4	12.8
Japan	17.1[b]	25.3	...	14.0
Northern Rhodesia[e]	...	61.5[d]	61.8	58.4
United States	5.1	4.3	3.2	3.4
Yugoslavia	...	11.6	8.3	9.4
Countries with rising ratios, 1937 to 1954:				
Australia[g]	17.4	16.1	21.5	21.2
Burma[g]	...	17.8[d]	18.6	24.3
Canada	27.1	19.9	21.0	21.8
Colombia	...	17.4[h]	15.5	17.9[i]
Cuba	...	22.6[d]	31.9	28.4
Denmark	33.6[b]	26.9	22.2	34.4
Germany, western[j]	...	16.5[k]	11.2[l]	18.8
Ireland	38.1	28.4	42.1	40.2
Italy	17.3[m]	12.5[m]	14.2	15.4
Mexico	13.2[m]	12.5[m]	10.2	13.6
Netherlands	45.3	33.4	38.5	51.6
Norway	24.7[a]	23.1[a]	32.9	39.5
Nyasaland	...	20.2[d]	44.0[m]	45.3[i]
Southern Rhodesia	57.9	43.9	63.2	59.8
Sweden	21.7[n]	20.7	20.8[o]	23.8[o]
Switzerland	28.3	22.2	28.4	25.5
Thailand[m]	...	15.1[d,g]	10.5	21.8[o]
Turkey	...	9.2[d]	9.7	10.7[i]
United Kingdom:				
National income	26.8	17.1[d]	...	...
Gross domestic product	...	15.8[d]	17.5	18.8
Venezuela	...	14.1[k]	32.4[l]	27.6[o]

Source: Statistical Office of the United Nations.
[a] Gross domestic product at market prices.
[b] 1930.
[c] Gross national product at factor cost.
[d] 1938.
[e] Data not fully comparable.
[f] National income at market prices.
[g] Fiscal year data for Australia and Burma, and for Thailand in 1938.
[h] 1939.
[i] 1953.
[j] Data from Organisation for European Economic Co-operation (OEEC), *General Statistical Bulletin* (Paris); gross national product at market prices.
[k] 1936.
[l] 1949.
[m] Net domestic product at factor cost.
[n] Net domestic product at market prices.
[o] 1952.

Since 1937 there has been less uniformity among countries. Of the thirty countries, ten show lower import ratios in current prices in 1954 than in 1937. This group contains several countries which are relatively advanced industrially, notably the United States, and where structural changes in the composition of output and trade during the period sufficed to offset the fact that import prices had risen much more than domestic prices. Most of the under-developed countries, as well as a substantial group of western European countries, recorded higher import ratios in 1954 than in 1937. Data in constant prices are available for eleven of these twenty countries, of which ten[6] showed significant increases in the real ratio of imports to income as well as in the current value ratio. Only the United Kingdom runs counter to this tendency, with a sharp reduction in the real import content of the national product more than offset by a larger rise in import prices than in domestic prices.

Among the under-developed countries, imports of goods rose as a proportion of income in current prices because of substantial growth in the purchasing power of their exports. This took the form not only of an expansion in the volume of exports but—and probably of more importance in many cases—of an improvement in the terms of trade. In many of these countries, the relative burden of service payments was reduced; and in some, higher capital inflow since the war, or economic aid, has added to resources available for purchasing goods abroad.

[6] Burma, Canada, Denmark, western Germany, Ireland, Italy, Netherlands, Norway, Switzerland and Turkey.

Most of the industrial countries—including the United States—have recorded increases in their import ratios in the course of the post-war period. So far as western Europe was concerned, the rise from 1948 to 1954 shown in table 18 reflected the general improvement in balance of payments positions, making it possible to relax import restrictions. Data are available in real terms for fifteen countries in western Europe and North America, and for Japan. In all cases except Switzerland, the United Kingdom and the United States, the volume of imports rose more, and often considerably more, from 1948 to 1954 than real income or product. In the United Kingdom and the United States, the decline in imports in relation to the national product was small and was offset by greater increases in import prices than in domestic prices. While a number of under-developed countries have also increased their import ratios in recent years, certain of them imported relatively less in 1954 than in the early post-war years, when war-time accumulations of foreign exchange reserves were being liquidated to meet the pent-up demand for imported goods. Some of the under-developed countries tightened their import controls during the period under review. In some instances, however, the relative decline in imports since 1948 may be due rather to recovery in domestic output and the consequent elimination of the need for relief or other exceptional shipments.

Whatever the reasons may be in terms of changes which have occurred in the structure of trade and output, and in the volume and prices of imports, it may be considered significant that, despite all the prevailing restrictions on international trade, two-thirds of all countries for which data are available spent a higher fraction of their incomes on imports in 1954 than in 1937. The remaining one-third of the countries, moreover, did not by any means consist exclusively of those operating the most restrictive controls on trade and payments; on the contrary, many of the latter were to be found among the former two-thirds.

The Lag in World Trade in Primary Products

While total world trade has fallen relative to total world output in real terms, trade in primary products has also declined in relation to total world trade. It has likewise fallen in relation to world production of these commodities and still more, of course, in relation to world manufacturing output.

It is evident from table 17 that the volume of internationally traded primary products increased less than world trade as a whole from 1938 to 1954, food showing a greater lag than raw materials. This was the opposite of the trend during the nineteen thirties when the share of primary products in world trade was significantly increased in real terms. This is indicated by the following volume indices of world exports in 1938 (1929 = 100):[7]

Food	92
Raw materials	95
Manufactures	82
TOTAL	89

The rise from 1929 to 1938 in the share of primary products in the volume of world trade was accompanied by a fall in their purchasing power over manufactures; and conversely the declines in the proportion of primary products in world trade at constant prices from 1938 to 1948, and from 1948 to 1954, were associated with relatively greater advances in the prices of primary products than of manufactures. This relationship is reflected in chart 9, which indicates that from 1929 to 1938 and from 1951 to 1955 the real share of manufactures in world trade varied inversely with the ratio of export prices for manufactures to average world export prices for all goods.[8]

[7] League of Nations, *Review of World Trade, 1938.*

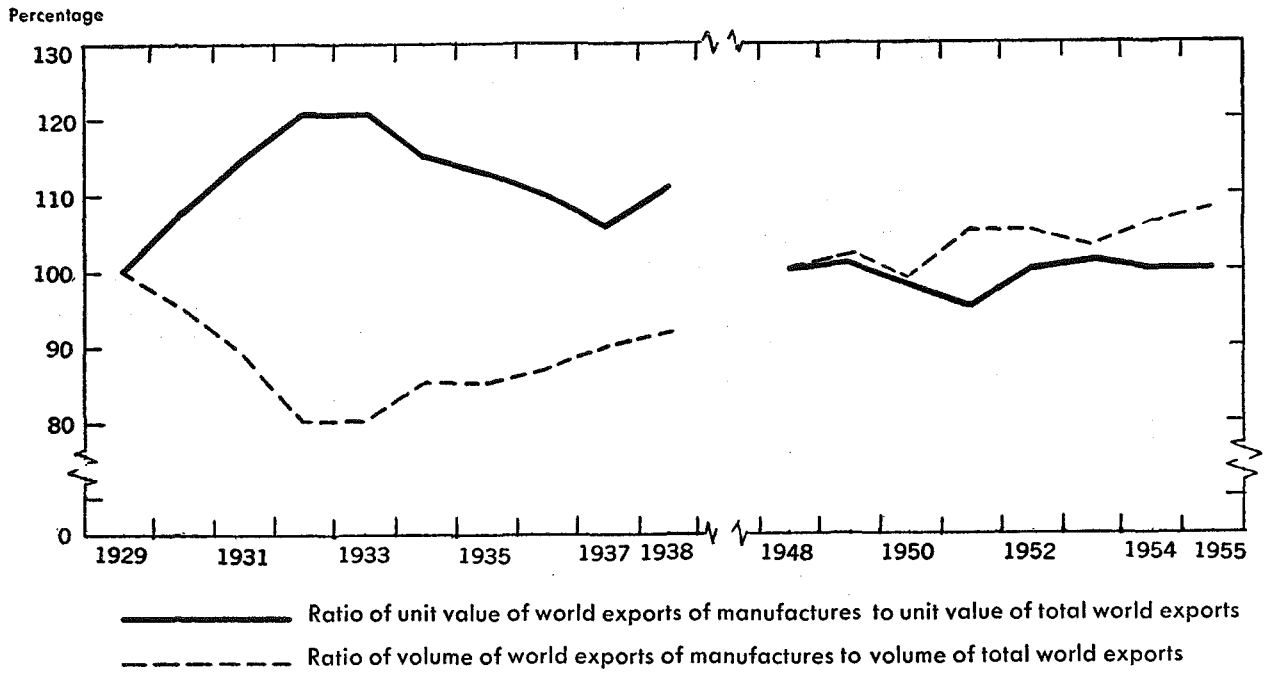
The lag in trade in primary products since 1938 has proceeded from essentially the same causes as the lag in world primary production, which is reviewed at length in chapter 1. Consumption, and therefore imports, of primary products are typically much less sensitive than consumption and imports of other goods to changes in real income.[9] Furthermore, both the demand for primary products and their supply, taken as a whole, appear to be less responsive to changes in price than demand and supply for manufactures, again regarded as a whole. A rise in world income normally tends, therefore, to bring about a larger increase in the volume of trade in manufactures than in primary products and, on the other hand, a sharper price advance in primary products than in manufactures; and the converse has probably held true in general in periods of declining world income.

The inherent tendency for trade in primary products to advance less than total trade or total production has been reinforced since 1938 by structural changes affecting both food and raw materials. These include, in particular, the trend towards greater self-sufficiency in basic foodstuffs in net importing countries, the rise in the share of manufacturing output produced in the United States—whose raw material import require-

[8] Special circumstances explain the parallel movements in the two post-war series prior to 1951, namely, the rising trend in world exports of manufactures in 1948 and 1949 resulting from recovery in western Europe, and the upsurge in world exports of primary products in 1950 due to public and private stockpiling connected largely with the outbreak of hostilities in Korea.

[9] In the case of raw materials, this tendency may not emerge in short-period business fluctuations accompanied by sharp changes in raw material inventories.

Chart 9. Volume and Unit Value of World Exports of All Goods and of Manufactures
(Percentages)



Source: Statistical Office of the United Nations; League of Nations, *Review of World Trade, 1938.*

ments are small, relative to output—and the world-wide shift in the structure of manufacturing from light to heavy industries, with consequences which are reviewed below.

Thus far in the post-war period, world trade in food has shown little or no sign of long-term expansion. World food production has grown fairly steadily since the war, reaching a level 30 per cent above pre-war output in 1954 (chart 10). Trade, on the other hand, starting from a relatively low volume immediately after the war, had risen to a level 11 per cent above pre-war by 1951; there has been no further advance, as shown by the following indices (1934 to 1938 average = 100).[10]

	1946	*1948*	*1951*	*1954*[a]
World production	103	111	119	130
World exports	82	96	111	108

Source: Food and Agriculture Organization of the United Nations.
[a] Provisional.

The concentration of post-war increases in food production in importing countries and the reasons underlying this trend towards self-sufficiency have been examined in chapter 1.

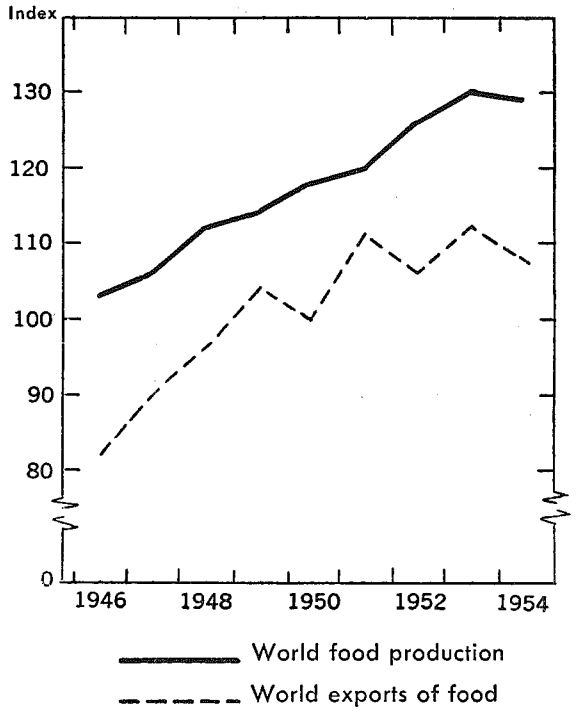
Compared with pre-war years, food production has risen more in industrial than in primary producing countries. Furthermore, a smaller share of food production in primary producing countries has been available for export, chiefly owing to rapidly increasing population. In 1954 primary producing countries were exporting 10 to 15 per cent less food than before the war, and the total volume of world trade in food exceeded the average for 1934-1938 only because the exports of industrial countries had increased by over one-third. As table 19 shows, exports by the primary producing countries of the major food crops, fats and oils, and tobacco were about 9 per cent smaller in volume in 1954 than 1938, while exports by the industrial countries rose by 33 per cent.[11]

World trade in raw materials has also lagged in relation to total trade, as has trade in food; although in this case, as shown below, the discrepancy may be attributed to a decline in exports of industrial rather than of primary producing countries. By 1954 the volume of trade in raw materials was a little over one-third larger than in 1938, but much of this increase was accounted for by the large expansion in exports of crude petroleum. Trade in the major raw materials other than fuels was only about 19 per cent higher. In this period, the total volume of trade, aside from that of mainland China and eastern Europe, rose by about 45 per cent, and manufacturing output doubled. In other words, if fuels are excluded, the raw material import content of world manufacturing was apparently reduced by about 40 per cent between 1938 and 1954.

[10] Data include beverage crops and tobacco. World figures do not include the centrally planned economies. Production data refer to crop years beginning in the year stated.

[11] The inclusion of meat in the figures in table 19 would accentuate the decline in exports of primary producing countries and the rise in exports of industrial countries.

Chart 10. World Food Production and Trade[a]
(Annual average, 1934-1938=100)



Source: Food and Agriculture Organization of the United Nations.

[a] Excluding that of the centrally planned economies.

Much, but not all, of this decline had occurred by 1948 when, apart from fuels, the volume of trade in raw materials was still below the pre-war level. Between 1948 and 1954 exports of raw materials other than petroleum increased by about 30 per cent, while manufacturing output rose by about 40 per cent and the total volume of world trade by rather more. If exports of crude petroleum, which almost doubled from 1948 to 1954, are included, the volume of trade in raw materials roughly kept pace with the rise in manufacturing output during the post-war period.

Two main reasons for the striking drop in the raw material import content of world manufacturing output since before the war have already been referred to. First, there was a great increase in the share of world[12] manufacturing output produced in the United States, where the ratio of imported raw materials to output is very low, and a decline in the share provided by western Europe, where the raw material import content is much higher.[13] Second, as shown in chapter 1, the raw material content of manufacturing has steadily tended to decline owing to a variety of factors, including economies in the use of raw materials as a result of technological progress, a greater amount of reprocessing of already used materials, the substitution of synthetic for natural materials and more elaborate fabrication of final output.

Changes in the structure of production have prevented world trade in raw materials from rising as much as world manufacturing activity. For example, in industrial countries, the composition of manufacturing output has shifted from light industries, such as textiles, towards engineering industries with a much higher and more rapidly increasing degree of elaboration of final output. In western Europe, where the import content of the textile industry is relatively much larger than that of the engineering industries, this shift has undoubtedly tended to reduce the import content of output as a whole. In the United States the consequences of this shift for the relationship between imports and output are less clear: the effect of the higher degree of fabrication in engineering may have been wholly or partly offset by the increased importance of foreign sources of supply for petroleum, ores and metals, as shown in chapter 1.

An examination of the relationship between raw material imports and manufacturing output in five of the industrial countries for which data are available —France, western Germany, the Netherlands, the United Kingdom and the United States—indicates

Table 19. Export Quantum of Primary Products, Industrial[a] and Primary Producing[b] Countries
(1948=100)

Item and group	*1928*	*1938*	*1954*
All primary commodities:			
Industrial countries	161	123	129
Primary producing countries	92	99	125
Total	111	106	126
Food, oils and tobacco:[c]			
Industrial countries	110	93	124
Primary producing countries	108	114	104
Total	109	109	109
Raw materials:			
Industrial countries	192	141	132
Primary producing countries	78	85	144
Total	114	103	140
Fuels:[d]			
Industrial countries	154	137	93
Primary producing countries	32	42	201
Total	81	81	156
Other raw materials:[e]			
Industrial countries	216	143	157
Primary producing countries	94	101	124
Total	127	112	133

Source: Statistical Office of the United Nations. Based on exports of twenty-eight principal commodities.

[a] Canada, Japan, the United States and countries in the Organisation for European Economic Co-operation.

[b] All other countries, except the centrally planned economies.

[c] Including maize, rice, sugar, wheat, cocoa, coffee, tea, butter, copra, ground-nuts, palm kernels, palm, coconut and olive oils, and tobacco.

[d] Coal and crude petroleum.

[e] Including cotton, jute, wool, wood-pulp, lumber, rubber, bauxite, copper ore, iron ore, tin ore and zinc ore.

[12] Excluding the centrally planned economies.

[13] Manufacturing output in the United States rose more than two and a half times from 1938 to 1954, while western European output increased little more than 50 per cent.

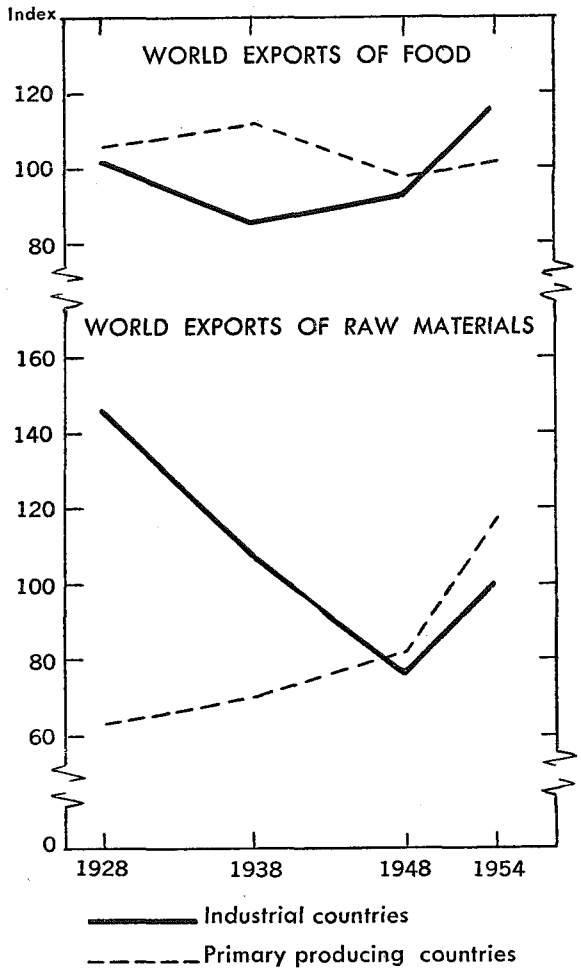
that during the period 1938-1948, imports of raw materials lagged in relation to manufacturing in all these countries. From 1948 to 1954, however, as shown in table 20, the relationship was reversed in France, western Germany and the Netherlands—imports of raw materials increasing relatively more than manufacturing; while in the United Kingdom imports roughly kept pace with manufacturing. In the United States, imports of crude materials alone scarcely increased from 1948 to 1954; but imports of crude materials and semi-manufactures together (including refined metals and other raw materials at comparable stages of processing) did rise more nearly in line with manufacturing.[14]

More significant of the long-term trend than the movement in the ratio of raw material imports to output since 1948, when shortages were still prevalent, is the fact that in comparison with pre-war, the 1954 indices for raw material imports show smaller increases than manufacturing in all cases. Inventory changes do not appear to be responsible for any part of this decline—on the whole it seems likely that allowance for such changes would tend to accentuate the relative decline.[15]

It was shown above that the rise in world trade in food from the average for 1934-1938 was due entirely to larger supplies forthcoming from industrial countries. The reverse was true of raw materials as indicated in chart 11; while industrial countries were exporting a smaller volume of raw materials in 1954 than in 1938, exports of the primary producing countries were nearly 70 per cent higher, as indicated in table 19.

The difficulty experienced by many industrial countries in expanding their coal output during the post-war period was one of the main reasons why total exports of raw materials from the industrial countries declined; and it was also the reason why a significantly smaller proportion of the raw material output of industrial countries entered into foreign trade than before the war. Conversely, the great expansion in the primary producing countries' output of petroleum, most of which enters into their export trade, was the principal reason for a rise in the proportion of their raw material output entering foreign trade and, since most of these exports went to industrial countries, for an increase in the share of output marketed in the latter. Thus, mainly owing to the change in the pattern of world trade in fuels, industrial countries became more dependent on primary producing countries and less dependent on one another for their raw material imports.

Chart 11. Volume of World Exports of Primary Products
(1950=100)



Source: Statistical Office of the United Nations.

[14] The failure of United States crude material imports to increase appreciably from 1948 to 1954 was due to sharp declines in imports of two commodities—raw wool and rubber—which accounted for nearly 30 per cent of total imports in this group in 1948. Imports of raw wool dropped by nearly 60 per cent, accompanying a 45 per cent decline in raw wool consumption; and imports of rubber were also lower, partly because the entire rise in rubber consumption since 1948 was provided by synthetic output and partly because of the cessation of government stockpiling. Although the volume of imports of these two commodities remained low in 1955, relative to 1948, the total volume of imports of crude materials recovered to some extent with the end of the recession.

[15] Inventories in France, the Netherlands and the United Kingdom probably increased much less in 1938 than in 1954 (if they increased at all); that is, if the rate of inventory accumulation had been the same in the two years, the lag in imports would have been larger than suggested by the table. In Germany, the rates of inventory accumulation in 1936 and 1954 may not have been very different. In the case of the United States, comparison of 1937 with 1953 is preferable owing to recessions—of substantially different magnitude—in 1938 and 1954. However, private inventory accumulation in 1937 was significantly larger than the combined total of private and governmental accumulation in 1953; United States indices for 1953 in footnote *c* to table 20 therefore overstate the divergence between raw material imports and manufacturing during the period under review.

However, even if trade in fuels is excluded, it remains true that the primary producing countries more than maintained their share of world trade in raw materials. Exports by industrial countries of raw materials other than fuels increased only 10 per cent from 1938 to 1954, whereas exports of primary producing countries advanced 23 per cent. The pattern of trade in raw materials has therefore developed quite differently from trade in food. While the rise in the share of food output consumed in primary producing countries resulted, as has been seen, in both an absolute and a relative decline in their contribution to world exports, their consumption of raw materials has not grown so fast as to prevent their share of international trade in raw materials from increasing.

It therefore appears that since 1938 world exports of primary products have failed to keep pace either with world trade as a whole, in real terms, or even with total world primary production. Moreover, world exports of raw materials have risen less than the output of goods into which these materials enter. To a considerable extent the reasons may be sought in the normal pattern of developments associated with a period of rising world income—especially the tendency for food consumption to rise more slowly than income and for technological progress to bring about a reduction in the raw material content of manufactured goods. Of considerable importance, also, have been shifts in the structure of world production and consumption, particularly the development of greater self-sufficiency in the net food importing countries. Another such shift has been the rise in the share of world output accounted for by the United States, which typically imports a smaller fraction of its food and raw material requirements than other countries. It is true that there are some important raw materials in respect of which the United States has become more dependent upon imports than it was before the war. Even in this case, however, world exports of the raw materials in question have generally not kept pace with the output of the finished products because of various types of economies in utilization, relative increases in the value added in the manufacturing process or the substitution of synthetics or of other raw materials. The development of substitutes—synthetic or otherwise—has frequently had the effect (albeit unintended) of reducing the share of world exports of raw materials provided by primary producing countries. This has been true especially where such materials are derived from areas which were separated from the Allied Powers during the war. Generally, production of synthetics requires elaborate chemical facilities not available in under-developed countries; and many of the other substitute products employed, such as aluminium for non-ferrous metals or paper for jute, are likewise produced by the industrial countries for their own use.

Table 20. Indices of Manufacturing Production and Raw Material Imports, Selected Countries
(1938=100)

Country and item	*1948*	*1954*
France:		
Manufacturing production	108	148
Imports of raw materials	92	136
Germany, western:[a]		
Manufacturing production	58	176
Imports of raw materials	39	133
Netherlands:		
Manufacturing production	111	176
Imports of raw materials	81	153
United Kingdom:		
Manufacturing production	119	158
Imports of raw materials	85	114
United States:[b]		
Manufacturing production	173	212[c]
Imports:		
Crude materials and semi-manufactures	123	142[c]
Crude materials	122	124[c]

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin;* western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik* (Stuttgart); United Kingdom: *Board of Trade Journal* (London); United States: Department of Commerce, *Trade of the United States, 1936-1949* and *Total Export and Import Trade of the United States, January to December 1954* (Washington, D.C.).

[a] 1936 = 100.

[b] 1937 = 100.

[c] Corresponding data for 1953 as follows: Manufacturing production, 227; imports: crude materials and semi-manufactures, 154; crude materials, 130.

The main—and almost the only—exception is petroleum; in petroleum, trade and production alike have risen very rapidly, and it is being substituted for other fuels which industrial countries had been largely able to provide for themselves. However, the gains among under-developed countries from the post-war upsurge in petroleum consumption are highly concentrated in Venezuela and the Middle East. Over the past two decades most primary producing countries have witnessed a progressive and often rapid shrinking in the importance of their exports in relation to the output and income of the industrial world—partially offset, however, as shown below, by an improvement in the terms on which these exports could command manufactured goods in exchange.

The Growth of World Trade in Manufactures

Trade in manufactures rose more rapidly after the war than trade in primary products. As early as 1948, total exports from the major industrial countries included in table 21 probably exceeded the 1938 volume, in terms of post-war prices, by nearly 10 per cent; by 1954, exports of manufactures were about half as large again as in 1948 and about 60 per cent above the 1938 level.[16]

The comparatively high level of exports in 1948 was accounted for largely by increases of 150 per cent in exports from North America and of 45 per cent in United Kingdom trade. Western Germany and Japan were still unimportant sources of supply, accounting for only 2 per cent of the total shown in table 21 as against nearly one-third in 1938.[17] Total exports of manufactures from western Europe and Japan were thus about one-quarter smaller than in 1938, despite the marked increase in United Kingdom exports and the smaller increases in the exports of the other countries included, except the Netherlands, whose trade was still more than one-quarter below the pre-war level.

Between 1948 and 1954 North American exports of manufactures declined slightly and exports from western Europe and Japan almost doubled. More than half the increase was accounted for by western Germany and Japan. Exports from the other western European countries in the Organisation for European Economic Co-operation increased by 50 per cent. The largest increases were achieved by France and the Netherlands (which more than doubled their exports), and Sweden (whose exports rose nearly 80 per cent); and the smallest by the United Kingdom, whose exports rose only about one-quarter over this period.

Table 21. Exports of Manufactures from Industrial Countries

(Billions of 1948 dollars)

Area	*1938*	*1948*	*1954*
North America[a]	3.3	8.25	7.6
Western Europe[b] and Japan[c]	14.7	11.3	21.8
TOTAL	18.0	19.55	29.4
Percentage change:	*1938 to 1954*	*1938 to 1948*	*1948 to 1954*
North America[a]	130	150	—8
Western Europe[b] and Japan[c]	48	—23	93
TOTAL	63	9	50

Source: United Nations Bureau of Economic Affairs and secretariat of the Economic Commission for Europe.

[a] Excluding United States special category exports.

[b] Belgium-Luxembourg, France, Germany, Italy, Netherlands, Sweden, Switzerland, United Kingdom. German data for 1938 refer to pre-war area of Germany (1937 boundaries) and for 1948 and 1954, to western Germany.

[c] The countries covered account for well over 90 per cent of the total exports of manufactures from western Europe and Japan.

Germany and Japan were still supplying a smaller proportion of exports of manufactures in 1954 than before the war, the former as a result of territorial changes and the latter because the commodity structure of its exports was not well adapted to the growing world demand for manufactures,[18] as indicated below. The gap left by these two countries was filled mainly by the United States, whose share in the total exports of manufactures shown in table 21 rose from about one-sixth in 1938 to about one-fourth in 1954, and to a lesser extent by France and the United Kingdom. The United Kingdom, however, has been losing ground, especially to western Germany, since 1948; by 1954 its share was only slightly higher than before the war. The rapid advance in western Germany's share in the world market for manufactures continued in 1955.

[16] The data contained in the tables in this section represent the best estimates that could be made of the volume of exports of manufactures in 1938, 1948 and 1954, by principal commodity groups and areas of destination, from the countries listed. It should be emphasized, however, that the estimates are subject to substantial error owing to changes in national systems of classification of exports in several countries; to the lack, in most instances, of any adequate price series for revaluing the 1938 and 1954 export data at 1948 prices; and to the necessity in all cases of applying the same group price indices in revaluing exports to all destinations, whether industrial, primary producing or centrally planned economies, irrespective of differences in commodity group composition. While reliance can be placed upon the general orders of magnitude indicated in the tables, small movements or differences suggested by the data cannot necessarily be regarded as significant. In a few cases, discrepancies with official national indices have emerged. The most important of these relates to the decline in the volume of exports of manufactures from the United States from 1948 to 1954, which was estimated as 9 per cent, whereas the corresponding official United States indices (those for semi-manufactures and finished manufactures combined, less special category exports) imply a fall of 2 per cent. It should be noted that petroleum products are not included in manufactures for the purposes of the estimates presented here, but they are included in the United States categories of semi-manufactures and finished manufactures. The data presented may somewhat understate the United States 1954 value of exports in 1948 prices owing to the use of wholesale price indices for the purpose of deflating; it is likely that premium prices were charged for exports in 1948 and therefore that export prices rose less than domestic wholesale prices from 1948 to 1954. On the other hand, there is reason to believe that the increase in the United States export unit value index for finished manufactures from 1948 to 1954, as officially calculated, may be underestimated. The reader's attention is drawn once again to considerable differences which may arise in the estimates, depending upon whether pre-war exports are revalued in post-war prices or vice versa.

[17] Pre-war data for Germany cover exports from the whole pre-war area of Germany (1937 boundaries).

[18] Japanese exports to primary producing countries were below the pre-war level in 1954, and those of western Germany were little more than one-third larger than the exports of pre-war Germany, while the exports of other OEEC countries had risen by over 70 per cent. Similarly, German and Japanese exports to industrial countries had risen by less than one-half, while those of the other OEEC countries had more than doubled.

Total trade in manufactures among the industrial countries has increased faster than their export of manufactures to the rest of the world, as indicated in the following percentage shares of the total value of exports of manufactures (at 1948 prices).

	Destination		
	Industrial countries	*Primary producing countries*	*Centrally planned economies*
North America:			
1938	55	38	7
1948	41	57	2
1954	51	49	–
Western Europe:			
1938	45	46	8
1948	40	57	3
1954	51	47	2
TOTAL:[a]			
1938	42	46	12
1948	40	57	2
1954	49	49	1

[a] Including Japan.

The principal reason for the decline in the share of manufactures exported to the rest of the world was the severe drop in deliveries to the centrally planned economies. In addition, however, exports to primary producing countries did not increase as rapidly as those to industrial countries. Starting from a level in 1948 that was little or no higher than in 1938—largely because of greatly reduced output in western Germany—trade among the industrial countries increased by approximately 90 per cent, in real terms, by 1954. Compared with 1938, the main components of the growth of trade in manufactures among industrial countries were in Canadian trade with the United States and in the trade of western European countries with one another.

The primary producing countries, on the other hand, absorbed a volume of manufactures approximately 30 per cent larger in 1948 than in 1938, owing to their improved terms of trade and the drawing down of foreign exchange reserves accumulated during the war. There was a further increase of the order of 30 per cent from 1948 to 1954, but it should be noted that exports to primary producing countries in 1954 were below the peak reached in 1951/52 following the boom in commodity prices accompanying the Korean hostilities.

North American and western European exports of manufactures to industrial and to primary producing countries have developed along different lines since 1938, as indicated in the figures above. Before the war, North America sold a much larger proportion of its manufactured exports in industrial countries than in primary producing countries, while the proportions for western European exports were about the same. By 1954 primary producing countries had taken over the share of North American exports marketed before the war in the centrally planned economies, and had also replaced part of the pre-war share sold in industrial countries. The corresponding fall in the share of the centrally planned economies in the exports of western Europe, on the other hand, was absorbed almost entirely by industrial countries.

The reasons for these opposite movements in the pattern of trade may be briefly summarized as follows. The decline in the share of North American manufactures sold in industrial countries was due to restrictions on imports from the dollar area imposed by western European countries, and the adaptation of European industry's demands and supplies to the situation thus created. By 1954 the exports of Canada and the United States to each other were actually as large as their exports to all other industrial countries, whereas in 1938 the latter had been approximately twice as large as the former.[19]

North American exports to primary producing countries expanded much more than those of western Europe and Japan for several reasons. During the war and the early post-war years, Latin American countries were compelled to seek in the United States substitutes for manufactures which they had previously purchased in Europe. While western Europe has improved its competitive position in Latin America since 1948, it has never regained its pre-war share of the market. It is not only that new channels of trade with the United States have been firmly established and a taste for United States products acquired. Of great importance also, as shown below, has been the outflow of United States capital (and hence of machinery and equipment) for the development of Latin American natural resources.

By contrast, economic growth in the primary producing countries which provide the most important markets for western Europe has not, with some exceptions, been as great as in Latin America. For obvious reasons, many of these countries could not participate in the gains achieved by Latin America during the war. The countries which were cut off from the Allied Powers found at the end of the war that the latter had developed substitutes for their leading export products. Since the war many of the important trading countries in Asia which have traditional economic ties with Europe have not shared to the same extent as Latin America in the growth of demand in the industrial countries because they do not produce the particular foods and raw materials whose imports by industrial countries have risen most.

These developments in traditional European markets in Asia and Latin America, together with the relatively rapid expansion of the economy of western Europe and of North America, provide the principal reasons

[19] Trade between Canada and the United States in 1938 was, however, seriously affected by the recession of that year.

Table 22. Changes in Distribution of Exports of Manufactures from Industrial Countries,[a] 1938 to 1954

Item	Percentage share 1938	Percentage share 1954	Volume of exports, 1954 (1938=100) Total exports	Exports from United States	Exports from western Europe[b] and Japan
Exports to primary producing countries:					
Machinery and transport equipment	25	37	256	298	239
Passenger cars	2	4	272	153	427
Chemicals	8	12	275	619	223
TOTAL	35	53	261	311	243
Metals and manufactures	15	16	185	253	174
Textiles	36	19	94	418	79
Miscellaneous manufactures	13	12	159	283	145
All manufactures	100	100	175	311	152
Exports to industrial countries:					
Machinery and transport equipment	22	32	273	249	286
Passenger cars	2	4	403	158	606
Chemicals	11	13	216	373	188
TOTAL	35	49	262	262	263
Metals and manufactures	24	21	165	171	163
Textiles	22	15	135	338	125
Miscellaneous manufactures	19	15	153	129	157
All manufactures	100	100	191	220	183

Source: United Nations Bureau of Economic Affairs and secretariat of the Economic Commission for Europe.

[a] All data in 1948 prices.

[b] Belgium-Luxembourg, France, western Germany, Italy, Japan, Netherlands, Sweden, United Kingdom. The 1938 data for Germany include entire pre-war area (1937 boundaries).

why the share of the industrial countries in western Europe's exports rose from 1938 to 1954. Similarly, exports of manufactures from such countries as western Germany, whose principal markets are to be found among the industrial countries, have tended to gain in recent years in relation to exports from the United Kingdom, which are concentrated upon oversea primary producing countries.[20]

The major change in the composition of exports of manufactures by industrial countries since 1938 has been a sharp decline in the share of textiles—continuing a trend which has persisted since the beginning of the twentieth century—and a great increase in the importance of exports of machinery and transport equipment, and chemicals, as shown in tables 22 and 23. Before the war, textiles accounted for nearly 30 per cent of the total exports of the industrial countries (valued in 1948 dollars), and in 1954 for less than 18 per cent; while exports of machinery and transport equipment (including passenger cars) and chemicals rose from about 35 per cent in 1938 to over half the total in 1954. Besides textiles, basic metals and metal products, and other manufactures, probably consisting largely of miscellaneous consumer goods, may have declined slightly in relative importance.[21]

The smaller rise in world trade in textiles and other non-durable consumer goods than in capital equipment and chemicals corresponds to the lag in world consumption in relation to world production brought about by much higher rates of capital formation and defence expenditure than had prevailed in 1938. However, the demand for durable consumer goods has risen with relatively greater rapidity, as income has increased, than the demand for non-durables, such as food and textiles, and this has been reflected in a much larger growth in exports of passenger cars than of other consumer goods.

The shift in the pattern of import demand for manufactures from textiles to capital goods and chemicals favoured the development of German and United States trade rather than that of the other industrial countries, and forced a drastic change in the structure of exports of the latter group to something more closely resembling the composition of the exports of Germany and the United States. Even before the war, metals, machinery and transport equipment, and chemicals, had accounted for about four-fifths of United States exports of manufactures, and for nearly three-quarters of German exports; textiles accounted for only 7 per cent of United States exports of manufactures and for less than 15 per cent of German exports. In con-

[20] The high rate of western Germany's export gains in recent years may also be attributed in part to that country's relatively late recovery.

[21] The relative decline shown in basic metals and metal products may, however, be spurious owing to particular difficulty in achieving a satisfactory revaluation of this group at 1948 prices.

trast, textiles accounted for about one-third of the manufactured exports of other western European countries. By 1954 textiles had fallen to one-fifth of the exports of the latter group and metals, engineering products and chemicals had risen, to account for almost two-thirds of the volume of their manufactured exports.

The change in the structure of United States exports was relatively small. Capital goods and chemicals did, it is true, increase still further in importance, but this was offset by a relative decline in metals, so that the aggregate share of all these products in total United States exports of manufactures remained unchanged. However, one of the remarkable features of the rise in United States trade in manufactures has been its advance in the world market for textile manufactures. This is, at first sight, all the more surprising in that the United States gained most in precisely those markets which, on the whole, contracted, namely in primary producing countries. However, this gain was associated with the general growth of United States exports to primary producing countries, especially in the Western Hemisphere, where the dollar countries, which are oriented towards North American standards and tastes, still provide an expanding market for textiles. An additional factor was United States leadership in design and in the exploitation of synthetics. Together with France and other continental European countries, the United States appears not only to have acquired part of the former Japanese market, but also to have reduced the share of the United Kingdom in world markets.

In the expanding market for passenger cars, on the other hand, the United States has steadily lost ground, its share falling from one-half of total exports of passenger cars in 1938 to one-quarter in 1954. Exchange restrictions were undoubtedly an important factor in this development, but there was also an element of preference for smaller and less expensive cars that was encouraged by more widespread car ownership and high gasoline taxes in many parts of the world. Western Germany and the United Kingdom emerged as the chief beneficiaries from this change, each accounting in 1954 for a higher proportion of world exports of passenger cars than the United States.

Other relative declines in United States exports appeared in metals and metal products, of which the United States became a net importer after the war, as noted previously. The share of miscellaneous consumer goods in United States manufactured exports also declined, and in 1954 they formed a much smaller part of United States exports than of those of the other industrial countries.

The structure of exports of all the countries which had been important suppliers of textiles before the war has undergone profound changes. The relative importance of textiles remains greatest in Japan: 45 per cent of that country's manufactured exports in 1954 consisted of textiles, compared with nearly two-thirds in 1938. In large measure this was due to Japan's ability to gain an increasing share of the textile market at the expense of its higher priced competitors. It is also possible, however, that Japan

Table 23. Changes in Distribution of Exports of Manufactures from Industrial Countries,[a] 1938 to 1948 and 1948 to 1954

(Percentage changes)

Item	*Total*		*United States*		*Western Europe[b] and Japan*	
	1938 to 1948	*1948 to 1954*	*1938 to 1948*	*1948 to 1954*	*1938 to 1948*	*1948 to 1954*
Exports to primary producing countries:						
Machinery and transport equipment	93	33	247	—14	32	82
Passenger cars	108	31	107	—26	110	103
Chemicals	37	100	418	19	—20	178
TOTAL	82	44	245	—10	22	100
Metals and metal manufactures	56	19	326	—40	11	57
Textiles	—19	15	439	—22	—40	31
Miscellaneous manufactures	16	37	263	—22	—12	65
All manufactures	33	32	279	—18	—10	68
Exports to industrial countries:						
Machinery and transport equipment	61	70	155	—2	12	156
Passenger cars	53	164	–	58	96	209
Chemicals	—9	136	178	34	—42	226
TOTAL	38	89	145	7	—5	177
Metals and metal manufactures	—10	82	38	24	—23	113
Textiles	—23	75	129	48	—31	80
Miscellaneous manufactures	—28	113	31	—2	—40	162
All manufactures	1	89	97	12	—23	137

Source: United Nations Bureau of Economic Affairs and secretariat of the Economic Commission for Europe.

[a] Data in 1948 prices.

[b] Belgium-Luxembourg, France, western Germany, Italy, Netherlands, Sweden, United Kingdom. The 1938 data for Germany include entire pre-war area (1937 boundaries).

has had greater difficulty than the western European countries in diversifying the pattern of its exports. In the United Kingdom the share of textiles in exports of manufactures dropped from 39 per cent before the war to 18 per cent in 1954—little more than the corresponding proportion for pre-war Germany. Sharp declines have also occurred in France and Italy. In all cases the gap left by textiles has been filled wholly or mainly by heavy industry products.

The change in the pattern of import demand noted above was much more pronounced in trade with the primary producing countries than in trade between industrial countries. Before the war, textiles accounted for well over one-third of the exports of manufactures to primary producing countries, a much larger share than in trade between industrial countries, and a proportion which actually exceeded that of all engineering products and chemicals combined. Exports of textiles by industrial to primary producing countries declined more than 6 per cent from 1938 to 1954—the only major sector of trade in manufactures to fall, other than trade with the centrally planned economies—while trade in textiles among the industrial countries rose by about 35 per cent. It should be borne in mind, however, that cotton textile exports of India are not included in this estimate: if they are included, the absolute decline in textile exports to primary producing countries almost disappears. Even including Indian shipments, however, the share of textiles in the total imports of manufactures by primary producing countries probably fell to one-fifth—not very much more than the corresponding proportion for industrial countries.

The factors responsible for the failure of textile exports to primary producing countries to increase in proportion to trade in manufactures as a whole are well known. The most important is the fact that underdeveloped countries have been able, from the very earliest stages of their economic development, to promote factory production of textiles. Combined with this is the use of tariffs and of import and exchange controls, both to provide adequate protection for growing textile industries and to conserve limited foreign exchange resources for purchases of capital equipment in connexion with development programmes.

As a result of the sharp relative decline in exports of textiles to primary producing countries, and of the rise in their rate of capital formation, the pattern of imports of manufactures by these countries has come to resemble the corresponding imports of industrial countries much more closely than was the case before the war. The following figures, showing exports to primary producing countries as percentages of exports to industrial countries, indicate not only that the shares of total exports of manufactures going to industrial and primary producing countries in 1954 were nearly equal, but that in every one of the six commodity groups listed, the disparity in the volume sold in these two broad markets was reduced from 1938 to 1954.

	1938	*1954*
Textiles	193	134
Passenger cars	141	95
Machinery and transport equipment[a]	131	123
Miscellaneous manufactures	81	84
Chemicals	78	99
Metals and manufactures	70	79
TOTAL	115	105

[a] Excluding passenger cars.

Table 24. Terms of Trade, Industrial and Primary Producing Countries
(1948=100)

Category and item	*1938*	*1951*	*1954*
Total terms of trade of industrial countries:[a]			
Export unit values	44	97	92
Import unit values	41	110	97
Terms of trade[b]	108	89	94
Terms of trade of primary producing countries[c] *with industrial countries*:			
Export unit values	33	123	106
Import unit values from industrial countries[d]	43	98	93
Terms of trade with industrial countries[b]	78	125	114
Purchasing power of exports to industrial countries[e]	81	145	141

Source: United Nations Bureau of Economic Affairs.

[a] Countries in the Organisation for European Economic Co-operation, Canada, Japan and the United States.

[b] Export unit value index divided by import unit value index.

[c] Rest of world, excluding mainland China and eastern Europe.

[d] Computed on the basis of OEEC unit value index of exports to countries outside western Europe and of United States and Japanese export unit value indices, weighted by current value of exports to primary producing countries.

[e] Index of value of exports of primary producing countries, divided by unit value index of imports from industrial countries.

The Improvement in Terms of Trade of Primary Producers

In the course of the post-war period, the terms of trade moved against the industrial countries and in favour of primary producing countries as a result of a rise in prices of crude foodstuffs and raw materials in relation to those of manufactures. A similar relative increase in the prices of primary products and a corresponding shift of the terms of trade against industrial countries and in favour of primary producing countries had occurred between the immediate pre-war period and the early post-war years.

According to the data in table 24, the deterioration in the terms of trade of industrial countries as a whole from 1948 to 1954 was of the order of 6 per cent, compared to a 7 per cent deterioration during the preceding decade. Export unit values dropped 8 per cent, in terms of dollars, during the post-war years while import unit values declined much less. From 1948 to 1951, at the height of the Korean boom, the deterioration was 11 per cent, but this was followed by a greater falling back in import than in export prices after the end of the boom as a result of which the terms of trade of the industrial countries partly recovered by 1954.

Although it is not possible to make a similar estimate for primary producing countries as a group, their terms of trade would seem to have improved by about 30 per cent between 1938 and 1954, to judge from the changes in the average unit value of their exports as compared to the average unit value of exports to them. The improvement in their terms of trade with industrial countries (similarly estimated) was considerably larger, as table 24 shows, but this improvement was not, of course, paralleled in trade among the primary producing countries themselves.

In table 25, countries are grouped according to whether their terms of trade were better or worse in 1954 than in 1948. It will be seen that, apart from the United States, all the countries reporting a deterioration in terms of trade from 1948 to 1954 were western European, except for Cuba, Egypt, Pakistan and the Philippines. On the other hand, most of the countries enjoying better terms of trade in 1954 than in 1948 were primary producers, though two of the countries —Japan and Switzerland—belong to the industrial group.

The number of countries for which a comparison can be made between the post-war period and the immediate pre-war years is extremely limited, and some of the changes shown in table 25 inevitably reflect major shifts in the structure of imports or exports, or both. On the whole, the primary producing countries again show improvements in terms of trade from 1938 to 1954, and the major industrial countries, deteriorations.

Table 25. Terms of Trade, by Country
(1948=100)

Category and country	*1938*	*1954*
Countries with improving terms of trade from 1948 to 1954:		
Australia[a]	95	117
Brazil	...	248
Canada[b]	102	105
Ceylon	139	155
Chile	90	149[c]
Colombia	61	184
Costa Rica	...	174
Dominican Republic	47	112
Ecuador	...	169
El Salvador	60	260
Ethiopia[d]	...	245
Gold Coast	...	176
Guatemala	...	210
India[e]	...	101
Ireland	95	102
Japan[b]	104	126
Malaya[b]	119	129
New Zealand	105	125
Nicaragua	...	196
Nigeria	...	139
Sudan	70	107
Switzerland	98	113
Turkey	115	116
Venezuela	84	124
Countries with deteriorating terms of trade from 1948 to 1954:		
Austria	122[f]	92
Belgium-Luxembourg[b]	93	87
Cuba	113[g]	98[c]
Denmark	...	94
Egypt	70	90
Finland	82	98
France	...	84
Germany, western	115	99
Italy	88	99
Netherlands[b]	104	89
Norway[b]	100	97
Pakistan[h]	...	84
Philippines	75[f]	82
Spain	...	97
Sweden	93	94
United Kingdom	117	96
United States	117	83

Source: Statistical Office of the United Nations; International Monetary Fund, *International Financial Statistics* (Washington, D.C.); Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series I (Paris). Values in national currencies except for Brazil, the index for which is in terms of United States dollars. For Japan the 1934-1936 average = 100. For western Germany the second half of 1949 = 100.

[a] Annual figures represent twelve months ending 30 June of year stated.

[b] Indices not fully comparable.

[c] 1953.

[d] Annual figures represent twelve months ending 10 September of year stated. Data for Eritrea included in 1954.

[e] Annual figures represent twelve months beginning 1 April of year stated. Excluding land trade.

[f] 1937.

[g] Annual average, 1935-1938.

[h] Annual figures represent twelve months beginning 1 April of year stated.

The divergent experience of the various countries set forth in table 25 was due primarily to differences in the commodity composition of their exports and imports. In table 26, changes in United Kingdom and United States average export prices for manufactures are compared with movements in the average prices of world exports of primary products. Several points have to be borne in mind concerning the relevance of such a comparison for the interpretation of the data contained in table 25. In the first place, no country is exclusively an exporter of manufactures and an importer of primary products; while there are some countries which export nothing but primary products, there are few whose imports consist exclusively of manufactures. Moreover, world exports of primary products obviously include exports of industrial countries, and not merely those of countries referred to here as primary producers; to that extent the unit value indices for primary products shown in table 26 may not in all cases be typical of those applicable to the latter group of countries. Finally, the composition of world exports of primary products does not necessarily correspond to the import composition of any single industrial country or even (to the extent that food or raw materials are traded among the primary producing countries) of all industrial countries taken together. By the same token the average prices of manufactured exports from the United Kingdom and the United States can do no more than indicate the orders of magnitude of changes in the import prices for these goods of primary producing countries.

The table shows that the unit values of primary products rose about 6 per cent more than the unit values of manufactures exported by the United States from 1948 to 1954 and very much more in relation to the export unit values of the United Kingdom, where the effect of the devaluation of 1949 is seen in the 11 per cent average price decline during this period. As already indicated, this does not imply that the purchasing power of manufactures exported from the United Kingdom over the types of food and raw materials actually imported by that country dropped to the extent suggested by a first glance at table 26. In fact, the prices of United Kingdom manufactures were only 4 to 5 per cent lower in terms of imported food and raw materials in 1954 than in 1948. The purchasing power of United States exports of manufactures over imported raw materials declined about 6 per cent between these two years, but in relation to imported food the drop exceeded 30 per cent.[22]

Table 26 indicates fairly clearly why considerable differences may be expected in the gains of primary producers from terms of trade changes during the post-war period. By far the greatest price gains were those obtained by exporters of coffee, the unit price of which almost trebled from 1948 to 1954. Table 25 shows that some of the greatest improvements in terms of trade were those recorded by the coffee exporting countries, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Ethiopia, Guatemala and Nicaragua. Substantial price increases were also recorded for cocoa and tea — likewise reflected in the terms of trade of Ceylon, Ecuador, the Gold Coast and Nigeria.[23] Sugar prices changed little, and consequently fell in relation to manufactures, thus accounting, at least in part, for the grouping of Cuba and the Philippines in table 25 with the countries whose terms of trade moved adversely from 1948 to 1954.[24] Exporters of cereals lost ground, not only in relation to primary producers as a whole, but also absolutely. However, for some of the countries which are significant exporters of wheat—such as Australia and New Zealand —the sharp rise in wool prices from 1948 to 1954 sufficed to cause a favourable turn in the terms of trade. Major price reductions were also encountered by exporters of certain other agricultural products, such as oils and oil-seeds, cotton and, especially, jute— the drop in the latter being responsible for the deterioration in the terms of trade of Pakistan. Although the rise in the export price of rubber was not nearly as large as for some other commodities in terms of dollars, this, together with an even more moderate increase in tin and a fall in import prices from the United Kingdom, sufficed to bring about a considerable improvement in the terms of trade of Malaya.

Despite the relative stability suggested by the overall unit value index for minerals, experience ranged from 40 to 50 per cent price increases in the cases of iron ore and copper, to a substantial drop in zinc, a slight decline in coal and no change in petroleum, on the average. Exporters of minerals are not well represented in table 25. In addition to Malaya, whose improvement in terms of trade has already been noted, Chile benefited from the relatively large price increase in copper. Although, on the average, the terms of trade of petroleum exporters probably did not im-

[22] While there was a 17 per cent rise from 1948 to 1954 in the average unit value of world exports of the commodities included in the food, oils and tobacco index in table 26, other food prices declined substantially, on the average, during this period. Since the foodstuffs included in the index account for less than one-half of United Kingdom food imports, it was possible for the unit value of these imports to drop 7 per cent in terms of dollars from 1948 to 1954. In particular, the steep price increases recorded from 1948 to 1954 for cocoa, coffee and tea have a much larger weight in the world index than in the import index for the United Kingdom. The much larger rise in United States import prices for food than in the world export unit value index, on the other hand, is due to the fact that the weight of coffee in United States food imports is even greater than in the world index.

[23] Price declines in 1955 somewhat reduced the relative gains of exporters of the beverage crops.

[24] Although the Dominican Republic's leading export is also sugar, there was a fall in the share of sugar in that country's exports from 1948 to 1954 and a rise in the share of cocoa and coffee. This shift in composition accounts for the improvement shown in the Dominican Republic's terms of trade.

Table 26. Indices of Unit Values of Exports of Manufactures and Primary Products (1950=100)[a]

Item	1928	1938	1948	1954[b]
Manufactures:				
Export unit value indices:				
United States	125	56	108	111
United Kingdom	132	67	134	119
Primary products:				
World export unit value indices:				
Total, primary commodities	87	34	100	109
Food, oils and tobacco	92	32	104	121
Cereals	100	36	140	101
Wheat	107	42	136	95
Rice	79	27	138	118
Maize	105	40	164	107
Other foods	91	28	82	138
Sugar	96	39	98	100
Coffee	74	16	53	149
Tea	106	54	118	138
Cocoa	71	15	126	189
Butter	157	60	133	117
Oils and oil-seeds	86	24	126	98
Ground-nuts	83	25	136	139
Palm kernels	108	29	111	115
Copra	75	17	119	83
Palm oil	106	22	138	89
Coconut oil	89	20	121	89
Olive oil	94	42	138	86
Tobacco	75	46	107	110
Raw materials	83	36	96	102
Agricultural	86	31	88	96
Wool	81	32	61	101
Cotton	93	24	100	89
Jute	89	28	134	77
Wood-pulp	80	44	141	124
Lumber	69	37	116	121
Rubber	115	40	62	69
Mineral	75	48	109	112
Coal	69	43	117	113
Crude petroleum	85	51	108	108
Iron ore	98	70	106	158
Zinc ore	74	56	86	70
Bauxite	188	75	124	118
Tin ore	66	36	99	105
Copper ore	104	49	103	147

Source: Statistical Office of the United Nations.

[a] In terms of "new" dollars, that is dollars of the gold content fixed on 31 January 1934: $35 per fine ounce.

[b] Preliminary figures.

prove from 1948 to 1954, Venezuela is an exception in so far as its export unit values for petroleum rose between these two years, owing to a change in the composition of its petroleum exports.

The terms of trade of primary producers in 1954 were even more favourable if the pre-war year 1938 is taken as a standard for comparison. Of the twenty-eight commodity groups represented in the primary commodity index only four—butter, rubber, bauxite and zinc ore—failed to double in price, thereby falling behind the greater of the two increases in export prices shown for manufactures in table 26. Threefold increases in prices, or more, were registered by twelve commodity groups, oils and oil-seeds averaging a four-fold rise while the advances in cocoa and coffee were more than twelvefold and ninefold, respectively. Moreover, several of the commodities showing price declines from 1948 to 1954, such as cereals, textile fibres other than wool, and oils and oil-seeds, increased in price substantially more than manufactures from 1938 to 1954. In these cases, prices recorded in the early post-war years generally reflected exceptional scarcity, and subsequent price declines accompanied the restoration of a more normal supply situation.

The relatively large improvement in the terms of trade of primary producers over the past two decades cannot be fully evaluated without placing the pre-war base year 1938 in perspective. The nineteen thirties were characterized by larger declines in the prices of primary products than of manufactures. This is clearly revealed in table 26, although the relative decline in the prices of primary products was even greater than indicated in that table at the low point of the depression. Even after allowance for this fact, however, the terms of trade were substantially more favourable to primary producers in 1954 than in 1928, as shown in chart 12.

However, the characteristic instability of the exports of primary producing countries did not diminish with the favourable price trends and general economic expansion of the post-war period. A study undertaken by the United Nations[25] shows that the year-to-year fluctuations in primary prices were relatively greater during the period 1946-1950 than during the pre-war years 1920-1939. The addition of the subsequent two or three post-war years to the data studied would undoubtedly increase the average amplitude of price fluctuation recorded, owing to exceptional price movements accompanying the Korean conflict. More recently, the prices of primary products have been somewhat more stable, on the average. This has probably been due to the absence of changes in inventory policy, either on private or government account, as severe as those which affected earlier years, and to the counteracting of the decline in United States demand in 1954 by a rise in demand in western Europe. It should be noted, however, that recent stability is in part a statistical phenomenon, being the outcome of declines in farm prices offset by increases in the prices of other products, notably minerals. The year 1955—a year of rapid recovery in North America and of continued expansion in western Europe—has witnessed a wide dispersion of commodity price movements ranging from a 50 per cent increase in the price of Chilean copper to a decline of 30 per cent in the price of cacao from British West Africa.

[25] *Instability in Export Markets of Under-Developed Countries* (sales number: 1952.II.A.1).

Chart 12. Export Unit Values of Manufactures and Primary Products

(1950=100)[a]

Source: Statistical Office of the United Nations.

[a] In terms of "new" dollars, that is, dollars of the gold content fixed on 31 January 1934: $35 per fine ounce.

Changes in the Regional Pattern of Trade

Changes from 1938 to 1954

Mention was made earlier of the failure of world trade to grow in proportion to the gain in world output during this period. It was ascribed, in part, to the fact that the greatest increases in production occurred in areas in which foreign trade was lowest in proportion to output. Naturally, internal trade within political units as large as Canada, China, the Soviet Union and the United States corresponds in great degree to foreign trade in areas of smaller political units, such as western Europe, the Middle East or Latin America. Mainly as a result of this, the ratio of trade to output is much lower in North America and the centrally planned economies than in the other industrial and primary producing countries (if each of these groups of countries is considered as a whole). Before the war North America and the other industrial countries each accounted for somewhat more than one-quarter of the total world output of commodities, and the centrally planned economies and the primary producing countries each accounted for rather less. On the other hand, the industrial countries of western Europe and Japan accounted for nearly half of world trade in 1938, and the primary producing countries for about 30 per cent.[26] As a result, the ratio of trade

[26] Western Europe and Japan accounted for one-half of world imports and about 45 per cent of world exports, and the primary producing countries for about 30 per cent of both imports and exports, in current prices.

to output in North America and the centrally planned economies was little more than one-quarter as great as in the rest of the world in 1938.

It is therefore not surprising that gains in trade lagged behind the increase in output. The volume of trade in the world outside the centrally planned economies would have risen only about three-quarters as fast as production, even if the rise in exports and imports of North America, the other industrial countries and the primary producing countries had corresponded with increases in the volume of goods produced in each of those areas between 1938 and 1954. In fact, the volume of this trade rose about 60 per cent as fast as output. By 1954 it was less than 10 per cent below the level which could have been expected if trade had expanded in line with output in each area.

The drop in the ratio of trade to output, over and above that which could be expected to arise from the more rapid growth of production in North America than elsewhere, was largely due to a decline in the level of imports in relation to output in western Europe and Japan and in exports in relation to output in the primary producing countries. The major element in each decline was the failure of exports from the primary producing countries to western Europe and Japan to expand very much above the 1938 level, despite the increase in production in both areas; in terms of post-war prices this was the largest channel of trade shown in table 27, accounting for nearly one-quarter of the value of world trade in 1938.

Of the fifteen segments of world trade shown in table 27, two increased threefold, or nearly so, from 1938 to 1954, four rose by more than one-half, four increased relatively little and five declined. As was to be expected, the largest increases occurred in North American trade.[27] Trade between Canada and the United States rose more than threefold; and trade between North America and the primary producing countries more than doubled, with North American exports increasing much more than imports. These three rapidly expanding sectors accounted for only about one-eighth of world trade in 1938, but for more than one-half of the total rise in the volume of world trade from 1938 to 1954. The exports of the other industrial countries to North America, to one another, and to primary producing countries each rose by over one-half; these three moderately expanding sectors together accounted for nearly one-third of 1938 trade, but the growth in these sectors was only about one-quarter larger in absolute amount than in the first three sectors considered above.[28] Three further sectors comprise the exports of North America and the primary producers to western Europe and Japan, and the trade of primary producing countries with one another, together accounting for about two-fifths of world trade in 1938: in these sectors the post-war expansion was relatively limited. The remaining six sectors for which data are available consist of the various components of trade with the centrally planned economies, all of which declined drastically except for imports from primary producers.

The main changes in trade may therefore be summed up as follows: exports from industrial countries in 1954 were some 60 per cent larger than in

[27] Available information suggests an extremely large percentage increase in trade among the centrally planned economies in relation to the very low level of their trade with one another before the war (see chapter 3).

[28] Valued in 1950 prices.

Table 27. Changes in Volume of Exports[a] at 1950 Prices
(Percentages)

Exporting area	*Importing area*				
	North America	*Western Europe and Japan*	*Primary producing countries*	*Centrally planned economies*	*World total*
Share of 1938 world trade (in 1950 prices):					
World total	13	52	27	8	100
North America	3	7	4	1	15
Western Europe and Japan[b]	3	16	12	6	38
Primary producing countries	6	23	9	1	40
Centrally planned economies[b]	1	6	2	...	8
Percentage change from 1938 to 1954:					
World total	90	20	60	...	...
North America	210	20	180	[c]	90
Western Europe and Japan[b]	60	60	80	—80	40
Primary producing countries	70	10	10	20	20
Centrally planned economies[b]	[c]	—70	—50	...	...

Source: United Nations Bureau of Economic Affairs. Percentage changes rounded to the nearest 10 per cent.

[a] Excluding trade among centrally planned economies, which was very small in 1938.

[b] Pre-war Germany and post-war western Germany included in western Europe; post-war eastern Germany included in centrally planned economies.

[c] Trade was very small in 1954.

1938, but exports from primary producing countries increased much less, while exports from the centrally planned economies to the rest of the world dropped by considerably more than one-half. The contrast between industrial and primary producing countries is, of course, fully in line with the previous discussion of relative changes in exports of industrial manufactures, and of primary products, both food and non-food.

Trade in the main channels for the export of manufactures (other than to the centrally planned economies) namely, the trade of industrial areas with one another, and exports to primary producing countries, increased considerably. On the other hand, trade in the main channels for the export of primary products, namely, the exports of primary producing countries to western Europe and Japan, and to each other, failed to rise. Developments in only two channels of trade constitute exceptions to this pattern—namely, North American exports to the other industrial countries, which failed to expand greatly, and exports of primary producing countries to North America, which rose 70 per cent. The former development had its origins in the imposition of import restrictions resulting from the dollar shortage in western Europe. It is difficult to judge how far the structure of production in western Europe has, under the influence of these restrictions—as well as of other factors, such as the decline in cotton textile production —become adjusted to something like the present level of imports from North America: recent experience with the liberalization of dollar import controls does not yet permit firm conclusions on this point. The increase in exports of primary producing countries to North America was due to the relatively rapid growth in North American production and the accompanying shift to greater dependence on imports for certain key primary products, notably petroleum, ores and metals.

The fact that North American exports to the other industrial countries had been restricted to little more than their pre-war volume was the chief reason for their failure to expand in line with the growth in North American output. There was no such marked change in the distribution of exports from western Europe and Japan combined, which rose somewhat more than their output.

In general, then, exports of the industrial countries tended to grow faster than their total output of commodities, since their most rapidly expanding sector—manufacturing—provided a larger proportion of the value of their exports than of their output of commodities.[29] The opposite tendency prevailed in many of the primary producing countries, where exports of primary products (especially food) rose less than production of these goods and where manufacturing probably contributed more to output than to exports, on the whole, despite increased processing of crude ores and petroleum.

The failure of the increase in imports of western Europe to correspond with the rise in output reflected the development of greater self-sufficiency in food, and a shift in the structure of production from high import-consuming to low import-consuming industries, as discussed previously. Imports of these countries from one another rose much more rapidly than their imports as a whole, partly because the share of manufactures in the former is larger than in the latter; and partly because they provided one another with larger supplies of certain of the products no longer forthcoming in adequate volume from other countries outside the dollar area. Although the total volume of imports of western European countries was about one-fifth higher in 1954 than in 1938, imports from the rest of the world rose only about 5 per cent in the aggregate.

The failure of the exports of primary producing countries—and imports of western Europe and Japan, their principal market—to expand at a greater rate between 1938 and 1954 has to be explained in terms both of the supply and of the demand for primary products. Certain factors, such as the rise in domestic consumption, limited the supply of basic commodities becoming available for export in the primary producing countries, as noted earlier. Other circumstances, such as changes in the structure of manufacturing industry in the industrial countries, and limitations on the foreign exchange resources available in western Europe and Japan restrained the growth in demand for the exports of primary producing countries, or prevented large-scale foreign investment designed to promote a rise in exportable output. The ability of western European countries to finance imports had not risen in line with their output for two reasons. First, in 1938, some 30 per cent of their imports from the rest of the world was purchased out of net income on oversea capital and from the sale of services; by 1954 this proportion was reduced to about 13 per cent (or 4 per cent, if United States military expenditures are excluded). Second, the purchasing power of their exports had fallen greatly owing to deterioration in their terms of trade.

Post-war changes in trade, 1948-1954

World trade did not regain its pre-war level for about three years after the end of the war. A study covering this period would require much explanation of the particular accidents distorting the pattern of trade during the period of reconstruction, and would fail to provide a reasonable basis for an understanding of later post-war developments, since the percentage growth in different sectors would depend mainly on

[29] In the case of the United States, exports of food also increased more than food production.

the degree of recovery that had been achieved by the starting date chosen. By 1948, the total trade of countries other than the centrally planned economies had regained the pre-war level, despite the fact that trade with the latter was much less than one-half as large as in 1938. Even so, as will be seen, the different rates of growth in other channels of trade were to a considerable extent influenced by the level of trade in 1948, the greatest rate of growth being achieved in those sectors in which trade in 1948 was well below the pre-war level. The volume of trade with the centrally planned economics, however, would seem to have fallen still further from 1948 to 1954.

World trade could have been expected to rise faster than output during the years succeeding 1948. This was partly because output in western Europe and Japan was still below the pre-war level as a result of the effects of the war, so that the ratio of trade to output could be expected to rise as the share of these countries in world output recovered; and partly because their trade was still abnormally low in relation to output in 1948. A large part of the increase in North American output between 1938 and 1954 had occurred by 1948; even if the trade of each of the three main areas (excluding the centrally planned economies) had moved in line with its output, their trade would have been only about one-eighth higher in 1948 than in 1938, despite the increase of one-quarter or more in output.

World trade in 1948 had almost regained the pre-war level, thanks to the great increase in North American trade, which served to offset the decline in the trade of other industrial countries with all other areas. The only sector of the trade of western Europe and Japan which had expanded was their imports from North America, and even these had risen less rapidly than North American exports to other areas (excluding the centrally planned economies). Western Europe and Japan constituted the only group which had not greatly increased its exports to North America.

Naturally, then, the greater part of the increase in world trade between 1948 and 1954 was achieved in the trade of western European countries and Japan. The principal development of trade over this period may be characterized as the virtual recovery by these countries of that share of world trade which they could have been expected to hold, given their lower share of post-war output in the world outside the centrally planned economies. On the one hand, their exports to the three areas other than the centrally planned economies roughly doubled during the six years after 1948; and on the other hand they absorbed virtually the whole of the increase in exports of primary producing countries from 1948 to 1954.

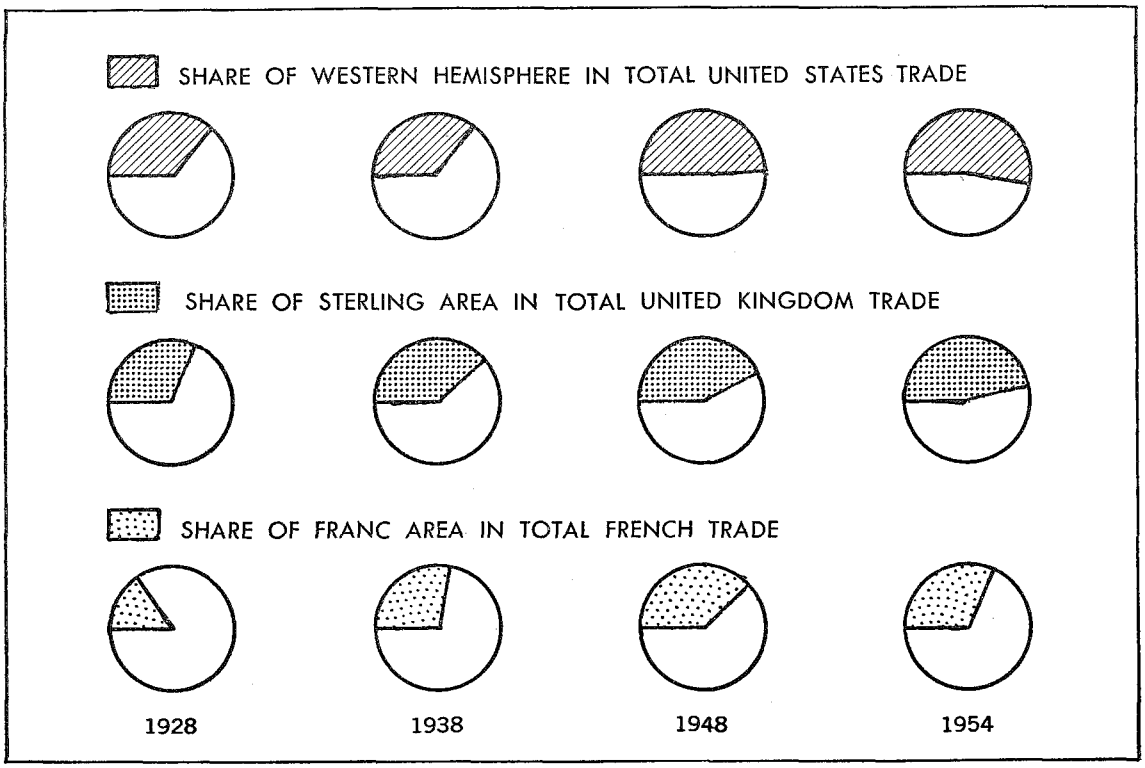
Between 1948, and 1954, North American trade with the primary producing countries showed little change, while the increase in trade between Canada and the United States continued to parallel their general economic growth. The principal change in North American trade was the decline in exports to western Europe and Japan and the increase in imports from these areas, both consequent upon the recovery of their production.

With the exception of the primary producing countries, the greatest expansion in the exports of each area between 1948 and 1954 occurred in trade within the group. In each case there was a relatively simple reason for this. For the centrally planned economies, it was the outcome of a deliberate policy, as well as of the need to compensate for the breakdown in east-west trade. Trade within Europe expanded more than western Europe's exports to other areas, largely because in 1948 the output and exports of the continental western European countries, nearly 60 per cent of whose exports are sold in western Europe, was still below the pre-war level; while United Kingdom production and exports, some 70 per cent of which are sold overseas, had already considerably exceeded their pre-war level. Consequently intra-European exports were low in relation to oversea exports in 1948, and it was the former which could therefore be expected to grow most rapidly. Finally, the greater growth in the trade of Canada and the United States with each other than with other countries was likewise to be expected since this was the only area in which demand for North American goods in 1948 had not been greatly stimulated by the lack of exportable supplies from western Europe and Japan. On the contrary, the relatively large expansion in the exports of primary producing countries to western Europe and Japan was simply due to the fact that this segment of trade was still considerably below the 1938 level in 1948.

The Compartmentalization of World Trade

One of the characteristic features of the development of the world economy since the First World War has been the dividing up of the world market into compartments of varying degrees of exclusiveness. The sharpest break did not occur, however, until after the Second World War, when there developed an almost complete economic separation between the centrally planned economies of eastern Europe and the Union of Soviet Socialist Republics (later joined by mainland China) on the one hand, and the remaining countries of the world, based predominantly on private enterprise, on the other. While commercial ties between

Chart 13. Compartmentalization of World Trade



Source: United Nations Bureau of Economic Affairs.

these two parts of the world were greatly weakened, trade within each group grew rapidly throughout the post-war period.

Although other cleavages in the structure of the world economy have not been as far-reaching as that between the centrally planned economies and the rest of the world, they do betoken a certain compartmentalization of world trade, as illustrated in chart 13. During the past ten years this trend has been reinforced by the dollar shortage, although there have also been powerful forces pulling in the opposite direction, notably in the form of attempts to reduce some of the main barriers which hamper world trade at present.

In table 28, world trade is divided into its principal segments in 1938, 1948 and 1953-54, countries being classified broadly according to the currency areas to which they belonged in 1953-54. A common characteristic is that each of these main segments involves an industrial core together with affiliated areas possessing more or less complementary economies. However, it is obvious that the exclusiveness of these areas varies considerably, even if we leave aside the centrally planned economies. For example, some of the most important aspects of the cohesiveness of the sterling area are that current payments within the area are free, that its members have granted one another tariff preferences as against non-sterling countries, that, excluding the Union of South Africa, member countries pool the major part of their gold and dollar resources in London, and that transfers of capital are unrestricted as between the United Kingdom and the rest of the area. Similar provisions obtain within the other main western European currency areas—those based on the Belgian and French francs, the florin, and the escudo. No such links, however, hold together the members of the European Payments Union (EPU), which includes all the currency areas just mentioned as well as other western European countries. The unity of the EPU area is a function partly of the special arrangements provided for multilateral clearing of transactions within the area and partly of the greater freedom from quantitative restrictions on trade among EPU participants than in their trade with non-participants —both of which are really the outcome of the dollar shortage.

Least exclusive, at any rate in a formal sense, is the dollar area. The primary characteristic of the countries in this area is that they maintain currency convertibility. This is a unifying factor only from a very limited point of view since it is clearly open to any country at any time to declare its currency convertible if it can. Moreover, there is relatively much less statutory discrimination against trade with the rest of the world—whether in the form of tariff preferences or of quantitative import controls—than is typical of

Table 28. Structure of World Trade, by Currency Areas
(Percentage of total current value of exports)

Area of trade	*Per cent of world total*			*Per cent of world total, excluding trade among centrally planned economies*	
	1938	*1948*	*1953*	*1953*	*1954*
Among centrally planned economies[a]	1	3	8		
Centrally planned economies with rest of world[b]	14	7	4	4	4
Among dollar area countries[c]	6	13	13	14	14
Canada with the United States[b]	3	6	7	8	7
Among EPU countries[d]	41	35	39	43	44
Among continental western European countries[e]	12	8	12	13	14
Among sterling area countries	13	14	12	13	13
Among members of other currency areas[f]	4	3	3	4	4
Other trade among EPU countries	12	10	12	13	13
Dollar area exports to EPU area	10	15	8	9	9
EPU area exports to dollar area	5	5	7	7	6
Other trade	23	22	21	23	23

Source: Statistical Office of the United Nations. Figures for trade of centrally planned economies in 1948 and 1953 based on United Nations, *Economic Survey of Europe in 1954* (sales number: 1955.II.E.2), table 63.

[a] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania, Union of Soviet Socialist Republics; China mainland, northern Korea, Mongolia. For 1938 Germany and Korea are excluded from this group.

[b] Exports in both directions.

[c] Western Hemisphere countries except Argentina, Brazil, Chile, Paraguay, Peru and Uruguay; also excluding dependent territories.

[d] All countries in the Organisation for European Economic Co-operation and affiliated currency areas; including Indonesia and Indochina.

[e] Continental countries in the Organisation for European Economic Co-operation.

[f] Members of the Belgian franc, French franc, florin and escudo areas.

the sterling or even of the EPU area. The undoubted cohesiveness which the dollar area nevertheless possesses is mainly the result of the tradition of economic co-operation within the Western Hemisphere which has developed over a period of years, and which was greatly strengthened by its enforced separation from the continents of Europe and Asia during the Second World War. Thus, as indicated below, United States capital has tended to concentrate upon the Western Hemisphere in promoting the development of new sources of raw materials for the growing American industrial machine. Equally the other Western Hemisphere countries have grown accustomed to United States products, for which there was virtually no substitute not only during the war but for several years thereafter. The growth of Canadian and Latin American mining and manufacturing based largely upon machinery from the United States has created a strong and continuing market for United States equipment which it is not easy for other countries to enter, especially in view of the advanced technological level of such equipment and the participation of American companies in ownership and control, particularly of mining operations.

In addition, although the tariff and other barriers against foreign encroachment upon the United States market itself are for the most part non-discriminatory, considered product by product, they have a greater impact upon imports from the rest of the world than upon those from the dollar area, owing to the particular composition of the latter imports—primarily foodstuffs not competing significantly with United States production, and raw materials. During the period 1950 to 1954, for example, imports from the Western Hemisphere accounted for 56 per cent of all United States imports but provided only 34 per cent of that country's collections of duty. The proportion of dutiable imports was considerably lower for the Western Hemisphere than for the rest of the world, and the ratio of duties collected to the value of dutiable imports for consumption was likewise much lower.

Approximately three-fifths of world exports in 1953 consisted of exchanges within the three main trading areas—the centrally planned economies, the dollar area, and the European Payments Union area. In addition, somewhat less than one-fifth of world trade consisted of the trade of these three main areas with one another; the remainder, amounting to rather more than one-fifth of the total, consisted of the trade of the rest of the world. By far the largest of these segments was trade among members of the European Payments Union, accounting for nearly two-fifths of the world aggregate, as against only one-fifth among the members of the other two main groups. This, of course, is not a reflection of the relative levels of output in these areas but rather of the concentration of a large proportion of the total trade (domestic and foreign) of the other two areas within the national frontiers of the United States and the Union of Soviet Socialist Republics.

Table 29. Compartmentalization of World Trade
(Percentages)[a]

Trading area and item	*1928*	*1938*	*1948*	*1954*
Dollar area/Dollar area:				
Exports	...	31	40	51
Imports[b]	...	45	62	60
Western Hemisphere[c]/United States:				
Exports	36	33	42	49
Imports	37	39	57	56
EPU area/EPU area:				
Exports	...	76	76	76
Imports[b]	...	70	62	74
Sterling area/Sterling area:				
Exports	...	54	55	53
Imports[b]	...	42	52	53
EPU area/OEEC countries:				
Exports	76	75	76	77
Imports	64	66	58	73
OEEC countries/OEEC countries:				
Exports	57	55	47	52
Imports	46	43	33	46
Oversea EPU area/OEEC countries:				
Exports	19	20	29	25
Imports	18	23	25	27
Sterling area/United Kingdom:				
Exports	38	45	50	49
Imports	26	33	37	45
Franc area/France:				
Exports	18	28	46	37
Imports	13	28	30	28

Source: United Nations Bureau of Economic Affairs, based on United Nations, *Monthly Bulletin of Statistics*, August 1955; Organisation for European Economic Co-operation, *Foreign Trade by Areas, 1928, 1937-53* (Paris, 1954) and *Foreign Trade Statistical Bulletin*, series I (Paris), August/September 1955.

[a] The percentages indicate the share of the first area mentioned in the total exports (or imports) of the second area, excluding exports to (or imports from) eastern Europe, the Soviet Union and mainland China. In the case of the United States, excluding special category exports. For definitions of currency areas see footnotes to table 28.

[b] Percentages calculated not from imports of the area but from exports to the area.

[c] Excluding OEEC dependencies.

Trade within each of these same three groups had accounted for only one-half of the value of world exports in 1948, and even less in 1938, while trade between the groups, which accounted for nearly 30 per cent of the world total in 1938 and 27 per cent in 1948, dropped to only 19 per cent by 1953. The rise in the degree of compartmentalization of world trade is primarily the result of developments within the Soviet and dollar areas, since the share of trade among EPU members in the world total, having recovered from the 1948 low, was no higher in 1953-54 than in 1938. By contrast, the relative importance of trade among dollar area countries had doubled; and the centrally planned economies had greatly increased their trade with one another as part of a general process of integration within the area as a whole, and as an offset to the decline in east-west trade.

As already indicated, the separation of the eastern world market from the rest of the world has been one of the most far-reaching changes affecting the structure of international trade in the past twenty years. Before the war, trade among the countries in this area amounted to less than 15 per cent of their total exports or imports and only 1 per cent of the world total. Most of this trade was among eastern European countries, while exchanges with the Soviet Union and China were negligible. By 1948 the share of the intra-trade of the area had risen considerably, but was still much less than one-half of the total. More recently, trade within the region has accounted for about three-quarters of the total exports or imports of these countries. In this trade, the Soviet Union plays a central role, taking nearly 40 per cent of the total exports and supplying approximately the same share of the total imports of

the eastern European countries, and accounting for about half of the total trade of mainland China.

The main elements in the great increase since pre-war years in the relative importance of trade among dollar countries have already been mentioned. As table 28 shows, about half of the increase is attributable to the rise in the exchange of goods between Canada and the United States, where incomes and production rose much more than the world average from the pre-war to the post-war period.

Since 1948, trade among the dollar countries has risen no faster than world trade as a whole, but in another sense the concentration of the dollar countries' trade with one another has developed further; for, while trade within the group has continued to rise, trade with other countries has fallen (both absolutely, and relatively to the world total). This development reflected substitutions for dollar goods in the rest of the world as supplies of certain foodstuffs and raw materials, as well as of manufactures, from non-dollar sources recovered and expanded. These declines in exports of the dollar area to the rest of the world were larger than the rise in dollar area imports which resulted from the recovery in output elsewhere.

Thus, the share of dollar area exports going to destinations within the dollar area rose further from 1948 to 1954, as shown in table 29. The sources of imports of the area, on the other hand, were no less widely diversified in 1954 than in 1948; however, in view of the supply difficulties encountered in many parts of the non-dollar world in the early post-war years it might have been expected that the dollar area's share in its own imports would have dropped significantly in the course of the post-war period. That this has not happened is probably the result of the tendency, already noted, for new sources of supply to be sought by United States enterprise in the Western Hemisphere in preference to other areas.

Trade among western European countries and their affiliated currency areas was somewhat lower in relation to the world total in 1948 than in 1938, but recovered to the pre-war share by 1953-54. Particularly sharp declines in 1948 were recorded in trade among continental western European countries, and in the exports from these countries to the sterling area. These declines were due to the early stage of recovery of continental Europe, and particularly to the low level of output and trade in western Germany at that time. On the other hand, trade within the sterling area was higher in relation to world trade in 1948 than in 1938. This was partly because of the more rapid recovery in the United Kingdom than on the continent of Europe, which made it possible for that country to meet the heavy pent-up demand for imported goods in the oversea sterling area, especially Australia; and partly because of large-scale Australian shipments of food in 1948 to other oversea sterling countries, particularly India. The partition of India also increased trade within the sterling area in relation to the world total from 1938 to 1948, since a considerable trade developed in 1948 between the new India and Pakistan. By 1954 trade among EPU countries was nearly back to its 1938 proportion of the world total, and the internal composition of this trade was also more closely in line with the pre-war pattern.

It can be seen from table 29, that, despite the considerable recovery in intra-European trade from 1948 to 1954, the relative importance of western Europe as a market for its own exports was smaller, and as a source of supply for its imports no greater, in 1954 than in 1928. On the other hand, the affiliated oversea areas bulked larger in the trade of western Europe during the post-war period than in pre-war years. In particular the shares of the franc and sterling areas in the trade of France and the United Kingdom, respectively, were each considerably greater in the nineteen fifties than in the nineteen twenties and thirties. United Kingdom imports from the sterling area have continued to grow faster in value than imports from other areas during the post-war period; by 1954 the sterling area absorbed nearly one-half of the United Kingdom's exports and provided almost as large a proportion of the value of its imports—compared with much smaller proportions in 1928. Although a similar structural shift has occurred in French trade, the relative importance of the franc area to the trade of France dropped somewhat from 1948 to 1954. Moreover, the growing concentration of United Kingdom trade within the sterling area was not paralleled in oversea sterling countries. Owing to restrictions on imports from non-sterling countries, the sterling area as a whole supplied a larger proportion of its own import requirements in 1954 than in 1938, but there was little change in this proportion from 1948 to 1954, the trend in the United Kingdom being offset by tendencies elsewhere, notably the reduction of Australian wheat shipments to Asian countries in the sterling area as production in those countries recovered, and the decline in trade between India and Pakistan after 1949.

The Problem of International Balance

Great as were the difficulties involved in the task of physical reconstruction at the end of the Second World War, they seem to have been more easily overcome than the problems of achieving and maintaining a balance in international transactions. Under the articles of agreement of the International Monetary Fund, exchange restrictions were not, generally speaking, to be employed by member governments beyond the end of a "transitional period" which expired at the beginning of 1952. While in most areas the repair of war damage had been completed well before 1952, exchange restrictions are still in force throughout most of the world at the present time. In spite of this, there has latterly been a notable reversal in the trend of commercial policy, and in a number of countries, especially in western Europe, recent tendencies have, for the first time in many years, been in the direction of a more liberal rather than less liberal foreign trade policy.

During the inter-war period progressively greater restrictions on foreign trade were introduced by country after country. Already in 1927, as a result of developments during the First World War and the early nineteen twenties, the need was felt to call a world economic conference to reassert the advantages of freer trade: the Conference declared categorically[30] that "the time has come to put an end to the increase in tariffs and to move in the opposite direction". The world was soon to be overwhelmed by depression, however, as a result of which many countries sought to erect even stronger barriers around their domestic markets than they already had, including still higher tariffs and, in a number of cases, exchange and import controls. Additional impetus to these developments was given by the Second World War and its immediate aftermath, when the spread of controls of the latter type was designed to ensure the use of severely limited foreign exchange resources, especially in hard currencies, only for the purchase of those goods regarded as most essential. Not until the last few years has any significant number of countries felt able to undertake any major reduction in their trade restrictions. Even at the present time, moreover, this movement is by no means world-wide in scope, and in one or two of the largest trading countries there have been indications of some ambivalence in policy.

During the years since the end of the Second World War, the external difficulties experienced by most countries have been focused on their balances of payments with the dollar area. The short-term factors involved are well known: the dollar area was not affected by physical devastation and was, therefore, the only major source in a position to supply the immediate needs of the war-torn countries, especially for essential food, raw materials and equipment of various kinds. To this extent the balance of payments deficits with the United States which were widespread in the first few years after the Second World War may be regarded as comparable with those which had existed in 1919 to 1921. In the course of the past ten years, however, not only has the process of reconstruction been generally completed but output has almost everywhere far surpassed pre-war levels. While these developments have been accompanied by a marked improvement in balances of payments with the dollar area, the problem of what has been called the "concealed" dollar gap seems to persist.

The primary evidence of improvement in the situation is that the commercial shipments[31] of the rest of the world to the United States, together with receipts from the flow of United States private capital and remittances, sufficed to finance over 86 per cent of purchases from the United States in 1954, compared with only 66 per cent in 1948 and and 47 per cent in 1947, while at the same time restrictions on transactions with the United States were, on the whole, relaxed. Alternatively it might be said that the "dollar gap", defined as the difference between the receipts and payments indicated above,[32] dropped from $10.4 billion in 1947 to $5.7 billion in 1948 and $2.4 billion in 1954 (see chart 14). The "gap" in 1947 was, in fact, equivalent to one-third more than the total of dollars accruing to other countries from all United States commercial imports of goods and services. By 1954 this proportion had been reduced to less than one-fifth. The following figures give some indication of the order of magnitude of the gap in recent years, as well as of the comparable balance during the inter-war period:

Annual average	*Dollar gap*[a]	*United States imports of goods and services*[b]	*Ratio of dollar gap to United States imports*
	(billions of dollars)		*(percentage)*
1919-1921..	2.4	5.3	45
1922-1929..	—0.1	4.9	—2
1930-1939..	0.6	3.3	18
1946-1949..	7.2	8.2	88
1950-1954..	2.3	13.2	17

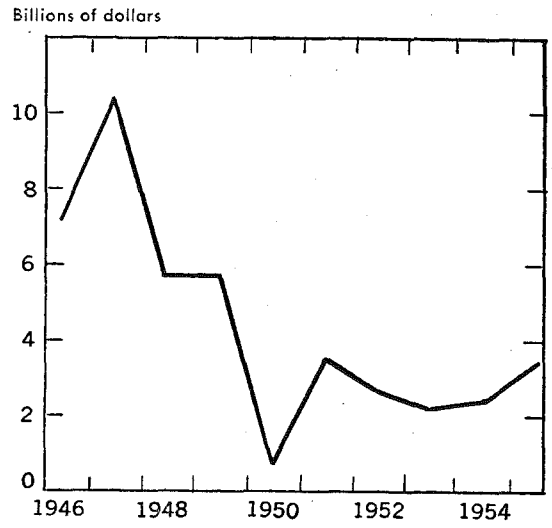
[a] Balance of goods, services and private remittances, and capital outflow, excluding military aid grants and military expenditures.
[b] Excluding military expenditures.

[30] League of Nations, *Report and Proceedings of the World Economic Conference*, vol. 1 (Geneva, 1927), page 41.

[31] Excluding United States oversea military expenditures but including United States imports for the strategic stockpile.

[32] The significance of this measure is that it indicates the balance which requires financing either by some form of aid or by use of gold and dollar reserves. It does not, of course, indicate the magnitude of dollar deficits under conditions of free trade.

Chart 14. The Dollar Gap



Source: United States Department of Commerce.

However, the easing of the world's dollar difficulties in the past few years—and the accompanying discussion of the restoration of the convertibility of western European currencies—has been made possible not only by the developments noted above but also by the willingness of the United States Government to maintain a fairly steady flow of dollar disbursements to the rest of the world (at a rate of over $4 billion per annum) in the form either of direct economic aid or of military expenditures including, for example, offshore purchases of military equipment and supplies, payments for the use or construction of military facilities in other countries, and troop pay and allowances. It is true that the rest of the world was able to build up its gold and dollar reserves by some $5.5 billion through transactions with the United States during the three years 1953 to 1955. But this must be seen in the light of the fact that during the same period United States foreign grants-in-aid, other than for military purposes, amounted to $5.2 billion and that dollars disbursed under the heading of military expenditures totalled $7.9 billion. In other words, from the beginning of 1953 to the end of 1955 the rest of the world was able to add to its reserves considerably less than one-half of the funds derived from United States economic grants and military expenditures—to say nothing of governmental long-term loans, which added a further $1.4 billion to the dollar resources of other countries during this period.

There is, of course, an important difference between United States governmental grants and oversea military expenditures as a source of dollars for other countries in the sense that the latter outlays constitute, in some form, a purchase of foreign goods or services while the former do not. Consequently, if United States military expenditures abroad were curtailed, resources would be freed which could, in principle, be used for earning dollars by other means. There are, however, good reasons for concluding that, in considering the magnitude of the dollar gap at the present level of trade and exchange restrictions, it will not involve a serious distortion of reality to take little account, as a first approximation, of the switch in resources which would be possible if United States oversea military expenditures were lowered.[33] It should be borne in mind that, while this procedure involves some overstatement of the size of the dollar gap, an opposite tendency results from the impossibility of distinguishing systematically between United States imports for its strategic stockpile and other imports.[34]

The background of the dollar problem

The dollar gap is not simply a phenomenon of the past ten years; its origins can be clearly traced to developments before the First World War. The United States had been running substantial export balances on merchandise account from the late eighteen seventies;[35] and it had become a net exporter of finished manufactures by 1900, when it was already accounting for 30 per cent of the world's manufacturing activity (having overtaken the United Kingdom probably by 1890 as the world's leading producer of manufactures). Up to 1914, the merchandise export balance of the United States, together with a net inflow of capital, served to finance net service payments to western Europe, and remittances by immigrants to their countries of origin. After the First World War, however, the United States emerged a net creditor nation. Its growing dominance as an industrial power was accompanied by a sharp increase in its export surplus in

[33] A large part of these oversea military expenditures are for use of land or buildings or for the services of public utilities or for construction, which could hardly be exported, even in principle (except in so far as labour could be diverted from, say, construction to the production of movable goods). It seems equally doubtful whether a significant increase in exports to the dollar area could result from a reduction in local expenditures by American troops based abroad. For the rest (mainly purchases of military equipment and supplies) a switch of resources such as that under discussion could be expected to yield substantial new dollar earnings mainly in those cases in which shipments to the dollar area are currently limited by supply difficulties, and this would probably not apply to so large a proportion of the total of these shipments as to affect the general trend of the discussion.

[34] In the *Survey of Current Business* (Washington, D.C.), March 1955, it was estimated that in 1954 foreign expenditures by the United States Government, excluding military aid but including purchases for the strategic stockpile, totalled $5.3 billion. Since governmental imports of services, oversea military expenditures and non-military grants amounted to $4.4 billion, the total of governmental imports of merchandise in 1954, consisting wholly or mainly of stockpile purchases, must have approximated $0.9 billion.

[35] The United States has had an excess of imports (f.o.b.) of merchandise over exports (f.o.b.) in only three years since 1876—namely, in 1888, 1889 and 1893.

manufactured goods as well as by the emergence of an import balance in raw materials, the latter contrasting with the pre-war position. Over and above a larger export balance on merchandise account, the United States was in surplus on service account, as shown in table 30, owing to the fact that income on investments abroad now far exceeded payments on the investments of other countries in the United States. Other important sources of demand for dollars by the rest of the world arose from greatly increased contractual amortization of dollar loans as well as from a widespread desire in many parts of the world to purchase American securities or hold liquid assets in the form of dollars. No major difficulties were experienced, however, during the nineteen twenties in supplying this greatly expanded demand for dollars. The main reason for this was a very considerable net outflow of United States private capital on long-term account, owing to the growth of United States investment abroad, both in subsidiaries of American companies and through purchases of foreign securities. There was also a smaller outflow of short-term capital, due to the development of American bankers' acceptances as a means of financing foreign business.

With the onset of the depression, not only did United States imports fall drastically—aggravated by the raising of the tariff barrier in 1930—but the previous outflow of capital gave way to repatriation of funds from abroad, both short-term and long-term. Thus, the dollars supplied by the United States to the rest of the world through purchases of goods and services and new investments abroad dropped from $7.4 billion in 1929 to $2.4 billion in 1932. While the demand for dollars likewise dropped as economic activity declined elsewhere, the contractual amounts due to the United States for interest and amortization remained at a level of some $900 million. A serious shortage of dollars was, in fact, experienced all over the world, causing many countries to default on their debt-service obligations[36] and to adopt or intensify trade and exchange restrictions, as a result of which exports of goods and services by the United States fell even more than imports. The remainder of the excess demand for dollars was, from 1930 to 1933, offset by liquidation of foreign short-term claims on the United States (partly, no doubt, owing to the severity of the depression in that country, and in anticipation of the depreciation of the dollar) as well as by net sales of gold to the United States in 1930 and 1932. After stabilization of the dollar in January 1934 at about 59 per cent of the previous gold parity, however, net gold sales to the United States rose sharply. The pro-

[36] Actual payments to the United States for interest and amortization of foreign dollar bonds and of war debts amounted to about $580 million in 1932, as against the $900 million due (United States Department of Commerce, *The United States in the World Economy* (Washington, D.C., 1943), page 6).

Table 30. United States: Balance of Payments
(Annual average, millions of dollars)

Item	*1919-1921*	*1922-1929*	*1930-1939*	*1946-1949*	*1950-1954*
United States exports of goods and services	8,848.3	6,176.6	3,706.5	16,751.5	17,097.6
Goods	7,319.3	4,805.0	2,701.8	13,266.0	12,529.8
Investment income[a]	590.0	917.1	591.0	1,152.3	1,880.0
Other services	939.0	454.5	413.7	2,333.2	2,687.8
United States imports of goods and services	5,345.0	5,099.2	3,139.5	8,175.0	13,242.2
Goods	3,983.7	4,048.4	2,261.1	6,373.5	10,481.2
Investment income	118.3	198.8	205.0	267.4	392.0
Other services	1,243.0	852.0	673.4	1,534.1	2,369.0
Balance of goods and services	3,503.3	1,077.4	567.0	8,576.5	3,855.4
Private capital and remittances	—1,075.7	—1,315.9	48.9	—1,351.0	—1,545.2
Direct investment[a]	—119.7	—326.6	—43.5	—590.0	—696.4
Other long-term capital (new issues, redemptions, other)	—317.3	—512.7	130.9	—17.7	—238.6
Short-term capital	...	—131.6	—158.7	—107.0	—162.8
Government disbursements	—928.6	27.1	—5.1	—6,790.7	—4,433.8
Capital outflow	—824.3	42.5	10.0	—2,917.2	—171.8
Non-military unilateral transfers	—104.3	—15.4	—15.1	—3,281.5	—2,483.2
Military expenditures	–	–	–	—592.0	—1,778.8
Foreign capital and gold	—332.7	344.6	—905.7	—1,192.5	1,887.8
Foreign capital	—165.7	422.8	173.9	—72.8	1,333.4
Gold	—167.0	—78.1	—1,079.6	—1,119.7	554.4
Errors and omissions	—1,166.3	—133.2	294.9	757.8	235.8

Source: United States Department of Commerce, *Balance of Payments of the United States, 1919-53* (Washington, D.C., 1954), page 4, and *Survey of Current Business*, June 1955.

[a] Capital movements and income on direct investments for the years 1919-1929 include reinvested earnings of subsidiaries.

ceeds of these sales were used by other countries not only to finance their current dollar deficits together with the continuing net repatriation of American capital, but also to build up their short-term dollar balances in the United States once more. The latter reflected partly speculation against the currencies of countries which had not yet depreciated and partly the general uncertainties in Europe as the danger of war began to loom ahead.

Thus, the sixty years prior to the Second World War may be divided into three main periods[37] according to the means employed for financing the United States export balance on merchandise account. Up to the First World War, the balance was financed by net service payments and remittances by the United States. After the war the United States, now a creditor country, was no longer in deficit on service account; the balance on goods and services was financed primarily by the outflow of United States funds for long-term foreign investment. During the nineteen thirties, finally, the latter outflow was replaced by a net inflow of United States capital which, together with the balance on goods and services, was offset by use of gold or short-term dollar assets by the rest of the world. None of these means of financing was adequate to deal with the tremendous export balance of the United States following the Second World War, and it was for this reason that the gap between the demand for dollars and the supply had to be bridged partly by unilateral grants and loans by the United States Government and partly by use of import and exchange controls throughout most of the world.

Reduction in the dollar gap, 1948 to 1954

As already indicated, the balance resulting from private transactions on current account (including, however, governmental imports for the stockpile) as well as from the outflow of United States private capital declined from $10.4 billion in 1947 to $5.7 billion in 1948 and $2.4 billion in 1954. Much of the large reduction in the balance from 1947 to 1948 may be attributed to the easing of the most critical early post-war shortages in Europe and Asia, though it is also clear that other countries could not go on liquidating their gold and dollar reserves to pay for imports at the rate reached in 1947. The much smaller decline in the balance from 1948 to 1954 than from 1947 to 1948 probably reflected the fact that inroads on the dollar gap became progressively more difficult to achieve as the gap was narrowed, especially since significant structural adjustments were required.

The essential components of the decline in the dollar gap from 1948 to 1954 may be set forth as follows (in billions of dollars).

	1948	*1954*	*Net effect on dollar gap*[a]
United States imports of goods and services	9.5	13.3	—3.8
Plus private capital outflow and remittances	1.6	2.1	—0.5
Less United States exports of goods and services	16.8	17.8	1.0
Dollar gap	—5.7	—2.4	—3.3

[a] Minus sign indicates tendency to reduce dollar gap by the indicated amount.

In the course of the following discussion, the main elements in these changes are examined, beginning with developments in United States exports.

United States exports

Although total exports of goods and services by the United States rose from $16.8 billion in 1948 to $17.8 billion in 1954, balance of payments data record a fall of more than $650 million in goods and freight. Thus there was an increase of nearly $1.7 billion in other gross service receipts, of which about one-half consisted of investment income.

The total volume of United States commercial exports of merchandise[38] was approximately 5 per cent lower in 1954 than in 1948. Since production, real income and foreign trade in the rest of the world rose considerably between these two years, and since restrictions against imports of dollar goods were probably less severe in 1954 than in 1948 (except possibly in some Latin American countries), it is clear that the modest decline in the United States export total reflects a considerable reduction in the world's dependence on United States shipments. This remains true after taking into account the significant rise in United States exports in 1955. However, the United States is still much more important in world trade than before the war, exports having doubled while world trade as a whole has risen about 50 per cent.

The following data show the main components of the changes in the volume of United States commercial exports since the war (annual average 1936-1938 = 100).

	1948	*1954*
Crude and manufactured foodstuffs.....	355	257
Crude and semi-manufactured materials.	119	144
Finished manufactures[a]	257	241
Total[a]	214	204

[a] Excluding special category exports. The data on exports of finished manufactures are not comparable with those shown in tables 21 and 22 owing to differences in classification and in methods of distributing the value changes between quantum and unit value.

To meet world-wide needs, exports of crude and manufactured foodstuffs increased about three and a

[37] Excluding 1914-1918, when the United States financed heavy shipments by means of large-scale governmental loans to the Allies.

[38] Excluding special category exports.

half times from 1936-1938 to 1948, but declined over 25 per cent from 1948 to 1954 in volume and over 40 per cent in value, as a result of the general easing of world supplies. Even in 1954, however, United States exports of food by volume were two and a half times the 1936-1938 annual average, while total world trade in food barely exceeded the pre-war level, as mentioned previously. The ratio of United States and Canadian exports of wheat and wheat flour to wheat production in non-dollar countries rose from 6 per cent before the war to 20 per cent in 1948, subsequently falling to 12 per cent in 1954, as indicated in table 31. Although the ratio of United States exports of coarse grains to production outside the dollar area has likewise fallen during the post-war period, the absolute level of these exports has been maintained. However, the rise in coarse grain production in non-dollar countries probably accounts indirectly for some of the decline in the demand for United States dairy products, meat and animal fats.

The expansion in raw material export volume since pre-war years has been much smaller than in foodstuffs. Raw cotton exports were relatively low in 1948 compared with pre-war years because of the decline in cotton textile production in western Europe and Japan, and petroleum exports were likewise down. This drop was offset by higher shipments of coal, oil-seeds and various chemical and textile semi-manufactures. The subsequent growth in raw material exports from 1948 to 1954 was the result mainly of somewhat higher deliveries of cotton, accompanying the recovery of cotton manufacturing in western Europe and Japan, and greater shipments of non-ferrous metals, notably copper, to sustain western Europe's strong advance in engineering output. Partially offsetting declines occurred in coal, owing to some improvement in supplies in western Europe, and in petroleum products, owing to the rapid growth of oil refining in several western European countries, whose imports of crude oil were derived principally from the Middle East, and which now have a substantial exportable surplus in petroleum products. Moreover, despite the rise in raw cotton shipments from 1948 to 1954, the share of United States exports in raw cotton consumption outside North America has declined in recent years owing to higher production in non-dollar countries.

Exports of finished manufactures[39] rose more than two and a half times in terms of volume from 1936-1938 to 1948. This increase was not maintained from 1948 to 1954, as indicated previously. Moreover, the share of the United States in world exports of finished manufactures, while remaining substantially higher than before the war, dropped appreciably from 1948 to 1954. The rise in world demand for manufactured goods since 1948 has been supplied either from higher domestic production or through increased imports from western Europe and Japan; world manufacturing outside the United States[40] rose 61 per cent from 1948 to 1954.

Shipments of finished manufactures by the United States would have fallen sharply from 1948 to 1954 but for a large rise in the volume of demand for machinery and vehicles from Canada—probably by about one-quarter or more—while deliveries to the EPU area and to South America were lower. This rise in exports to Canada was a reflection of the greatly stepped-up United States investment in Canadian mineral resources during the period, as well as of the generally rapid development of the Canadian economy. United States exports of textile manufactures, which

[39] Excluding special category exports.
[40] Excluding the centrally planned economies.

Table 31. Wheat Production and Exports
(Millions of metric tons)

Period	Production			Exports[a]	
	Canada and United States	Non-dollar countries[b]	OEEC countries	Canada and United States	Non-dollar countries[c]
1934/35–1938/39	26.7	102.3	27.3	6.1	11.3
1948/49	45.8	99.2	26.8	19.7	7.3
1949/50	40.0	98.8	26.9	14.9	7.7
1950/51	40.3	103.6	29.1	16.1	9.5
1951/52	41.7	101.1	29.1	22.4	6.0
1952/53	54.1	110.9	33.1	19.4	6.7
1953/54	48.5	115.3	37.4	13.8	9.4
1954/55	34.8	116.0	34.1	14.3	11.7
1955/56[d]	38.5	119.0	36.9	...	...

Source: Food and Agriculture Organization of the United Nations.
[a] Including wheat flour.
[b] Excluding the Union of Soviet Socialist Republics.
[c] Including the Union of Soviet Socialist Republics.
[d] Preliminary.

had risen very greatly in the early post-war years, lost much ground after 1948, as India and Japan took larger shares of the market.

The main changes in United States commodity exports from 1948 to 1954 may therefore be summarized as a considerable fall in exports of food offset by a rise in exports of raw materials; exports of finished manufactures declined much less than those of food owing to the heavy demand for machinery from Canada in connexion with its investment boom.

Despite the easing of import and exchange controls in many parts of the world, the commercial export trade of the United States was even more heavily concentrated within the Western Hemisphere in 1954 than in 1948, as noted earlier. At a later point consideration will be given to the relation of this phenomenon to the pattern of United States foreign investment.

The rise in the Western Hemisphere's share in United States exports during the course of the post-war period has been accompanied by a decline in the share of continental western Europe (as indicated in table 32) whose imports of goods from the United States fell about 30 per cent in volume from 1948 to 1954. The process of recovery and expansion, especially in western Germany, made it possible to dispense with the abnormally heavy supplies furnished by the United States in 1948, much of it under aid. Part of the substitution for United States goods occurred through an actual reduction in import requirements in the individual countries as their own agriculture and industry were rehabilitated, and part was the result of an upsurge in intra-European trade. In addition, it proved possible to find alternative sources of supply for certain United States products, such as raw cotton and fats and oils, in other oversea countries not requiring dollars in payment for their goods.

Contrary to the general trend in continental western Europe, in Australia and the United Kingdom, where relatively tight controls on dollar imports were in force in 1948, the relaxation of these controls made for a higher share in United States exports in 1954. This was more than offset by a decline in the share of other sterling countries, owing to the fact that United States shipments to India and to the Union of South Africa in 1948 had been relatively high partly because of food shortage in the former and because the latter was still drawing heavily on its war-accumulated gold reserve to meet the pent-up demand for investment and consumer goods from abroad.

Unlike western Germany, Japan more than doubled, its imports from the United States from 1948 to 1954, partly because the problem of structural adjustment to post-war changes appears to have been more intractable in Japan and partly because adequate dollar resources were available from military expenditures in Japan by the United States. Certain other countries receiving substantial aid from the United States in 1954, such as Indochina, Israel, Spain and Yugoslavia, were also able to increase their share in United States exports. On the other hand, the share of the Philippines dropped owing to reduction in United States aid; and shipments to eastern Europe and mainland China fell to less than one-twentieth of 1 per cent of the total.

It should be added that United States non-military exports of goods and services increased by $1.8 billion to $19.6 billion from 1954 to 1955, with higher exports of merchandise accounting for $1.4 billion of the increase, of which 60 per cent went to western Europe and 33 per cent to Canada. The over-all volume of commercial exports rose 10 per cent, food and raw materials leading the advance, with manufactures rising only 7 per cent. Most of the increase to western Europe consisted of non-agricultural raw materials, especially coal, steel and steel scrap; higher exports of wheat (owing to the poor quality of western Europe's 1954/55 crop) and of other agricultural commodities, sales of which were stimulated in part by special surplus disposal programmes of the United States Government, were to a considerable extent offset by lower shipments of cotton. Most of the increase in exports of machinery and consumer durables, on the other hand, went to Canada.

Although some part of the rise in exports in 1955 was no doubt attributable to liberalization of dollar imports by a number of western European countries, the proportion was apparently not very large. On the whole, the rise should rather be ascribed to the continued lag in basic coal and steel production in western Europe behind the advance in engineering output, especially in the United Kingdom; to further progress in the economic development of Canada, and the recovery of that country from the recession of 1954; and to food surplus disposal by the United States Government. Thus, the upsurge in United States exports in 1955 does not basically change the general picture provided above, of a relative decline in the world's dependence on United States shipments since 1948, although it does indicate that, over and above its normal sales abroad, the United States continues to act as an emergency source of supply to which countries still turn in the event of temporary shortages such as those resulting from poor harvests or industrial bottlenecks.

United States imports

While the recovery of the rest of the world from the effects of the war made it possible for output and income to advance without anything like a proportionate increase in the demand for imports from the dollar area, exports to the United States rose during the post-war period in line with the growth in the national product in that country.

Table 32. Supply of Dollars by the United States and their Use by Other Countries

(Millions of dollars)

Item and year	Total	Canada	Latin America	European sterling countries[a]	Oversea sterling area	Continental western Europe[b]	Dependencies of continental Europe	Other Europe[b]	All other countries	International institutions
SUPPLY OF DOLLARS BY THE UNITED STATES										
United States imports of goods and services:[c]										
1948	9,496	2,018	3,057	749	1,090	1,150	320	227	782	103
1954	13,277	2,842	4,054	1,136	1,126	2,365	437	44	1,232	41
United States government transactions:[d,e]										
1948	5,651	27	2	1,012	28	3,160	31	25	1,247	119
1954	4,208	199	102	425	171	1,858	77	6	1,311	59
Private capital and donations (net):										
1948	1,585	200	378	91	90	414	19	73	307	13
1954	2,073	423	548	186	126	243	—7	16	374	164
Total supply of dollars:										
1948	16,732	2,245	3,437	1,852	1,208	4,724	370	325	2,336	235
1954	19,558	3,464	4,704	1,747	1,423	4,466	507	66	2,917	264
USE OF DOLLARS BY OTHER COUNTRIES										
United States exports of goods and services:[e]										
1948	16,758	2,478	4,175	1,096	1,577	4,633	437	266	2,008	88
1954	17,764	3,830	4,648	1,392	1,418	3,565	318	30	2,488	75
Increase in gold and dollar assets:[f]										
1948	—1,178	382	—74	—476	—545	—192	5	—66	132	—344
1954	1,757	39	167	80	—24	1,414	—60	1	—49	189
Multilateral settlements, and errors and omissions:[g]										
1948	1,152	—615	—664	1,232	176	283	—72	125	196	491
1954	37	—405	—111	275	14	—513	249	35	493	—

Source: United States Department of Commerce, *Survey of Current Business*, June 1955, and supplement, *Balance of Payments of the United States, 1919-53.*

[a] Iceland, Ireland and United Kingdom.

[b] In addition to continental countries in the Organisation for European Economic Co-operation, Finland, Spain and Yugoslavia are included in 1954; in 1948 the latter three countries are included with "Other Europe."

[c] Excluding military expenditures abroad.

[d] Including government unilateral transfers, loans and military expenditure abroad; excluding government miscellaneous services and interest receipts.

[e] Excluding military aid and exports of goods and services in connexion with such aid.

[f] Minus sign indicates sale of gold or liquidation of dollar assets by other countries.

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

In the period 1947 to 1954 as a whole, there was a slight decline in the ratio of the value of imports to the national product in relation to the pre-war period, as indicated in the figures below. A relatively sharp drop in this ratio in real terms was partly offset by the much greater rise in import prices than in domestic prices. The increase in the real national product and in import prices since the nineteen thirties has sufficed to bring about a sharp rise in the absolute value of imports.

	Percentage ratio of imports to gross national product	
	In current prices	*In 1947 prices*
1929-1938 average	2.99	3.66
1947-1954 average	2.91	2.66
1947	2.44	2.44
1948	2.76	2.65
1949	2.56	2.61
1950	3.07	2.90
1951	3.30	2.67
1952	3.11	2.70
1953	2.96	2.71
1954	2.84	2.57

An examination of the data shown above suggests a fair measure of stability in the real import ratio during the post-war period. The ratio was relatively low in 1947 presumably because of supply difficulties in the rest of the world, and relatively high in 1950 on account of the heavy inventory accumulation which followed the outbreak of the Korean conflict as well as the postponement of purchases prior to the devaluation of sterling in September 1949. Finally, the fall in the ratio from 1953 to 1954 was due to the shift from accumulation of inventories to liquidation during the United States recession. Government stockpiling operations accentuated the rise in imports in 1950 and the decline in 1954.

Superimposed upon a relatively stable real import ratio was a cycle of import prices, rising from 1947 to 1951 at the peak of the Korean boom, declining from then until 1953, and then tending to rise once more.[41] The net effect of these developments was that the proportional increases in the value of imports and of the national product from 1948 to 1954 were of similar orders of magnitude—40 per cent or more.

Virtually the entire increase in the volume of imports from 1948 to 1954 was concentrated in semi-finished and finished manufactures, and in manufactured foodstuffs; these commodity groups were probably more seriously affected by shortages in the rest of the world in 1948 than were the crude foodstuffs and materials which the United States imports. If the year 1954 is compared with the pre-war period 1936-1938, the main shifts in the composition of imports, by volume, have been a decline in the relative importance of crude and manufactured food and a rise in the share of semi-finished and finished manufactures. Only part of the lag in food imports can be attributed to abnormal imports in the base period owing to drought. For the rest, there has been a slower rate of increase in food consumption in the United States than in real national product as well as a sharp fall in the share of imports in total food consumption. The shortage of coffee supplies throughout the post-war period was a major element in the latter development, but import restrictions were also a significant factor in the case of some products.

The relative increase in imports of semi-manufactures and finished manufactures seems to be due partly to a considerable growth in imports of durable goods corresponding to the rapid advance in domestic demand for consumption, investment and defence (including government stockpiling), and partly to the development of new sources of supply for metals and petroleum products, especially in the Western Hemisphere.[42] The combined share of metals and manufactures, machinery and vehicles, and petroleum products in United States imports of semi-finished and finished manufactures rose from 21 per cent in 1936-1938 to 30 per cent in 1948 and 37 per cent in 1954.

While the average prices of most goods imported by the United States have increased two to threefold since before the Second World War, the average import unit value of crude foodstuffs has risen more than sixfold, largely under the influence of coffee imports; consequently, from the point of view of dollar earning capacity, this group of commodities actually gained as a percentage of the total despite the lag in the volume of shipments.

Changes in the distribution of United States imports by area resulted from the developments in commodity composition indicated above, as well as from other factors, such as the circumstances of the war. The reasons for the rise in the share of the Western Hemisphere in United States imports since pre-war years have already been reviewed above; the relationship of this change to the outflow of capital from the United States will be explored further below. Here it may be observed that some of the world's major producers (other than the United States itself) of several of the commodities for which United States demand was growing most rapidly are located in the Western Hemisphere. These include, for example, petroleum (Venezuela), copper (Canada, Chile), lead (Canada, Mexico), sawmill products, paper base stocks and newsprint (Canada), and coffee (Brazil, Colombia).

The rise in the share of the Western Hemisphere in United States imports from 1938 to 1948 was accom-

[41] More precisely, most import prices were stable or continued to fall from 1953 to 1954, but a lift was imparted to the import unit value index as a whole by sharp increases in the import prices of cocoa and coffee.

[42] The significance of United States direct investment in this connexion will be discussed below.

panied by declines in the shares of shipments from Europe, both eastern and western, and from a considerable number of Asian countries which had suffered from the war. However, the oversea sterling area as a whole improved its relative position slightly owing to the major rise in imports of wool from Australia, New Zealand and South Africa, cocoa from the Gold Coast and Nigeria, and jute from India and Pakistan.

By 1954 economic expansion in western Europe and growing United States demand for metals and a variety of finished manufactures made possible a partial recovery in western Europe's share in United States imports. On the other hand, with some exceptions, total imports by the United States of the particular combination of commodities supplied by the oversea sterling area (notably rubber, tin, wool and burlap) either declined in value from 1948 to 1954 or at any rate failed to advance proportionally with other goods. In addition, the sterling area's share in total rubber imports by the United States dropped sharply, owing mainly to the recovery of supplies from Indonesia and Indochina. Consequently, the share of the oversea sterling area in United States imports fell from 15 per cent in 1948 to 10 per cent in 1954.

Service payments and capital outflow

While imports of merchandise rose from $7.6 billion in 1948 to $10.3 billion in 1954, United States service payments, excluding military expenditures, increased from just under $1.9 billion to nearly $3.0 billion between the same years. This represented higher outlays for transport services as merchandise imports grew, and as the rebuilding of the merchant fleets of other countries gained momentum; the expansion of tourist travel accompanying the rise in United States real income; and the revival and further development of a variety of services traditionally performed by enterprises in western European countries. Nevertheless, the share of service payments in total imports of goods and services did not regain the average level of the nineteen thirties, largely because of the war-time and post-war liquidation by other countries of income-bearing assets in the United States. In addition, United States legislation provides for the carriage of one-half of foreign aid shipments in United States vessels.

The net outflow of dollars from the United States resulting from private capital transactions and remittances rose from $1.6 billion in 1948 to $2.1 billion in 1954. Canada and Latin America accounted for virtually the whole of this increase, since, although private capital outflow to the rest of the world was higher, private remittances were lower, having reached a post-war peak in 1948.

Private capital flow has come to play a major role once again in the United States balance of payments, though of lesser importance relatively than in the nineteen twenties.[43] During the period 1948-1954 private net capital outflow from the United States, including the reinvested earnings of subsidiaries, was equivalent to 14 per cent of imports of goods and services,[44] compared with 19 per cent in the years 1920-1929 on the average. There have been some significant changes in composition. In the first place, while direct investments comprised over 80 per cent of total private net outflow in 1948-1954, the corresponding percentage for the nineteen twenties was only 30 per cent. Government capital outflow has also assumed considerable importance.

The distribution of direct investments has changed also. As is evident from the following classification (in percentages), the extractive industries have accounted for nearly two-thirds of all United States direct investment abroad in recent years, although they represented less than one-third, by value, of the amount outstanding in 1929.

	Value of direct investment abroad outstanding in 1929	*New outflow of direct investment, 1948 to 1954*
Manufacturing	24	15
Railways and public utilities	21	2
Mining	16	19
Petroleum	15	45
Agriculture	12	1
Other industries	12	18
TOTAL	100	100

A third and final difference from the nineteen twenties concerns the relationship between new outflows of funds and the return flow of interest, profits and dividends on past investments. In the nineteen twenties, as mentioned previously, the United States had only lately become a creditor nation; consequently, net new investment exceeded income receipts, even inclusive of the service due on government loans. In recent years, on the other hand, the United States, now a "mature" country from the point of view of its foreign investment position, has been receiving substantially more in the way of income on past investments than it has, on balance, lent abroad either on private account alone or on private and governmental accounts combined, as shown on the following page (annual averages in millions of dollars).[45]

Inevitably, of course, unless its net outflow of funds rises continually, any lending country will ultimately tend to accumulate a stock of foreign assets yielding a return in excess of the current outflow: this simple arithmetical fact has nothing to do with the balance of advantage resulting from the international flow of capital.

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[43] The present discussion is limited to the direct effects of capital flow on the trade and balance of payments of the United States with the rest of the world.

[44] Excluding military expenditures.

[45] A minus sign indicates outflow of capital.

	1920-1929	1948-1954
Private net capital outflow	—956	—1,639
Direct investments, net[a]	—288	—1,343
New issues	—717	—268
Redemptions	264	130
Other long-term capital, net	—65[b]	—52
Short-term capital, net	—150[c]	—106
Government net capital outflow	19	—253
Long-term capital, net	—27	—498
Repayments	46	267
Short-term capital, net	–	—22
Investment income	837	2,372
Direct investments[a]	408	1,997
Other private investment	300	199
Total, private investment	708	2,196
Government investment	129	176

[a] Including reinvested earnings of subsidiaries.
[b] Seven-year average; data not available for 1923-1925.
[c] Seven-year average; data not available for 1920-1922.

One important point of similarity between the postwar years and the period before 1929 concerns the geographic distribution of investment. Over 70 per cent of direct investments outstanding in 1929, by value, were in the Western Hemisphere, and the proportion has been similar during the entire period since that time. However, Canada alone has accounted for over one-half of all new direct investment since 1952, compared with a share of just over one-quarter in the stock of direct investment in 1929. It is likely, moreover, that portfolio investments, which were of much greater relative importance in the nineteen twenties than recently, were more widely distributed geographically than direct investments.

The outflow of capital has exercised a major influence both on the exports and on the imports of the United States. For example, the outflow of funds for direct investment, including reinvested earnings of subsidiaries, averaged over $1.3 billion a year from 1948 to 1954, and it is fair to assume that much or most of this was expended on United States equipment of various kinds. A high proportion of other funds lent abroad, whether by private interests or by the Government, has also no doubt come back to the United States in the form of demand for investment goods: these funds, net of repayments and redemptions, have averaged some $550 million a year since 1948.

It is not possible to indicate in any detail the types of exports affected by capital outflow in the United States, though evidently machinery required in the extraction of oil and metallic ores and in the construction of accompanying facilities must have been among the commodity groups mainly affected.

Again, comprehensive data on the extent to which United States imports are derived from United States-controlled companies operating abroad are not available. Estimates have been made showing that in 1952 more than one-half, on the average, of the import value of nineteen major commodities—mainly primary products—was derived from American-owned productive facilities abroad.[46] The imports of these selected commodities from United States enterprises accounted for more than one-fifth of all United States imports and for over 30 per cent of imports of raw materials (including semi-manufactures).

While the latter estimates are necessarily an understatement of the over-all importance of American-owned enterprises in United States imports, owing to the incomplete coverage of the data,[47] particularly for manufactures, they suffice to indicate the relationship between the expansion of United States direct investment and the growth in United States imports. For the present purpose the discussion may be confined to seven product groups, listed below, 50 per cent

[46] United States Department of Commerce, *Survey of Current Business*, December 1953, page 14.

[47] An additional source of possible understatement results from the method of estimation. Where there were several producers of a commodity within a country and no information regarding shipments by United States enterprises, United States imports were attributed to United States producers in proportion to their share in the output of the commodity in that country. In practice it would not be unreasonable to expect the proportion to be higher than this.

	From United States-owned companies, 1952 (per cent)	Value (millions of dollars)		
		1936-1938 average	1948	1954
Crude oil	95	42	416	828
Refined oil	70			
Copper	85	40	203	361
Paper base stocks	75	101	316	289
Nickel	90	20	61	155
Aluminium	90	9	58	143
Lead	55	1	106	122
Iron ore	50	5	27	119
Total, above items		218	1,187	2,017
Total, United States imports of crude and semi-manufactured materials		1,263	3,780	4,722

or more of the imports of which were, in 1952, derived from United States companies operating abroad. Total imports of these seven products represented just over 17 per cent of the value of all imports of raw materials (including semi-manufactures) by the United States in 1936-1938; but they accounted for over 38 per cent of the increase in raw material imports from 1936-1938 to 1948. More significant still is the fact that imports of these seven products alone rose $830 million from 1948 to 1954 while imports of all raw materials increased $942 million, as the preceding data indicate.

It may be seen, therefore, that United States private capital has, during the post-war period, sought out and developed those mineral and other resources for which United States demand has been expanding most rapidly. This has undoubtedly been of major importance in strengthening the position of Canada and Latin America as suppliers of primary commodities to the United States. Most recently, the proportion of new investment going to Canada has risen sharply while investments elsewhere, including even those in Latin American countries, have tapered off, largely because of the completion of oil installations.

A Post-War Perspective

The growth of world trade since the Second World War has been remarkable, all things considered. It might have been thought that conditions were far less favourable for the recovery of world trade than those which prevailed at the end of the First World War. The political and economic upheaval and destruction were of far greater dimensions during and after the second war; and the tariffs of the nineteen twenties were minor barriers to trade compared with the maze of quantitative restrictions, exchange controls and inconvertibility of currencies characteristic of the nineteen forties and fifties. With all the easing of such restrictions and controls that has occurred during the past few years government-imposed obstacles to world trade remain of a magnitude incomparably greater than anything conceived of before the great depression. Not the least of the inauspicious circumstances attending developments since 1945 has been the division of the world into two economic areas—the centrally planned economies and the rest of the world—trading relatively little with one another.

In actual fact the recovery of trade, as of production, was much faster after the Second World War than after the first, and the expansion to new levels which followed was much more vigorous. It is true that one phase of the expansion—that which followed the outbreak of hostilities in Korea—was associated mainly with a very sharp rise in defence expenditures in the leading industrial countries. But the levelling off in government expenditures which occurred subsequently did not bring with it any decline from the levels of world trade reached during the rearmament boom (apart from a brief setback in 1952). On the contrary, the volume of world trade reached new high ground in 1954 and 1955—when the government sector was no longer providing the dynamic element in the advance in production.

It appears, then, that trade has been held back much less than might have been expected by the various limitations and controls prevalent throughout most of the world. Indeed, a careful examination of the lag between world trade and world output since 1938 shows that a major part of the lag is due to circumstances having nothing to do with trade restrictions. The first of these circumstances is the fact that a larger share of world output is now being produced in countries whose imports are small in relation to their output or income. The second is the lag in food consumption in relation to income, together with the reduction in the raw material import content of manufacturing which has accompanied the structural shift in the industrial countries from light to heavy industries.

This is not to say that the impact of restrictive national policies upon the growth of international trade has been unimportant. Outstanding is the case of world trade in food, which has undoubtedly been affected by national measures aimed at providing adequate standards of living for farm populations and reducing the dependence of net importing countries upon supplies from abroad. Nor can it be doubted that the controls on trade have in many cases operated in such a way as to reduce the benefits which might otherwise have been obtained from international specialization and exchange.

On the whole, it would probably be true to say, however, that prevailing restrictions have affected the commodity composition and the regional distribution of trade more than its amount. For virtually all countries outside North America the primary limitation upon the volume of imports since the war has been the level of foreign exchange resources available to them—whether derived from export proceeds or from other receipts. The capacity to import has, of course, been affected wherever the exports of countries, both developed and under-developed, have been held back by inflationary pressures, thereby making it necessary for import and exchange controls to be used to check

the consequential external disequilibrium. The fact remains that most countries are now spending a higher fraction of their incomes on imports than in 1937, and that those spending a smaller proportion do not consist exclusively of countries with import controls.

What is certainly true, however, is that the trade of the world has become more compartmentalized in the past thirty years: in other words, a growing proportion of the world's trade is carried on between the great industrial centres and other countries associated with them economically, and even, to some extent, politically. There can be no doubt that restrictions of various kinds have contributed powerfully to this outcome, although many other factors are also involved, particularly the separation of the Western Hemisphere from the Eurasian continent during the war and the long-established tendency for British, French and United States capital to flow most readily to the sterling and franc areas and to the Western Hemisphere, respectively.

A major element underlying post-war trade restrictions and tending to accelerate the compartmentalization of trade has been the dollar gap. The exports of the dollar area countries are closely determined by the value of dollars disbursed to the rest of the world through their imports, together with the capital outflow and various governmental outlays abroad of the United States (subject only to prudent provision for some raising of gold and dollar reserves above present low levels). Assuming no major changes in the sources of the world's dollar supply, the removal of controls on trade by the countries now employing them would involve as a prerequisite a sufficient disinflation to equate the demand for dollars to the supply at something like the present level and rate of increase in that level.

It is extremely difficult to determine how great an adjustment would be involved. The magnitude of the residual dollar gap on commercial transactions at the current level of exchange and trade restrictions was of the order of $2.4 billion in 1954 and $3.4 billion in 1955. This represented a major improvement in the dollar balance compared with the years immediately after the Second World War. While the dollars earned from goods and services supplied to the United States rose in parallel with the national output of that country, it proved possible to expand production considerably in the rest of the world without a proportional growth in the demand for dollar goods—despite the steps taken in many countries to reduce discrimination against the dollar countries. This was because of expanded output outside the dollar area in a number of key primary products such as wheat, raw cotton and petroleum and because of recovery in the export potential of western Europe in manufactured goods, and particularly the return of western Germany and Japan as major suppliers of such goods.

The remaining dollar gap did not give rise to serious difficulties because the commercial "gap" was substantially less than the total of economic aid and military expenditures overseas of the United States Government. Indeed, important additions to gold and dollar reserves were made by many countries even during the trough of the United States recession of 1954.

On the other hand, no clear self-sustaining pattern of international settlements has emerged thus far on a long-term basis. Most solutions to the dollar problem envisaged by economists in the early post-war period involved a resumption of what has generally been accepted as the pre-war system of multilateral settlements. In this system the industrial countries of western Europe earned dollars from export balances with primary producing countries, with which they were able to pay for their own surplus of imports from North America, while the primary producing countries in turn earned the dollars with which to pay for their net imports from western Europe through export balances derived from supplying food and raw materials to the United States. A restoration of this pattern—possibly amplified by additional receipts of free dollars by primary producing countries from United States oversea investment—was considered to be essential to the establishment of a functioning world economy.

In practice, the reduction in the dollar gap characteristic of the period 1948 to 1954 was not accompanied by any major developments in the direction indicated above. If western Europe's dollar deficit has been reduced, it is primarily because imports from North America have been curtailed while exports to North America have expanded, and because western Europe has been the main recipient, apart from Japan, of oversea military expenditures by the United States; the reduction in western Europe's dollar deficit was not, in other words, the result of any important growth in western Europe's dollar earnings in "third markets". There has been no obvious tendency for primary producing countries as a whole to develop export balances with North America on a consistent basis. Almost the only significant exception to this exists in the net earnings of dollars by certain of the western European dependencies.

The structure of international payments emerging in 1954-1955 appears to have been weakest at one of its most critical points—in the sterling area. This weakness cannot simply be ascribed to the tendency for the level of demand in some of the sterling area countries to press more strongly against resources than in the rest of the world in general. Certain structural problems are also involved, not the least of which is the fact that United States demand for the particular combination of primary commodities exported by the sterling area has not exhibited a long-term tendency to expand in line with total imports.

The structural elements in the residual dollar gap do not affect all areas equally—some countries or areas are better placed than others in the sense that a larger proportion of their exports consists of commodities for which North American demand has been rising rapidly. Consequently, if the burden of adjustment were placed entirely or mainly upon the deficit countries, the extent of the measures required would vary considerably. Moreover, if the adjustment were to be attempted through a process of disinflation alone, it is not certain whether in particular areas or countries the extent of the disinflation required would be regarded as politically acceptable; or whether a new equilibrium, once reached by this means, could be maintained consistently with a satisfactory rate of economic growth.[48]

This is a problem which is of even more importance to the under-developed than to the developed countries, where at least certain minimum standards of economic welfare have been achieved. The development of world trade thus far in the post-war period provides some reason for satisfaction to the under-developed countries, but considerable grounds for concern also.

On the positive side must be placed the continuous expansion of economic activity in the industrial countries, generating progressively larger demands for imported primary products. It is true that the demand for primary products has not risen as rapidly as output in the industrial countries. But the capacity of under-developed countries to import has grown much more than the volume of their exports because of a considerable improvement in their terms of trade both from 1938 to 1948 and from 1948 to 1954.

[48] An attempt to correct the disequilibrium by devaluation would probably not eliminate the need for disinflation. Whether the amount of disinflation required would increase or decrease as a result of devaluation would depend upon the relevant demand and supply elasticities as well as upon any possible secondary effects of the devaluation on domestic investment. In the modern age of full employment and strong trade unions, moreover, any government contemplating devaluation must be prepared to reckon with a significant wage-price spiral.

This increase in the capacity to import has been utilized for the purchase of much greater quantities of investment goods than before the war, and in many countries import and exchange controls have been freely used to restrict imports competing with domestic production, notably of textiles, and thereby to ensure the maximum use of their resources for the import of essential food, raw materials and capital equipment.

Developments have been much less satisfactory from the point of view of the distribution of the benefits from trade and also the stability of trade and payments. As already indicated, the distribution of the increase in export proceeds has depended upon whether the commodities produced by a particular country happen to be those for which world demand is growing most rapidly. Some countries have been drawn only to a very limited extent into the general orbit of prosperity resulting from economic advance in industrial countries. And even among those countries which have benefited the most are many whose economies have suffered severely from the sharp price fluctuations characteristic of nearly all primary products.

It seems clear that part of the persistent imbalance in international trade and payments has its roots in the measures adopted by many countries, both developed and under-developed, to promote capital investment and industrial development. How far an adequate rate of economic growth is consistent with international balance in the sense in which this term has often been understood in the past is a question to which experience thus far provides no clear guide. It is, however, not unnatural for countries, especially those which are under-developed, to take the view that the concept of international balance was too narrowly conceived in the past; and that an adequate rate of economic growth is itself an indispensable ingredient of "international balance", as that term would have to be redefined in modern times.

Chapter 3

PRODUCTION AND TRADE OF THE CENTRALLY PLANNED ECONOMIES

Post-War Institutional Changes

Within a period of a few years following the Second World War, virtually all of industry, wholesale trade and banking, and most of retail trade were nationalized in the countries of eastern Europe. In mainland China, the nationalization programme began in 1949; by 1952, banking and a large part of internal trade were nationalized, but the degree of nationalization in industry was lower than in other countries (see table 33). Since 1952 the formation of joint State-private enterprises has been accelerated, so that virtually all industry is now either wholly or partly nationalized.

In the course of extensive post-war agrarian reforms, large landed estates were divided among landless peasants and smallholders; about 25 per cent of the total agricultural area in the centrally planned economies changed hands during this period as compared to 12 per cent during the inter-war period.[1] Although the size of many farms was increased, the number of undersized farms also increased, and on the average the amount of arable land per household did not exceed five hectares.[2] Part of the expropriated land remained in the possession of the governments permanently or for further allocation to individual farmers; nevertheless, the reforms increased the number of private owners in agriculture.

A drive for collectivization of agriculture which began at the end of the reconstruction period, was sharply accelerated during 1950-1953. This drive coincided with a period of accelerated industrialization and was motivated by current needs as well as by long-term problems of development of agriculture. The existence of a large number of individual farms rendered difficult the control of production and disposal of farm output, while the small size of peasant holdings was considered an obstacle to the development of modern techniques, to large-scale mechanization, and to the release of manpower for industry. As a result of this drive, the structure of agriculture in eastern Europe, other than in the Union of Soviet Socialist Republics, was again changed substantially. By the end of the period, between 20 and 60 per cent of arable land belonged to the State and co-operative sectors of agriculture, with co-operative farms predominant in all countries except Poland, Romania and Yugoslavia. The expansion of the socialist sector took the form chiefly of an increase in the share of co-operative farming while that of State farms remained relatively unchanged (see table 33).

In Yugoslavia, where collectivization initially proceeded much more rapidly than in other countries, permission was given to peasants in 1953 to leave the collective farms, to rent land and to hire labour. However, the maximum size of private holdings was reduced from 35 to 10 hectares. This change in policy was motivated by a lack of equipment, which made collective farming inefficient. The number of collective farms consequently declined from about 5,000 in 1952 to about 875 in 1955, and the share of State and co-operative land in the total fell from about 26 per cent in 1951 to 9 per cent in 1955.

In mainland China, an agrarian reform introduced in 1949 was virtually completed by the winter of 1952/53. While there was a rapid expansion in State farms, collective farming was not yet developed; instead, peasants were organized into mutual-aid teams and producers' co-operatives,[3] which according to the original plan would be gradually transformed into collective farms towards the end of the present decade. The proportion of peasant households organized into mutual-aid teams and producers' co-operatives rose from 11 per cent in 1950 to 60 per cent in 1954.

In the Soviet Union economic activity continued within a virtually unchanged institutional framework; the only major change during the post-war decade was the amalgamation of collective farms into larger units, reducing their number from 245,000 to 96,000 in 1952.

The nationalization of industry and trade and the concentration of economic power in the hands of the central governments were accompanied by the introduc-

[1] This relates to eastern Europe only. In Poland and Czechoslovakia, a considerable proportion of the land distributed was obtained through expropriation, the German population having been expelled.

[2] Food and Agriculture Organization of the United Nations and Economic Commission for Europe, *European Agriculture* (Geneva, 1954).

[3] For explanation of mutual-aid teams and producers' co-operatives, see United Nations, *World Economic Report, 1951-52* (sales number:1953.II.C.2), page 53.

Table 33. Shares of Socialized Sector in Industrial Production, Agriculture and National Income
(Socialized sector as per cent of total)

Item and year	Bulgaria	Czechoslovakia	Mainland China	Eastern Germany	Hungary	Poland	Romania	Yugoslavia
Industrial production (gross value):								
1946	34	75	...	...	56	80	...	...
1948	93	95	37[a]	78[b]	92[a]	94[a]	95[b]	...
1952	99	99	61	85[c]	98	100	96	100
Agricultural land:[d]								
Co-operative farms, 1949	11	7[e]	...	...	6	8	1	15[f]
State farms, 1949	2		...	...	6		4	4
Co-operative farms, 1950	44	15	11	–	14	2	4	18[g]
State farms, 1950	2	10	...	5[h]	8	11	4	4
Co-operative farms, 1954	61[i]	33[j]	60	14	18[k]	8[l]	12[l]	4
State farms, 1954[m]	3	9[j]	...	4	13[k]	11[l]	13[l]	5
National income:								
1948	39	50	...	...	54	45	52	...
1950	69	62	...	...	70	66	63	...
1952	82	90	...	...	87	75	70	70

Source: Reports on fulfilment of plans and other official sources; Food and Agriculture Organization of the United Nations and Economic Commission for Europe, *European Agriculture;* United Nations, *Economic Survey of Europe in 1954* (sales number: 1955.II.E.2); *Voprosy Ekonomiki*, No. 7, 1954 (Moscow); *Statisticki Godisnjak, 1955* (Belgrade); *Hsin Hua Monthly* (Peking).

[a] 1949. The figure for 1949 as well as that for 1952 refers to State, co-operative and joint government-private enterprises.

[b] 1950.

[c] 1953.

[d] In percentage of agricultural area at the end of the year, if not otherwise stated, except for mainland China, where the data relate to the number of peasant holdings organized in producers' co-operatives and mutual aid teams as a percentage of the total.

[e] 1948.

[f] Exclusive of rough grazing area belonging to the State.

[g] In 1951 the total State and co-operative sector represented 26 per cent and the co-operative sector alone, 22 per cent of the agricultural area.

[h] 1951.

[i] September; cultivated land.

[j] Arable land, December 1953. In mid-1953 the government and co-operative sectors represented 53 per cent of the total, and the co-operative sector alone, 44 per cent of arable land.

[k] Arable land, mid-1954. In March 1953, the government and co-operative sectors owned 37 per cent and the co-operative sector alone, 26 per cent of total arable land.

[l] Arable land.

[m] The data on State farms in 1954, except for Yugoslavia, are residuals of the figures for total and for co-operative farms. For some countries, they include communal property and land owned by government enterprises and other organizations, and they may include some government-owned land not allocated to State farms.

tion and gradual extension of centralized planning. During the early post-war years, this planning was limited, in countries other than the Soviet Union, to the formulation of targets for specific industries or enterprises for short periods (less than one year) and to the allocation of key items in scarce supply. At an intermediate stage, annual plans for specific industries were formulated, and subsequently all countries introduced their plans for reconstruction covering all economic sectors.[4]

The development plans which followed the reconstruction period were much more comprehensive than the earlier ones and covered a period of five or six years. The number of specific items planned in detail was considerably extended; in many fields prospective changes in technical co-efficients relating input to output were planned and taken into account in setting up output targets, and "economic balances" relating output of various industries to one another were more extensively used. Further intensification of planning in the course of the development plan period brought the systems of eastern European countries closer to that of the Soviet Union. At the end of the period the plans became an integrated system, with detailed targets set for all sectors of the economy, strictly controlled and enforced by the central authorities.

During the early post-war years the national plans had been drawn up by individual countries independently. This was largely owing to the fact that their main objective was to reconstruct damaged plants and to bring into use existing industrial capacity. During the subsequent period, plans for economic development—both long-term plans and annual operational ones—took into account import requirements of other countries of the area, in so far as exports were needed to pay for a country's own imports. However, the development programmes were little influenced by considerations related to international division of labour and comparative cost. Although a certain degree of specialization was introduced, all countries planned large increases in output of similar products — in basic

[4] Poland and Hungary began their three-year plans for reconstruction and Bulgaria and Czechoslovakia their two-year plans in 1947, while eastern Germany and Romania began their two-year plans for reconstruction in 1949. In mainland China annual plans during the reconstruction period up to 1952 were also partial in character; it was only in 1953 that a comprehensive plan was first adopted, covering 1953-1957. Yugoslavia had prepared a five-year plan in 1946; however, even this plan, although more extensive in scope and more detailed than the plans of other countries, was of a rather general character, detailed targets being prepared only for some key industries.

materials, in engineering and in other fields; except for some isolated specific cases no serious attempt was made towards closer integration of economic planning. In 1953 and in 1954, however, important changes in attitude towards economic integration emerged. In several countries, especially Czechoslovakia, Hungary and eastern Germany, the previous economic policy was criticized as tending to expand some industries for which no raw materials and fuel were available while the products of these industries could be obtained at lesser cost from other countries of the area. The tendency to develop all branches of heavy industry was rejected, and international division of labour within the area was emphasized as a necessary condition for a further rise in productivity. Elimination of "harmful parallelism" in industrial expansion of individual countries was considered indispensable for more economic utilization of resources, potentialities and equipment of each. This was to be achieved by bringing international co-operation within the area to a higher level, from commercial relations to integrated planning of output and specialization. The new five-year plans of each country were to be prepared in closer co-operation with other planned economies; Czechoslovakia and Hungary, whose five-year plans ended in 1953 and 1954, respectively, postponed the beginning of their new development plans until 1956 to coincide with the introduction of new plans in the Soviet Union, Poland, Romania and eastern Germany. The new plans were to be prepared on the basis of division of labour among the countries of the group, taking into account availabilities of raw materials, fuel and power, as well as transportation costs and other elements of comparative cost.[5]

The concentration of economic power in the hands of the central government and the introduction of centralized planning reduced considerably the effect of individual decisions on the pattern and rates of growth of the eastern European economies. Economic changes became subject to deliberate decisions of the central authorities, which could to a very large extent determine the distribution of existing natural and human resources among different uses. In these conditions it was possible to devote a high proportion of national product to investment and to achieve rates of growth considerably exceeding those of pre-war years.

In mainland China, the introduction of centralized planning followed a pattern similar to that of eastern Europe but with a difference in timing. During the period of reconstruction following the cessation of the civil war in 1949, planning was limited in general to the allocation of only a few key commodities in short supply and to the formulation of annual targets for specific industries. After the recovery in production and the completion of nationalization of basic industries and trade, mainland China in 1953 started its first five-year plan of economic development.

Yugoslavia, which until 1950 applied the same planning methods as other countries of the group and in which the centralization of planning and of direction of the economy was in fact more pronounced than in other countries, changed its methods substantially through a series of reforms undertaken between 1950 and 1952. Specific planning of output of each enterprise was abandoned, and the management of enterprises became free to determine output and prices of their products and to sell freely on domestic or foreign markets. Plans, formulated on an annual basis, are confined to setting up general targets for aggregates, such as national product, consumption, investment and other expenditure. Indirect forms of regulation of economic activity, such as credit and fiscal policy, are relied upon, and direct administrative intervention in the work of enterprises is being avoided.

[5] The tendency towards more integrated planning and a closer integration of the economies was recently emphasized in the following statement by N. Khrushchev: "Close economic co-operation gives exceptional opportunities for the best possible utilization of production capacity and raw material resources and happily combines the interests of each country with those of the socialist camp as a whole. The development of specialization and co-operation is of great importance here. . . . Each European people's democracy can specialize in developing those industries and producing those goods for which it has the most favourable natural and economic conditions. This, incidentally, creates the necessary prerequisites for releasing considerable resources to develop agriculture and light industry and, on this basis, for satisfying more and more fully the material and cultural requirements of the peoples" (*Pravda* (Moscow), 15 February 1956).

Growth of Industrial Production

Increases in industrial production in the centrally planned economies from the pre-war years to 1954 ranged well over 100 per cent; for the Union of Soviet Socialist Republics the increase amounted to nearly 190 per cent, and for the other eastern European countries, excluding Yugoslavia, the average rise was over 150 per cent (see table 34). While these increases are generally considerably larger than the average for the private enterprise economies, no direct comparison between the rates of growth is in fact possible, owing to major differences in methods of computation of the indices.[6]

[6] The indices of industrial production in all countries of the group represent gross value of output and involve some double counting, which might increase significantly in a period of rapid structural change. In the Soviet Union, the index of industrial production until 1950 represented gross output valued in 1926/27 prices, reflecting cost and price relationships of the pre-industrialization era which overstate long-term changes in output. One of the effects of rapid industrialization on cost

(*continued overleaf*)

The significance of such comparisons is further limited by the influence of institutional and territorial changes on the indices of industrial production in eastern Europe. The extension of the nationalized sector of industry in countries other than the Soviet Union has involved in varying degree a shift from handicraft production, small industries, or peasant home production which previously was not covered or inadequately covered by the indices of industrial production. This factor, very important during the period of nationalization of industry, continued to influence the indices during subsequent years, but its effect was decreasing as the proportion of output not covered declined in relation to total production.[7]

While industrial production expanded at a high rate throughout the post-war decade, the average rates of growth declined perceptibly in the course of the period. This slackening reflected the transition from recovery to expansion and, especially during the second half of the decade, the gradual absorption of unused resources. Despite the considerable cost of repairs to damaged plants, fewer resources and less time were needed for reconstruction than for building new capacity. In addition, the deceleration of the rate of growth was a natural consequence of the rapid expansion of output; as the level of output continues to rise, the gradual absorption of unused resources tends to check the rate of growth unless there are offsetting increases in output per unit of input.[8]

In Yugoslavia the pattern of growth was similar to that of other countries of this group until 1949. The

(*Footnote continued from previous page*)
relationships is a decline in cost of highly fabricated goods as compared to goods of low degree of fabrication; the rise in the share of highly fabricated goods in total output valued at prices of the beginning period imparts to the index an upward bias. In addition, the index was considerably inflated by the introduction of newly produced goods at current or close to current prices of the first year of production. Although in many cases various conversion factors were used in order to bring prices closer to 1926/27 levels, in fact a large proportion of goods were introduced into the index at prices of subsequent years. Since during that period the general level of prices was rising, this method had an inflationary effect on the index. The problems relating to this index were widely discussed in the Soviet literature and have also been reviewed at length by the secretariat of the Economic Commission for Europe in the *Economic Survey of Europe, 1951* (E/ECE/140/Rev.1).

After the beginning of the fifth five-year plan in 1951, a new index of industrial production was introduced, based on wholesale prices of enterprises (that is, exclusive of turnover tax) as of 1 January 1952. The gross value of output for 1950 was recalculated in prices of 1 January 1952 in order to assure comparability of data for the five-year plan period. No similar re-evaluation was made for the preceding period and the new index was simply linked to the old one. In order to avoid an upward bias owing to the remoteness of the base period, the index of industrial production for the new five-year plan period (1956-1960) will be based on prices of 1 July 1955 and again linked to the previous series (S. Genin, "On the Method of Calculating the Rhythm of Increase of Gross Output of Industry", *Voprosy Ekonomiki*, No. 8, August 1955). Several other eastern European countries have also announced their intention of using indices weighted by prices of the first year of each five-year plan.

[7] In the Soviet Union, where structural changes of a similar character were completed long before the war, this factor was of little importance. Similar qualifications concerning the influence of a shift from cottage and handicraft production to industrial production have been noted in chapter 1 with respect to the indices of industrial production of under-developed countries, but, as was shown there, these countries account for only about 5 per cent of the total industrial output of the private enterprise economies.

[8] The decline in the recorded rate of growth is to some extent also due to factors of a purely statistical character, reflecting changes in coverage or in weighting of the indices of production, described above, which tended to raise the estimates for earlier, in relation to later, post-war years.

Table 34. Indices of Gross Value of Industrial Production
(1950=100, except as indicated)

Country	Pre-war		1947	1948	1949	1951	1952	1953	1954
	Year	Index							
Bulgaria	1939	35	45	64	82	119	140	157	171
Czechoslovakia	1937	69	63	75	87	115	136	150	156
Germany, eastern	1936	91[a]	51	65	79	122	142	160	176
Hungary	1938	49	36	52	74	130	161	180	185
Poland	1938	47	47	65	77	124	149	176	195
Romania	1938	63	40	52	73	129	159	181	194
Total, above countries	1937	70	50	66	81	122	146	165	179
China, mainland[b]		...	...	...	50	100	128	170	199
USSR	1940	57	54	67	81	116	129	145	165
Yugoslavia[c]	1939	58	70	87	97	97	95	106	121

Source: Reports on fulfilment of plans and other official statements; *Voprosy Ekonomiki*, No. 7, 1954 and No. 7, 1955. The aggregate index for the six countries is taken from the following sources: 1950-1954 (1950 = 100) from *Voprosy Ekonomiki*, No. 7, 1955. The index includes Albania, which is of minor importance in the total. This index was linked with the index based on 1937 published in *Voprosy Ekonomiki*, No. 7, 1954, covering the same countries except eastern Germany, and revised by inclusion of eastern Germany for 1937, 1947 and 1948. Both indices use 1938 weights, as follows: Bulgaria, 3; Czechoslovakia, 21; eastern Germany, 34; Hungary, 9; Poland, 27; Romania, 6. For the USSR: United Nations, *Monthly Bulletin of Statistics*, December 1955; *Pravda*, 6 October 1955. For Yugoslavia: *Statisticki Godisnjak, 1955*.

[a] Derived from data on gross value of output in 1936 and planned value of output for 1955, expressed in constant prices, and on planned percentage increases from 1950 to 1955; from *Neues Deutschland* (Berlin), 1 November 1951.

[b] Excluding output of handicraft co-operatives and individual craftsmen; index based on 1951 = 100; data for 1950 not available.

[c] Net value.

Table 35. Indices of Output of Basic Materials
(1950=100, except as indicated)

Area and item	1937	1947	1948	1949	1951	1952	1953	1954	1950 Volume of output (millions of tons)
Selected eastern European countries:[a]									
Industrial production, total	70	50	66	81	122	146	165	179	
Coal	81	79	88	94	107	113	121	126	169.6
Electric power	63	70	79	92	113	127	138	150	42.6[b]
Pig-iron	72	61	78	91	106	126	161	174	4.6
Crude steel	77	59	71	85	118	131	149	154	8.3
Rolled products[c]	83	...	66	81	113	128	145	155	5.3
Cement	84	56	70	89	112	125	144	147	8.1
Crude oil	150	...	81	89	121	156	176	194[d]	6.1
China, mainland:[e]									
Industrial production, total	...	...	...	50	100	128	170	199	
Coal	150	...	...	75	123	154	168	202	41.3
Electric power	130	...	...	94	126	158	201	241	4.6[b]
Pig-iron	185	...	...	25	146	195	231	314	1.0
Crude steel	152	...	...	26	148	222	292	364	0.6
Rolled steel	184	...	...	33	191	308	412	482	0.4
Crude oil	158	...	...	60	151	216	310	393	0.2
Cement	163	...	...	47	176	203	275	327	1.4
USSR:									
Industrial production, total	39	54	68	82	116	129	145	165	
Coal	49	70	80	90	108	115	123	133	261.1
Electric power	40	63	73	86	114	131	147	164	90.9[b]
Pig-iron	78	58	71	85	114	131	143	158	19.2
Crude steel	65	53	68	85	115	126	140	152	27.3
Rolled products	62	53	68	86	115	129	142	155	20.8
Cement	56	46	63	79	119	136	157	186	10.2
Crude oil	75	68	77	88	112	125	139	156	37.9
Yugoslavia:									
Industrial production, total	58[f]	70	87	97	97	95	106	121	
Coal	58	76	84	96	92	94	86	104	5.0
Electric power	37	62	83	92	104	113	125	142	2.4[b]
Pig-iron	22	76	81	90	117	129	127	168	0.2
Crude products	37	72	86	94	101	103	119	144	0.4
Rolled metal[g]	54	69	89	90	118	112	125	164	0.3
Cement	52	92	100	108	92	108	108	117	1.2

Source: Reports on fulfilment of plans and other official statements; Statistical Office of the United Nations; United Nations, *Quarterly Bulletin of Steel Statistics for Europe* (Geneva); *Statistical Yearbook*. In many instances the annual percentage increases indicated in the reports on fulfilment of plans were used to compute the indices. The absolute figures for 1950 were either taken directly from various official sources or calculated by using the percentage changes, from absolute figures indicated for other years in official sources. For eastern European countries other than the Soviet Union, the data on coal represent hard coal, brown coal and lignite in hard coal equivalent; for the Soviet Union, data are on a ton-per-ton basis.

In the totals for six selected countries, the data for pre-war refer to post-war boundaries; pre-war data refer for most countries to 1937 or to the closest year for which data were available.

[a] Bulgaria, Czechoslovakia, eastern Germany, Hungary, Romania, Poland.

[b] Billions of kilowatt-hours.

[c] Czechoslovakia, eastern Germany, Hungary and Poland only. Data exclude the output of Romania, which in 1950 was equal to about 390,000 tons, and in 1952, to 500,000 tons.

[d] Partly estimated.

[e] For total production 1951 = 100; for other items 1950 = 100. The pre-war figures refer to 1942 for coal, 1941 for electricity, 1943 for pig-iron, steel and rolled steel, 1943 for crude oil and 1942 for cement.

[f] 1939.

[g] Indices for the years preceding 1950 are not directly comparable with those for the period following 1950, since they represent only the part of total production available for sale.

very small increase in output in 1950 and the declines in 1951 and 1952 resulted from difficulties in securing imported raw materials and fuel subsequent to the severance of economic relations with eastern Europe and also from poor harvests, which affected both the foreign trade and the domestic supply of materials to industry. In 1953 and again in 1954 output increased substantially.

In mainland China, where intensive industrialization began much later, industrial production increased rapidly during 1950-1953 but in 1954 its rate of expansion declined. As in other countries of the group, this deceleration represented a transition from reconstruction to long-term expansion. Up to 1953 the major part of investment was devoted to restoration and reconstruction of existing capacity, leading to quick

increases in output; the investment programmes in the five-year plan beginning in 1953, however, were concentrated on construction of new plant in large-scale heavy industries, a major part of which was not yet completed and was thus not available for production in 1954.

Output of the engineering industries has been a key factor in the rise in industrial production; this is illustrated in the percentages below showing the relative growth in engineering and total industrial production for selected countries and periods.

	Increase in output		*Share of engineering industries in total*	
	Engineering industries	*All industries*	*Beginning of period*	*End of period*
China, mainland, 1949-1954	1,307	285	2	6
Czechoslovakia, 1948-1953	230	102	17	28
Hungary, 1949-1954	267	131[a]	19	28
Poland, 1949-1953	150	129	...	...
USSR, 1950-1954	90	65	...	...

In countries other than mainland China and Yugoslavia, output of basic material rose less than total industrial production and much less than engineering output (see table 35). The explanation is partly to be found in the same elements—although not necessarily weighted in the same proportions—already discussed in chapter 1, namely the shift in composition of industrial production towards goods involving a higher degree of fabrication, the growing complexity of engineering goods and technological economies in use of basic materials. As will be seen later, however, the discrepancy between the rise in output of basic materials and total industrial production gave rise to problems of imbalance in a number of countries.

As may be seen from table 36, the output of staple manufactured consumer goods, such as textiles and shoes, has also increased substantially although it has lagged behind the rise in total industrial production. This lag may have been even greater than is indicated in the table because the recorded output of these commodities, particularly shoes, was affected by the transition from handicraft to factory production so that the indices, especially for the period from 1937 to 1950, are inflated by the change in coverage.

Since the indices of the commodities in tables 35 and 36 are based on physical units, they do not present the index-number problems discussed above relating to total industrial production, but are comparable with similar indices of other countries. As may be seen from the figures below on the output of basic materials (in millions of tons), eastern Europe's share[9] in total world output has risen in the case of electric power, coal, pig-iron and steel, substantially so in the latter three items, but fallen in crude oil.

While there were considerable differences in rates of growth and patterns of development among the centrally planned economies during the post-war decade, three distinct periods of development can be discerned from 1945 to 1955: the period of reconstruction, which ended at about 1949; the period of rapid expansion, from about 1950 to 1953, followed by a period since mid-1953 of general slowing down of the rate of expansion. This classification does not apply, however, to mainland China, where the reconstruction period began only in 1950 and the first stage of economic development only in 1953, nor to Yugoslavia, which, as previously stated, basically altered its pattern of development in 1949.

[9] Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania. No data are available for mainland China for 1937; the inclusion of mainland China in 1954 would give the following shares: coal 38, electric power 17, pig-iron 26, crude steel 25.

	Crude oil	*Coal*[a]	*Electric power*[b]	*Pig-iron*	*Crude steel*	*Cement*
1937:						
World production	280	1,360	443	103	135	81
Eastern Europe:						
Production	38	264	63	18	24	13
Per cent of total	14	19	14	17	18	16
1950:						
World production	523	1,571	949	132	189	132
Eastern Europe:						
Production	44	431	134	24	36	18
Per cent of total	8	27	14	17	19	14
1954:						
World production	690	1,625	1,345	156	221	189
Eastern Europe:						
Production	71	562	213	38	54	31
Per cent of total	10	35	16	24	24	16

[a] Including brown coal and lignite, in hard coal equivalent, except for the USSR; the inclusion of brown coal and lignite on a ton-per-ton basis probably involves some upward bias in the rise shown for the percentage share of eastern Europe in world coal output.

[b] Billions of kilowatt-hours.

Table 36. Indices of Textile and Shoe Production, by Country

Country and item	Pre-war year and index	Indices (1950=100)						Output in base year (millions of specified unit)
		1948	1949	1951	1952	1953	1954	
Bulgaria:	*1939*							
Cotton fabrics	40	71	78	113	129	140	147	85. Metres
Woollen fabrics	80	78	95	120	134	151	...	6.5 Metres
Leather shoes	...	56	57	117	138	149	230	0.87 Pairs
China, mainland:	*1936*							
Cotton fabrics[a]	100	67	65	128	199	236	266	44.9 Bolts
Czechoslovakia:	*1937*							
Cotton fabrics	103	111[b]	100	...	...	132[b]	...	54.1 Tons[c]
Woollen fabrics	67	93[b]	100	...	...	111[b]	...	25.7 Tons[c]
Leather shoes[d]	85	100[e]	...	...	...	...	...	69.4 Pairs
Germany, eastern:	*1936*							
Cotton, woollen and other fabrics	...	...	...	69	125	136	154	167 289. Square metres
Leather shoes	212	75	75	137	175	225	247	8. Pairs
Hungary:	*1938*							
Cotton fabrics	103	103	93	114	119	116	126	180. Square metres
Woollen fabrics	112	80	89	122	92	90	121	17.9 Square metres
Leather shoes	...	...	67	128	147	138	164	6.1 Pairs
Poland:	*1937*							
Cotton fabrics	67[f]	80	94	107	109	116	122	433. Metres
Woollen fabrics	67[f]	74	89	109	113	125	127	56.5 Metres
Leather shoes	16[g]	38	57	141	153	162	177	12.8 Pairs
Romania:	*1938*							
Cotton fabrics	74	56	71	117	136	141	151	140. Square metres
Woollen fabrics	58	53	79	122	128	136	141	21.3 Square metres
Leather shoes	5	30	80	89	92	78	...	11.6 Pairs
USSR:	*1937*							
Cotton fabrics	88	82	93	122	129	136	143	3,897. Metres
Woollen fabrics	70	82	97	113	123	135	157	155. Metres
Leather shoes	80	66	81	...	132	128	137	205. Pairs
Yugoslavia:	*1939*							
Cotton fabrics	76	110	105	84	77	88	114	146. Square metres
Woollen fabrics	50	115	105	95	80	69	79	24.9 Square metres
Leather shoes	51	101	111	84	66	59	73	8.2 Pairs

Source: United Nations Bureau of Economic Affairs, based on percentage increases indicated in reports of annual plans and on absolute data published occasionally in other official documents.

[a] Excluding output of individual handicraftsmen, which amounted to about 20 per cent of total output of cotton fabrics in 1952.

[b] 1949 = 100.

[c] Thousands of tons.

[d] Including some non-leather shoes.

[e] 1948 = 100.

[f] Post-war territory.

[g] Pre-war territory.

Reconstruction period, 1945-1948

Although the damage inflicted upon the eastern European economies was considerably larger than during the First World War, the reconstruction period was considerably shorter. After the First World War, from six to twenty years were required for individual countries to regain their 1913 levels of production,[10] whereas after the Second World War recovery was achieved in most countries by 1948. In Bulgaria, Hungary and Poland total output in 1948 was already substantially higher than before the war, and production in the Soviet Union and Czechoslovakia also exceeded pre-war levels. This carried the aggregate output of eastern Europe above the pre-war level in spite of a slower recovery in eastern Germany and Romania.

The slowness of recovery after the First World War was partly due to the fact that in the Soviet Union that war was followed by civil and foreign wars which lasted until 1921. In other countries an important factor was the fact that their emergence as independent nations was part of a process of dislocation of larger economic units involving loss of markets and separation from sources of raw materials. The much more rapid rate of recovery after the Second World War was

[10] In the Soviet Union and Romania the 1913 level of output was not reached until 1926, in Hungary until 1928, and in Poland, which lost its former Russian markets, not until 1938. Only in Czechoslovakia was the pre-war level reached in 1921, after which output fell and remained below pre-war until 1924.

partly due to more extensive assistance from abroad, initially in grants from the United Nations Relief and Rehabilitation Administration and subsequently in loans and technical assistance from the Soviet Union to other countries of the group. The most decisive factor, however, was the concentrated effort of the central authorities to overcome the war damage to their economies.

Although the aim of the plans for reconstruction was primarily to restore and to exceed the pre-war levels of output by bringing into use all available resources, all countries of the area tended from the beginning to alter the structure of their economies in order to achieve a more balanced relationship between various industries. With respect to industrial production this took the form of a greater emphasis on the development of producer goods industries, a tendency which, irrespective of longer-term considerations, was motivated by the necessity to make good the losses in plant and equipment suffered during the war. However, during this period output of manufactured consumer goods generally rose in parallel fashion, and in some countries, where output of consumer goods had fallen far below the pre-war level, the increases in output of these were even higher. In the Soviet Union, where total industrial production in 1945 was 8 per cent below that in 1940, output of producer goods was 12 per cent above, and that of consumer goods 41 per cent below, 1940. From 1945 to 1948 output of the former rose by 16 per cent, while consumer goods increased by 68 per cent. Although conclusive data on changes during 1945-1948 in the output of both types of goods are not available for every country, indirect evidence indicates that during the period of reconstruction the output of consumer goods was generally increasing at rates similar to, if not higher than, those for producer goods. This tendency, which continued approximately until 1950, can be discerned from the data shown in table 37 for the years 1948-1950.

The high rates of increase for consumer goods during the reconstruction period reflect the extremely low level of output at the end of the war; the recovery was made possible by the existence of a considerable amount of unused industrial capacity and by return to the pre-war level of production of agricultural raw materials. Initial increases in output of consumer goods required relatively less additional investment per unit of output than was needed in heavy industries and could be achieved despite the fact that the distribution of total investment even during this period favoured the expansion of heavy industry.

The targets set in the reconstruction plans for total industrial production were reached in all countries under review and substantially exceeded in Hungary, Poland and the Soviet Union. In Yugoslavia, where the original targets were considerably higher than in any other country of this group, the planned rates of expansion had to be changed after severance of economic relations by other countries of the area, which had earlier accounted for the predominant share of Yugoslavia's imports of capital goods as well as of its exports. Difficulties in securing necessary equipment and raw materials from abroad made it impossible to fulfil the original goals and led to fundamental revision of targets.

Period of accelerated development, 1949-1953

In contrast with the reconstruction plans, long-term development plans of the eastern European countries called from the beginning for higher rates of increase in output of producer goods than for consumer goods or for output in agriculture or other economic sectors serving the consumer. By 1950, partly under the impact of deteriorating international relations, the plans of several countries were revised and the targets set for producer goods considerably increased in order to accelerate the growth of economic capacity and to meet a sharp expansion in military outlays. While data on military production are not available, the extent to which this factor was influential is suggested by the rise in military outlays in current prices recorded in each budget for 1953, compared with 1950, shown below under the heading of defence (1950 = 100), and the percentage share of defence in total outlay on defence and investment:[11]

	Indices, 1953		*Percentage share of defence*	
	Investment[a] *(1950=100)*	*Defence*[b] *(1950=100)*	*1950*	*1953*
Bulgaria	270	400	23	31
Czechoslovakia	222	322	21	28
Hungary	262	285	26	28
Poland	285	337[c]	26	30
Romania	173	260	25	32
USSR	109	135	45	52

[a] Gross government fixed investment, exclusive of investment financed from the funds accumulated by enterprises and organizations and of private and collective farm investment.

[b] Coverage of this item is not definitely known. For the Soviet Union, it is known that it includes only outlays charged directly to defence ministries and does not include expenditures of a capital nature, such as construction of armament factories, which are charged to other ministries. It is likely that a similar classification is employed in the other countries, although, in some, data may include expenditure on justice and internal security.

[c] Defence expenditure inclusive of justice and internal security.

[11] The data are based on the budgets of the respective countries, and relate in general to planned, and in some cases to actual, expenditure, all expressed in current prices. The difference between countries, as well as the changes from 1950 to 1953 within countries, may reflect partly differences in classification. The indices of defence and investment expenditure in centrally planned economies should not be compared directly with those of private enterprise economies because of essential differences in scope of government budgets.

In most countries listed in the table prices were increasing from 1950 to 1953, but in the USSR they were declining. According to *Planovoe Khozyaistvo*, No. 1, 1956 (Moscow), wholesale prices fell in the USSR from 1949 to 1955 by 40 per cent and prices of machinery in 1955 were 40 per cent below their 1948 level.

Table 37. Indices of Output of Producers[a] and Consumer Goods, by Country
(1950=100)

Country and item	1948	1949	1951	1952	1953	1954
Bulgaria:[b]						
Producer goods	63	85	117	133	157	184
Consumer goods	66	83	121	132	145	149
China, mainland:[c]						
Producer goods	...	38	100	135	183	222
Consumer goods	...	57	100	124	162	186
Czechoslovakia:						
Producer goods	75	87	123	156	164	171
Consumer goods	75	87	109	120	143	150
Germany, eastern:						
Producer goods	...	80	121	141	161	177
Consumer goods	...	78	126	144	157	173
Hungary:						
Producer goods	53	73	141	188	221	209
Consumer goods	51	72	125	145	151	164
Poland:						
Producer goods	...	79	125	152	185	205
Consumer goods	...	80	118	132	158	175
Romania:						
Producer goods	...	70	130	165	181	188
Consumer goods	...	76	128	151	168	186
USSR:[d]						
Producer goods	63	80	116	129	144	164
Consumer goods	80	87	115	126	141	160
Yugoslavia:[e]						
Producer goods	69	91	105	109	130	154
Consumer goods	100	104	98	86	97	112

Source: Based on annual percentage increases indicated in annual reports on fulfilment of plans and on indices covering longer periods in these and other official sources; in some cases derived from the index of industrial production and that of either consumer goods or producer goods by applying the latest known weight of respective outputs, or by applying the announced weights to the gross value of total output in constant prices. In some cases indices of producer and consumer goods do not add to the aggregate index of industrial production. This may be due to rounding or to differences in coverage.

In the case of Romania, the indices are at variance with an official statement according to which from 1950 to 1955 the output of producer goods increased at the average rate of 15 per cent, and consumer goods at the rate of 12 per cent, per annum. Similarly, in the case of Bulgaria, indices reproduced in the table supplied by Bulgaria to the Economic Commission for Europe differ from indices published in the official report on fulfilment of the five-year plan. For all these reasons, several indices presented in this table are to be considered as approximations.

[a] The term "producer goods industries" in the terminology adopted in the centrally planned economies is often synonymous with heavy industries and includes: mining, power, chemicals, building materials, metallurgy, engineering. In some cases, however, the data on output of consumer goods may include consumer goods produced by heavy industry.

[b] Indices based on annual percentage increases communicated by the Bulgarian Government to the Economic Commission for Europe for the period 1950-1954.

[c] 1951 = 100.

[d] Indices for consumer goods in 1951 and 1952 based on data communicated by the Government to the Economic Commission for Europe.

[e] Index based on net output. Producer goods include only capital equipment and exclude raw materials.

Military expenditure increased sharply.[12] In real terms the rise was smaller than indicated in most countries where prices were rising from 1950 to 1953, and greater than indicated in the Soviet Union, where prices were declining. Budgetary outlays on fixed investment also increased considerably, but less than military expenditure.

While the targets for consumer goods were also raised, the revision was much less than for producer goods, and the difference between the rates of increase set for these two sectors increased considerably. The

[12] The sharp increase in military expenditure associated with the situation created by the Korean conflict and its effect on the centrally planned economies were emphasized recently in several official statements, such as the following: "In 1951-1953 we had to make a tremendous effort measurable in many billions of zlotys in order to modernize the equipment of our army and to build our own defence industry" (H. Minc, Vice-Premier of Poland, in *Trybuna Ludu* (Warsaw), 31 December 1955).

targets set for the final year's output of these sectors in the revised plans are shown below for selected countries (year prior to beginning of plan = 100):

	Total industrial production	*Producer goods*	*Consumer goods*
Bulgaria,[a] 1949-1953	220	326	171
Czechoslovakia, 1949-1953 ..	198	231	173
Hungary, 1950-1954	310	380	245
Poland, 1950-1955	236	254	211
USSR, 1951-1955	170	180	165

[a] Industrial production, excluding local and co-operative industries, timber and fishing. Targets for producer and consumer goods are estimates based on data on gross value of industrial production in 1948, planned value of industrial production in 1953 and planned changes in the share of producer and consumer goods in total output.

In carrying out the plans, the emphasis during the first years on heavy industries was reinforced; when the scarcity of resources imposed a choice between expansion of producer goods or consumers', the latter were sacrificed in favour of the former. During the entire period expansion in output of consumer goods was retarded not only by the slow rate of development of agricultural production, which affected food and light industries using agricultural raw materials, but also by limitations imposed upon imports of raw materials for consumer goods in favour of imports of materials and equipment for the expansion of producer goods industries.

This pattern of development resulted in marked changes in the structure of industry, raising the share of producer goods in the gross value of industrial production as follows:

Bulgaria:		Hungary:	
1939	23	1938	35
1948	26	1949	48
1952	47[a]	1953	63
China, mainland:		Poland:	
1949	29	1937	47
1954	42	1949	51
Czechoslovakia:		1953	55
1937	40[b]	Romania:	
1948	58	1938	37
1953	62	1951	54
Germany, eastern:		1952	57
1936	50	USSR:	
1950	57	1940	61
1953	58	1953	70

Source: Voprosy Ekonomiki, No. 7, 1954 and No. 10, 1955; *Ekonomista*, No. 3, 1954 (Warsaw); W. Ulbricht, *Die Gegenwärtige Lage und der Kampf um das Neues Deutschland* (Berlin, 1954); N. Voznesensky, *War Economy of the USSR during the Period of Patriotic War* (Moscow, 1947); *Hsin Hua Monthly*, November 1955.

[a] Industry under central government control only; the share in total industrial output would be lower.

[b] Other sources give 58 per cent.

Within the sector of producer goods industries the output of manufacturing, especially of engineering industries, expanded much faster than the rest.

The rapid expansion of industrial production and the emergence of substantial discrepancies in growth of various sectors imposed strains on the economies of several countries. In many, severe bottlenecks developed, hampering further rapid growth. In some, shortages of raw materials, fuel and power developed, which had to be dealt with by various forms of rationing, and by restrictions imposed upon the use of power and fuel in homes and in certain industries, mostly consumer goods industries, considered as less essential. In some instances idle capacity developed in rapidly expanding sectors of manufacturing industries.[13] More important than the bottlenecks in raw materials and fuel were the difficulties arising from growing imbalance between producer goods and output of industrially produced consumer goods and of foodstuffs. In foodstuffs the lag in supplies was due both to a very slow recovery of agriculture and to difficulties in securing adequate quantities of food from the farms for distribution in cities. The slow rise in industrial consumer goods reflected not only the lower priority given to investment in such industries but also inadequate supplies of agricultural raw materials. In conjunction with the rapid increase in military expenditure and investment, the slow rise in consumer supplies led to severe inflationary pressure in several countries of the group and consequently to a decline in real wages. Thus, in Poland real wages fell from 1951 to 1953 by about 5 per cent, in Czechoslovakia from 1950 to June 1953 by about the same amount, and in Hungary, according to an official statement, the strains imposed upon the national resources by the attempts to fulfil the goals of the five-year plan "led to a definite lowering of the standard of living".[14]

The decline in real wages did not always result in a decline of per capita consumption, however, owing to an increase in the number of family members gainfully occupied; in Poland, for instance, average real income per capita of population dependent on industry increased.

The decline of real wages or their failure to rise, together with persisting shortages of major consumer goods, had a considerable adverse effect on productivity of labour. In several countries this was expressed by absenteeism and a reluctance to accept upward revisions of production quotas, preventing the fulfilment of plans for increased output per man. Simultaneously, the rapid increase in non-agricultural employment brought about by shifts of manpower from the countryside and a rise in the proportion of

[13] One writer, in commenting upon shortages of raw materials in Poland stated: "One of its consequences is incomplete utilization of productive capacity in engineering and some other branches of industry." B. Minc, *Voprosy Ekonomiki*, No. 8, 1955. Similar statements were made in several other countries.

[14] *Szabad Nep* (Budapest), 5 July 1953.

women employed resulted at the end of this period in the drying up of manpower reserves in several countries.

The difficulties which arose from the rapid rate of growth and from the pattern of development were by no means identical in all countries of the area. They were much more pronounced in countries such as Czechoslovakia and Hungary, which in 1951 had increased their planned rates of expansion, than in Poland, where the targets set for the five-year plan were much less ambitious. In the former two, as well as in Bulgaria, the targets for producer goods could not be reached; in Hungary the shortfall was so substantial that total industrial production reached only 82 per cent of the target. The target for consumer goods, too, was not reached in Hungary but it was exceeded in the other two countries. The percentage of the production target which was reached is shown below for three countries.

	Total industrial production	*Producer goods*	*Consumer goods*
Bulgaria, 1953[a]	122	90	129
Czechoslovakia, 1953	102	95	110
Hungary, 1954	82	76	93

[a] Bulgaria officially ended its plan in 1952. The data on producer and consumer goods are not consistent with those of total output because of differences in coverage. The ratios shown in the table are based on indices given for 1952 in the report on fulfilment of the five-year plan and on percentage increases in output of consumer and producer goods in 1953. However, the data taken from the report do not agree with indices for the period 1950-1954 supplied to the Economic Commission for Europe by Bulgaria in 1956 and used in table 37. If these data were used, the ratios of actual to planned output would be 76 for producer goods and 126 for consumer goods.

In the Soviet Union output of basic materials, fuel and power developed more nearly in line with the total output of industry, and increases in output of consumer goods were sufficient to maintain a continuous increase in real wages from 1947 on. However, shortages of various consumer goods persisted, especially of food of animal origin.

Notwithstanding the differences among countries, the situation towards the middle of 1953 may be summarized as follows. In most countries capacity in manufacturing industries expanded more rapidly than that in industries producing raw materials, fuel and power. Output of producer goods increased much more than that of consumer goods, and the rise in output of industry exceeded by far that of agriculture. Further increases in labour supply in non-agricultural occupations became increasingly difficult to achieve because, on the one hand, at the existing level of technique, a further movement of labour from agriculture would result in a decline in agricultural output; and, on the other hand, a further rise in urban population unaccompanied by a commensurate increase in supply of food would result in a fall in per capita consumption in urban areas. Furthermore, all development plans assumed very large increases in output per man, which after the period of rapid assimilation of new techniques and new methods of work were becoming increasingly dependent on incentives in terms of higher real incomes. These in turn could be achieved only through a rise in output of consumer goods, especially food. However, any significant increase in agricultural output would require large increases in investment and greater inducement for the peasants, in the form of larger supplies of consumer goods and increased purchasing power to buy them. If achieved, an expansion in agricultural output would result not only in an increased supply of food but, simultaneously, through a rise in productivity, would release additional manpower for non-agricultural occupations.

These difficulties, which became acute in some countries, led in the middle of 1953 to a general reappraisal of past policies and to a slowing down of the process of industrialization. This change was associated with a certain shift in allocation of resources in favour of consumer goods industries and agriculture. Although the new policy was attributed to the need to eliminate the accumulated disproportions among different sectors of the economy, it was also stressed that it was not possible to devote a larger proportion of resources to consumption until the economic and military potential had been raised to a certain level.

Mainland China, which was still in the stage of post-war reconstruction, did not, during this period, experience any of the difficulties which in eastern Europe were the effect of several years of rapid industrialization. At the end of its civil war, in 1949, industrial production had fallen to about half its previous recorded peak in 1941-1943; in consumer goods the drop was about 25 per cent, but in producer goods it was about two-thirds, and in certain basic materials such as pig-iron and steel the cuts amounted to 85 to 90 per cent. During the reconstruction period from 1950 to 1952, output of producer goods rose at a much faster rate than that of consumer goods and their share in total output rose from 29 per cent in 1949 to 40 per cent in 1952. At the end of the period total industrial production exceeded the previously recorded peak level.

Yugoslavia experienced substantial difficulties during this period, owing to poor harvests and shortages of imported raw materials following the breaking of trade relations by the other countries of the group; from 1950 to 1952 its total output fell, as a result of decreases in output of consumer goods, although output of producer goods continued to rise. The divergent trends in output were the result both of shortages of agricultural raw materials for consumer goods industries and of strenuous attempts to complete the investment projects that had been started

previously, with the aim of raising the output of exportable goods to improve the trade balance.

Revisions of plans, 1953-1954

The new policy introduced by the centrally planned economies of eastern Europe in the middle of 1953 was designed to eliminate disproportions among various sectors of the economy before the inception of new plans of economic development which, except in Bulgaria, were to become operative in 1956. This objective was to be achieved by slowing down the rate of expansion in industry, and by reducing the spread between the output of consumer and of producer goods, and, within the latter sector, between the output of engineering industries and that of fuel, power and basic materials. Agricultural production was to be substantially increased.

In Bulgaria, even before the announcement of the new policy, the annual rates of increase in industrial production during the new five-year plan, from 1953 to 1957, were set at 10 per cent, compared with a 22 per cent increase during 1949-1952. In eastern Germany and Poland the rate of increase projected for 1954 was reduced by more than half, and in Czechoslovakia by three-fourths, of that achieved between 1949 and 1952. The planned changes in the targets for producer and consumer goods considerably reduced the differences between their rates of growth. In eastern Germany, the rise in output of consumer goods was to exceed that of producer goods in 1954 and 1955, and in Poland the rate of increase was to be the same in both sectors. In Hungary, downward revisions of the plan were more drastic; the targets for 1954, the last year of the plan, were reduced by 15 per cent for total output, 10 per cent for light industries and food processing, and 17 per cent for heavy industries.[15] In the Soviet Union, the original target for the output of consumer goods was raised for 1955 as compared with 1950, from an increase of 71.4 per cent to one of 84.7 per cent. No reduction in the rate of increase for total output was announced.

It is significant that in some countries the new goals for the output of specific consumer goods—which, according to official statements, represented an upward revision of operational plans—were in many instances set at the same levels as the original targets that had been established in long-term plans of development—or even lower.[16] This would imply that the original objectives had been modified or set aside during the preceding period.

The increase in the output of consumer goods was to be achieved to a large extent through higher imports of raw materials for consumer goods industries, and allocation of part of capacity in heavy industry to the output of consumer durables. Although the initial statements of policy emphasizing the expansion of consumer goods industries were modified at a later stage, the general tendency remained unchanged in most of the countries. The reduction of the spread between the expansion of producer and consumer goods was not, however, considered a permanent pattern for future development plans; in all countries it was stated that existing disparities between the levels of output of consumer and producer goods and between those of manufacturing and of raw materials, fuel and power were to be overcome in two to three years in order to prepare the ground for further rapid expansion.

During the first two years of the new policy, the rate of expansion declined as compared with the average rate of growth during the preceding three or four years (see table 38). This decline had begun earlier but it was accentuated after the announcement of the new policy. The deceleration took place in both the producer and the consumer goods sectors, but the decline in rate was generally much greater in producer goods industries. In 1954, the output of consumer goods in several countries increased at the same rate as that of producer goods, or at a higher rate. These developments, together with an increase in imports of consumer goods and release of stocks, led to relaxation of inflationary pressures and a substantial increase in real wages, which offset the previous decline. In Czechoslovakia, output of consumer goods had already increased in the previous year much more than that of producer goods; in Hungary, the output of producer goods declined in 1954 while that of consumer goods increased. In the Soviet Union, there was virtually no difference between the annual rates of expansion in the two sectors from 1951 to 1954.[17] Bulgaria was the only country of the group where output of producer goods grew much faster than that of consumer goods in both 1953 and 1954.

Another objective of government policy in 1953 and 1954, as noted above, was to eliminate bottlenecks in the supply of fuel and power as well as basic materials. In the eastern European countries (other than the Soviet Union), where bottlenecks had become very acute by 1952, the slackening in the average rate of increase for the group was considerably greater for total output than for basic commodities. While the average rate of increase for total output was less

[15] The targets for 1954 (1949 = 100) were reduced from 310 to 265 for all industry (exclusive of handicrafts), from 380 to 315 for heavy industry and from 245 to 220 for light industry and food processing.

[16] Thus the new targets for cotton, woollen and silk fabrics in Poland and for all textile and shoe production in Romania, were substantially below those set in the original long-term plans of these countries. United Nations, *World Economic Report, 1952-53* (sales number: 1954.II.C.1).

[17] In 1949, output of producer goods rose by about 27 per cent and that of consumer goods by about 9 per cent, and in 1950, by 25 and 15 per cent, respectively, but from 1951 to 1954 such differences, if any, did not exceed one point. However, the narrowing of the differences from 1951 on may partly reflect a change of weights in the new index.

Table 38. Average Annual Increase in Industrial Production, by Country
(Percentages)

Country	Annual average, 1949-1952			1953			1954		
	Total	Producer goods	Consumer goods	Total	Producer goods	Consumer goods	Total	Producer goods	Consumer goods
Bulgaria	22	21	19	12	18	10	9	17	3
China, mainland	36	51	29	32	37	28	17	20	14
Czechoslovakia	16	21	12	10	5	19	4	4	5
Germany, eastern	22	21[a]	23[a]	13	14	9	10	10	10
Hungary	33	37	30	12	18	4	3	−6	9
Poland	23	25[a]	18[a]	18[b]	21[b]	20[b]	11	11	11
Romania	32	33[a]	26[a]	14	18	10	7	4	11
USSR	18	20	12	12	12	12	13	14	13

Source: See table 37.
[a] Annual average, 1950-1952.
[b] Data for 1953 for producer and consumer goods are not consistent with those for total industrial production, probably because of differences in coverage.

than half of that during the preceding four years, the rate of increase declined less than 10 per cent in coal and cement, and about 25 per cent in electric power, but annual output of pig-iron was increased at an even faster rate than previously. For steel, rolled metal and crude oil, the reduction in the rate of increase was more substantial but nevertheless smaller than for total output. In the Soviet Union, where shortages of basic materials, fuel and power were much less significant, the decline in rate of growth was much smaller than in that for total output in the case of crude oil, almost parallel in the case of coal, electricity and cement, but much sharper than for the total in iron, steel and rolled metal (see table 39).

It may be concluded that during 1953 and 1954 some of the disproportions which developed during the preceding period were attenuated. Discrepancies between the output of consumer and of producer goods, as well as those between total industrial production and the output of basic materials, fuel and power, were reduced. However, in most countries this was achieved, not by accelerating the rate of growth of deficient sectors, but by greater reductions in the rate of growth of total production than in that of consumer goods, fuel and basic materials.

In mainland China, as pointed out earlier, there were no major changes in economic policy in 1953 and 1954. The rates of increase in the output of heavy industry continued greatly to exceed those of consumer goods industries; the latter, however, also rose substantially.

In Yugoslavia, this period was characterized by recovery in industrial production, which, after falling in 1951 and 1952, rose by 11 per cent in 1953 and by another 14 per cent in 1954. Unlike developments in the preceding three years, in 1954 output of consumer goods increased much more rapidly than that of capital goods.

Employment and output per man, 1949-1954

The expansion of industrial production during the post-war decade was associated with sizable increases in industrial employment and in output per man. Although the data on annual increases in employment

Table 39. Average Annual Increase in Output of Basic Materials, Fuel and Power
(Percentages)

Item	Six countries[a]		USSR		Mainland China	
	1949-1952	1953-1954	1949-1952	1953-1954	1949-1952	1953-1954
Total industrial production	22	11	17	13	37	17
Pig-iron	13	18	19	10	124	36
Steel	17	9	17	10	127	25
Rolled metal	18	10	17	10	128	17
Cement	16	11	21	17	68	19
Coal	6	6	10	8	27	20
Crude oil	18	12	13	12	53	27
Electric power	12	9	16	12	18	20

Source: Reports on fulfilment of plans.
[a] Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania.

Table 40. Indices of Industrial Employment and Output Per Man, by Country
(Preceding year=100)

Country	Industrial employment						Output per man					
	1949	1950	1951	1952	1953	1954	1949	1950	1951	1952	1953	1954
Bulgaria	116	106	104[a]	106[a]	105	107[b]	110	116	114	111[c]	107	102
China, mainland	...	...	...	122[d]	121[e]	110[e]	...	...	...	119[d]	113[e]	115[e]
Czechoslovakia	105	108	105	102	103	102	111	107	110	116	107	102
Germany, eastern	109	109	112	107[f]	107[f]	105[f]	...	113[g]	113[g]	113[g]	109[g]	104[g]
Hungary	114	114	114[a]	112[a]	108[a]	105[a]	125	119	114	111	104[h]	99
Poland	116	116	109[a]	106	106	104	106	109[i]	114[i]	113	111	107
Romania	117[a]	121[j]	117[a]	109	107	104	119	113	110	113	107	103
USSR	106[a]	109[a]	106[a]	104[a]	106[a]	106[a]	113	113	110	107	106	107

Source: Reports on fulfilment of plans.
[a] Derived from data on output and productivity.
[b] Wage-earners only.
[c] Industry under the central government control only.
[d] State-owned enterprises; output per man derived from figures on employment and production in such enterprises.
[e] State-owned and joint government and private enterprises.
[f] State-owned enterprises only.
[g] Nationalized industries only.
[h] Output per man-hour in industries under the direct control of the central authorities; since the number of hours worked declined, annual output per man was lower.
[i] Large-scale and medium-scale industries only.
[j] Estimated.

and productivity given in table 40 are often not directly comparable because of differences in coverage, they do give a rough indication of changes which took place during the six-year period. Output per man generally increased during this period at a higher rate than employment; only in Hungary and Romania did employment increase faster from 1949 to 1954.

The high rates of increase in output per man were achieved through modernization of equipment, improvements in the organization of work, extension of the incentive pay system and periodical upward revisions in basic norms of performance. The rate of increase in output per man shows a perceptible decline during the last two years of this period, especially in 1954, except for mainland China and the Soviet Union. In Hungary, output per man declined in 1954.

The slowing down in the rate of increase in output per man may partly reflect the fact that progress achieved earlier left less scope for further rapid increases without considerable improvement in techniques and stronger incentives in terms of higher incomes. However, especially in 1954, it may also have been due to relaxation of pressure to increase productivity—a relaxation connected with the general change in economic policy. In most countries, increases in productivity during the five years following 1949 were lower than anticipated, and it was necessary to compensate for this by raising employment at rates in excess of the plan.

The rates of increase in industrial employment also declined generally after 1951, in some countries very substantially; in several countries shortages of labour became apparent in specific industries. These shortages resulted from the gradual exhaustion of labour reserves in the cities and the reluctance of agricultural workers to migrate to new industrial centres because of inadequate housing and insufficient food. During 1952-1954 the recruitment of labour from agriculture was substantially reduced and in some instances abandoned; moreover, some shift of labour from non-agricultural occupations to agriculture was encouraged in connexion with the increased emphasis on expansion of agriculture. In the Soviet Union, a large number of urban workers moved to the countryside during this period, to the new agricultural areas in the east.

The Slow Recovery in Agriculture

In contrast to the extremely rapid expansion of industry, agricultural production increased very slightly as compared with pre-war years. The lack of balance between the rise in industrial production and the growth of agriculture has indeed been a major problem in all of these countries during the post-war decade, creating recurrent difficulties in the supply of consumer goods and, in conjunction with the rising population, constituting a potential danger of declining per capita consumption. The lag in agriculture was one of the most important economic factors which in 1953 determined the change in policy.

Although indices of total agricultural output are not published regularly by the eastern European countries, a general idea of the changes in aggregate farm output can be derived from various official statements and indices published from time to time. The available information indicates that during the first half of the post-war decade the recovery of agricultural

production was relatively rapid but that, even before the pre-war level was reached, the rates of increase in output declined perceptibly.

At the end of the war, agricultural production was considerably below—frequently less than half—pre-war levels. During the first half of the post-war decade, approximately the period of the reconstruction plans, output recovered at a rapid rate in most countries of the group, generally reaching from 85 to 90 per cent of the pre-war levels. In the Soviet Union grains and other major crops rose above their pre-war levels, and livestock numbers almost reached them.

During the following period, however, the rate of recovery slackened perceptibly in most countries, and the pre-war level of output was generally reached only recently, as may be seen from the indices of agricultural output shown below. In the Soviet Union agricultural output exceeded the pre-war level by 10 per cent in 1952, and, judging from available data on specific products, did not increase substantially until 1954; it did rise considerably in 1955, however. Only in Bulgaria was the pre-war level of output substantially exceeded, production in 1953 being 29 per cent above 1939. On the whole, agricultural production in the European centrally planned economies appears to have increased from the pre-war period to 1954 by less than 10 per cent,[18] as shown in the indices below for individual countries.

The population of countries other than the Soviet Union has declined by about 5 per cent since before the war. Although population data are not available for the Soviet Union, rough estimates based on indirect evidence indicate that the increase in population by 1953/54 did not exceed 10 per cent. This would indicate that the total population of the eastern European countries, excluding Yugoslavia, increased some 5 per cent,[19] so that agricultural production per capita at the end of the post-war decade may have been about 5 per cent higher than before the war.

	At end of war	*Reconstruction period*		*1954*
		Year	*Index*	
Bulgaria (1939=100) ..	...	1948	98	129[a]
Czechoslovakia (1937=100)	70[b]	1948	90	100[a,c]
Germany, eastern (1936=100)	...	1950	85	...
Hungary (1938=100) .	45	1949	91	100[c]
Poland[d] (1937=100) ..	40–50	1949	86	98
Romania (1938=100) .	...	1949	86	100[a,c]
USSR (1940=100) ...	50[e]	...	...	110[f]

Source: Reports on fulfilment of plans; *Pravda*, 15 September 1953; *Rudé Právo*, 16 September 1953 (Prague); *Voprosy Ekonomiki*, Nos. 6 and 8, 1954 and No. 5, 1955; *Gospodarka Planowa*, No. 3, 1954 and No. 10, 1955 (Warsaw); H. Minc, *The Six-Year Plan* (Warsaw, 1950).

[a] 1953.

[b] Crops only.

[c] Approximate only. Official statements relating to percentage increases from reconstruction year shown in table suggest index slightly above 100 in 1954 but qualitative statements indicate recovery only to approximate pre-war level; differences may be due to revisions of earlier estimates or to rounding.

[d] Pre-war boundaries for pre-war; post-war boundaries for post-war period.

[e] Grains only.

[f] 1952.

Changes in the output of essential crops and in livestock numbers are indicated in tables 41 and 42. The incompleteness of the data for crops and the fact that the livestock data relate to varying periods in different countries, as well as within the individual countries, makes it difficult to assess the changes in output as compared to pre-war years for the area as a whole. A rough estimate of these changes indicates that the output of grain and potatoes in 1954 was only slightly above pre-war levels, while that of sugar-beets and cotton was more than 50 per cent higher. Livestock ranged from about 10 to 20 per cent above pre-war levels. Both in grain and in livestock, the increases in output were much more pronounced in the Soviet Union than in the remaining countries taken as a group.

In mainland China, agricultural production recovered rapidly after 1949; in that year output of food grain was about 75 per cent of 1936, but in 1954 it exceeded the pre-war level by about one-sixth.

Grain yields in 1954 appear generally to have been at or above pre-war rates in the countries for which data are available (see table 43). The area sown to crops in 1955 appears to have been approximately the same as before the war in several countries, although in Czechoslovakia it was still about 13 per cent below the pre-war level. In the Soviet Union, on the other hand, the sown area was increased about

[18] The recovery was nevertheless more rapid after the Second World War than after the First. Although increases in area sown and in yields per hectare were substantial in the nineteen thirties, the grain yields of 1909-1913 were not reached until 1934-1938, and the increases in total farm output were accounted for chiefly by increases in area (see article on "Long-Term Trends in European Agriculture", United Nations Economic Commission for Europe, *Economic Bulletin for Europe*, vol. 3, No. 2 (Geneva, 1951). Livestock numbers were below the pre-war level before 1927 in all countries except the Soviet Union. In that country, the 1913 total was considerably exceeded in 1927, and livestock numbers continued to grow until 1929. From 1929 to 1933 the livestock population declined sharply, however, owing to heavy slaughtering during the period of collectivization of agriculture; the number of cattle fell from an index of 113 (1913 = 100) in 1929 to 64 in 1933, of pigs from 103 to 55 and of sheep and goats from 131 to 45. Although livestock numbers increased substantially thereafter, even in 1939, twenty years after the end of the First World War, the cattle population was only 5 per cent, the number of sheep and goats 2 per cent and of pigs 19 per cent, above 1913.

[19] The change in population compared with pre-war levels is not based on the same pre-war year in all countries but on the year used in comparisons of agricultural output in that country. Changes in population due to changes in frontiers were taken into account in this estimate.

Table 41. Output of Selected Crops, by Country[a]

(Millions of metric tons)

Country and year	Bread grains	Coarse grains	Potatoes	Sugar-beets
Bulgaria:				
1939	2.1	1.6	0.1	0.3
1946	1.7	...	0.04	...
1954	1.9	1.5	...	0.8
China, mainland:				
1936	150.0[b]	...	...	...
1949	113.2[b]	...	...	0.2
1954	169.5[b]	...	...	1.0
Czechoslovakia:				
1935-1937, annual average	3.0	2.5	9.9	4.8
1945	2.1	1.5	6.8	3.2
1953	——— 5.0[c] ———		8.5	5.5
Germany, eastern:				
1934-1938, annual average	3.6	2.9	13.6	5.4
1947	2.0	1.3[d]	8.1	3.1
1954	3.8[a]	2.4[a]	13.3	6.1
Hungary:				
1934-1938, annual average	2.9	3.1	2.1	1.0
1946	1.6	2.0	1.1	...
1954	2.3	3.3	2.3	2.3
Poland:				
1934-1938, annual average	8.8	4.5[e]	38.0	6.0
1947	5.3	2.8[e]	30.8	3.5
1954	7.9	2.9[e,f]	33.8	7.0
Romania:				
1935-1939, annual average	——— 8.5 ———		1.0	0.4
1945	——— 2.7 ———		0.9	...
1954	——— 9.0 ———		2.3[g]	1.3[g]
USSR:				
1940	——— 119 ———		72.0	21.0
1946	——— 61 ———		...	9.0
1954	——— 131[h] ———		87.0[i]	33.0[g]
Yugoslavia:				
1935-1939, annual average	3.0[j]	5.2[k]	1.5	0.6
1948	2.8[j]	4.8[k]	1.4	1.5
1954	1.6[j]	3.5[k]	1.9[l]	1.2[m]

Source: United Nations, *Statistical Yearbook*, 1948 to 1953, and *Economic Survey of Europe in 1954; Bulletin mensuel de la Direction générale de statistique*, November 1947 (Sofia); *Probleme der Tschechoslovakischen Wirtschaftsplanung* (Prague, 1949); *Rudé Právo*, 15 April 1954; *Die Wirtschaft*, 13 April 1954 (Berlin); *Magyar Statisztikai Zsebkonyv* (Budapest, 1948); *Szabad Nep*, 14 September 1952; *Rocznik Statystyczny* (Warsaw, 1949); *Wiadomosci Statystyczne*, 20 December 1949 (Warsaw); *Gospodarka Planowa*, September 1952; *Six-Year Plan* (Warsaw, 1952); *Statistica Agricola a Romanei* (Bucharest, 1948); N. Voznesensky, *War Economy of the USSR during the Period of Patriotic War; Pravda*, 21 March 1946 and 15 September 1953; *Statisticki Godisnjak*, 1955; and reports on fulfilment of plans.

[a] Pre-war data relate to post-war territory. Crop data, so far as known, relate to barn harvests, except for the Soviet Union, and for eastern Germany in 1953, where they represent biological yields.

[b] All food crops, including rice, wheat, potatoes and others.

[c] In 1954 bread grains, 2.1 million tons; barley, 1.2 million.

[d] Barley and oats only. In 1934-1938, annual average output of barley and oats was 2.6 million tons.

[e] Barley and oats.

[f] Annual average for 1951-1953.

[g] 1952 for potatoes and 1953 for sugar-beets.

[h] Based on data for 1952 output and statements in reports on the fulfilment of plans indicating that output in 1953 and 1954 was approximately equal to that of 1952. However, the following index of grain output, presumably based on actual harvest data, was published in *Pravda*, 15 February 1956 (1950 = 100): 1951 = 97, 1952 = 113, 1953 = 101, 1954 = 105, 1955 = 129. This index cannot be linked with pre-war periods nor used to compute the harvest in physical terms because of lack of information on actual output for any of the years covered.

[i] 1950.

[j] Wheat and rye. In 1953, the output was 2.8 million tons.

[k] Maize, barley, oats; exclusive of maize for fodder, which in 1948 was 429,000 tons and in 1954, 351,000 tons. In 1953 total output of maize, barley and oats was 4.6 million tons.

[l] In 1953, 2.1 million tons.

[m] In 1953, 1.5 million tons.

Table 42. Number of Livestock, by Country
(Millions)

Country and year[a]	Cattle	Pigs	Sheep
Bulgaria:			
1939	1.6	1.1	11.0[b]
1946 (December)	2.0	0.9	9.8[b]
1954	1.7	2.1	8.4[b]
China, mainland:			
1949	43.9	57.8	42.3[b]
1954	63.6	101.7	81.3[b]
Czechoslovakia:			
1936 (December)	4.4	3.1	0.5
1946 (January)	4.1	2.4	0.5
1954 (January)	3.8	3.5	1.1
Germany, eastern:			
1936 (December)	3.6	6.2	1.6
1947 (December)	2.8	2.0	0.7
1954 (December)	3.8	8.4	2.9[c]
Hungary:			
1938 (April)	1.9	5.2	1.6[b]
1946 (May)	1.1	1.3	0.5[b]
1954 (March)	1.9	4.5[d]	1.6[b,e]
Poland:			
1938 (June)	9.9	9.7	1.9
1947 (June)	4.7	4.3	1.0
1954 (June)	7.7	9.7	4.2
Romania:			
1939	3.7	2.5	10.3
1945 (December)	2.5	1.0	5.6
1953 (December)	4.6	3.6	11.3
USSR:			
1941 (January)	54.5	27.5	91.6[b]
1946 (January)[f]	46.8	8.6	69.1[b]
1953 (January)[g]	56.6	28.5	109.9[b]
Yugoslavia:			
1939 (December)	4.3	3.5	10.3
1949 (January)	5.3	4.1	11.7
1954 (January)	5.1	4.3	12.1

Source: See table 41. Pre-war data relate to post-war territory.

[a] Months are shown if indicated in source.

[b] Sheep and goats.

[c] Data represent number of sheep and goats in October 1954; in 1936 the total number of sheep and goats was 2.3 million.

[d] In October 1954 the number of pigs was 6.8 million.

[e] December figure.

[f] Estimated on the basis of planned percentage increases for 1947 and planned stock at the end of the year. According to statement of G. M. Malenkov, *Pravda*, 6 October 1952, increases from July 1945 to July 1952 were as follows: cattle, 13.4 million; pigs, 21.2 million; sheep, 41.8 million.

[g] No data are available on the January census for 1954, because the date of the annual livestock census was advanced to October. The data relating to the October census in 1953 and 1954 are as follows: 1953, cattle 63.0 pigs 47.6, sheep 114.9, goats 20.9; 1954, cattle 64.9, pigs 51.0, sheep 117.5.

[h] Number in January 1952, 26.7 million; January 1953, 28.5 million; October 1953, 47.6 million. The sharp rise from January to October may be seasonal in part.

10 per cent above the pre-war level in 1954 and another 10 per cent in 1955, as part of a large-scale programme to expand agricultural output. As may be seen from table 44, there has been a significant shift in all countries in the utilization of land in favour of industrial crops. This shift was much more pronounced in countries which began a period of rapid industrialization after the war than in the Soviet Union, where the share of land under industrial crops was already relatively high.

The levels of output reached in 1953 and 1954 fell considerably short of the targets set for agriculture in the development plans. Indices of the planned and actual output of agriculture in centrally planned economies are shown below (first year indicated = 100).

	Planned	Achieved
Bulgaria (1948 to 1953)	157	125
China, mainland (1952 to 1954)	109	107
Czechoslovakia (1948 to 1953)	153	114
Germany, eastern (1950 to 1955)	157	144
Hungary (1949 to 1954)	154	112
Poland (1949 to 1955)	150	120
Romania (1950 to 1955)	188[a]	150
USSR (1950 to 1955)	140–150	...[b]

Source: Development plans, reports on fulfilment of plans and other official sources.

[a] The figure of 188 was based on the harvest expected for 1950, which in fact turned out to be a bad year. The target, based on actual output in 1950, would amount to 254 in 1955.

[b] Possible increase in agricultural production was of the order of 20 per cent during the five-year period as a whole.

The lack of achievement of these planned objectives and the very low rates of development in agriculture during the second half of the post-war decade were due not only to natural conditions, such as unfavourable weather and limited scope for the extension of cultivated areas (except in the Soviet Union), but even more to policies affecting investment and incentives for expansion of agriculture. It is true that rapid industrialization eliminated some of the economic obstacles which during the inter-war period had hampered the rise in productivity in agriculture in countries other than the Soviet Union. Before the war, deficiencies in the demand for agricultural output, which had kept peasant incomes at a very low level, discouraged improvements in methods of production and attempts to raise yields per hectare, while lack of opportunities for employment in non-agricultural occupations, reflected in over-population in agriculture, had kept farm output per man at a low level. After the war, the expanding urban demand for food, together with a shift in demand towards animal products and industrial crops, created incentives for increases in output per hectare. Simultaneously, the increasing demand for labour in non-agricultural occupations called for increases in farm output per man through improvements in technical equipment and more efficient use of agricultural labour.

However, these favourable repercussions of industrialization were overshadowed, at least during

Table 43. Sown Area and Yield of Selected Crops, by Country
(Sown area in millions of hectares; yield in quintals per hectare)

Country and item	Pre-war[a]	1950	1954
China, mainland:			
Sown area	...	141.3[b]	147.9
Food crops	...	123.9[b]	129.0
Industrial crops	...	17.4[b]	18.9
Yield:			
Rice	...	24.1[b]	24.7
Wheat	...	7.3[b]	8.9
Czechoslovakia:			
Sown area	5.6[c]	...	4.9[d]
Yield:			
Wheat	17.4	...	20.3[d]
Rye	16.3	...	18.1[d]
Germany, eastern:			
Yield:			
Wheat	24.6	32.2[e]	26.9
Rye	17.1	23.4[e]	21.2
Potatoes	173.0	178.9[e]	200.9
Hungary:			
Sown area	5.5	5.4	5.4
Yield:			
Bread grains	13.7	...	13.9[f]
Coarse grains	18.4	...	16.9[f]
Poland:			
Sown area	15.8	15.2	15.2[g]
Yield:			
Grains	11.4	12.4	15.4[h]
Potatoes	138.0	110.0	121.0[b]
Romania:			
Sown area	...[i]	9.4	9.3[j]
USSR:			
Sown area	151.0	146.9	166.1[k]
Grains	111.1	103.3	112.0
Yield:[l]			
Grains	10.7	12.2	...
Potatoes	91.0	101.0	...
Yugoslavia:			
Sown area	7.7	7.2	7.9
Grains	6.2	5.2	5.4
Industrial crops	0.2	0.4	0.4
Yield:			
Wheat	12.2	10.3	7.5
Maize	16.7	9.4	12.2
Potatoes	59.0	43.0	72.0

Source: United Nations, *Economic Survey of Europe in 1953* (sales number: 1954.II.E.2); *Economic Survey of Europe Since the War* (sales number: 1953.II.E.4), *Economic Bulletin for Europe*, August and November 1955; International Institute of Agriculture, *International Yearbook of Agricultural Statistics*, 1947 (Rome). *Hsin Hua Monthly*, November 1955; *Zemledelske Noviny*, 12 August 1954 (Prague); *Statistische Praxis*, October 1955 (Berlin); *Probleme Economice*, No. 12 (Bucharest, 1950); *Wiadomosci Statystyczne*, December 1949 and February 1951; *Gospodarka Planowa*, December 1953; *Statisticki Godisnjak*.

[a] Figures represent annual averages as follows: Czechoslovakia, 1933-1934 for yields, 1934-1938 for area; eastern Germany, 1934-1938; Hungary, 1936-1940; Poland, 1934-1938; Soviet Union, 1940; Yugoslavia, 1935-1939.

[b] 1952.

[c] Estimated.

[d] 1953. The sown area was 4.79 million in 1954 and 4.89 million in 1955.

[e] 1951.

[f] 1950-1954 average; coarse grains in 1953 and 1954, 19.3 quintals per hectare.

[g] In 1955, 16.0 million hectares.

[h] 1955.

[i] In 1934-1938, sown area under grain, potatoes and sugar-beets within the post-war boundaries was 8.3 million hectares.

[j] In 1955, 9.5 million hectares.

[k] In 1955, 183.1 million hectares.

[l] Biological yield.

the latter part of the post-war decade, by the effects of the very rapid expansion of industry and the specific patterns of development that were adopted. Rapid gains in non-agricultural employment required a considerable increase in marketable surpluses of agricultural goods for the urban population. In all countries except the Soviet Union, however, most farms were subsistence farms, producing chiefly for their own needs,[20] and with low productivity levels. The outflow of labour to the urban area led to higher per capita consumption on the part of the remaining farm population, rather than to a commensurate rise in marketable surpluses. In these conditions, all countries introduced systems of compulsory deliveries with the objective of limiting rural consumption and assuring maximum supplies of food to the cities. This was considered a partial and inadequate solution, which was to be followed by grouping millions of small farms into larger units, to facilitate the introduction of modern farming methods, an increase in farm output and the release of manpower for expanding industries. Simultaneously, collectivization was intended to bring the distribution of agricultural produce under closer government control. As may be seen from table 33, collectivization, which had proceeded slowly in most countries before 1950, quickened considerably afterwards, in conjunction with the speeding up of industrialization between 1951 and 1953.

However, collectivization was often brought about by administrative and economic pressure, rather than on a voluntary basis. In several countries the resistance of peasants was expressed in the reduction of sown

[20] In Bulgaria, Poland, Romania and Yugoslavia, more than 50 per cent, and in Czechoslovakia and eastern Germany over 40 per cent, of farms consisted of fewer than ten hectares of land.

area and in the slaughtering of livestock.[21] Uncertainty about the future of private farms had a discouraging effect on the expansion of output in the private sector of agriculture, which even in 1954 represented between 40 and 80 per cent of the arable land.

In the Soviet Union, where collectivization of agriculture had been achieved before the war, there was a strong tendency to discourage individual farming on private plots by the members of collective farms. This policy, accentuated during the period of amalgamation of collective farms in 1950, led to a substantial decline in the total output of private plots and particularly affected livestock production. The importance of this sector of agriculture was by no means negligible; about 40 per cent of all cattle and almost 60 per cent of the cows and the hogs were privately owned in 1953, and almost 40 per cent of all deliveries of potatoes, and a substantial proportion of output and deliveries of vegetables, poultry and eggs, were derived from private plots.

Apart from these pressures, which affected the expansion of production on private farms, more general causes of the marked slackening in agriculture were the relatively low rate of investment and the price and fiscal policies prevailing during this period, which reduced incentives in both private and collective farming. Centralized investment funds allocated to agriculture in development plans represented only between 6 and 18 per cent of the total investment budget in most countries of this group, and the share of agriculture in actual investment during the period was probably even lower. According to official statements, the total amount of investment was insufficient to take advantage of opportunities resulting from the creation of large collective farms. Private farming was in a far worse situation because of the scarcity of building materials, tools and farm implements available to individual peasants. Although the supply of artificial fertilizers and machinery rose substantially, it was insufficient to meet requirements. Inadequate construction, especially of barns and storage and water facilities, checked the rise in livestock numbers and their productive yields.

The system of compulsory deliveries applied during the period also had a depressive effect on incentives to raise output in both collective and private farming. Prices paid for these deliveries represented only a small part of free market prices, and quotas were generally very high, leaving only a small proportion of agricultural surpluses for sale on the free market or under contract to government agencies.[22] Since in actual practice delivery quotas were frequently revised, the inducement to raise output was seriously affected by apprehension that the principal effect of an increase in output would be a rise in delivery quotas.

Both the inadequacy of investment in agriculture, and the lack of incentives resulting from high delivery quotas and low prices, were closely related to the pattern of development as shaped by the policy decisions of central authorities during this period. The high priority given to heavy industry in allocation of resources had as its corollary the scarcity of investment goods available for agriculture and of manufactured consumer goods offered to the peasants. In these circumstances, the extremely low prices and the high delivery quotas acted as a tax on peasants' incomes, intended to curb rural demand for manufactured goods and to restrict peasants' consumption of their own produce, in order to secure necessary supplies for the cities. The very high rate of investment in heavy industries imposed a limitation on both investment and consumption among the agricultural population.

[21] "In some countries of the people's democracies, one observed cases where peasants entering the producer's cooperatives were killing part of the livestock . . .". (*Voprosy Ekonomiki*, No. 6, 1955).

[22] At prices generally lower than free market prices, but very much higher than prices paid for compulsory deliveries.

Table 44. Indices of Land Utilization in Selected Countries, 1952
(1938=100)

Country	Arable land	Grain	Potatoes and fodder crops	Industrial crops	Temporary grass
Bulgaria	91	92	...	149	...
Czechoslovakia	94	90	79	130	116
Germany, eastern	96	90	102	149	73
Hungary	100	93	100	386	92
Poland	94	95	90	154	78
USSR	104[a]	97	100[b]	109	144[c]
Yugoslavia	93	86	79	169	161

Source: Food and Agriculture Organization of the United Nations and Economic Commission for Europe, *European Agriculture.*

[a] Sown area.

[b] Potatoes and vegetables only.

[c] All fodder, inclusive of fodder roots and silage crops.

In the course of 1953, economic policy as applied to agriculture was significantly changed.[23] Investment in agriculture was sharply expanded in all countries of the group; supplies of machinery and building materials, as well as of fertilizers, were substantially increased. In the Soviet Union, there was a very large increase in sown area in 1954 owing to ploughing virgin and fallow lands in the eastern areas, and special attention was given to the extension of fodder supplies by a sharp rise in the area under maize. Some other countries were part of the arable area had not been in use, also increased the total area under cultivation. Further withdrawal of manpower from agriculture ceased as incompatible with the growth of agriculture, and serious efforts were made to shift manpower from urban areas back to agriculture. Furthermore, prices allowed for compulsory deliveries were considerably increased and quotas were reduced; in several countries, quotas were fixed for a few years in advance to make it clear to producers that a rise in output would result in higher incomes for peasants. This, together with reductions in direct taxes and in prices of manufactured goods, led to substantial increases in peasants' incomes, while the amount of manufactured investment and consumer goods made available to peasants was increased. The negative attitude towards private farming was condemned, and various measures tending to encourage private production, such as credits and temporary exemptions from taxes or deliveries, were introduced in several countries. In countries in process of collectivization, the voluntary principle for joining co-operatives was reaffirmed, and in some countries withdrawal from co-operatives was permitted. In Czechoslovakia and Hungary this resulted in a decline in the number and area of collective farms. The process of collectivization was generally slowed down in all countries, though efforts to induce farmers to join co-operatives, and preferential treatment of collective as compared with private farms, were continued and reinforced in 1955.

[23] For a more detailed description of these changes, see United Nations, *World Economic Report, 1952-53* (sales number: 1954.II.C.1); Food and Agriculture Organization of the United Nations and Economic Commission for Europe, *European Agriculture.*

In mainland China, government policy towards agriculture has differed in many essential aspects from that of other centrally planned economies. First, no extensive mechanization is contemplated before the full development of the tractor producing industry during the second five-year plan beginning in 1958. Second, although government policy aims at complete collectivization, this is to proceed by stages. During the initial period, the predominant form of co-operative farming was the mutual aid team, which was a rather loose association pooling only farm implements and draught animals and preserving private ownership of land and output. Since the completion of land reform measures in the winter of 1951/52, efforts to organize co-operative farming have been intensified; from 1950 to 1954 the proportion of peasant households organized in mutual aid teams and co-operatives increased from 11 to 60 per cent of the total. There has also been an accelerated shift from the system of mutual aid teams to producers' co-operatives, in which income is distributed among members according to their contributed shares in land and implements and according to work performed. As a further step, it is contemplated gradually to transform a large proportion of producers' co-operatives into collective farms of the Soviet type.

In Yugoslavia, a change in policy towards agriculture occurred earlier and was much more drastic than in other countries of the group. In the beginning of 1953, members of collective farms were allowed to withdraw the land they had contributed and to dissolve the co-operative. Simultaneously, the right to sell and buy land and to hire labour was introduced. Compulsory deliveries were almost completely abolished. As a result, the number of co-operatives was reduced from nearly 7,000 in 1950 to about 1,100 in 1954, and the share of the co-operative sector in agriculture fell from 18 per cent of the arable land to 4 per cent. The decision to abandon the collectivization of agriculture for the time being was motivated by the inability of the Government to provide co-operatives with agricultural implements, seeds and technical help; lack of these made it impossible to offer sufficient incentives for more efficient work by members of co-operatives.

The National Income and its Composition

National income increased considerably during the post-war decade in all centrally planned economies. As shown below, the indices of national income in 1954 for countries for which data are available ranged from about 60 to more than 100 per cent above pre-war levels.[24]

[24] Pre-war year for Bulgaria and Hungary, 1939; Czechoslovakia, 1937; Poland, 1938; Soviet Union, 1940. Indices are rounded to nearest 5 per cent.

In view of the rapid expansion of industry and the slow rate of growth of agriculture, the rise in national income was everywhere accompanied by a marked increase in the share of industry and a decline in the share of agriculture. The most striking changes naturally occurred in the least developed countries, such as Bulgaria and Romania (see table 45). Even in Czechoslovakia, however, where industrial production before the war accounted for more than half

Bulgaria	190
Czechoslovakia	165
Hungary	160
Poland[a]	220
USSR[b]	245

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

[a] Pre-war data based on area within pre-war boundaries.

[b] The index for the Soviet Union until 1950 was expressed in 1926/27 prices, and therefore overstated actual increases during this period; since 1951 the indices have been linked to the earlier index.

of the national income, post-war expansion raised that share to 70 per cent in 1953. Although no official estimates are available for the Soviet Union, the increase of 190 per cent in industrial production, in conjunction with an increase in farm output of about 10 per cent, suggests a substantial decline in the share of agriculture.

The shift in the composition of national income was associated with a movement of population from agricultural to non-agricultural occupations. While data on the number of persons actively engaged in agriculture are not generally available, some indication of the shift may be derived from data on urban and rural population shown in table 46.[25] In virtually all these countries, the rural population declined, not only in relation to the total but also in absolute numbers. Although data on total Soviet population are not available, it is evident from figures on urban population and qualitative information on total numbers that the rural population did not increase and probably even decreased. Notwithstanding a shift to urban areas, the proportion of rural population in most countries of the area has remained very high despite a substantial reduction in the share of agriculture in total output. While lack of data on the active population[26] in agricultural and non-agricultural occupations precludes definite conclusions concerning possible further changes in the distribution of labour, it is clear that the very high proportion of the population in agriculture leaves great possibilities for further shifts towards industry in most countries of this group, provided that farm technology is improved and productivity increased.

As might be expected from changes in the pattern of production, the relative share of national income devoted to investment in the post-war decade was substantially higher, and the share devoted to con-

[25] It should be noted that part of the rural population is employed in non-agricultural occupations.

[26] For instance, according to official estimates, in the Soviet Union the rural population represented 68 per cent of the total in 1939, while the economically active population in agriculture represented about 53 per cent of the total active population.

Table 45. Changes in Relative Shares of Industry and Agriculture, Selected Countries

(Percentages of total output)[a]

Country and year	Industry	Agriculture
Bulgaria:[b]		
1939	34	66
1948	51	49
1954	56	44
China, mainland:		
1949	17	...
1954	33	50
Czechoslovakia:		
1937	53[c]	23
1946	56[c]	20
1953	70[c]	13
Hungary:		
1930	42[d]	...
1946	50[d]	21
1954	64[d]	14
Poland:		
1937	30[e]	45
1946	32[e]	31
1952	53[e]	28
Romania:[f]		
1939	40	60
1949	48	52
1954	63	37

Source: Voprosy Ekonomiki, No. 7, 1954; reports on fulfilment of the five-year plans of Hungary (1950-1954) and of Czechoslovakia (1949-1953); *Ekonomista*, No. 3, 1954. *Politika Ekonomika a obecne otazky zemedelske*, No. 2, 1956 (Prague). It is not known to what extent the relative shares in this table may be affected by changes in relative prices of agricultural and industrial products.

[a] For Czechoslovakia, Hungary, Poland, data represent net output as a percentage of national income; for Bulgaria and Romania, gross output as a percentage of aggregate gross output of industry and agriculture; for mainland China, gross output as a percentage of aggregate gross output of industry, agriculture and handicrafts.

[b] The share of agriculture in national income in 1948 was 52 per cent and in 1952, 34 per cent; that of industry and handicrafts, 36 and 47 per cent, respectively.

[c] The share of industry in the gross output of industry and agriculture was as follows: 1937, 58 per cent; 1948, 75 per cent; 1953, 84 per cent; 1954, 81 per cent.

[d] Including construction; mining and manufacturing together represented 46 per cent of national income in 1949 and 59 per cent in 1954. The share of industry in the gross output of industry and agriculture was 44 per cent in 1938 and 80 per cent in 1954.

[e] Industry and handicrafts; construction represented 3.9 per cent in 1937, 3.5 per cent in 1946 and 6.9 per cent in 1952. The share of industry in the gross output of industry and agriculture was as follows: 1937, 44 per cent; 1949, 65 per cent; 1952, 76 per cent; 1954, 79 per cent.

[f] According to a report presented to the Second Congress of the Romanian Workers' Party in December 1955, industrial production accounted for about 50 per cent, and agricultural output over 25 per cent, of national income in 1955.

Table 46. Rural and Urban Population, Selected Countries
(Millions)

Country and year	Total population	Urban	Rural	
			Number	Per cent of total
Bulgaria:[a]				
1934	6.1	1.3	4.8	78.7
1946	7.0	1.7	5.3	75.7
Czechoslovakia:[b]				
1930	14.7	6.9	7.8	53.1
1947	12.1	5.9	6.2	51.2
Hungary:[c]				
1930	8.7	2.9	5.8	66.7
1949	9.2	3.2	6.0	65.2
1954	9.7	3.9	5.8	59.8
Poland:[d]				
1931	29.9	11.0	18.9	63.2
1946	23.6	7.4	16.2	68.6
1953	26.5	10.9	15.6	58.9
Romania:[e]				
1930	18.1	3.7	14.4	79.6
1948	15.9	3.7	12.2	76.7
1953	17.0	5.5	11.5	67.6
USSR:[f]				
1926	147	26	121	82.3
1940	193	61	132	68.4
1953	...	80	...	...
Yugoslavia:[g]				
1948	15.4	2.6	13.2	85.7
1953	16.9	5.6	11.3	66.9

Source: United Nations, *Demographic Yearbook, 1952* (sales number: 1953.XIII.1); *Sztatistikai Szemle*, 1 January 1955 (Budapest); *Przeglad Zagadnien Socjalnych*, August 1954 (Warsaw); *Voprosy Ekonomiki*, No. 8, 1954; N. Voznesensky, *War Economy of the USSR during the Period of Patriotic War; Pravda*, 9 August 1953; *Statisticki Godisnjak*. Data for pre-war years refer to pre-war boundaries.

[a] End of year data.

[b] 1930, December; 1947, May.

[c] 1930, end of year; 1949, January; 1954, total, end of year, with distribution among rural and urban based on percentages for July 1954.

[d] 1931, December; 1946, February; 1953, based on total at end of year and a statement on percentage of urban population.

[e] 1930, end of year; 1948, January; 1953, not specified.

[f] 1926, 17 December; 1940 and 1953 not specified. No population data are available for 1953. Estimates based on indirect evidence are contradictory; thus, an estimate based on the number of electoral districts and the population per district gives 212 million in 1953; estimate based on increases in per capita output and total output (*Pravda*, 6 October 1952) indicates no increase from 1940 to 1951 and about 200 million population in 1953. The most recent statement on per capita increase in output of steel from 1940 to 1955 would indicate a 3.8 per cent increase in population, that is, about 200 million in 1955, and, allowing for an average annual increase of over 3 million as stated for this period in official pronouncements, about 193 million in 1953.

[g] 1948, 15 March; 1953, 31 March.

sumption much lower, than before the war. During part of the reconstruction period, the rise in consumption may have paralleled that of national income, but in the course of the long-term development plans, however, the relative share of consumption declined substantially. The decline was concentrated in the period before mid-1953; during the change of policy from mid-1953 through 1954 the relative share of consumption was significantly increased. In absolute amount consumption in 1954 was significantly above pre-war levels both on an aggregate and on a per capita basis. While agricultural production was only about 10 per cent above pre-war levels, food consumption rose by a greater amount owing to changes in foreign trade. Consumption of manufactured goods generally rose much more than food consumption as is illustrated by the rise in output of textiles and shoes shown in table 36.

While data on aggregate consumption are lacking in almost all countries and data on investment are generally also incomplete, some indication of the divergent trends in these components in relation to national income may be obtained from the indices of retail sales and fixed investment in table 47. Indices of retail sales are very imperfect indicators of consumption, since they do not reflect changes in consumption by peasants of their own products. In some cases the indices relate only to the State and cooperative sectors and do not include changes in the volume of private and collective farm trade. During periods when population is shifting from agricultural to non-agricultural occupations, retail sales naturally tend to show a greater increase than does total consumption. In addition, where the index of retail sales relates to socialized trade only, the rise in sales may be heavily influenced by the shift from private to socialized trade. Despite these elements tending to raise the index of retail sales above the actual increases in consumption, retail sales showed a much slower increase in all countries than did investment until 1953.

In Czechoslovakia, which has published data on real consumption, the rise in national income was more than twice as large and in investment five times as large. In Poland, similar relations prevailed between the rates of growth of investment, national income and total retail trade. In Hungary the divergence in trends was even more striking. Only in the Soviet Union and in eastern Germany did retail trade increase more than national income and in the Soviet Union even more than State fixed investment. In eastern Germany, which depends heavily on imports of food, this might be due partly to an increase in net imports and to the abolition of reparations.

The lag in consumption in relation to national income during the period 1949-1953 reflected not only the relatively larger increase in investment, but also the sharp expansion noted above in military expenditure. As already indicated, it was accompanied in several countries by inflationary pressures and a decline in real wages.

Table 47. Indices of National Income, Investment and Retail Sales,[a] in Constant Prices, by Country

Country, base year and item	1952	1953	1954
Bulgaria (1948=100):			
National income	167	193	...
Investment	229	256	267
Czechoslovakia (1948=100):			
National income	152	160	167
Investment	205	200	200
Consumption	...	125	145
Retail trade	...	133	160
Germany, eastern (1950=100):			
National income	130	137	150
Investment	150	177	158
Retail trade[b]	150	170	193
Hungary (1949=100):			
National income	142	153	151
Investment	235	247	174
Retail trade	98	108	131
Poland (1949=100):			
National income	149	161	172
Investment	214	244	249
Retail trade[c]	120	128	151
Romania (1950=100):			
National income	137	152	159
Retail trade[d]	123	155	178
USSR (1950=100):			
National income	124	134	149
Investment	124	129	148
Retail trade[d]	126	152	179
Yugoslavia (1949=100):[e]			
National income	94	113	120
Investment	103	129	145

Source: Reports on fulfilment of plans; United Nations, *Economic Survey of Europe in 1955* (sales number: 1956.II.E.2).

[a] National income is defined as net output of industry, building, freight transport, trade and agriculture. Investment data refer to total gross fixed investment except for the Soviet Union and Czechoslovakia, where they represent only State fixed investment, exclusive of collective farm and private investment.

[b] State, co-operative and private trade.

[c] For 1952 and 1953, State, co-operative and private trade; for 1954, State and co-operative trade only. During 1954 the share of private trade was much smaller than in 1949, and turnover in such trade seems to have increased in line with that of socialized trade.

[d] State and co-operative trade only.

[e] Gross national product, including repairs and maintenance.

This trend was reversed in mid-1953 by government decisions calling for a reduction in the share of investment in national income and a rise in the share of consumption. As indicated in table 47, while national income increased in all countries, fixed investment in 1954 remained practically unchanged in Czechoslovakia and Poland and declined sharply in eastern Germany, Hungary and Romania. Military expenditure, which had increased substantially during the preceding period, either remained unchanged or declined. Government reserves and stocks of consumer goods in 1953 were also substantially reduced and net imports of consumer goods and raw materials for the production of consumer goods augmented in order to make possible increased consumption. Retail sales accordingly increased more than national income, and real wages recovered to levels higher than in 1950. In the Soviet Union, where investment had risen at approximately the same rate as national income from 1950 to 1952, it rose at a much slower rate in 1953 but recovered its relative share in 1954. In 1953, the effect of the decline in the share of fixed investment upon consumption was reinforced by reductions in stocks but probably offset in part by an increase in military expenditure; in 1954, however, a decline in military expenditure was planned.[27] Retail sales increased both in 1953 and in 1954 in relation to income—substantially more than during the preceding years. In Yugoslavia the share of investment in national income increased from 1949 to 1954; in 1953 and 1954 this increase was more than offset by a decline in the share of military expenditure.

Changes in distribution of investment funds among the major economic sectors from 1950 to 1954 were closely related to changes in the share of investment in national income.[28] From 1950 to 1952 the share of investment allocated to heavy industry increased substantially. However, in 1953 and 1954, there was a substantial reduction in its share (see table 48), as the share of investment in national income declined. Both these trends reflected the changes in government policy, which until 1953 was designed to restrict consumption in favour of investment and armaments, but from mid-1953 aimed at rapid improvement of the standard of living.

Generally, the reduction of the share of investment funds allocated to heavy industry benefited primarily agriculture and housing. The share of investment allocated to light industries generally increased to a lesser extent, owing both to the existence of unused capacity in such industries and to the fact that substantial increases in output of consumer goods were dependent upon prior expansion of output of agricultural raw materials and foodstuffs. In Yugoslavia, the share of fixed investment allocated to industry and building declined from 1952 to 1954 while that allocated to agriculture and other sectors increased. In mainland China in 1954, the share of industry in total investment rose significantly, and that of agriculture increased slightly, while the share of other sectors declined.

[27] Only estimates of planned, not actual, military outlays are available for 1953 and 1954.

[28] For a detailed review of investment in eastern Europe since 1950, see United Nations, *Economic Survey of Europe in 1955*.

Table 48. Gross Fixed Investment by Sector, Selected Countries

(Percentages of total gross fixed investment at constant prices)

Country and item	1950	1952	1953	1954
Bulgaria:				
Heavy industry	33	32	35	33
Light industry	4	5	5	5
Agriculture	9	13	14	17
Housing	14	9	9	13
Other investment[a]	40	41	37	32
China, mainland:[b]				
Industry	...	...	32	36
Agriculture	...	...	8	9
Transport	...	...	14	12
Other investment[c]	...	...	46	43
Germany, eastern:				
Heavy industry	34	49	44	41
Light industry	8	5	6	10
Agriculture	6	6	10	12
Transport	6	10	8	9
Housing	13	15	17	15
Other investment[d]	33	15	15	13
Hungary:				
Heavy industry	39	46	46	37
Light industry	3	2	3	5
Agriculture	9	13	13	23
Hungary (continued):				
Transport	19	15	11	7
Housing	5	4	6	9
Other investment[d]	25	20	21	19
Poland:				
Heavy industry	32	44	43	40
Light industry	8	9	9	5
Agriculture	9	8	8	11
Transport	14	12	11	11
Housing	7	10	10	12
Other investment[d]	30	18	19	21
USSR:[e]				
Heavy industry	55	61	56	55
Light industry	5	5	6	9
Agriculture	10	8	8	9
Transport	14	12	13	12
Housing[f]	12	12	13	16
Other investment[g]	16	14	17	15
Yugoslavia:				
Industry[h]	...	74	66	57
Agriculture	...	6	6	7
Transport	...	11	11	10
Other investment[i]	...	9	17	26

Source: United Nations, *Economic Survey of Europe in 1955; Economic Survey of Asia and the Far East, 1955* (sales number: 1956.II.F.1).

[a] Including trade, transport, schools, hospitals, public buildings and other items.

[b] State investment only.

[c] Including trade, housing, social, cultural and health services, and other items.

[d] Including trade, schools, hospitals, public buildings and other items.

[e] Government fixed investment only; data for 1952-1954 in constant prices.

[f] Dwellings built by local authorities are included in "other investment"; those built by government industrial, agricultural and transport sectors are included in the classification by these sectors.

[g] Trade; dwellings built by local authorities; schools, hospitals and other social capital; administrative buildings other than for industry, agriculture, transport and trade.

[h] Including building and construction industries.

[i] New housing, social and health services, administration and other items.

Expansion of Foreign Trade

The foreign trade of the centrally planned economies has been profoundly influenced by political as well as economic factors. The existence of close political ties among this group of countries has been a decisive influence in the creation of a separate, virtually self-contained, trading area. This trading area has acquired a distinctive characteristic from the nationalization of industry and introduction of centralized planning; within it market relations have been replaced by transactions between State monopolies of foreign trade.

Internal political influences were reinforced during this period, both by external factors and by economic developments which loosened ties with the rest of the world. On the one hand, strategic trade restrictions curbed the supply of some goods which the centrally planned economies were especially eager to import. On the other hand, owing to the high priority given to industrialization in these economies and the slow recovery in agriculture, there was a reduction in the export supply of food and lessened import demand for industrial consumer goods, which had constituted a large part of their foreign trade before the war. Currently, when trade with the west has begun to revive, the most striking development has been an exchange of capital goods from the centrally planned economies for raw materials and foodstuffs from under-developed countries, rather than a significant expansion in trade of the type that was traditional before the war.

Owing to these political and economic developments, the trade of the centrally planned economies with each other increased very substantially, while that with

the rest of the world declined. At the end of the post-war decade the volume of their total trade was more than two and a half times as high as before the war, while their trade with the rest of the world was less than half its pre-war level.

The most significant expansion in foreign trade was in the Union of Soviet Socialist Republics, where the total volume in 1954 was more than four times as large as before the war.[29] Among countries for which data are available, Hungary showed the smallest increase—55 per cent—while the remaining countries all registered increases of 90 per cent or more (see table 49).

By 1948 trade of most of the countries, with the important exception of eastern Germany, had regained its pre-war level. From 1948 to 1954, the aggregate foreign trade turnover of six eastern European countries[30] increased by 70 per cent, and the trade of the Soviet Union almost doubled. The Soviet Union emerged as the largest trading country of the group, followed by the Asian group of centrally planned economies, including mainland China, northern Korea and Mongolia. The shares of all other countries declined in varying degree, the sharpest decline being that of Romania (see table 50).

[29] Part of the increase reflected changes in boundary. See footnote *d* to table 49.

[30] Albania, Bulgaria, Czechoslovakia, Hungary, Poland and Romania. See *Pravda* (Moscow), 15 August 1955.

Table 49. Indices of Trade Turnover (Imports plus Exports), by Country
(Pre-war=100)

Country	Base year	1953[a]	1954[b]
Bulgaria	1938	200	214
China, mainland[a]	1936	160[c]	...[d]
Czechoslovakia	1937	200[c]	220
Hungary	1938	150	155
Poland	1937	192	209
Romania	1937	100[e]	190[f]
USSR	1937	400	436

Source: *Planovoe Khozyaistvo*, No. 4, 1954; *Voprosy Ekonomiki*, No. 3, 1955; *Vneshnyaya Torgovlya*, No. 12, 1954; *People's China* (Peking) November 1951; *Prubeh Pleni Hospodarskeho Planu, Rok 1947* (Prague, 1948); *Zahranicni Obchod*, No. 5, 1953 (Prague); *Trybuna Ludu* (Warsaw), 20 April 1954; report on the activities of the Central Committee of the Worker's Party of Romania (Bucharest, 1955). See also source to table 98.

[a] Indices of volume of trade as stated in official publications.

[b] Data for 1954 estimated on the basis of volume indices in preceding column and percentage increases in value of trade turnover for the intervening period.

[c] 1951.

[d] Between 1950 and 1954 the turnover increased by 88 per cent.

[e] 1950.

[f] Derived from the index for 1955 and the percentage increase in trade in 1955 compared with 1954.

Table 50. Total Foreign Trade Turnover (Imports plus Exports)[a]
(Percentage shares of individual countries)

Country	1937	1954
Bulgaria	2.6	2.2
Czechoslovakia	17.2	10.6
Germany, eastern	25.1[b]	14.5
Hungary	6.8	5.3
Poland	10.1	9.7
Romania	8.0	3.7
USSR	16.8	34.0
Other countries[c]	13.3	20.0
TOTAL	100.0	100.0

Source: United Nations, *Economic Survey of Europe*, 1954 and 1955 (sales numbers: 1955.II.E.2 and 1956.II.E.2).

[a] The data were derived from estimates of the Economic Commission for Europe, based on fragmentary information for certain years, officially announced percentage increases and percentage shares of various flows in total trade of individual countries, as well as on export and import statistics of western countries related to their trade with centrally planned economies. In several cases it was assumed that the value of exports as stated by the exporting country was equal to that registered by the receiving country after adjustments for the difference between f.o.b. and c.i.f. In addition, it was assumed that price levels and price changes in western markets and the trade among the centrally planned economies were similar. It is noted in the source that these estimates are approximate.

[b] Not including trade with western Germany.

[c] Albania, mainland China, northern Korea and Mongolia.

Despite its rapid expansion, the aggregate volume of foreign trade has not increased at a higher rate than industrial production in the period as a whole; in several countries—notably Bulgaria, Hungary and Poland—it fell significantly in relation to output. From 1950 to 1954, however, a period for which more complete data are available, the total trade of the group rose by over 80 per cent, or somewhat more than industrial production. This increase was due chiefly to very considerable increases in trade in relation to output in the Soviet Union and in eastern Germany (see table 51). In several other countries of the area the expansion of trade was much slower than that of output. In the case of the former the rapid rise in trade in relation to output was a complete reversal of the trend predominant during its early period of industrialization.

In eastern Germany the sharp increase recorded in trade in relation to output is partly "statistical"; a substantial part of its exports during the early post-war years was devoted to reparations and was not included in export statistics. Subsequently, on termination of reparation deliveries, commercial exports increased. Poland was the only country in the group where the rise in foreign trade lagged substantially behind that of output during the second part of the decade; in 1954, however, special attention was devoted to expansion of exports, particularly of capital equipment.

Table 51. Indices of Industrial Production and Foreign Trade,[a] by Country
(1950=100, except as indicated)

Country and item	1947	1952	1953	1954
Bulgaria:				
Industrial production	45	140	157	171
Foreign trade	62	156	191	204
China, mainland:				
Industrial production[a]	...	128	170	199
Foreign trade	...	132	180	188
Czechoslovakia:				
Industrial production	63	136	150	156
Foreign trade	81	130	138	144
Germany, eastern:				
Industrial production	51	142	160	176
Foreign trade	45[b]	158	204	250
Hungary:				
Industrial production	36	161	180	185
Foreign trade	33	139	152	157
Poland:				
Industrial production	47	149	176	195
Foreign trade	43	125	126	136
Romania:				
Industrial production	40	159	181	194
Foreign trade	23	139	161	169
USSR:				
Industrial production	54	129	145	165
Foreign trade	81[b]	165	183	199

Source: Indices of industrial production from table 34. Indices of volume of trade are based on the following sources: Reports on fulfilment of plans; United Nations, *Economic Survey of Europe in 1955; Czechoslovak Economic Bulletin*, No. 306, 1956; *Statistische Praxis*, July 1952 and October 1955; *Probleme Economice*, No. 4, 1953 (Bucharest); *Scinteia*, 23 August 1955 and 10 February 1956; *Trybuna Ludu*, 20 April 1954; *Vneshnyaya Torgovlya*, No. 3, 1953; *Kommunist*, No. 5, 1953 and No. 15, 1955; *Pravda*, 15 August 1955; *Közgazdasági Szemle*, No. 6, 1955 (Budapest).

[a] 1951 = 100.

[b] 1948.

While the volume of foreign trade in relation to output has increased in several countries, it has remained very low for the area as a whole, representing only a very small percentage of total output.[31]

Reorientation of trade

As noted previously, the most significant feature in the foreign trade of the centrally planned economies has been the radical reorientation in its direction. The increase in volume during the decade was associated with a sharp rise in trade within the area and a drastic decline in trade with the rest of the world.

Before the war the trade of eastern European countries with each other amounted to less than 15 per cent of their total trade. The chief trading partners of the group were Germany and Austria, which in 1938 accounted for 38 per cent of exports and 34 per cent of imports of eastern Europe. Next in importance were the United Kingdom and the United States, with 8 and 5 per cent of total trade, respectively. The Soviet Union accounted for less than one per cent of the total turnover of the other eastern European countries in 1938.[32] This pattern of trade was radically altered during the post-war decade; by 1954 only

[31] Lack of data on national income in current prices makes it difficult to estimate the ratio of foreign trade to national income, but the following very rough estimates indicate that this ratio was small for the Soviet Union. In 1954 total fixed investment in the Soviet Union was equal to about 174 billion roubles. According to official statements, "accumulation", which includes building up of stocks and part of military expenditure in addition to investment in fixed capital, represented about 25 per cent of national income. Thus even if accumulation were no greater than investment, national income in 1954 would amount to 696 billion roubles. Since the value of total trade (exports plus imports) was in 1954 about 25 billion roubles, its ratio to national income must have been less than 3.6 per cent. Similar rough estimates would yield for Poland about 5 per cent and for eastern Germany about 11 per cent, which is an exceptionally high ratio for countries of this group. However, prices in foreign trade are not directly related to domestic prices and, as the differences may be significant, the actual ratios may differ from these estimates.

[32] Excluding eastern Germany. There was no significant trade among the Soviet Union, Albania, Bulgaria and Romania in 1938. The Soviet share of Czechoslovakia's trade was about 2 per cent, of Poland's trade, 1 per cent and of China's total trade (excluding that of Manchuria), 0.3 per cent (League of Nations, *International Trade Statistics, 1938* (*Geneva*, 1939)).

Table 52. Geographic Distribution of Total Trade, by Country
(Percentage of total trade)[a]

Country	Destination or source											
	1937		1948			1951			1954			
	Centrally planned economies	Rest of world	USSR	Other centrally planned economies	Rest of world	USSR	Other centrally planned economies	Rest of world	USSR	Other centrally planned economies	Rest of world	
Bulgaria	12	88	56	27	17	58	34	8	— 87 —			13
China, mainland	...	...	— 2[b] —			98[b]	46	15	39	— 80 —		20
Czechoslovakia	11	89	16	15	69	28	32	40	36	39		25
Germany, eastern	...[c]	...	— 75 —			25	46	30[d]	24	44	31[d]	25
Hungary	13	87	17	17	66	29	38	33	30	36		34
Poland	7	93	23	17	60	25	33	42	38	32		30
Romania	18	82	34	36	30	51	28	21	— 72 —			28
USSR	4[e]	96		67[f]	33		80[g]	20[g]		79[h]		21

Source: For years preceding 1954, data are those reproduced in United Nations, *World Economic Report, 1951-52* (sales number: 1953.II.C.2); *Vneshnyaya Torgovlya*, No. 11, 1953; *Zahranicni Obchod*, No. 5, 1954; and *Planovoe Khozyaistvo*, No. 1, 1954. For 1954: *Voprosy Ekonomiki*, Nos. 5, 7, 10, 1955; *Wirtschafts, Wissenschaft*, No. 4, 1955 (Berlin); *Statistische Praxis*, October 1955; *Hungarian Review*, No. 7, 1955; *Czechoslovak Economic Bulletin*, January 1956; and *Vneshnyaya Torgovlya*, No. 11, 1954.

[a] The percentage shares of trade shown above were presumably derived from trade data in current prices. Little is known about price differentials in the trade between different countries although, according to some official statements, prices in trade among centrally planned economies are approximations of the prices prevailing in world trade. The data in the table should therefore be considered as approximate estimates, indicating only the direction of changes and their order of magnitude.

[b] Computed from *Direction of International Trade*, joint publication of the Statistical Office of the United Nations, the International Monetary Fund, and the International Bank for Reconstruction and Development, vol. III, No. 4.

[c] The trade of eastern Germany with countries of this area in 1936 was estimated as equal to 17 per cent of its foreign trade exclusive of its trade with western Germany.

[d] *Wirtschafts Wissenschaft*, No. 4, 1955, reported a higher value than that given in *Statistische Praxis*, October 1955.

[e] Covering trade of the Soviet Union (1937 area) with mainland China, Czechoslovakia, Hungary, Poland and Romania.

[f] 1949.

[g] 1952.

[h] *Vneshnyaya Torgovlya*, No. 10, 1955, and *Pravda*, 15 August 1955.

25 to 30 per cent of trade of most eastern European countries was with the rest of the world (see table 52). More than 60 per cent of their trade with the rest of the world was made up of their trade with western Europe, including Finland.

During the same period, the Soviet Union emerged as the largest single partner of the other countries of the group, its share ranging from 30 per cent of total trade for Hungary to more than 50 per cent for Albania, Bulgaria, Romania and mainland China.

In the immediate post-war years the major economic obstacle to resumption of east-west trade was the scarcity of commodities which previously had represented the major part of this trade. The western requirements for foodstuffs and raw materials could not be satisfied by eastern Europe because of its low level of agricultural output and the decline in the share of marketable surpluses of food resulting from its post-war agrarian reforms. Some eastern European countries which before the war were important food exporters were compelled by poor harvests to import large quantities of food from the Soviet Union, Canada and the United States, in addition to non-commercial imports, mainly obtained through the United Nations Relief and Rehabilitation Administration. Exportable surpluses of raw materials were limited, both by low output and by growing requirements for reconstruction and industrialization. At the same time, import requirements of the centrally planned economies could not be met easily by the western countries which before the war were their main suppliers of manufactured goods and capital equipment, because of war devastation and shortages prevailing during the immediate post-war period in western Europe. Even in cases where such goods were available, the exporting countries were not willing to export them to eastern Europe except in return for essential food and raw materials or against payments in gold or hard currency.

The difficulties hampering expansion of foreign trade were not eliminated during the subsequent years despite the recovery of production in both eastern and western countries. Rapid industrialization in the centrally planned economies substantially reduced the proportion of their output of raw materials and fuel available for export to the west, and the slow recovery of agriculture, together with the rising domestic demand for food, continued to keep down exports of foodstuffs. On the other hand, limitations imposed upon exports of equipment and strategic materials by the west, from 1949 onwards, made it difficult for the centrally planned economies to obtain from outside of their area their most essential imports.

Simultaneous with these developments in trade with the rest of the world was a rapid expansion of trade within the group of centrally planned economies, and especially trade between the Soviet Union and the remaining countries of the group, as already noted. This expansion, in face of the decline in trade with the rest of the world, cannot be attributed to purely economic reasons. While the advantages derived from long-term agreements based on advance planning of deliveries and purchases played a significant part in these developments, an even more important factor was the political affinity of the eastern European countries and their tendency to treat the area as a unit and to increase the strength of the group as a whole.

The nationalization of industry and the government monopoly of foreign trade in each country enabled governments to direct the flow of goods to other countries of the group, irrespective of the short-term advantages which any single country might derive from expanding its exports to the west. The predominant part in these developments was played by the Soviet Union; the magnitude and diversity of its production enabled it to supply other countries of the group with goods which, for economic or political reasons, were difficult to obtain elsewhere. It supplied them with most of their raw material requirements and with significant quantities of capital equipment in return for finished goods from the more industrialized countries and semi-manufactures and raw materials from the less industrialized countries. The development of this trade was facilitated by credits from the Soviet Union to several countries. In the case of former enemy countries, reparations and the existence of mixed corporations and the resulting necessity to adjust production to the requirements of the Soviet Union were an important factor in the reorientation of their trade. By 1948, exports of the centrally planned economies of eastern Europe to the Soviet Union were already ten times as high, and their imports twenty-five times as high, as their very low 1938 volume.[33]

Yugoslavia's post-war trade initially followed the general pattern of trade of the other eastern European countries in its sharp reorientation from traditional western European markets; in 1948, over 50 per cent of it was directed towards the other centrally planned economies of eastern Europe. However, political events at the end of 1948 resulted in a virtually complete severance of commercial trade relations between Yugoslavia and other planned economies. The resulting change in its direction of trade was not reflected in any decline in the aggregate volume of eastern European intra-regional trade because of a substantial increase in the trade of the other countries of the group, and further shifts from trade with the west to trade with the group, especially on the part of Czechoslovakia.

By 1950, the trade of mainland China began to play an important part in the total trade of the centrally planned economies. Following the establishment of the new regime and the conclusion of the Sino-Soviet Treaty of Friendship and Mutual Assistance, large-scale trade agreements were concluded between mainland China and the other countries of this group. On the other hand, its trade with the rest of the world declined substantially, a decline accelerated by the imposition of a trade embargo by western countries in 1952. The resulting curtailment of trade was most noticeable in western exports, which in 1953 fell to less than half their 1948 value. By 1953 three-quarters of mainland China's trade was conducted with the centrally planned economies, the Soviet Union accounting for 56 per cent of it; its share in the total trade of the Soviet Union rose to 18 per cent.[34]

The reorientation of trade of the centrally planned economies towards trade within the group was not a uniform process throughout the decade. In fact, from 1946 until 1948, owing largely to aid from the United Nations Relief and Rehabilitation Administration and to substantial foreign credits, the trade of the planned economies with the rest of the world was expanding and the share of east-west trade in their total trade remained higher than that of trade among the members of the group. During the same period the share of the Soviet Union in such trade, which was very high in 1945 and 1946, declined, while that of other countries of the group increased.

The deterioration in the international situation and the resulting decline in east-west trade that began in 1949 contributed to the sharp increase in the share of intra-trade in total trade of eastern Europe, and more specifically to the substantial rise in the Soviet Union's share in it. The predominant position gained by this country in intra-trade between 1948 and 1951 was maintained in the years following. From 1951 onwards the distribution of trade of the centrally planned economies was characterized by a high degree of stability.

Trade within the group

Though the rate of expansion of intra-group trade was far from uniform, it was very rapid for all pairs of trading countries (see table 53), and in each case the volume of trade in 1954 was considerably larger than before the war. The largest increases, over the period covered by the data, were achieved by countries which had not actively engaged in trade with the other countries of the group until late in the period. Thus the trade of eastern Germany with Bulgaria, Romania and mainland China, very limited before 1950, expanded rapidly during the next four years.

[33] United Nations, *Economic Survey of Europe in 1948* (sales number : 1949.II.E.1).

[34] *Vneshnyaya Torgovlya*, No. 2, 1955; and *Zahranicni Obchod*, No. 5, 1954.

The fivefold increase in Sino-Soviet trade in four years is especially significant because it has made mainland China the largest single trading partner of the Soviet Union. Even sharper increases occurred in the trade of the two most industrialized countries of the group, Czechoslovakia and eastern Germany, which by 1954 had increased their trade with each other sevenfold, albeit from a very low level in 1948. While their trade with each other represented only a small proportion[35] of their total trade even in 1954, it is significant nevertheless that the increase occurred in trade between two of the more industrialized countries of the group, especially in view of the limited interest shown until recently in international division of labour.

[35] Six per cent of eastern Germany's total trade.

Table 53. Indices of Foreign Trade[a] among the Centrally Planned Economies[b]

Country	Base year	1954	Country	Base year	1954
Bulgaria:			*Hungary*:		
China, mainland	1952	200	China, mainland	1950	120
Czechoslovakia	1948	210	Czechoslovakia	1948	310
Germany, eastern	1950	680[c]	Germany, eastern	1950	310[c]
Romania	1949	100	Poland	1949	200
USSR	1949	200	USSR	1946	1,400[e]
China, mainland:			*Poland*:[f]		
Bulgaria	1952	200	China, mainland	1951	140
Czechoslovakia	1950	450	Czechoslovakia	1948	180
Germany, eastern	1950	3,000[d]	Hungary	1949	200
Hungary	1950	120	Romania	1949	140
Poland	1951	140	USSR	1947	420
Romania	1952	570	*Romania*:		
USSR	1950	500	Bulgaria	1949	200
Czechoslovakia:			China, mainland	1952	570
Bulgaria	1948	210	Czechoslovakia	1948	100
China, mainland	1950	450	Germany, eastern	1950	840[c]
Germany, eastern	1948	700	Poland	1949	140
Hungary	1948	310[c]	USSR	1947	700
Poland	1948	180	*USSR*:		
Romania	1948	100	Bulgaria	1949	200
USSR	1948	290	China, mainland	1950	500
Germany, eastern:			Czechoslovakia	1948	291
Bulgaria	1950	680[c]	Germany, eastern	1950	341
China, mainland	1950	3,000[d]	Hungary	1946	1,400[e]
Czechoslovakia	1948	700	Poland	1947	420
Hungary	1950	310[c]	Romania	1947	700
Romania	1950	840[c]			
USSR	1950	340			

Source: *For a Lasting Peace, for a People's Democracy*, 25 June 1954; *Vneshnyaya Torgovlya*, No. 10, 1954, and Nos. 2, 7, 9, 11, 1955; *Czechoslovak Economic Bulletin*, No. 303, 1955, and No. 304, 1956; *Der Aussenhandel*, No. 20, 1955 (Berlin); *Die Wirtschaft*, No. 36, 1954; *Szabad Nep*, 14 January 1955; *Polish Facts and Figures*, 16 July 1955 (London); Chamber of Commerce of the Romanian People's Republic, *Information Bulletin* (Bucharest).

[a] Imports plus exports.

[b] No precise information is available on the methods used to compute these indices. In some cases, it was stated that the indices refer to changes in volume, in others, to changes in volume "in constant prices", and, in a few cases, merely changes in trade. Despite this, it is assumed that the indices reflect the changes in volume of trade. Only the index of trade between mainland China and Czechoslovakia is derived from data on changes in current values. All figures are rounded.

[c] Planned.

[d] 1953; in 1950 the level of trade was very low.

[e] 1953.

[f] The index of volume of trade based on 1937 = 100 was, in 1954: with Bulgaria, 300; with Czechoslovakia, 500; with Romania, 400. The volume of trade with eastern Germany in 1954/55 was more than double Polish trade with all of Germany in 1937.

During the period of reconstruction little attention was devoted to international specialization. Indeed, the main preoccupation in each country was to restore its industries from their devastated condition and to bring into use all existing capacity. The urgency of this task left little room for preoccupation with international division of labour and the advantages of the co-ordination of economic development among countries of this group. Moreover, already at this stage, each country had embarked upon a policy of industrial

expansion involving a tendency to develop all branches of industry, especially of heavy industry, as if "each had to build socialism in isolation".[36] The effect of this policy on foreign trade was reflected in the great similarity of import requirements of most countries. In the main, this tendency towards self-sufficiency continued until 1953, although certain important changes in attitude had begun to emerge at the inception of the long-term plans of economic development. In 1949 the Council of Mutual Economic Assistance of the centrally planned economies had been created to promote the exchange of economic experience, technical assistance and "mutual aid in providing raw materials, foodstuffs, machinery and equipment".[37]

Various steps taken subsequently by the eastern European governments, presumably under the aegis of the Council of Mutual Economic Assistance, in order to foster economic co-operation and expansion of foreign trade, included the adoption of certain standard specifications for some products, the introduction of a single system of through rates for rail carriages in eastern Europe, and joint development of certain resources. Some beginnings of specialization, limited to certain types of engineering equipment, were made in mid-1950 in connexion with the upward revision of plans in several countries, at the time of rising international tensions and of declining east-west trade.[38]

The tendency towards specialization and expansion of foreign trade was considerably strengthened in 1953 in connexion with the reappraisal of policies. Indeed, one of the most important aspects of the new policy adopted by the centrally planned economies was a significant change in attitude towards international division of labour and foreign trade within the group. The broadening of trade relations, closely associated with integration of the long-term plans of all the countries, was conceived as a means of raising the productivity of the area as a whole. To this effect, specialization, until now mostly related to specific products within a particular industry, was to be extended and applied to the economy as a whole.[39] It has been stressed in several recent official statements that each country need not continue to develop all branches of industry but should concentrate upon the expansion of those sectors of the economy for which it is best suited and should acquire through foreign trade those goods which can be produced at less expense in other countries of the group.[40] One aspect of the increased emphasis on international specialization was the desire to realize, especially in smaller countries, with limited domestic markets, economies of large-scale production through a transition to assembly-line and mass-production methods for an increasing variety of goods.

Long-term credits from the Soviet Union have played an important part in the development of the post-war trade of several countries, both in enabling them to buy equipment, raw materials and foodstuffs from the Soviet Union itself, and, in some cases, in providing them with gold or foreign currency required to finance trade with the rest of the world.

Lack of data as to the total value of credits made available by the Union of Soviet Socialist Republics during the post-war decade makes it impossible to assess the scale of such credits or their importance in relation to trade among the centrally planned economies. For countries for which data are available, the value of credits granted between 1947 and 1954 amounted to about 5.9 billion roubles.[41] According to a recent statement, however, long-term credits made available by the Soviet Union to other countries of the group now total 21 billion roubles, which presumably includes the sum allocated to mainland China during its current five-year plan, 5.6 billion roubles.[42]

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[36] V. Kaigl, Director of the Institute of Economics, Czechoslovak Academy of Science, in "Development of Economic Ties between Countries of the Socialist Camp", *Voprosy Ekonomiki*, No. 7, 1955, page 85.

[37] *Mejdunarodnaya Zizn*, No. 1, 1955 (Moscow).

[38] In agreement with other countries of the group, Hungary enlarged its productive capacity for certain types of electrical equipment and barges; Poland, its capacity for building railroad cars and manufacturing mining equipment; eastern Germany, heavy electrical, mining and foundry equipment; Czechoslovakia, machine tools. Later, agreements were concluded between the larger steel producers providing for specialization in output of specific rolled steel shapes and for their exchange. Similar forms of specialization involving different types of products within the same industry were arranged for the production of tractors and ball-bearings. Poland and Romania agreed on specialization in particular types of ball bearings, and in production of tractors, Poland undertaking to produce medium-powered ones and Romania heavy-duty types.

[39] Bilateral commissions for economic co-operation in light industry were formed between all countries of the group. According to the *Czechoslovak Economic Bulletin*, No. 296, 1955, the Czechoslovak-eastern German commission at its 1955 session discussed, among other things, the co-ordination of production. Some degree of specialization in light industries can be detected in the qualitative data in the more recent trade agreements of Czechoslovakia, Hungary and eastern Germany.

[40] This was reasserted by N. Khrushchev (*Pravda*, 15 February 1956); see footnote 5.

[41] Poland in 1947 received a gold loan of $27.8 million from the Soviet Union, followed in 1948 and 1950 by credits totalling $550 million for purchase of Soviet equipment. Out of the total credits of 485 million roubles made available to eastern Germany by the Soviet Union in 1953, 135 million were in free currency. Mainland China obtained two long-term low-interest loans ($300 million in 1950, and 520 million roubles in 1954). Northern Korea and northern Viet-Nam were offered grants by the Soviet Union of one billion and 400 million roubles, respectively, for the purchase of goods from the centrally planned economies. Reconstruction grants-in-aid were also made to northern Korea and northern Viet-Nam by other countries of the group in cash as well as in kind. The sum of 5.9 billion roubles was obtained by converting dollar credits into roubles at the present exchange rate of 4 roubles to the dollar, which went into effect in March 1950.

[42] *Pravda*, 15 February 1956. According to the official rate of exchange this would amount to $5.25 billion and $1.4 billion, respectively.

It is not clear, however, to what extent loans already disbursed are included in this total.

Trade with rest of world

In contrast to the continuous expansion of trade within the group of centrally planned economies, trade with the rest of the world during the post-war decade registered a sharp decline, subject, however, to some fluctuation (see table 54). Following a significant expansion from the post-war low level in 1946, trade with the rest of the world after 1948 entered a period of contraction which lasted until 1953. This was followed in 1954 and 1955 by a substantial recovery, which none the less failed to restore its volume to the 1948 level.

At its highest point, in 1948, total trade turnover between the centrally planned economies and the rest of the world amounted to about $3.8 billion compared

Table 54. Trade of Centrally Planned Economies with Rest of World
(Current values in millions of dollars, f.o.b.)

Reporting area and year	USSR		Other eastern European countries[a]		Mainland China		Total		
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Imports plus exports
Canada and United States:									
1938	18.4	75.0	45.4	65.5	27.5	37.5	91.3	178.0	269.3
1948	86.6	28.1	31.2	112.2	125.3	307.9	243.1	448.2	691.3
1954	12.5	5.2	33.6	6.8	1.9	0.1	48.0	12.1	60.1
Latin America:[b]									
1938	——	1.1	20.0	23.3	0.2	1.6	20.2	26.0	46.2
1948	0.1	12.2	36.5	73.1	0.4	5.2	37.0	90.5	127.5
1954	25.3	74.5	59.5	77.6	2.4	3.6	87.2	155.7	242.9
Middle East:[c]									
1938	13.2	14.8	25.4	15.5	1.0	1.2	39.6	31.5	71.1
1948	42.8	52.1	29.0	26.1	6.6	0.6	78.4	78.8	157.2
1954	20.0	27.4	48.3	43.5	12.1	11.8	80.4	82.7	163.1
Western Europe:[d]									
1938	160.2	170.0	628.5	525.4	44.8	87.3	833.5	782.7	1,616.2
1948	219.0	121.0	621.0	494.2	60.1	80.5	900.1	695.7	1,595.8
1954	333.1	257.4	461.9	543.1	88.6	82.8	883.6	883.3	1,766.9
Finland:[e]									
1938	2.0	0.9	11.4	3.5	0.1	0.5	13.5	4.9	18.4
1948	46.1	145.6	37.0[f]	11.5	0.2	1.1	83.3	158.2	241.5
1954	79.6	146.6	88.9	37.0	2.5	6.6	171.0	190.2	361.2
Asia and the Far East:[h]									
1938	1.8	4.7	18.0	14.0	258.8[g]	422.5[g]	278.6	441.2	719.8
1948	14.2	89.3	18.6	33.6	235.5	157.3	268.3	280.2	548.5
1954	5.0	9.3	28.4	32.4	217.2	173.9	250.6	215.6	466.2
Other areas:[h]									
1938	43.3	8.8	83.4	33.0	24.2	3.1	150.9	44.9	195.8
1948	33.3	63.9	117.4	118.0	124.4	10.1	275.1	192.0	467.1
1954	3.7	63.0	22.8	34.8	17.7	3.2	44.2	101.0	145.2
Total, world trade with centrally planned economies:									
1938	238.9	275.3	832.1	680.2	356.6	553.7	1,427.6	1,509.2	2,936.8
1948	442.1	512.2	890.7	868.7	552.5	562.7	1,885.3	1,943.6	3,828.9
1954	479.2	583.4	743.4	775.2	342.4	282.0	1,565.0	1,640.6	3,205.6

Source: United Nations, *Monthly Bulletin of Statistics*, August 1955, special table A, and *Direction of International Trade*, vol. VI, No. 10; adjusted for Japan's trade with China in 1938. The figures reproduced in this table are those reported by the trading partners of mainland China and eastern Europe, and give only an approximate indication of the magnitude and direction of trade of these countries.

[a] Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania and, since 1948, eastern Germany.

[b] Dollar and non-dollar areas.

[c] Non-sterling areas and Aden, Bahrein, Iraq, Jordan, Kuwait, Libya and Qatar.

[d] Continental western Europe, Iceland, Ireland and United Kingdom; including all of Germany in 1938, western Germany in 1948 and 1954.

[e] Finland's imports c.i.f., reduced to f.o.b. values.

[f] Excluding imports from eastern Germany for 1948.

[g] Adjusted to include Manchuria and Kwantung in total Chinese trade with Japan.

[h] Australia, New Zealand, Nyasaland, Rhodesia, Spain, Union of South Africa, Yugoslavia and oversea territories of continental European countries; residual figures from world trade totals.

with $2.9 billion in 1938; after allowing for the increase in world prices, the post-war peak volume represented less than half of its pre-war level. From 1948 until 1953, the volume of trade declined further.

It was not until the third quarter of 1953 that a substantial recovery occurred, mainly under the impact of rising imports of the Soviet Union. The trade of other centrally planned economies did not show any increase until the early part of 1954, and for the year as a whole was still probably more than 10 per cent below its post-war peak in 1948. The rise in trade from 1953 to 1954 was achieved during a period of lessening international tensions and of some relaxation in trade restrictions; to a large extent it also reflected recent efforts of the centrally planned economies to improve their supplies of food and raw materials and to enlarge their commercial contacts with the rest of the world. This was achieved in 1954 chiefly by an expansion of imports into these countries from the rest of the world.[43]

During the post-war decade western Europe has been the major trading area in the commerce of the centrally planned economies of Europe with the rest of the world.[44] A peak in European east-west trade had been reached in 1949, when, as may be seen below, eastern Europe's exports to western Europe attained 36 per cent and their imports 50 per cent of their pre-war volume (1950 = 100).[45]

	1938	*1949*	*1951*	*1952*	*1953*	*1954*
Exports...	305	111	89	85	87	106
Imports...	205	103	98	91	105	126

Source: United Nations, *Economic Bulletin for Europe*, vol. 7, No. 2, 1955.

East-west European trade declined substantially during the following years, reaching its lowest point in 1952, when exports fell to 28 per cent and imports to 44 per cent of pre-war levels. This decline was strongly influenced by a decrease in imports of machinery from western Europe, mainly because of licensing restrictions and by a decline in exports of coal, iron and steel products and textiles from eastern Europe. The decline of trade in strategic materials and manufactures in both directions could not be compensated for by a rise in trade in consumer goods, both because the centrally planned economies lacked additional exportable grain surpluses and because their import demand was at this time concentrated on producer goods.

The increase in imports of the centrally planned economies from western Europe in 1953 and 1954 raised their import volume 20 per cent above the earlier post-war peak of 1949. Exports increased much less, however, and in 1954 were still about 4 per cent below 1949. The total volume of trade in 1954 was 8 per cent above 1949 but still represented not more than about 45 per cent of the pre-war level.

The trade balance in east-west European commerce was subject to extensive fluctuations during the post-war decade. During the immediate post-war years imports of the centrally planned economies exceeded their exports; however, the subsequent increase in deliveries to the west of industrial raw materials and of agricultural commodities led to the reappearance of an export surplus, which had been a permanent feature of this trade before the war. This surplus, mainly accruing in the form of sterling, was used to finance the net imports of eastern Europe in its trade with the oversea sterling area.[46]

While the contraction of trade with western Europe up to 1952 was followed by a recovery in 1953 and 1954, trade with North America continued to fall in 1953 to a mere 10 per cent of its value in 1948, and it remained at this level through 1954. Exports to North America declined less than imports after 1948, and the traditional import surplus, which existed both before and immediately after the war, was thus transformed into a net export balance. Trade with Asia and the Far East, which in 1948 was substantially below the pre-war level, declined by some 14 per cent from 1948 to 1953, much less than the drop in trade with the industrial countries of western Europe and North America. Trade with the Middle East was even less influenced by the general contraction.

The largest fluctuations occurred in trade with Latin America, which declined by about 30 per cent from 1948 to 1953 but more than doubled in 1954. This steep expansion in 1954 was mainly due to a considerable increase in Soviet imports during that year.

The recent tendency towards expansion of trade with primary producing countries, discussed in chapter 6, was not yet reflected in any significant shifts in the geographical distribution of trade in 1954. Although trade with these countries increased more than that with western Europe, Finland and North America, this was mainly due to the sharp increases in trade

[43] Soviet purchases were partly financed by the sale of 21 million ounces of silver and unspecified amounts of other precious metals on the London market in 1953 and 1954. (*Annual Bullion Review* (London, 1954)).

[44] The share of western Europe in their trade with the rest of the world rose from 42 per cent in 1948 to 56 per cent in 1954, mainly because of a decline in the share of North America. The trade of mainland China during this period was chiefly concentrated on Hong Kong and other areas of the Far East.

[45] For pre-war the data refer to the trade of western Europe, including the whole of Germany; for post-war they exclude the trade between eastern and western Germany and reparations deliveries of Finland to the Soviet Union.

[46] The net import balance on trade with the oversea countries reached a peak in 1951, when it exceeded $100 million. Thereafter it was gradually reduced by the rise in exports from the centrally planned economies to those countries which provided them with primary commodities.

with Latin America. Trade with the Middle East rose much less, and increases in the trade with Asia and the Far East were insignificant in 1954.

Changes in commodity composition

The most striking post-war development in the commodity pattern of trade of the centrally planned economies has been the increase in importance of machinery and equipment.[47] In all of the countries for which data are available, the share of such goods in total imports increased substantially, the increases being especially large in the less industrialized countries. In Poland, Romania, Bulgaria and mainland China, machinery and equipment comprised more than 40 per cent of all imports in 1953/54, and even in the Soviet Union the share increased from 11 per cent before the war to about 30 per cent in 1953. The only countries for which this shift was not very significant were Czechoslovakia and eastern Germany where production of machinery and equipment in relation to total output had been relatively high before the war (see table 55).

In several countries the rise in the relative share of machinery and equipment in exports was even more pronounced than in imports; in Czechoslovakia the share in exports rose from 6 per cent before the war to over 50 per cent in 1953/54, in Poland from one per cent to 12 per cent and in Hungary from 9 to 40 per cent. Although data are not available for the other countries, it seems certain on the basis of qualitative information that the share of machinery and equipment in exports increased for them as well. Indeed, one of the features of post-war trade of the centrally planned economies has been the increase in exports of machinery and equipment by countries which before the war had not exported capital goods.

In contrast to the rising share of capital goods, exports of foodstuffs fell in most of the countries as compared with the pre-war period, not only as a share of total exports but also in absolute amount. Although the decline in exports of food during most of the post-war decade was due chiefly to the slow recovery of agriculture, aggravated by repeated crop failures owing to poor weather, it was also influenced by an increase in consumption in relation to domestic production associated with agrarian reforms, elimination of unemployment and the rise in national income. These factors were especially important in such traditionally food exporting countries as Hungary and Poland.

The increase in raw material and fuel requirements for the industrialization programmes has led to a larger exchange of these commodities, both in trade among the centrally planned economies and in imports from the rest of the world. The rise in imports of these commodities from the rest of the world was especially significant for the more developed countries of the group such as eastern Germany, Czechoslovakia and Poland.

The most drastic changes in commodity composition of trade have occurred in Hungary and Poland, which have sharply increased their exports of engineering products and have come to rely on imports of substantial quantities of agricultural produce from abroad. Changes have been less significant in Bulgaria and Romania. The imports of mainland China, which began its industrialization at a later stage than the other countries, have also changed substantially during the past five years. Whereas over 50 per cent of its imports prior to 1950 were made up of consumer goods, in recent years the share has fallen to between 11 and 15 per cent of the total while the share of raw materials and capital equipment has sharply increased. The share of machinery and equipment rose from about a quarter of total imports of manufactures before the war to more than 50 per cent in 1953/54.

Trade within the group

Changes in composition of trade of the centrally planned economies have been most significant in trade within the group. The pattern of this trade has been radically altered by contraction of certain traditional flows and rapid expansion of others and by establishment of new channels of trade in commodities which before the war had no share in it. By 1954 over one-third of total intra-trade was made up of machinery and equipment, whereas before the war such trade was negligible.[48] This change in composition is partly due to the inclusion in this group, after the war, of eastern Germany, which has become one of the largest suppliers of capital goods within the area.[49] Other countries, such as Czechoslovakia, Hungary, Poland and the Soviet Union, however, have considerably increased their exports of machinery and equipment since the war.[50] At the same time the Soviet Union has become the largest importer of capital goods, the next in importance being Poland, mainland China and Romania.

Changes in the trade flows of industrial raw materials and fuels have been no less important. The most significant change in this respect was the emergence of the Soviet Union as the major supplier

[47] For a more detailed review of the commodity composition, see United Nations, *Economic Survey of Europe in 1954.*

[48] *Kommunist,* No. 15, 1954.

[49] Fifty per cent of eastern Germany's exports of machinery and equipment went to the Soviet Union.

[50] The Soviet Union has been exporting complete industrial plants, coal-mining machinery, heavy construction equipment, agricultural machinery, vehicles and other engineering products. Hungary exports, among other goods, sea and river craft, diesel locomotives, hoists and cranes; Poland, railway rolling-stock and mining equipment; Romania, oil drilling and processing equipment.

Table 55. Commodity Composition of Foreign Trade, by Country

(Percentage distribution)

Category	Bulgaria		China mainland[a]		Czecho-slovakia		Eastern Germany	Hungary		Poland		Romania		USSR	
	1937	1952	1937[b]	1950[b]	1937	1953	1954	1937	1953	1937	1953	1937	1953	1937[c]	1953
Imports:															
Food	2	2	12	3	13	29	41	6	...	9	...	4	...	10	...
Raw materials and semi-finished goods	27	21	28	60	57	...	39	57	...	63	43[d]	18	...	45	...
Manufactures	71	77	48	20	30	...	20	37	...	28	...	78	...	45	...
Machinery and equipment	31	40[e]	11	12[f]	9	10 to 13	4 to 5	8	18 to 21	14	40	23	43 to 49	11	28 to 30
Exports:															
Food	49	47	11	16	8	...	2	57	25	32	...	41	...	26	...
Raw materials and semi-finished goods	47	48	57	56	20	...	17	13	...	58	...	58	...	56	...
Manufactures	4	5	...	...	72	...	81	30	...	10	20[d]	1	18	18	...
Machinery and equipment	—	...	—	—	6	40	63 to 72	9	40	1	12	—	8 to 13	—	7[g]

Source: United Nations, *Economic Survey of Europe in 1954;* for mainland China: United Nations, *Economic Bulletin for Asia and the Far East,* vol. IV, No. 3, 1953.

[a] Exclusive of trade with Manchuria and with the Kwantung leased territory.

[b] Indicated shares do not add to total because of unspecified items, which in 1937 represented 12 per cent of imports and 32 per cent of exports; and in 1950, 17 and 27 per cent, respectively.

[c] Including Estonia, Latvia and Lithuania.

[d] 1952.

[e] 1953/54, as indicated in *Vneshnyaya Torgovlya,* No. 11, 1955.

[f] According to *People's Daily* (Peking), 12 May 1955, 51 per cent of Chinese imports from eastern Europe in 1953 consisted of machinery and equipment. In 1954, 97 per cent of imports from the Soviet Union and 93.5 per cent of imports from other eastern European countries were capital goods. China's trade with these countries represented about 80 per cent of its total trade in 1954.

[g] Minimum estimate based on statement by A. I. Mikoyan, in *Pravda,* 11 March 1954.

of raw materials for heavy industry as well as for light industry, in trade within the group. Soviet exports of iron ore to other countries of the group, insignificant before the war, reached in 1951-1953 about 3.1 million tons, on an average, in terms of iron content, accounting for about 80 per cent of all imports of the European centrally planned economies during this period. Similarly, the Soviet Union became the main source of supply of manganese and chrome ores, phosphate of lime, non-ferrous metals and, until recently, cotton.

The steep increase in coal requirements led to a considerable extension of trade in coal. Polish coal exports to the other countries increased from a mere 200,000 tons in 1935-1938 to 17.2 million tons annually in 1951-1953, more than half of it being shipped to the Soviet Union.[51] Romanian exports of petroleum to the centrally planned economies rose from 600,000 tons in 1935-1938 to 6 million tons in 1951-1953. Changes in the trade in foodstuffs during the post-war decade were less uniform than those which occurred in the flows of capital equipment, raw materials and fuels. Intra-trade in grain, which was very small before the war, expanded considerably during the post-war decade. Moreover certain countries which before the war were net exporters of grain, mostly to western Europe—such as Poland and Hungary—have in recent years become importers of significant quantities of grain from the Soviet Union.[52] Soviet exports of grain to other centrally planned economies, negligible before the war, reached 2 to 3 million tons per year, the largest part of which went to eastern Germany and to Czechoslovakia.[53]

No direct information is available on changes in the trade of manufactured consumer goods in relation to aggregate trade of the centrally planned economies with each other. However, the rise in the share of capital equipment to one-third of the total, as well as the considerable expansion in volume of trade in raw materials, fuels and grain, indicate that the share of manufactured consumer goods in intra-trade was substantially smaller during the post-war period than before the war. Nevertheless, the volume of trade in such goods as textiles, leather goods, glassware, porcelain and durable consumer goods was substantially larger than before the war.

[51] Although the Soviet Union was a net importer of hard fuel, it provided other countries of the group with increasing quantities of coke.

[52] According to *Vneshnava Torgovlya*, Nos. 2 and 7, 1955, in 1954, 70 per cent of Polish imports of bread grains and 94 per cent of Czechoslovakia's imports of grain were provided by the Soviet Union.

[53] Eastern Germany before the war was a net exporter of grain to western Germany; after the war its imports from the Soviet Union ranged between one and 1.5 million tons per year. Czechoslovakia's net imports of grain from other countries of this group amounted to about 100,000 tons before the war; during the post-war decade it imported more than one million tons per year from the Soviet Union.

Trade with rest of world

The composition of the trade of the centrally planned economies with the rest of the world was affected by several forces, partly reinforcing, but partly conflicting with, one another. On the one hand, the shrinking volume of east-west trade led the eastern countries to concentrate their demand as much as possible on the most essential imports. On the other hand, the strategic limitations placed by western countries on exports to the centrally planned economies tended to fall most heavily on these same commodities—capital goods and raw materials for such goods. The composition of imports was additionally affected by the pace of industrialization in the post-war decade;

Table 56. Exports of Western Europe to Eastern Europe

(Millions of current dollars, f.o.b.)

Commodity	*1952*	*1953*	*1954*
Consumer goods	128	192	332
Food	71	131	220
Tobacco	4	10	25
Textiles	31	28	47
Paper	13	18	36
Raw materials for consumer goods	93	96	127
Capital goods	280	261	261
Raw materials for capital goods	153	154	128
All other commodities	78	80	111

Source: United Nations Economic Commission for Europe, *Economic Bulletin for Europe*, vol. 7, No. 2, 1955.

in the early post-war years the emphasis in demand was naturally on capital goods, but after mid-1953, when it became urgent to deal with critical shortages of food and raw materials, the emphasis in import demand shifted to these items. The influence of these factors was reflected in an increase in the relative share of machinery and transport equipment at the expense of other manufactures from 1938 to 1948, and a rise in the share of food at the expense of machinery and transport equipment from 1948 to 1954. The composition of exports to eastern Europe by certain western European countries and the United States[54] is shown below (as percentages of total exports).[55]

[54] For 1938 and 1948, exports of Belgium-Luxembourg, France, western Germany, Italy, Netherlands, Sweden, Switzerland, United Kingdom and United States to eastern Europe, exclusive of Albania and eastern Germany. For 1954, western countries are exclusive of Switzerland, and eastern European countries include Albania and eastern Germany.

[55] The values for 1938 are in constant 1948 prices, for 1954 in current prices. The values in constant 1948 prices were computed on the basis of weighted export unit value indices for each commodity group for each exporting country. Export unit value indices for total western trade on a 1953 base indicate that the change in dollar prices from 1948 to 1954 was under 5 per cent.

	1938	1948	1954
Food, beverages and tobacco	5	8	24
Raw materials and fuels	16	17	18[a]
Machinery and transport equipment	28	42	23
Other manufactures	51	33	35

Source: United Nations, *Economic Survey of Europe since the War* (sales number: 1953.II.E.4), table LV, appendix A; and *Commodity Trade Statistics*, vol. VI, No. 4, summary table.

[a] Including metal ores and scrap.

Developments in recent years are illustrated in greater detail in table 56, which shows that, from 1952 to 1954, imports of consumer goods, especially of food, and of raw materials for light industry increased substantially while those of capital goods and of raw materials for producer goods declined in absolute value.

The composition of the exports of the centrally planned economies to the rest of the world changed less than that of imports. As before the war, the major part of exports was composed of raw materials and food. As shown in table 57, exports of timber, hard fuels and grain from eastern to western Europe declined substantially in 1954, compared with the pre-war period, while exports of petroleum increased by almost 70 per cent.

During recent years, a new tendency has appeared in the exports of the centrally planned economies to the rest of the world. There has been an expansion in trade with the under-developed areas, involving an exchange of manufactures, particularly of machinery and equipment, in return for primary products. Trade agreements concluded with Afghanistan, Burma, India, Indonesia and Syria involve deliveries of complete industrial units by Czechoslovakia, eastern Germany, Poland and the Soviet Union. Trade with Latin America and the Middle East has also been developing along similar lines. Apart from more general policy considerations which may be involved, the expansion of this trade is based upon growing requirements for primary commodities and expanding output of capital goods in the centrally planned economies, as well as upon the intensified demand of under-developed countries for capital goods and the weakness in world export markets for some of their primary commodities. Although such trade was rather limited before 1956, the new trend may have considerable significance for future developments in world trade.

Table 57. Exports of Selected Commodities from Eastern Europe to Western Europe

(Millions of indicated unit)

Commodity, unit and origin	*Pre-war*	*1948/49*	*1954*
Timber[a] (cubic metres)[b]	11.0[c]	2.1	5.1
Hard fuels[d] (tons)[e]	18.3[f]	14.4	11.0
Czechoslovakia	5.1	2.3	1.1
Germany, eastern	——	0.2	3.2
Poland	13.2	11.8	5.7
USSR	——	0.1	1.0
Petroleum[g] (tons)	1.6[h]	——	3.1
Romania	——	——	1.6
USSR	——	——	1.5
Grain[i] (tons)	3.9[j]	2.0	1.3
USSR	1.3	0.9	0.9

Source: Statistical Office of the United Nations, *Commodity Trade Statistics;* United Nations Economic Commission for Europe, *Quarterly Bulletin of Coal Statistics,* vol. II, Nos. 3 and 4, vol. III, No. 4 (Geneva); Food and Agriculture Organization of the United Nations and Economic Commission for Europe, *Timber Bulletin for Europe,* vol. VI, No. 4 and *Timber Statistics for Europe,* vol. VII, No. 4 (Geneva); Food and Agriculture Organization of the United Nations, Commodity Series, *Grain,* Bulletin No. 18, May 1950 (Rome); League of Nations, *International Trade in Certain Raw Materials and Foodstuffs,* 1937 and 1938 (Geneva).

[a] Including exports to some Middle East countries.

[b] Conversion factor for sawn softwood: one standard equals 7.8 cubic metres in roundwood equivalent.

[c] 1937 exports from Baltic States and Czechoslovakia, Hungary, Poland, Romania and the Soviet Union.

[d] Including trade within Germany in post-war years.

[e] Coal, coke and brown coal added ton for ton.

[f] 1937 exports, excluding Germany and marginal exporters; exclusive of bunker fuels.

[g] Including crude oil.

[h] 1937 exports from Romania and Soviet Union only.

[i] Wheat, rye, barley, maize, oats, including flour in grain equivalents; Czechoslovak and eastern German exports not included.

[j] 1934-1938 average annual exports, not adjusted for post-war territorial changes.

Part II

CURRENT ECONOMIC DEVELOPMENTS

Chapter 4

RECENT TRENDS IN INDUSTRIAL COUNTRIES

The Current Economic Expansion

Expansion was the keynote of economic change in 1955 in the industrially developed private enterprise economies. In western Europe, it represented a continuation, for the third year, of a sharply rising trend in production. Industrial output reached a record high level and, despite the appearance of slackening in some countries towards the end of the year, the rate of expansion for western Europe as a whole was higher than in the two preceding years. In North America, following a recession during 1953/54, the recovery in industrial production in 1955 raised output beyond the peak post-war level attained during the first half of 1953.

The present phase of economic growth in the industrial countries is significantly different from that which followed the outbreak of hostilities in Korea. Price increases accompanying the expansion in western Europe in the past three years and in North America in 1955, were, on the whole, moderate and in any case much smaller than those typical of 1950/51. The most important difference between the two periods of expansion, however, was in the pattern of demand. In general, the dynamic factors during the period of Korean hostilities were an initial inventory boom with strong speculative elements, followed by a sharp rise in military expenditures. The present expansion, on the other hand, was stimulated and sustained by rising trends in fixed investment and in the consumption of durable goods.

In western Europe, the current industrial upswing was preceded by a period of stagnation in production, reflecting the process of readjustment to the collapse of the Korean raw materials boom. By 1953, however, there were signs that the level of activity in some sectors of the western European economy was beginning to rise. But not until the revival of investment in housing did the recovery in over-all economic activity gather further momentum. In all countries, the revival was stimulated by government fiscal and credit policies.

To a varying degree, changes in other demand factors provided additional stimuli to the recovery in over-all economic activity. It was the investment in housing, however, which continued to dominate economic developments in western Europe until the middle of 1954. Since then, the rises in consumer expenditure on durables and in industrial investment have replaced housing expenditure as the major expansionary factors. These changes marked a new stage in the present economic expansion of the industrially developed countries.

The steady expansion in consumer expenditure was associated with a shift in the pattern of consumption in favour of durables. In western Europe this was the result of substantial increases in real income from 1953 to 1955. Moreover, as defence expenditures tended to level off or decline after 1952, a reduction in the pressure on capacity in durable goods industries made it possible for governments to permit freer rein for consumer demand. Direct controls imposed on durable goods consumption during the period of Korean hostilities were removed, taxes were reduced and an expansion in consumer credit was encouraged. As a result, there was a sharp rise in the purchase of household appliances and passenger cars.

The sustained rise in durable goods consumption in 1954 and 1955 was in turn a most important factor in stimulating an increase in industrial investment, which had tended to slow down during the temporary slack of 1952 and 1953. At the same time, reduced taxes on investment and the availability of cheap credit gave further impetus to recovery in this sector. As a result, industrial investment in western Europe rose substantially in 1954 and 1955 and replaced housing investment as the major element in total investment activity. Increased investment was concentrated in manufacturing, the largest part of the rise being absorbed by the motor vehicle industry and other metal-using sectors.

In North America, 1955 was a year of marked recovery from the previous recession. Defence expenditures had declined much more sharply in North America than in western Europe in 1954, and this gave rise to liquidation of inventories. Other elements of demand, however, were buoyant, partly as a result of a number of governmental measures, notably reduction in taxes and liberalization of credit. The strength of final civilian demand rapidly brought inventory liquidation to an end and initiated a new upswing at

the end of 1954, in which the key elements were sharp advances in consumption of durable goods and in construction.

The changes in the pattern of demand described above had important repercussions on the structure of production and trade. The one-sided character of the expansion was most clearly revealed in developments in western Europe, where the advance in business activity had been sustained over a longer period of time. Production increases were concentrated in the engineering industries, while in other sectors output rose much less rapidly or even tended to decline. Consumer durables, especially passenger cars, were the most prominent element in the engineering boom at first, but later, the increase in the output of investment goods was equally rapid—partly in response to the upsurge in consumption of durables. Thus, while slackening demand gave rise to an under-utilization of capacity in industrial sectors, such as textiles, production in the engineering industries pushed rapidly towards the limits of capacity.

The structure of foreign trade was also affected. During the course of the expansion, not only was an increasing proportion of the rise in trade centred in engineering goods and materials needed in the engineering industries, but there was also a shift in the origin of imports towards the industrial countries in a position to supply these requirements.

The focusing of demand on engineering products exerted growing pressure on industries in this sector. The position of individual countries in the expansion was to a large extent determined by the degree of strain which developed in the engineering industries. The United Kingdom and the Scandinavian countries entered the present period of economic expansion with a relatively small volume of unused capacity in the engineering industries and a low level of unemployment. Pressures arising from the continued expansion in investment activity were most severe in these countries. The increased demand for labour in the engineering industries could be met only in part by transferring manpower from other industries. Consequently, expansion of output became increasingly dependent upon a rise in productivity. Moreover, considerable pressure on costs and prices developed as a result of the shortage of labour, especially skilled labour. The supply of basic material, such as coal and steel, became progressively tighter, necessitating larger imports which, while easing domestic bottlenecks, resulted in a deterioration in the balance of payments. The situation was aggravated by the strength of domestic demand for engineering products, which meant either that full advantage was not taken of currently favourable conditions in export markets or that imports of these goods increased. Balance of payments difficulties became most serious in Denmark and the United Kingdom.

The situation in western Germany was much less strained than in the countries discussed thus far. Substantial foreign exchange reserves acted as a buffer to balance of payments difficulties. More important, however, were the continuing post-war growth in investment which had enlarged the capacity of German engineering industries, and the larger reserves of unemployed labour at the beginning of the upswing. Even in western Germany, however, much of the unemployment has now disappeared, and, with production approaching capacity rates, order books and delivery periods have lengthened.

The problem of the supply of basic materials to the engineering sectors of these countries in 1955 would have been much more serious but for large increases in exports of coal and steel from Belgium and France and of engineering products from these two countries and from Italy. Higher exports from these countries were made possible by substantial unutilized capacity in metal-producing and engineering industries at the beginning of the present upswing. This is reflected in the fact that large increases in output were achieved without a corresponding increase in employment. Investment in industrial capital rose in 1955, but investment activity as a whole was still largely dominated by housing. Thus the advance in economic activity in Belgium, France and Italy did not result in economic strains as great as those experienced in north-west Europe, and was to a large extent dependent upon the impetus of increased exports.

As the upswing gathered momentum, the majority of industrially developed countries—with the notable exceptions of Belgium, France and Italy—found it necessary to adopt measures to restrain domestic demand. In the United Kingdom and the Scandinavian countries, anti-inflationary measures were initiated in the second half of 1954 or the first half of 1955, while western Germany and the Netherlands followed suit later in 1955. In North America, the measures of restraint, begun in 1955, were milder than in western Europe.

An outstanding feature of recent developments has been the prominence given in all countries to monetary policy. Bank or discount rates were increased, demonstrating a revived interest in conventional policy techniques. In the United States, for example, the Federal Reserve discount rate was changed six times from the beginning of 1955 to April 1956. In many cases, bank or discount rate changes were supplemented by "exhortations" and informal agreements between central and commercial banks. The policies were intended to slow down the rapid growth in the volume of bank credit, which was being directed largely to investment. In addition, taxes were increased in a number of cases, and food and housing subsidies reduced. Efforts were made to curtail the consumption of durable goods

—directly, by restricting hire-purchase or by raising sales taxes or, indirectly, by reducing available domestic supplies through import limitations. As a result, there was a noticeable slackening in some countries in the rate of increase in both fixed investment and durable goods consumption in the course of 1955.

Major Factors in the Expansion

As in the previous year, all western European countries shared in the increase in gross national product recorded in 1955, (table 58). In Belgium, France, Italy and the Netherlands, the rate of expansion ranged from 3 to 7 per cent in 1955. The largest increase was recorded in western Germany where gross national product rose by 11 per cent. While in these five countries the rise in economic activity was accelerated in 1955, in other countries the advance in gross national product was less than in 1954. In Norway, Sweden and the United Kingdom, the increases of 2 to 3 per cent in 1955 were appreciably lower than the increases of 5 per cent recorded in all these countries in 1954. The rate of expansion in Denmark, already low in 1954, fell to less than one per cent in 1955.

The expansive forces in 1955 continued to be centred in the area of private demand. Changes in current government expenditure were relatively small in virtually all countries. It is true that in western Germany and the Netherlands there was an increase in government expenditure in 1955 at a rate substantially larger than in 1954. In the other western European countries, however, governments attempted to restrain

Table 58. Real Gross National Product and its Major Components, by Country
(At 1954 prices; as percentages of total 1954 gross national product)

Country and year	Gross national product	Personal consumption	Government expenditure	Fixed investment	Change in inventories	Exports and imports of goods and services		
						Balance	Exports	Imports
Belgium:								
1953	98.3	70.1	13.6	13.2	0.8	0.6	31.1	—30.5
1954	100.0	70.9	13.5	14.0	1.1	0.5	33.3	—32.8
1955	103.5[a]	...	...	...	...	...[b]	...	...
Denmark:								
1953	97.8	60.8	13.7	21.2	1.3	0.8	27.4	—26.6
1954	100.0	63.9	14.9	22.0	0.9	—1.7	29.6	—31.3
1955	100.5	62.6	15.2	21.6	0.7	0.4	31.8	—31.4
France:								
1953	95.2	65.9	16.3	12.7	0.9	—0.6	13.8	—14.5
1954	100.0	69.0	15.0	13.9	1.0	1.1	16.2	—15.1
1955	105.3	73.3	14.5	15.1	...	...[b]	...	...
Germany, western:[c]								
1953	92.4	52.0	15.7	19.1	2.7	2.8	15.5	—12.7
1954	100.0	56.2	16.5	21.0	3.4	2.9	18.9	—16.0
1955	110.7	61.8	18.0	25.4	3.2	2.3	21.4	—19.2
Italy:[d]								
1953	95.2	68.1	11.0	18.2	0.2	—2.3	11.2	—13.5
1954	100.0	69.7	12.2	19.8	0.3	—2.0	11.5	—13.5
1955	106.8	72.8	12.3	21.7	1.5	—1.5	13.2	—14.7
Netherlands:[e]								
1953	94.9	56.8	15.9	15.7	1.2	5.4	45.0	—39.6
1954	100.0	59.9	16.3	18.8	3.9	1.1	51.5	—50.3
1955	105.7	63.6	17.2	21.1	1.9	2.0	56.4	—54.4
Norway:[c]								
1953	95.3	54.8	10.5	33.8	—0.5	—3.3	31.8	—35.1
1954	100.0	57.6	10.9	35.5	–	—4.0	35.1	—39.1
1955	102.3	59.3	10.8	37.3	—0.3	—4.8	...	...
Sweden:								
1953	95.2	55.7	20.3	19.3	—0.6	0.5	18.2	—17.7
1954	100.0	58.1	21.8	20.8	—0.3	—0.3	19.9	—20.2
1955	102.7	59.9	22.6	21.5	–	—1.3	21.0	—22.3

Table 58. Real Gross National Product and its Major Components, by Country (*continued*)

Country and year	Gross national product	Personal consumption	Government expenditure	Fixed investment	Change in inventories	Exports and imports of goods and services		
						Balance	Exports	Imports
United Kingdom:[f]								
1953	95.6	61.5	19.3	13.8	0.8	0.1	24.4	—24.3
1954	100.0	64.3	19.3	14.9	0.8	0.8	26.0	—25.2
1955	103.3	66.2	18.8	16.1	2.1	0.1	27.6	—27.5
Canada:[g]								
1953	103.1	63.3	18.7	20.1	3.0	—2.0	22.2	—24.2
1954	100.0	65.5	18.1	19.4	—1.2	—1.8	21.3	—23.1
1955	109.2	70.2	18.6	21.3	2.0	—3.0	23.0	—26.0
United States:[g,h]								
1953	102.0	64.5	23.4	14.0	0.3	—0.2	4.7	4.9
1954	100.0	65.6	20.9	13.9	—0.8	0.4	4.9	4.6
1955	106.0	69.8	19.9	15.0	0.9	0.3	5.4	5.1

Source: Organisation for European Economic Co-operation (OEEC), *General Statistics* and press releases (Paris). Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, Preliminary Annual, 1955* (Ottawa); Denmark: Department of Statistics, *Statistiske Efterretninger*, No. 6, 1956 (Copenhagen); France (for 1955); National Institute of Statistics and Economic Studies, *Rapport sur les comptes de la nation, 1949-1955* (Paris); Germany, western: Bank Deutscher Länder, *Monthly Report*, January 1956 (Frankfurt); Deutschesinstitut für Wirtschaftsforschung, *Vierteljahrshefte zur Wirtschaftsforschung*, No. 4, 1955 (Berlin); Italy: Chamber of Deputies, *Relazione generale sulla situazione economica del paese*, 1953, 1954 and 1955 (Rome); Norway: Department of Finance and Customs, *Nasjonalbudsjettet, 1956* (Oslo); Central Bureau of Statistics, *Statistiske Meldinger* (Oslo); Sweden: Department of Finance, *Nationalbudget för år 1956* (Stockholm); United Kingdom: *Economic Survey, 1956*, Cmd 9728 (London); United States: Department of Commerce, *Survey of Current Business* (Washington, D.C.).

Figures for 1955 are preliminary estimates of governments or of the United Nations Bureau of Economic Affairs.

[a] An estimated increase of 3 to 4 per cent was indicated in the reply of the Government of Belgium to the United Nations questionnaire on full employment and balance of payments, 18 November 1955.

[b] The real balance of trade in 1955 showed a substantial increase over 1954.

[c] Fixed investment includes only government civilian investment.

[d] The value of services rendered to the private sector by public administration has been added to the government expenditure component.

[e] Central Planning Bureau, *Central Economic Plan, 1956* (The Hague). Fixed investment refers to private investment only.

[f] At 1954 factor cost. Government investment expenditure is included in fixed investment.

[g] Government expenditure includes public investment.

[h] Adjustments have been made in two of the components of gross national product: "Net foreign investment" was replaced by the balance of exports and imports of goods and services, to make it comparable with the concept used in the national accounts of other countries included in this table; the balance was obtained by adding economic aid to net foreign investment, the corresponding item being omitted from government expenditure on goods and services.

or curtail their current expenditures as part of their general programme of disinflation. Thus, in Denmark, Italy, Norway and Sweden, the increase in 1955 was either of the same order as in 1954 or slightly lower. In France and the United Kingdom, there was a substantial reduction, mainly in military expenditure.

The most rapidly expanding elements of private demand in 1955 were fixed investment and consumption of durable goods. Fixed investment in general rose more rapidly than national product in 1955. However, only in western Germany and Italy was the rate of increase in 1955 greater than in 1954. The increases in France, Norway and the United Kingdom were about the same as in 1954, while Belgium, the Netherlands and Sweden all experienced a slackening in the rate of increase. In Denmark, fixed investment registered a moderate decline. In most of these countries, extension of industrial capacity predominated in the rise in fixed investment in 1955. Investment in housing, which had been a primary element of expansion until the latter half of 1954, showed significant declines in 1955 in all western European countries except Belgium, France and Italy. Changes in investment in inventories in 1955 were not of major significance, except in Italy and the United Kingdom, where there were significant increases, and in the Netherlands, where the rate of accumulation was substantially lower.

Both in 1954 and in 1955, the increase in private consumption in most countries tended to keep pace with that in national product. But the rise in consumption was accompanied almost everywhere by important shifts in the pattern of consumption expenditure in favour of durables, especially motorcars. Indeed, consumer expenditures on durables accounted for a large part of the over-all rise in consumer outlays in 1954 and 1955 even though they constituted a relatively small proportion of the total. This shift in the pattern of consumer demand acted as an important stimulus to investment in industries producing durable consumer goods.

The building up of the pressure of domestic demand in 1955 was reflected in the foreign trade sector of several countries in the form of a larger rise in the volume of imports than of exports. This was the case in Norway, Sweden, the United Kingdom and western

Germany; in the latter country, government policies were designed to encourage imports of consumer goods in order to raise the level of consumption and to maintain domestic price stability. The deterioration in the real balance of exports and imports of these countries in 1955 was associated with a considerable improvement in the real balances of Belgium, Denmark, France and Italy, which supplied the western European markets with important industrial materials and food. In the latter group of countries, the growth in real export balances provided additional elements of expansion.

Relatively large increases in national product in North America in 1955—9 per cent in Canada and 6 per cent in the United States—represented not only a recovery from the 1954 recession but an advance to new peaks. As in western Europe, the influence of private demand was predominant. Government expenditure fell slightly in 1955 in the United States and rose moderately in Canada. The dynamic components of demand were fixed investment, especially in housing, and consumption of durables; and the consequent expansion in aggregate final demand resulted in a resumption of inventory accumulation, following the liquidation of 1954.

The rise in national product in Japan accelerated in 1955, owing mainly to a sharp upward trend in exports brought about by the relaxation of import restrictions in the sterling area and growing demand in western Europe and North America. Domestic demand continued to reflect the effects of deflationary policies initiated in October 1953. Government expenditures, including public investment, changed little, and private investment both in inventories and in plant and equipment seems to have declined, although there was some recovery in residential construction. Consumption rose moderately as a result of higher wages and farm incomes.

The investment boom

The stimulus of housing investment in western Europe

In general, the rise of investment activity after 1952 in Denmark, western Germany, the Netherlands, Norway, Sweden and the United Kingdom was divided into two stages.[1] In the first stage, comprising 1953 and the first half of 1954, the expansion took the form mainly of investment in housing.[2] It was only after the middle of 1954 that the increase in investment in industrial plant and equipment became the principal factor in the rising level of investment activity.

As shown in table 59, the increase in housing investment in 1953 was most striking in the United Kingdom and western Germany, where it accounted for 40 per cent of the total increase in fixed investment. In all the countries listed, both the public and the private sectors contributed to the rise in residential building in 1953. Many governments, while encouraging the general upward trend in housing throughout the post-war period, have on occasions influenced the amount of residential construction to help stabilize the total volume of investment. This has been done either directly through the housing programmes of municipal authorities or indirectly by variations in subsidies and other measures affecting private housing. Thus, in 1953, when private investment generally remained stationary and government military expenditure tended to level off, active programmes of public investment in housing were undertaken. At the same time, private residential building was, in many cases, stimulated by the abolition of rent control and by the general relaxation or removal of restrictions imposed during the period of Korean hostilities.[3]

The rise in investment in housing was not at first accompanied by a similar revival in private investment in manufacturing. Manufacturing investment rose relatively little; in the case of Sweden, it even declined substantially in 1953. Because of the expectation of increasing prices and of lengthened delivery periods, there had been a tendency during the boom of 1950 and 1951 for the execution of investment plans to be accelerated. The slackening in investment in 1953 therefore represented in part a reaction from earlier developments. It is also likely that private investment was adversely affected by the levelling off in defence expenditures, and possibly by the restrictive monetary policies adopted in 1951 and the textile recession of 1951 and 1952.

The stagnation in fixed industrial investment and the levelling off in government current expenditure were in many cases accompanied by a deterioration in the real balance of exports and imports; nor did inventory investment provide a significant element of expansion. In these circumstances, the rise in housing investment stands out all the more sharply, as an important factor, not only in sustaining aggregate investment, but also in contributing to a favourable business outlook and thus paving the way for a revival in industrial investment at a later stage.

[1] Owing to differences in economic structure and policy, the timing of the expansion in housing investment varied in individual countries. In western Germany and Norway, housing construction had risen rapidly between 1950 and 1952; while the rate of expansion tended to slacken somewhat in Norway in 1953, it accelerated further in western Germany. In the United Kingdom, the housing boom started during the latter half of 1952.

[2] In some countries investment in transport and communications also increased by a substantial amount in 1953.

[3] In the United Kingdom, the exemption limits for building licences were raised, controlled rents were increased and purchases of houses by private individuals were encouraged. Restrictions on construction were removed in the Netherlands. Sweden abolished the system of permits for residential building in 1954, and in Norway the strictness of building licensing was greatly eased during 1953 and 1954. In Denmark, government subsidies were given to civilian construction, including housing, starting in the winter of 1952/53.

Table 59. Changes in Total Gross Fixed Investment, Investment in Industry[a] and in Housing, Selected Countries

(At 1950 prices; as percentages of 1950 total gross fixed investment)

Country and item	Share, 1950	Percentage change				
		1951	1952	1953	1954	1955
Denmark:						
Total gross fixed investment	100	—2.0	3.0	7.0	8.0	—2.0
Industry	28	—0.3	—0.8	0.8	2.2	...
Housing	17	—2.0	0.9	2.5	2.2	...
Germany, western:						
Total gross fixed investment	100	8.0	1.0	17.0	15.0	24.0
Industry	33	1.4	—0.4	4.0	2.7	...
Housing	22	3.2	2.8	6.5	6.3	0.1
Netherlands:						
Total gross fixed investment	100	—5.0	6.0	7.0	14.0	...
Industry	...	...	...	...	...	...
Housing	18	—1.7	1.7	1.1	1.0	...
Norway:						
Total gross fixed investment	100	1.0	3.0	8.0	6.0	6.0
Industry	20	—1.0	2.8	0.4	0.9	...
Housing	18	1.1	2.5	1.4	—0.2	—0.3
Sweden:						
Total gross fixed investment	100	—1.0	1.0	15.0	14.0	4.0
Industry	28	—1.3	—4.0	—2.8	5.6	1.9
Housing	24	—2.4	0.2	3.9	4.2	—0.2
United Kingdom:[b]						
Total gross fixed investment	100	—1.1	0.5	11.6	8.8	8.8
Industry	29	1.4	—0.2	—0.1	2.9	6.5
Housing	18	0.2	4.4	6.9	1.5	—2.5

Source: Data for 1950-1954; United Nations, *Economic Survey of Europe in 1955* (sales number: 1956.II.E.2); data for 1955 are based on national statistics. United Kingdom: *Economic Survey, 1956*, Cmd 9728.

[a] Manufacturing, mining and construction.

[b] At 1948 prices.

The subsequent upturn in industrial investment rested on a number of favourable developments. In many European countries, private industry had accumulated internal funds which could readily be used for capital expansion. These funds arose from substantial depreciation accruals associated with the relatively large additions to capital of previous years but not reinvested after 1951. The continued decline in import prices was another favourable factor in the revival, since it contributed to increases in profit margins in 1953 and 1954. Furthermore, government policies throughout this period tended, in general, to encourage private investment, and cheap credit was readily available. Restrictions imposed during the Korean hostilities were gradually removed, and new fiscal measures favouring investment were introduced. In the United Kingdom, for example, initial depreciation allowances on investment in plant and equipment were restored in the budget of 1953/54, while in the budget of 1954/55 these were replaced by a more favourable system of investment allowances.[4] In the Netherlands, measures taken in 1953 and 1954 included reductions in corporate taxes, tax concessions on amortization and losses incurred in new industrial ventures, and termination of dividend limitation, beginning with 1954. The Swedish Government in 1954 revoked the 12 per cent levy on new investment. In Norway, contrary to this general trend, import duties on certain machinery, which had hitherto been waived, were reinstated from February 1954 for balance of payments reasons.

[4] The initial depreciation allowance merely advanced, for the year in which investment was made, a specified proportion of the depreciation allowance. The new investment allowances were given for expenditure on new equipment, in addition to annual depreciation allowances at the full rate.

The industrial investment boom in western Europe

The revival of fixed investment in industry in western Europe got under way slowly at first, but from the second half of 1954 it developed a more rapid tempo. It was characterized by a high degree of concentration of new investment in the engineering and metal-producing industries, with chemicals also prominent in the expansion. In some cases, the increase in investment in the motor vehicle sector of the engineering industries was especially heavy. On the other hand, investment in non-durable goods industries remained sluggish even as the upturn gathered momentum.

Both the acceleration and the shift in composition of industrial investment were caused mainly by changes

in the pattern of consumer expenditure in favour of durables, especially motorcars, as is shown later. The same developments affected export markets. The result was a rapidly rising demand for products of the engineering industries. As the slack in the engineering industries was taken up, producers were encouraged to expand capacity still further.

Pressures on particular sectors of the economy became increasingly apparent in many countries early in 1955. Shortages of skilled labour were experienced in the engineering and building industries. The supply of basic materials to the engineering industries became increasingly tight; the need for larger coal and steel imports was one of the more important reasons for the deterioration of the balance of payments in some countries. These developments impelled the governments of Norway, Sweden and the United Kingdom to take a series of precautionary measures to restrain the rate of expansion of domestic demand in the course of 1955. In Denmark, however, a poor harvest in 1954 and a consequent deterioration in the balance of payments prompted the Government to impose restrictions on domestic investment as early as the middle of 1954, as shown below.

Just as in 1953 governments had stimulated domestic investment activity by speeding up public investment, so in 1955 public investment, specially housing, bore the first brunt of the curtailment in fixed investment. Residential building levelled off early in the year and actually declined slightly during the course of the year. There was a small decline in residential building in Norway, Sweden and the United Kingdom in 1955, while in Denmark, the decline was more substantial.

The measures restricting private investment were more direct and severe in the Scandinavian countries than in the United Kingdom. In the United Kingdom they were confined to raising the cost of borrowing and curtailing bank loans to private industry, but in the Scandinavian countries measures of this type were reinforced by taxes on new investment. The effects of these measures on private investment in 1955 are as yet difficult to evaluate, but in Norway and Sweden the rate of expansion in industrial investment did slacken during the course of the year. In Sweden, this was the combined result of a smaller increase in investment in manufacturing, and a slight decline in private residential building. In Norway, the increase in fixed investment in 1955 was due entirely to outlays on ships; the latter were larger than in the previous year and represented the fulfilment of contracts concluded during the period of Korean hostilities. As a result of restrictive policies introduced previously, fixed investment in Denmark in 1955 was substantially lower than in 1954. Construction and residential building, which were subject to licensing, declined. Industrial investment was sustained in export industries, but declined in others.

In contrast to the Scandinavian countries, the rate of expansion of total fixed investment in the United Kingdom was maintained in 1955. Since residential building dropped 8 per cent, this was mainly the result of an accelerated expansion of private investment in manufacturing—amounting to as much as 20 per cent from 1954 to 1955, in real terms, compared with only 6 per cent from 1953 to 1954.[5] This development was in contradiction to government policy intended to restrain the tempo of private investment. The measures adopted to deal with this situation are discussed below.

The pattern of investment in manufacturing in the United Kingdom during the investment boom is shown in table 60,[6] and is, in general, typical of some of the other western European countries as well. Among the manufacturing industries, investment in the engineering sector accounted for one-half of the increase in total fixed investment in 1955. The rate of increase in investment in vehicle production was most striking. These changes were in contrast to experience in 1953 when the rise in investment was more evenly distributed among the various sectors of manufacturing.

Table 60. United Kingdom: Changes in Investment Expenditure

(At current prices)

Item	*Percentage change, 1954 to 1955*	*Change as percentage of 1954 total*
Manufacturing industry	27	27.0
Metal manufacturing	13	1.6
Metal-using (other than vehicle) ...	25	5.4
Vehicles	75	6.2
Non-metalliferous mining products.	21	0.9
Chemicals	13	2.1
Textiles and clothing	16	2.1
Food, drink and tobacco	25	3.2
Paper and printing	50	3.4
Other manufacturing industries....	36	1.6

Source: United Kingdom Board of Trade, *Board of Trade Journal,* (London), 5 May 1956.

In western Germany, the increase in industrial investment in 1954 was the largest recorded in the western European group. No specific restrictive measures, however, were imposed on private investment in 1955. The pressures arising from a rapid expansion of investment, accompanied by a rising level of consumption, were offset by increases in imports. In 1955, investment in industrial plant and equipment in western Germany expanded at an even more rapid rate than in 1954, in response to rising domestic and foreign demand. Partly as a result of labour shortages,

[5] Moreover, the quarterly figures indicate that investment expenditure in manufacturing rose sharply during the course of 1955.

[6] The figures, estimated by the United Kingdom Board of Trade, are given in current prices. They are slightly different from the estimates in the national income accounts.

however, the increase in residential building characteristic of previous years came to a halt in 1955. In the Netherlands, a slackened rate of increase in investment in 1955 was also largely due to labour shortages.

Divergent trends in Belgium, France and Italy

The expansion in fixed investment during the period 1953 to 1955 in Belgium, France and Italy followed a somewhat different course from that described above. Not only did the expansion in fixed investment start later, but it continued to be dominated by housing construction in 1955. This is partly attributed to the fact that the volume of residential building in these countries was at much lower levels than elsewhere in western Europe in earlier years (see table 61).

The housing boom in these countries did not start until 1954. As in the other western European countries discussed above, construction of housing was stimulated by government measures in the form of subsidies in Belgium and France. In Italy increased investment in public works, including housing, was part of the ten-year expansion programme. In 1954, the rise in residential construction accounted for more than half of the increase in total investment in Belgium and Italy and for slightly less than half in France, as illustrated in table 61. In 1955, housing was the main element in the acceleration of investment in Italy. The rate of expansion in residential building was maintained in France in 1955; its failure to increase was due partly to saturation in the demand for some of the more expensive types of housing.

New investment in manufacturing industries had been nearly stationary in the three countries since 1952 and did not increase in France in 1954. This reflects, to a large extent, the existence of excess capacity. In 1955, however, industrial investment showed signs of renewed vitality. Much of the stimulus came from the high level of foreign demand which, in turn, was related to the investment boom in other industrial countries.

On the whole, largely as the result of government policies, increased investment in the basic industries, such as transport and communications, electricity and gas and water works, was relatively more important in these countries than elsewhere in western Europe. In France and Italy agriculture also absorbed new investment at a steadily increasing rate.

The revival of investment activity in North America

The pattern of development in fixed investment in Canada and the United States was not unlike that of the first group of western European countries discussed above, but the timing was different. The increase in fixed investment in 1953 was interrupted by a mild recession in 1954 but the upward course was resumed in 1955.

As in the case of some of the western European countries, investment in housing in the United States played an important role in sustaining total investment activity. As can be seen from table 62, expenditure on housing in the United States was more than maintained during the recession. This was largely due to the progressive liberalization of mortgage facilities. As the recovery from the recession progressed, the level of residential building not only surpassed the previous peak reached in 1950, but continued to increase rapidly thereafter. However, a tightening of mortgage facilities in July 1955 was followed by a slackened rate of growth in housing construction in the second half of 1955; and this in turn led to some easing of mortgage restrictions at the end of the year.

Table 61. Changes in Total Gross Fixed Investment, Investment in Industry[a] and in Housing, Belgium, France and Italy

(At 1950 prices; as percentages of 1950 total gross fixed investment)

Country and item	Share, 1950	Percentage change				
		1951	1952	1953	1954	1955
Belgium:						
Total gross fixed investment	100	—10.0	—4.0	6.0	5.0	...
Industry	38	—1.4	—0.9	—0.4	1.6	...
Housing	23	1.4	0.9	—0.1	2.8	...
France:[b]						
Total gross fixed investment	100	6.0	—4.0	1.0	9.0	9.0
Industry	27	...	...	—1.3	—	1.1
Housing	21	4.2	1.7	1.3	4.2	4.3
Italy:						
Total gross fixed investment	100	11.0	12.0	7.0	8.0	9.0
Industry	28	...	...	...	...	...
Housing	16	1.7	5.3	1.9	4.1	5.5

Source: Data for 1950 and 1954: United Nations, *Economic Survey of Europe in 1955;* data for 1955 are based on national statistics.

[a] Manufacturing, mining and construction.

[b] At 1952 prices.

Table 62. Canada and United States: Indices of Gross Fixed Investment and its Major Components

(At current prices; first half of 1953=100)[a]

Country and item	1953[b] (billions of dollars)	1953 Second half	1954 First half	1954 Second half	1955 First half	1955 Second half
Canada:						
Business expenditures[c,d]	3.8	103	95	93	94	110
Housing	1.0	106	106	121	134	153
TOTAL	4.8	103	97	99	102	119
United States:						
Business expenditures[c]	28.0	103	97	95	94	108
Manufacturing	11.9	99	95	90	88	103
Durable goods	5.7	97	92	86	86	104
Non-durable goods	6.2	102	98	95	90	102
Commercial and other[e]	7.8	105	103	108	111	124
Housing	12.0	100	104	122	138	140
Other fixed investment[f]	10.0	97	95	98	112	108
TOTAL	50.0	101	98	102	108	116

Source: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, Preliminary Annual, 1955;* United States Department of Commerce, *Survey of Current Business.*

[a] Seasonally adjusted.

[b] Annual investment, based on data for first half of year.

[c] For new plant and equipment.

[d] Including all new non-residential construction.

[e] Trade, service, finance, communications and construction.

[f] Mainly investment by farmers, professionals and institutions, and certain outlays charged to current account.

Important elements in the underlying strength of demand for housing in the United States were high marriage and birth rates, the rapid expansion of suburban communities and the rising trend in private income. These developments also help to explain the steady growth in commercial construction involving the modernization and expansion of existing facilities as well as the spread of facilities to suburban areas.

The rise in residential construction and commercial investment provided important offsets to the decline in business outlays on new plant and equipment during the recession, thereby stabilizing the total of fixed investment. Fixed investment in manufacturing did not reverse its downward course until the third quarter of 1955—approximately one year later than the beginning of the recovery from the recession. Within the manufacturing sector, the fall in durable goods investment exceeded that in non-durable goods during the recession, both in relative and in absolute terms. But the recovery in investment in durable goods industries in 1955 was also greater, reaching, in the fourth quarter of 1955, a level about 14 per cent higher than the previous peak of the third quarter of 1953. Investment in non-durable goods industries also increased rapidly and by the end of 1955 had more than regained the level recorded before the recession.

Changes in fixed investment in Canada from 1953 to 1955 followed much the same pattern as in the United States. Investment in housing, stimulated by liberal credit policies, rose steadily during the recession and in 1955. Industrial investment, which had lagged at the beginning of the recovery, rose rapidly in the third quarter of 1955.

Changes in the level and pattern of consumption

Personal consumption continued to rise substantially in 1955 except in Denmark, where there was a moderate decline, as shown in table 63. Consumption has been rising approximately in proportion to total output in most of the industrial countries since 1953. This is in contrast to the previous period of Korean hostilities; from 1950 to 1952 the expansion in personal disposable income was restrained by increases in taxation, and supplies of consumer goods were limited by the rise in the proportion of resources devoted to defence. Since 1953, however, the levelling off or decline in military expenditures has made it possible for governments to allow personal disposable income and therefore consumption, to rise approximately in proportion to national output.[7]

In most countries, the rise in real personal disposable income since 1953 has been associated with a corresponding growth in the real wage and salary bill, reflecting a continuous rise in employment and money earnings, accompanied by a relatively stable retail price level.

From table 64, it can be seen that all the principal components of consumption increased during the

[7] In Canada and the United States personal consumption rose in 1954 despite a decline in gross national product. In both countries this was because personal disposable income increased, mainly as a result of a decline in taxation and a rise in transfer payments, and because a higher proportion of disposable income was devoted to consumption.

Table 63. Changes in Real Gross National Product, Real Private Disposable Income and Real Personal Consumption, by Country
(Percentage changes from previous year)

Country and year	Gross national product	Private disposable income	Personal consumption
Belgium:			
1954	1.7	...	1.1
1955	3.5[a]	...	...
Denmark:			
1954	2.2	2.0	5.1
1955	0.5	—4.0	—2.0
France:			
1954	5.0	8.0	4.7
1955	5.3	7.0	6.2
Germany, western:			
1954	8.2	8.0	8.1
1955	10.7	9.0	10.0
Italy:			
1954	5.0	...	2.3
1955	6.8	...	4.4
Netherlands:			
1954	5.4	7.0	5.5
1955	5.7	...	6.1
Norway:			
1954	4.9	7.0	5.1
1955	2.3	4.0	3.0
Sweden:			
1954	5.0	3.0	4.3
1955	2.7	...	3.1
United Kingdom:			
1954	4.6	5.0	4.6
1955	3.3	2.0	3.0
Canada:			
1954	—3.0	—1.0	3.5
1955	9.2	10.0	7.2
United States:			
1954	—2.0	2.0	1.7
1955	6.0	6.0	6.4

Source: See table 58.
[a] The reply of the Government of Belgium to the United Nations questionnaire of 18 November 1955 indicated an estimated increase of 3 to 4 per cent.

period 1953-1955. Rates of increase in the amount spent on food, though generally lower than in the total, were fairly substantial. This is largely accounted for by significant increases in the consumption of higher quality foods, notably meat, dairy products and fruit, and possibly also by a greater degree of food processing. The consumption of bread and cereals, on the other hand, has shown little increase, and in some cases has actually declined. In western Germany, steady and appreciable rates of growth in the consumption of both food and textiles reflect substantial increases in employment during this period. In most other countries, rates of increase in the consumption of textiles have been small on the whole and subject to large year-to-year fluctuations.

However, the outstanding feature of the increase in consumption during this period has been the shift towards durables, especially passenger cars. This shift has had important repercussions on the general economic situation in industrial countries. As indicated earlier, the industrial investment boom in western Europe in 1954 and 1955 was to a large extent conditioned by this factor. The increase in purchases of durables was no less significant in importing countries than in the major producers, so that the volume of trade among industrial countries in consumer durable goods rose substantially. While the exporting countries benefited from the changed pattern of consumption, the large increase in motorcar imports in 1954 and 1955 contributed to the deterioration in the balance of payments of some of the net importing countries. Although the share of durables in consumer expenditures fluctuated significantly in Canada and the United States from 1953 to 1955, there was no obvious trend comparable with that observed in western Europe.

The volume of consumer expenditure on durable goods in the western European countries began to increase appreciably in 1953, as shown in table 64, and continued to rise at a more rapid rate than total consumer expenditure in 1954. During the same period, expenditure on motorcars showed an even higher rate of increase, as indicated in table 65. In 1953, the proportion of total consumer expenditure devoted to durable goods was generally small, amounting, for example, to about 5 per cent in France, 8 per cent in the United Kingdom and 13 per cent in Sweden. In 1954, however, 16 per cent of the rise in total consumption in France was accounted for by durable goods; the corresponding percentages were about 30 in the United Kingdom and 45 in Sweden. In the latter country, the increase in expenditure on cars and motorcycles alone accounted for over one-third of the rise in total consumption in 1954.

Expenditure on durables in most countries continued to rise in 1955. However, in countries where measures restricting consumption had been introduced, demand for durables was adversely affected. In Sweden, the rate of increase in consumption of durables slackened appreciably in the course of the year; in Denmark and Norway, expenditure on motorcars actually declined. In the United Kingdom, consumption of durable goods other than motorcars increased at a much lower rate than in 1954; although for the year 1955 as a whole the rate of increase in purchases of motorcars was approximately the same as in the previous year, there was some slackening in demand at the end of the year.

In Canada and the United States, expenditure on durable goods underwent marked fluctuations. It rose appreciably in 1953, remained unchanged in the United States and declined slightly in Canada during the recession year 1954, and increased again very rapidly in 1955. These fluctuations occurred mainly in the purchase of motorcars, which, in the United

Table 64. Changes in Real Consumption and its Major Components, by Country

(Percentage changes from corresponding period of preceding year)

Country	Total consumption			Food[a]			Textiles[b]			Durables[c]		
	1953	1954	1955	1953	1954	1955	1953	1954	1955	1953	1954	1955
Belgium	0.6	1.1	...	...	...	...	...	...	...	—	8.0	...
Denmark	5.3	5.1	—2.0	5.0	1.0	—2.0[d]	2.0	2.0	—3.0[d]	10.4	11.3	...
France	3.8	4.7	6.2	4.1	2.5	4.8	2.5	6.1	3.6	7.0	15.9	15.0
Germany, western	9.6	8.1	10.0	9.4	7.9	7.0	9.6	5.1	9.0	15.7	10.4	13.3[e]
Italy	7.7	2.3	4.4	5.0	2.8	3.0	11.3[f]	—6.2	0.1	...	7.6	9.0
Netherlands	4.8	5.5	6.1	4.8	5.1	5.6	...	9.7	12.3	...	9.9	8.4
Norway	2.1	5.1	3.0	—0.7	5.3	3.5	4.7	0.9	2.0	...	...	...
Sweden	2.6	4.3	3.1	2.0	2.2	1.0	0.7	0.9	4.0	5.6	15.2	6.0
United Kingdom	3.8	4.6	3.0	3.6	3.6	1.1	1.9	4.6	4.4	18.0	15.0	10.0
Canada	5.7	3.5	7.2	5.7	4.0	5.0	3.6	—2.3	4.0	14.4	—5.4	17.0
United States	4.5	1.7	6.4	4.4	2.4	6.2	—0.5	—	4.6	13.3	—	21.7

Source: United Nations, *Economic Survey of Europe in 1955;* Organisation for European Economic Co-operation, *General Statistics* and press releases. Belgium: Solvay Institute of Sociology, *Economie belge et comptabilité nationale, 1948-1954* (Brussels). Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure,* 1951-1954 and preliminary, 1955; *Canadian Statistical Review* (Ottawa). Denmark: Economic Secretariat, *Økonomisk Arsoversigt,* March 1955 (Copenhagen); Department of Statistics, *Statistiske Efterretninger.* France: National Institute of Statistics and Economic Studies, *Rapport sur les comptes de la nation, 1949-1955; Bulletin mensuel de statistique* (Paris). Germany, western: Statistisches Bundesamt, *Wirtschaft und Statistik* (Stuttgart); Bank Deutscher Länder, *Monthly Report.* Italy: Chamber of Deputies, *Relazione generale sulla situazione economica del paese,* 1953, 1954 and 1955; Central Institute of Statistics, *Bollettino mensile di statistica* (Rome). Netherlands: Central Bureau of Statistics, *Maandschrift* (Utrecht). Norway: Department of Finance and Customs, *Nasjonalbudsjettet, 1956;* Central Bureau of Statistics, *Statistiske Meldinger.* Sweden: Department of Finance, *Nationalbudget för år 1956.* United Kingdom: Central Statistical Office, *National Income and Expenditure, 1955* (London); *Monthly Digest of Statistics* (London); *Economic Survey, 1956,* Cmd 9728. United States: *Economic Report of the President* (Washington, D.C., 1956); Department of Commerce, *Survey of Current Business.*

Figures for 1955 are preliminary estimates of governments or of the United Nations Bureau of Economic Affairs.

[a] Including beverages, for some countries.

[b] Including footwear and leather goods, for some countries.

[c] Coverage for different countries is not uniform; for Denmark, the figures are based on durable household goods and textiles; for France, on products of mechanical and electrical industries; for western Germany, on household goods, furniture and transportation; for Italy, Sweden and the United Kingdom, on durable household goods, cars and motorcycles; and for the Netherlands, on durable household goods.

[d] First three quarters.

[e] First six months.

[f] At current prices. Since prices declined from 1952 to 1953, the rise in volume was even greater.

States, accounts for over 40 per cent of total expenditure on durables. Consumption of other types of durable goods in the United States has, on the whole, increased continuously since 1952—rather slowly in 1953 and 1954, and much more steeply in 1955.

Table 65. Changes in Consumer Expenditure on Motorcars, by Country

(Percentage change from corresponding period of previous year)

Country	1953	1954	1955[a]
Belgium	9	16	16
Denmark	162	37	—29
France	7	15	25
Germany, western	...	24	30
Italy	26	22	...
Netherlands	39	55	41[b]
Norway	–	64	—11
Sweden	23	31	6
United Kingdom	57	31	30
Canada	23	—14	25
United States	38	—3	30

Source: See table 64. In addition, for Belgium, *Agence économique et financière* (Brussels).

Figures for Sweden are based on expenditure, at constant prices, on passenger cars and motorcycles; for France, Italy, the United Kingdom and the United States, on registration of new passenger cars; for Denmark, western Germany, the Netherlands and Norway on available supply; and for Belgium and Canada on domestic sales.

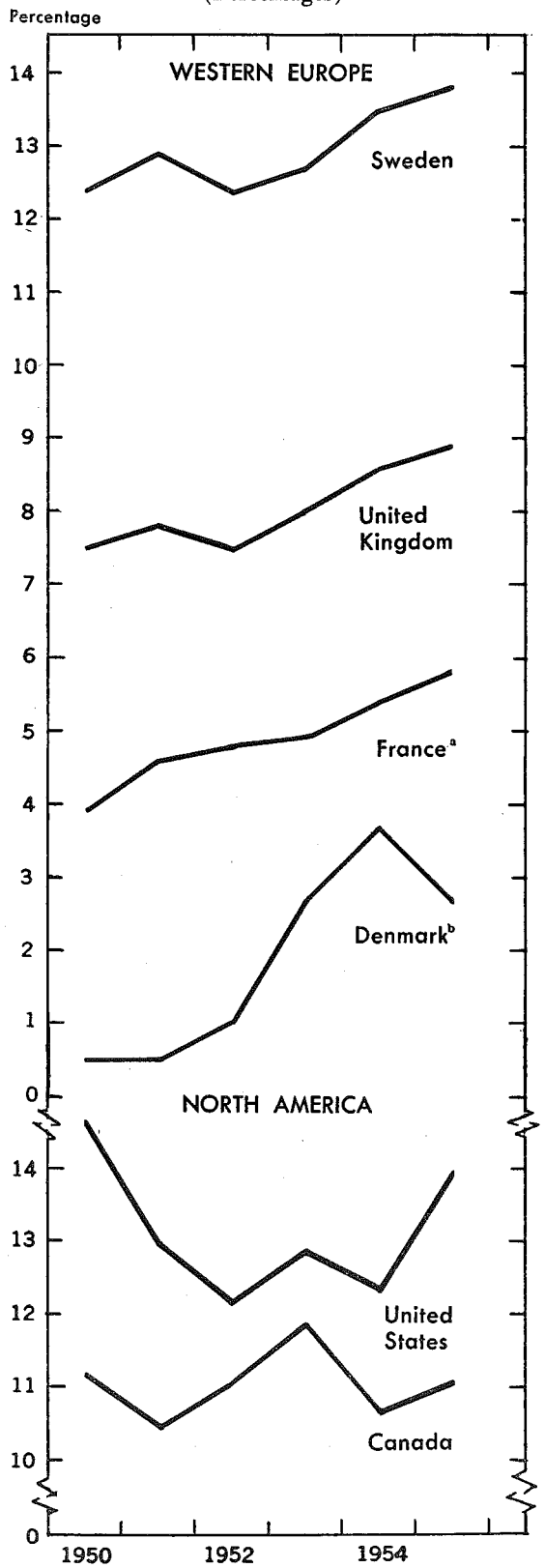
[a] Provisional. [b] First six months.

The significance of the changes in consumption of durables in relation to total consumption during 1953-1955 is more clearly revealed when compared with the period 1950-1952. It can be seen from chart 15 that in some western European countries the share of consumer expenditure on durables varied little from 1950 to 1952, but increased rapidly thereafter. The effect of restrictive measures on consumption in slowing down the rate of change in Sweden and the United Kingdom and in reversing the trend in Denmark, may also be seen in the chart. In Canada and the United States, on the other hand, no such transformation in the pattern of expenditure is evident.

Apart from the rise in real income, there are a number of factors which fostered the increase in durable goods consumption in western Europe during the period 1953-1955. Principal among these were the increase in the supply and variety of durable goods and the rapidly expanding volume of consumer credit.

Since 1953, the supply of consumer durables in domestic markets has greatly improved by comparison with the preceding period of Korean hostilities. For example, in the Scandinavian countries, domestic supplies during that period were limited by import restrictions. In the United Kingdom, the restrictions took the form of higher purchase taxes and priority for the export of consumer durable goods. As demand

Chart 15. Share of Durable Consumer Goods in Total Consumption, Selected Countries
(Percentages)

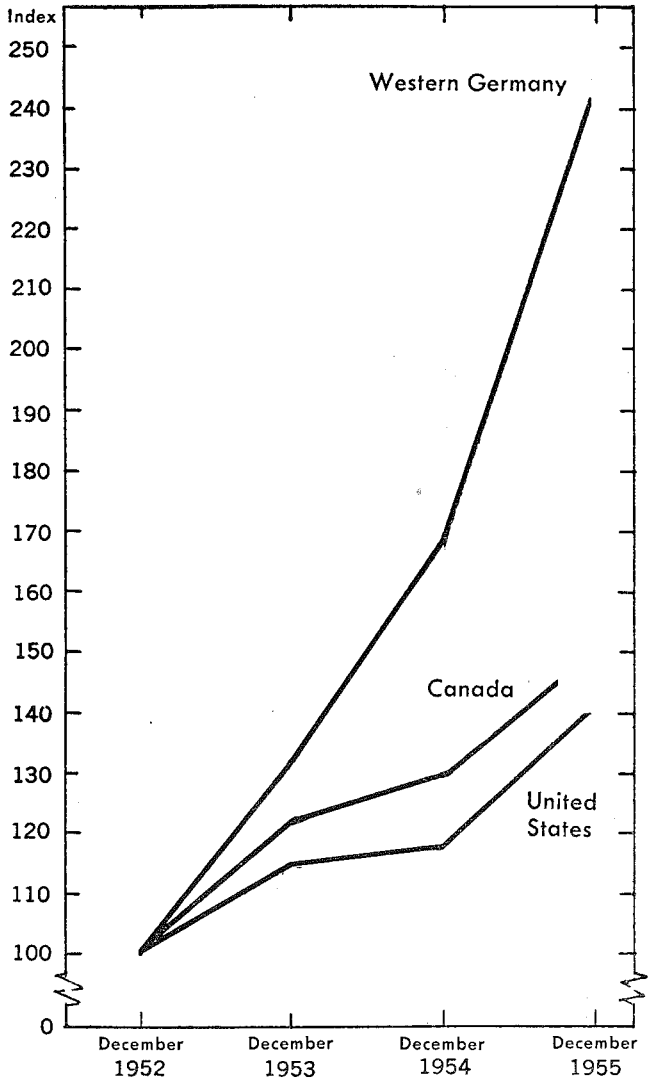


Source: United Nations Bureau of Economic Affairs.
[a] Products of electric and mechanical industries.
[b] Passenger cars and motorcycles.

pressures accompanying the Korean hostilities abated, governments relaxed or removed restrictions which had previously been imposed. The enlargement of productive capacity which had meanwhile occurred in the metal goods industries made it possible to take advantage of this easing of government restrictions, and in many countries new types of durable goods were introduced and widely popularized.

The growth of consumer credit was especially noteworthy in the western European countries, where in some cases it received encouragement from governments. In the United States, where instalment buying has long been well established, credit facilities available to consumers were increased, and conditions

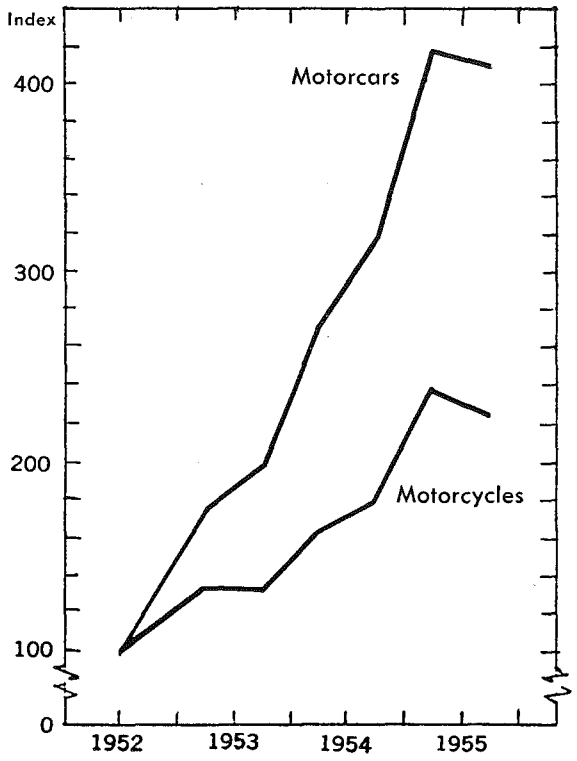
Chart 16. Indices of Outstanding Consumer Credit, Canada, Western Germany and United States
(December 1952=100)



Source: Bank of Canada, *Statistical Summary* (Ottawa); western Germany: Bank Deutscher Länder, *Monthly Report;* United States: *Economic Report of the President,* January 1956. Data are for December of given year; for Canada, 1955 data refer to September.

Chart 17. United Kingdom: Indices of Hire-Purchase Contracts for Motorcars and Motorcycles

(Monthly average, 1952=100)



Source: The Economist (London). Data represent average number of hire-purchase contracts for motorcars and motorcycles, including side-cars, concluded during 1952 and in 1953-1955 (by half-years).

governing instalment sales were considerably relaxed early in 1955.

It can be seen from chart 16 that during the period 1953-1955, the volume of consumer credit increased sharply in western Germany; the rate of increase exceeded 30 per cent per annum. In the United Kingdom, too, as indicated in chart 17, the number of contracts concluded under hire-purchase—a fair indication of the volume of instalment credit—increased rapidly, especially after the removal of hire-purchase restrictions in July 1954. The reimposition of such restrictions in February 1955 is reflected in the declining number of contracts concluded in the second half of 1955.

Thus, consumer credit has come to play a fairly significant role in the retail markets of several countries in western Europe. In the United Kingdom, hire-purchase contracts for new passenger cars rose from 8 to 9 per cent of sales in 1952-1953, to about 15 per cent in 1954-1955. The system of instalment credit in the United Kingdom was even more prevalent in sales of certain other durable goods. The proportion of hire-purchase to total sales was 70 to 80 per cent in furniture and 50 to 70 per cent in radio and television sets.

For a number of other western European countries, the volume of instalment credit can only be estimated. It appears that the volume increased by 40 per cent in France and by 20 per cent in Belgium during 1955. In Belgium, about 70 per cent of passenger cars and 50 to 60 per cent of motorcycles and radio sets were sold on instalment credit.

The role played by consumer credit in facilitating the sales of durables was even more important in North America. In Canada and the United States, the volume of consumer credit changed little during 1954 but increased by about 20 per cent in 1955. The rise of over $6 billion in consumer credit outstanding in the United States during 1955 was approximately double the average of previous post-war years; nearly three-quarters of the increase in instalment loans was accounted for by motorcar purchases.[8]

Impact of Changes in Demand

Shifts in the structure of industrial production

The changes in the pattern of investment and consumption discussed above resulted in corresponding shifts in the structure of industrial production in western Europe. Such shifts were less in evidence in North America, where recovery from the 1954 recession was widespread throughout industry.

In western Europe, industrial production continued to rise rapidly in 1955, as shown in table 66. While in several countries the rates of expansion tended to slacken somewhat towards the end of the year, the increase in production in 1955 in western Europe as a whole was as large as in the previous year. During the sustained expansion of industrial production, the increase in the output of engineering industries was larger than that of other industrial sectors.

This shift in the structure of industrial production represents an acceleration of a tendency which had already been evident in 1954. Within the engineering industries, the largest increase continued to take place in consumer durable goods, especially motorcars. The production of machinery, which showed a relatively small increase in the major producing countries in 1953, rose rapidly in 1954 and 1955.

[8] In the United States, the maturity period for credit extended on motor vehicles was increased from twenty-four months in 1954 to thirty and, in some cases, even thirty-six months during 1955. There was also an appreciable reduction in the size of the down-payment required on instalment contracts.

Table 66. Industrial Production and its Major Components, by Country
(Percentage changes from previous year)[a]

Country and year	Industrial production	Engineering products[b]	Passenger cars[c]	Textiles	Chemicals
Belgium:					
1953	—	—5		11	3
1954	6	8		8	20
1955	9	15		4	3
Denmark:					
1953	4	2		6	6
1954	9	18		—4	9
1955	2	3		—5	—1
France:					
1953	—3	—8	—	2	6
1954	9	9	19	7	13
1955	10	14	26	—7	11
Germany, western:					
1953	9	3	23	16	18
1954	12	18	40	4	16
1955	16	24	36	6	13
Italy:					
1953	10	11	20	5	23
1954	9	4	26	2	20
1955	8	13	28	—11	11
Netherlands:					
1953	10	12		14	8
1954	11	22		7	10
1955	7	11		2	6
Norway:					
1953	5	9		9	1
1954	9	8		3	23
1955	4	1		—5	—2
Sweden:					
1953	1	—6		11	4
1954	4	6		—4	1
1955	6	5		—6	...
United Kingdom:					
1953	6	3	33	15	19
1954	7	10	29	2	9
1955	5	12	17	—4	5
Canada:					
1953	6	10	29	2	6
1954	—2	—8	—22	—14	1
1955	9	11	33	15	6
United States:					
1953	8	15	42	1	6
1954	—7	—10	—9	—9	—
1955	12	10	42	12	12

Source: United Nations, *Monthly Bulletin of Statistics;* Organisation for European Economic Co-operation, *General Statistics;* Dominion Bureau of Statistics, *Canadian Statistical Review.*

[a] Figures for 1955 for the component series in some cases cover less than a whole year; the percentage changes are calculated by comparing the corresponding periods of 1954 and 1955.

[b] Including production of motor vehicles.

[c] Figures for major producing countries only are shown here.

The rate of increase in the production of engineering goods varied considerably among different countries. From 1953 to 1955, production increased by 11 per cent in Sweden, by 17 to 24 per cent in Belgium, Denmark, France, Italy and the United Kingdom, and by 35 per cent and 46 per cent in the Netherlands and western Germany, respectively.[9] The importance of the shifts in the structure of industrial production in western Europe as a whole is clearly revealed in the

[9] Engineering industries in Norway are relatively unimportant. Expansion during the upswing was confined to the production of crude steel, which increased by about 50 per cent.

aggregate indices of production of these countries, shown in table 67.

In most cases, the shift of production in 1954 and 1955 in favour of engineering goods represented a reversal of developments during the early stages of the present upswing. In 1953, the largest increases in production occurred in the traditional consumer goods industries, notably textiles. Later, the rate of increase in the production of these industries slackened noticeably and in 1955 output of textiles in most countries dropped below the 1954 level. As consumer expenditure on textiles in western European countries was still increasing moderately in 1955, this decline was mainly due to the fall in exports of cotton cloth to oversea markets. The increase in the output of the chemical industries, after showing a sharply rising trend in 1953 and 1954, slowed down noticeably in 1955.

The structure of industrial production has adjusted itself to the shift in the pattern of demand without serious difficulties. The changes in demand resulted in under-utilization of capacity in non-durable consumer goods industries. On the other hand, increased capacity in the engineering industries based upon new investment in 1954 and 1955 contributed to the expansion of output in this sector. During the more recent phase of the upswing, however, there have been signs of growing strain in engineering industries in several countries. For example, in western Germany and the United Kingdom, delivery dates for ships and certain kinds of machinery lengthened appreciably and the backlog of orders tended to rise. Tightness in the supply of basic materials and labour for engineering industries threatened to become limiting factors in a continued rapid expansion in production.

Table 67. Changes in Industrial Production and its Major Components, in Western Europe[a]
(Percentage changes from previous year)

Item	*1953*	*1954*	*1955*
Industrial production	5	9	9
Engineering	1	11	14
Passenger cars[b]	19	29	28
Textiles	10	5	−2
Chemicals	15	14	11

Source: Organisation for European Economic Co-operation, *General Statistics.*
[a] Including all countries in the Organisation for European Economic Co-operation.
[b] France, western Germany, Italy and the United Kingdom only.

In North America output during 1955 rose in both engineering and textile industries in the process of recovery from the recession of 1953 and 1954. However, a point of similarity with western Europe lay in the fact that the largest advance in production occurred in the motor vehicle industry.

THE SUPPLY OF BASIC MATERIALS AS A LIMITING FACTOR

The continuing expansion of the engineering industries during 1953-1955 resulted in rising demand for the two most important basic materials—steel and coal. Shortages developed in particular countries, necessitating higher imports.

The production of crude steel rose at an increasing rate in 1955 in all the western European countries, with the exception of the Netherlands. Where the advance in production did not suffice to meet current demand, additional supplies were sought from Belgium, France and the United States, as shown in table 68. The existence of a considerable amount of excess capacity at the beginning of the recent upswing in Belgium and France[10] made it possible for these two countries to raise their output rapidly and supply larger quantities of crude and finished steel to other countries in western Europe. Although production also

[10] Production of steel in Belgium and France had declined substantially in 1953.

Table 68. Steel Production and Trade,[a] Selected Countries
(Millions of metric tons)

Country and year	*Production*	*Net exports, or imports (—)[b]*	*Ratio of net exports or imports to production (percentage)*
Net exporting countries:			
Belgium:			
1954	5.0	4.2	84.0
1955	5.9	5.1	86.4
France:[c]			
1954	10.6	3.3	31.1
1955	12.6	4.1	32.5
Germany, western:			
1954	17.4	0.7	4.0
1955	21.3	−0.1	−0.5
United Kingdom:			
1954	18.8	1.8	9.6
1955	20.1	1.1	5.5
United States:			
1954	80.1	2.6	3.2
1955	106.2	3.4	3.2
Net importing countries:			
Denmark, Italy, Netherlands, Norway and Sweden:			
1954	7.3	−2.9	−39.7
1955	8.9	−3.3	−36.7

Source: United Nations, *Monthly Bulletin of Statistics;* United Nations Economic Commission for Europe. *Quarterly Bulletin of Steel Statistics for Europe* (Geneva); United States Department of Commerce, *Total Export and Import Trade of the United States* (Washington, D.C.).
[a] Production figures refer to crude steel and trade figures refer to finished steel (including crude steel).
[b] Figures for 1955 represent annual rates, based on the first ten months.
[c] Excluding the Saar.

Table 69. Supply of Hard Coal, Selected Countries
(Millions of metric tons)

Country and year[a]	Production	Imports	Exports	Total supply	Ratio of imports from United States to total imports (percentage)
United Kingdom:					
1954	227.8	3.1	—16.5	214.4	16.7
1955	225.1	11.7	—13.9	222.9	41.9
Germany, western:					
1954	128.0	8.3	—16.1	120.2	21.9
1955	130.7	14.2	—12.8	132.1	37.5
Belgium:					
1954	29.2	3.7	—5.7	27.2	6.8
1955	29.9	3.6	—7.3	26.2	17.4
France:[b]					
1954	54.4	11.3	—2.8	62.9	0.5
1955	55.3	10.6	—6.6	59.3	5.2
Denmark, Italy, Netherlands, Norway and Sweden:					
1954	13.8	24.7	—1.1	37.4	19.8
1955	13.7	26.9	—0.9	39.7	30.5

Source: United Nations Economic Commission for Europe, *Quarterly Bulletin of Coal Statistics for Europe* (Geneva).
[a] Trade figures for 1955 represent annual rates, based on the first nine months.
[b] Excluding the Saar.

rose substantially in western Germany and the United Kingdom, increases in domestic demand greatly reduced their exports; western Germany became a net importer of steel in the course of 1955.

In the United States, the increase in demand for steel pushed output to the limits of capacity in 1955. Towards the end of the year, a "grey" market appeared and it was reported that premium prices were being paid for certain types of crude steel.[11] Cancelled orders for steel, as a result of the slackening in automobile production towards the end of 1955, failed to ease the tight supply situation. Canada also began to experience shortages in certain types of steel towards the end of 1955. These developments prompted plans for extensive increases in steel capacity in both countries.

Higher production of steel involved a concomitant increase in the demand for coal. The supply of coal proved to be less elastic than that of steel in the western European countries. In 1955, production of coal in Belgium, France and western Germany, taken together, increased by only 2 per cent. In the United Kingdom, production declined by 1 per cent as a result of a fall in employment and productivity in coal mining.

Rising domestic demand for coal in western Germany and the United Kingdom was met by reducing exports and increasing imports. As shown in table 69, while net exports of coal from the United Kingdom were drastically reduced in 1955, the position of western Germany changed from a large net exporter in 1954 to a net importer in 1955. Higher imports of these two countries, as well as of many other western European countries, were only partially met by increased supplies from Belgium and France. As a result, there was a sharp rise in western Europe's imports of coal from the United States in 1955.

[11] *The New York Times*, 21 and 28 November 1955.

Productivity and supply of labour

The rapid increase in engineering output in western Europe during 1954 and 1955 owed more to the rise in labour productivity than to the rise in employment. It will be seen from chart 18 that in all these countries for which data can be assembled the growth in productivity in the two years was substantial both in the economy as a whole and in the manufacturing sector alone. Available information suggests that the rise in productivity in manufacturing was concentrated in the engineering industries. This was attributable in some cases to the maturing of previous investment and in others to a fuller utilization of existing capacity. Increases in employment in the engineering industries were generally moderate in 1955, as shown in table 70.

The extent of the labour shortage experienced in a number of western European countries during 1955 is discussed below. Here it may be noted that the rising demand for labour in expanding industries was satisfied mainly by a transfer of manpower from other industries. The experience of the United Kingdom, which exemplifies that of the Netherlands, Norway and Sweden as well, may be used to illustrate developments in the labour market. As can be seen from table 71, the rate of female participation in employment increased. Furthermore, the engineering indus-

Table 70. Changes in Employment and Unemployment, by Country

(Percentage changes from previous year)

Country and year[a]	Total civilian employment	Employment in manufacturing	Employment in engineering industries[b]	Ratio of unemployed to civilian labour force available for hire (percentage)
Belgium:[c]				
1954	0.7	1	—2	6.7
1955	1.8	5	5	5.0
Denmark:[d]				
1954	...	4	14	8.0
1955	...	—1	4	9.7
France:[e]				
1954	1.0	1	2	1.9
1955	1.7	1	2	1.5
Germany, western:[f]				
1954	4.5	5	8	7.0
1955	5.9	8	14	5.1
Italy:[g]				
1954	...	1	...	10.0
1955	...	2	...	9.8
Netherlands:				
1954	2.3	4	7	1.9
1955	0.9	3	6	1.7
Norway:				
1954	0.8	2	2	1.3
1955	0.3	2	5	1.2
Sweden:[h]				
1954	0.2	1	8	2.6
1955	0.8	2	5	2.4
United Kingdom:[i]				
1954	1.6	3	3	1.5
1955	1.4	3	4	1.2
Canada:[j]				
1954	—1.0	—5	—10	4.5
1955	1.9	1	—1	4.4
United States:[k]				
1954	—1.1	—9	—10	5.0
1955	2.3	3	5	4.0

Source: United Nations, *Monthly Bulletin of Statistics;* Belgium: Ministry of Economic Affairs, *L'Economie belge en 1954* and National Institute of Statistics, *Bulletin de statistique* (Brussels); Denmark: Department of Statistics, *Statistiske Efterretninger;* France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique* and *Bulletin hebdomadaire de statistique* (Paris); western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik* and Bank Deutscher Länder, *Monthly Report;* Netherlands: Central Bureau of Statistics, *Sociale maandstatistiek* (The Hague) and Reply of the Government of the Netherlands to the United Nations questionnaire of 15 December 1954; Norway: Central Bureau of Statistics, *Statistiske Meldinger;* Sweden: Social Welfare Board, *Sociala Meddelanden* (Stockholm); United Kingdom: Central Statistical Office, *Monthly Digest of Statistics;* Canada: Dominion Bureau of Statistics, *Canadian Statistical Review;* United States: Department of Labor, *Monthly Labor Review* (Washington, D.C.).

[a] Figures for 1955 in some instances cover less than the whole year.

[b] Used as a rough indicator of changes in employment in investment goods industries. The coverage varies from country to country, but in general includes the following: metal products and metal fabrication, electrical and other machinery, and transportation equipment; except for Denmark, employment in the basic iron and steel industry is excluded. Employment covers both salaried employees and production workers or wage earners.

[c] Unemployment represents wholly unemployed.

[d] Unemployment is expressed as a percentage of insured trade unionists.

[e] Civilian employment refers to the over-all index of employment of the Ministry of Labour. Unemployment percentages represent the ratio of applicants for employment to the civilian labour force covered by the over-all index.

[f] Figures for civilian and manufacturing employment represent employed wage earners and salaried workers.

[g] Manufacturing employment includes employment in public utilities and mining. Unemployment represents those registered as wholly unemployed.

[h] Unemployment percentages represent the percentage of unemployed in trade unions.

[i] Unemployment includes those temporarily stopped.

[j] Manufacturing employment includes salaried employees. Ratio of unemployed relates to total civilian labour force.

[k] Ratio of unemployed relates to total civilian labour force.

tries took an increasing share of the additions to civilian employment during the upswing. From June 1954 to June 1955, the increase in employment in these industries accounted for about three-fourths of the increase in total employment. A large part of the growth in employment in engineering was evidently the result of a transfer of labour previously employed in other industries, particularly in textiles and agriculture. In spite of the relatively large increase in employment, however, unfilled vacancies in engineering were about one-quarter higher in the latter half of 1955 than a year before. Moreover, these industries were faced with not only a general labour scarcity but also a shortage of skilled workers. During this period vacancies for operatives and technicians in the principal skilled engineering occupations rose by about 20 per cent.

For varying reasons, a general scarcity of labour did not appear in other western European countries during the period of expansion. The expansion in production in western Germany was facilitated by a growing labour supply resulting partly from immigration and partly from the existence of a high level of unemployment at the beginning of the upswing. However, towards the end of 1955 there were some increases in unfilled vacancies and signs of a shortage of skilled labour in the building industries.

The slight increase in employment in France, accompanying a much larger rise in production, reflected, to a large extent, the existence of underutilized capacity in industry. In Belgium, the increase in employment in 1955 was associated with a significant reduction in unemployment, but this was not the case in Italy. In Denmark, as a result of restrictive policies discussed below, employment in 1955 declined, and there was a significant rise in unemployment.

Table 71. United Kingdom: Intra-Industry Shifts of Labour

(Thousands of persons)

Item	Actual change		Percentage change
	1953 to 1954[a]	1954 to 1955[a]	1954 to 1955[a]
Civilian employment:			
Male	147	152	1.0
Female	219	139	1.8
Total	366	291	1.3
Agriculture	—13	—22	—2.0
Mining and quarrying	—10	—3	—0.3
Manufacturing	230	246	2.7
Engineering	128	216	5.0
Textiles	19	—42	—2.5
Others	83	72	2.6
Building and contracting	16	12	0.8
Public utilities[b]	—15	4	0.2
Services[c]	158	54	0.7
Registered unemployed	—52	—38	—16.5

Source: Central Statistical Office, *Monthly Digest of Statistics.*

[a] Data refer to the month of June.

[b] Including gas, electricity and water, and transport and communications.

[c] Including distributive trades, professional, financial and miscellaneous services, and public administration.

By contrast with the shift in composition of employment in western Europe, the increase in employment in Canada and the United States in 1955 was more evenly distributed among the various sectors of the economy, and was the outcome of a general recovery from the recession. Employment rose more slowly in Canada in 1955 because the early phase of recovery was concentrated in the more capital-intensive industries; however, the unemployment ratio fell after the first quarter of 1955.

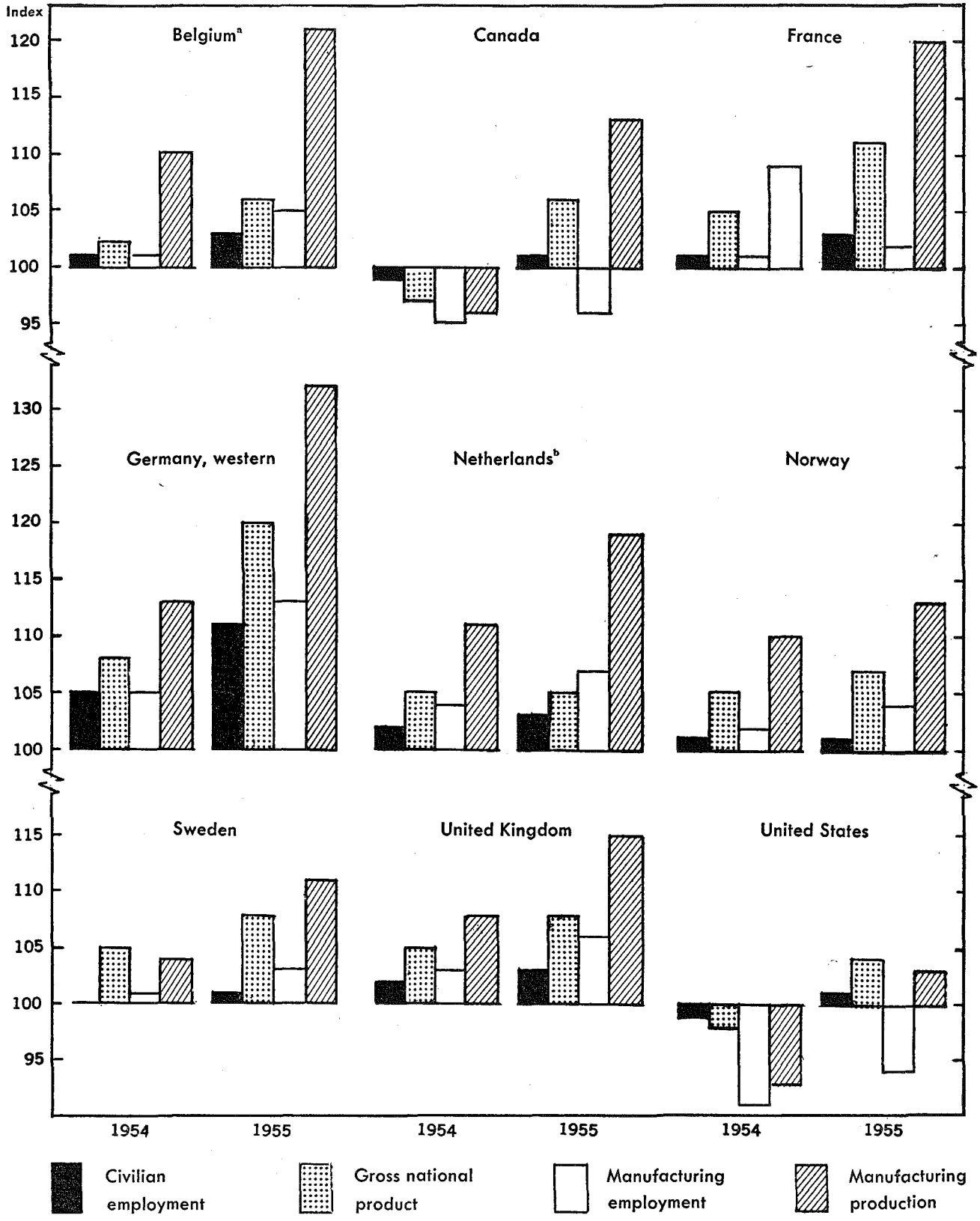
Changes in the composition and direction of trade

In western Europe, the changes in the pattern of production and demand considerably affected the composition and direction of foreign trade. The volume of trade in machinery, transport equipment and basic materials for the engineering industries increased rapidly, while import demand for non-durable manufactured consumer goods and the raw materials required for their production tended to change little. As the former group of commodities could be obtained only from industrial countries, the changes in the composition of trade were accompanied by shifts in its geographical distribution, notably a rise in the proportion of trade among the industrial countries.

In the first nine months of 1954, covering the early stage of the upswing, western Europe's imports increased about 7 per cent in value, or 10 per cent in volume, compared with the corresponding period of 1953 (see table 72). Manufactured goods, consisting predominantly of consumer goods other than durables, and the metal and metal products group, particularly the base metals, each accounted for about one-fourth of the increase. Chemicals and crude materials contributed about 15 and 13 per cent of the total increase, respectively. In the latter group, increased imports of ores and scrap were prominent. Owing to exceptional increases in the prices of cocoa, coffee and tea, the rise in the value of imports of these commodities substantially exceeded the over-all increase in value of food imports: import prices of other foodstuffs, notably cereals, dropped.

In the first three quarters of 1955, imports responded to the continuous expansion in investment activity, and were designed in some cases to ease particular bottlenecks in certain countries. Total imports increased by about 15 per cent in value and over 12 per cent in volume. There was a marked shift towards crude materials, metals and metal products, and fuels; taken together, these categories accounted for more than two-thirds of the total increase in imports in the first three quarters of 1955 compared

Chart 18. Indices of Production and Employment, Selected Countries
(1953=100)



Source: Tables 58, 66 and 70.
[a] Data for employment in 1955 refer to first eight months.
[b] Data for employment in 1955 refer to first three quarters.

Table 72. Changes in Imports and Exports of Western Europe[a]

(Millions of dollars at current prices)

Commodity group	Imports (c.i.f.)								Exports (f.o.b.)							
	Total change		From western Europe		From Canada and United States		From primary producing countries		Total change		To western Europe		To Canada and United States		To primary producing countries	
	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955
Food[b]	176	612	107	184	—329	344	397	85	256	171	76	189	8	—8	172	—10
Crude materials	220	671	62	207	204	224	—46	240	62	252	80	177	—55	56	37	19
Fuels	163	579	86	196	—39	191	116	192	71	116	50	170	—1	–	22	—54
Chemicals	239	161	137	91	72	44	30	26	308	189	145	70	—20	1	183	118
Metals and metal products	393	1,262	321	713	—5	331	77	218	877	1,264	497	732	—86	42	466	490
Base metals	174	789	59	377	58	220	57	192	17	526	69	370	—113	—18	61	174
Machinery	98	267	109	195	—21	57	10	15	258	415	142	237	11	7	105	171
Transport equipment	83	189	122	141	—44	48	5	–	563	239	249	86	2	52	312	101
Other	38	17	31	–	2	6	5	11	39	84	37	39	14	1	—12	44
Other manufactured goods[c]	376	445	242	272	27	70	107	103	385	437	216	270	—122	28	291	139
Textile yarn and fabrics	112	59	64	27	4	5	44	27	160	—33	72	26	—38	—21	126	—80
Other	264	386	178	245	23	65	63	76	225	470	144	244	—84	—7	165	219
TOTAL	1,567	3,730	955	1,663	—70	1,204	681	864	1,959	2,429	1,064	1,608	—276	119	1,171	702

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series II, "Foreign Trade by Commodity Categories and by Areas" (Paris).

[a] Changes from first three quarters of one year to corresponding period of following year. "Western Europe" refers to OEEC countries.

[b] SITC groups 0, 1, 4.

[c] SITC groups 6, 8, 9, less divisions 68 and 69.

Table 73. Changes in Imports and Exports of North America[a]

(Millions of dollars at current prices)

Commodity group	Imports (c.i.f.)								Exports (f.o.b.)							
	Total change		From Canada and United States		From western Europe		From primary producing countries		Total change		To Canada and United States		To western Europe		To primary producing countries	
	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955	1953 to 1954	1954 to 1955
Food[b]	99	—282	—25	—39	34	—7	90	—236	—434	254	—18	—51	—222	269	—194	36
Crude materials	—291	393	—8	165	—72	77	—211	151	410	200	—21	169	251	62	180	—31
Fuels	12	157	—53	13	—1	1	66	143	—75	146	—77	23	—11	124	13	—1
Chemicals	—66	44	—13	23	—24	1	—29	20	158	107	—22	38	76	36	104	33
Metals and metal products	—522	284	—211	223	—158	30	—153	31	—554	128	—305	166	—20	238	—229	—276
Base metals	—376	42	—60	39	—166	—13	—150	16	19	236	—69	46	69	175	19	15
Machinery	—94	94	—95	85	3	3	—2	6	—122	71	—172	89	—78	27	128	—45
Transport equipment	—58	137	—49	103	—9	33	–	2	—254	—45	—49	53	—9	—35	—196	—133
Other	6	11	—7	—4	14	7	—1	8	—197	—134	—15	—22	—2	1	—180	—133
Other manufactured goods[c]	—6	318	—21	96	—59	107	74	115	—337	—379	—111	61	16	85	—242	—525
Textile yarn and fabrics	—54	58	—16	6	—41	20	3	32	—25	—1	—34	4	6	5	3	10
Other	48	260	—5	90	—18	87	71	83	—312	—378	—77	57	10	80	—245	—515
TOTAL	—774	914	—331	481	—280	209	—163	224	—832	456	—554	406	90	814	—368	—764

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series II, "Foreign Trade by Commodity Categories and by Areas".

[a] Changes from first three quarters of one year to corresponding period of following year.

[b] SITC groups 0, 1, 4.

[c] SITC groups 6, 8, 9, less divisions 68 and 69.

with less than one-half in the corresponding period of the previous year. Among these, iron and steel, solid fuels, ores, scrap and wood-pulp showed the largest increases, since domestic supplies of these commodities had become tight in many countries. Increased food imports were concentrated mainly in cereals. The good wheat crop in 1953 had caused imports to fall in the following year, while a poor grain harvest in 1954 was followed by a large rise in the demand for imports in 1955.

From 1953 to 1955 imports into North America showed strong cyclical movements in sympathy with changes in the level of domestic production. In the first three quarters of 1954, the value of imports declined by 7 per cent compared with the corresponding period of 1953 (see table 73). This was followed by an increase in imports of over 8 per cent in the first three quarters of 1955. As a result, total imports rose above the pre-recession level.

The fluctuations in the level of imports were accompanied by shifts in composition (table 73) although these were not so pronounced as in western Europe. Imports of metals and metal products showed the largest decline during the recession. In the first three quarters of 1955, only half of the previous decline was regained. Imports of non-ferrous metals were limited by shortages abroad, making it necessary for the United States Government to release supplies from its own stocks and, in some cases, for private inventories to be reduced. Imports of crude materials, on the other hand, were at a level higher than before the recession, owing mainly to an upsurge in rubber prices, though there was also a recovery in imports of wool from the low point of the recession. There were, moreover, large increases in imports of fuels and miscellaneous consumer goods. Changes in the value of imports of food reflect, to an even greater extent than in western Europe, the exceptional price increases for cocoa, coffee and tea in 1954 and the declines in 1955. Thus, the value of imports of food rose sharply in the first three quarters of 1954 only to be followed by an even greater fall in the corresponding period of 1955.

The shifts in demand of the industrial countries discussed above affected the course of commodity prices. As indicated in chapter 5, higher demand in industrial countries caused an upward pressure in 1955 on prices of raw materials used in production of consumer and producer durables, and in construction—such as iron scrap, metals, lumber and rubber.[12] On the other hand, prices of agricultural products, such as textile materials, tended to decline. The fall in the prices of cocoa, coffee and tea, noted above, represented a reaction from the developments of the previous year, when poor harvests and inventory speculation had driven prices to unusually high levels.

Changes in composition affected the geographic distribution of the trade of industrial countries. The mutual reinforcement of external and internal demand stimuli resulted in a substantial increase in trade among them to meet the requirements of western European countries. The gradual liberalization of trade by the latter during 1953 and 1954 contributed directly to this reorientation and also facilitated increases in imports from Canada and the United States. The rise in trade among the industrial countries was particularly important in alleviating bottlenecks that had appeared in certain European countries. For example, Belgium, France and the United States were able to make available supplies of such products as coal, steel and base metals for shipment to other countries which were encountering shortages, notably western Germany and the United Kingdom.

On the other hand, imports from primary producing countries did not rise in proportion to the total increase in imports of industrial countries. The relative deterioration in the position of primary producing countries as suppliers to industrial countries in 1955 is summarized in the following data (in billions of dollars):

	Changes in imports of industrial countries[a]	
	From 1953 to 1954	*From 1954 to 1955*
All imports	0.8	4.6
Imports from:		
Industrial countries	0.3	3.6
Primary producing countries	0.5	1.0

[a] Data relate to first three quarters of each year.

Internal and External Balance

The upsurge in economic activity which gathered momentum in western Europe during 1954 and in North America during 1955 was not accompanied by serious problems of internal or external balance. Although money wages rose appreciably, retail prices remained generally stable owing to increases in productivity. The rise in productivity, coupled with the movement of labour between industries and a small growth in the labour force, made it possible to achieve significant increases in output and effect substantial changes in the structure of production despite fairly

[12] In the case of copper, the sharp increase in price also reflected supply difficulties arising from labour disputes in most of the major producing areas of the world.

low levels of unemployment. Shortages of labour did develop, but these were on the whole no greater than those experienced in several of the industrial countries during the boom of 1951. Nor was there any abnormal speculation in inventories; only in the United Kingdom was the rise in inventory investment a source of difficulty.

Nevertheless, there was widespread concern about problems of over-expansion. Fears of an overburdening of the economy were greatest in countries where the external balance has been precarious throughout much of the post-war period, but concern was also voiced in North America, where the balance of payments does not constitute any problem. In part, the source of concern was sectoral over-expansion—manifested in heavy pressures of demand upon the durable goods industries and upon housing, and in increases in the prices of certain industrial raw materials. However, there was also a fear of incipient general inflation. Accordingly, measures were adopted in many industrial countries—especially in the monetary field—to slow down the pace of the expansion. No significant anti-inflationary action was considered necessary, however, in Belgium, France and Italy, since no problems of excess demand had apparently arisen in these countries.

Symptoms of inflation

Developments in the labour market

Conditions in the labour markets of the various countries provide a fairly accurate reflection of the extent of pressure upon resources in each. In table 74 unemployment ratios in the first and second halves of 1954 and the first and second halves of 1955 are compared with those recorded in the two halves of 1951, when a similar situation of over-all labour shortage had prevailed in a number of industrial countries. In this comparison it is assumed that no significant changes had taken place in the composition of the labour force or in structural unemployment. With the few exceptions noted below, such changes were probably not significant during the period under review.

At the time when restrictive measures were introduced in Norway and Sweden in the second half of 1954, unemployment ratios, though low, were above the levels recorded in the second half of 1951. Although in the United Kingdom unemployment subsequently declined below the levels associated with previous boom years, disinflationary action likewise was started while unemployment was still no lower than in 1951.

Canada and the United States experienced a gradual reduction of unemployment ratios from the 1954 recession levels, but the 1955 ratios remained significantly above those recorded in 1951. In view of this, the anti-inflationary measures adopted were more cautious than in the countries mentioned above.

Earlier levels of unemployment in western Germany are of less significance than in the other countries because of drastic changes in the labour force, and because in 1951 western Germany was still in the early stages of its post-war expansion. It can be said, however, that the reduction in unemployment in western Germany in 1955 had reached the point at which shortages of labour were beginning to emerge in specific sectors of the economy, notably building and coal mining. Comparison with 1951 also involves difficulty in the case of the Netherlands, where anti-inflationary measures were instituted at an early stage in 1950, so that unemployment did not fall to the low levels reached in countries such as Norway, Sweden and the United Kingdom in 1951. In 1955 unemployment ratios dropped significantly, and by the second half of the year there had developed a labour shortage comparable with that in the latter three countries.

The anti-inflationary measures adopted by Denmark were designed primarily to deal with balance of payments difficulties. Though unemployment declined below the level of 1951, for reasons similar to those noted in the case of the Netherlands, it remained relatively high.

Thus, the governments which adopted anti-inflation-

Table 74. Unemployment Ratios, Selected Countries

(Percentages)[a]

Country	1951		1954		1955	
	First half	Second half	First half	Second half	First half	Second half
Canada	2.9	2.0	5.3	3.8	5.7	2.8
Denmark	10.0	9.3	10.1	6.7	10.5	9.0
Germany, western	8.7	9.0	7.1	6.0	5.8	4.2
Netherlands	2.0	2.6	2.4	1.5	1.6	1.1
Norway	1.6	0.7	1.6	1.0	1.6	0.9
Sweden	1.7	2.0	2.9	2.3	2.4	2.4
United Kingdom	1.4	1.3	1.7	1.3	1.3	1.1
United States	3.3	2.7	5.4	4.7	4.7	3.4

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

[a] For definitions of unemployment ratios in individual countries, see appropriate footnotes to table 70.

ary measures in 1954 and 1955 did so in circumstances in which labour shortages were less, or at least no greater, than they had been in North America and parts of western Europe during preceding years, especially 1951. The measures of restraint were, however, based on expectation of still tighter conditions, or were designed to prevent their occurrence. A tendency in the direction of tighter conditions is indicated by the lower levels of unemployment in the second half of 1955 than in the second half of 1954 in six of the eight countries listed in table 74.

Relative stability of prices

In most countries prices were relatively stable during 1954 and 1955, particularly retail prices. As shown in table 75, the cost of living index in Canada and the United States scarcely changed during the course of 1954-1955. In most western European countries, the increase in the cost of living did not exceed 2 per cent in 1955. In the latter half of 1955, however, price increases became more pronounced in Denmark, Sweden and the United Kingdom.

In Canada and the United States, the stability of retail prices resulted from two offsetting influences: a small rise in the price of services on one hand, and a decline in prices of food and certain manufactured goods on the other. In most western European countries import prices remained fairly stable at a level not very different from that of 1953. At the same time, despite appreciable increases in wage rates, prices of industrial manufactured goods remained fairly stable and even tended to decline, as a result of the substantial rise in output per man-hour. The relatively greater stability of the cost of living index in France, western Germany and the Netherlands than in other western European countries in 1955 can be explained, at least in part, by government policies of reducing indirect taxes and the prices charged for certain public services, and, in the two latter countries, of liberalizing import restrictions, as indicated below. In Denmark and the United Kingdom, on the other hand, relatively greater increases in the cost of living were the result of higher indirect taxes and a reduction in food subsidies. In Sweden the increase in the cost of living was largely accounted for by the higher level of food prices enacted for the purpose of compensating farmers for income losses due to poor harvests.

There was, however, some doubt as to how long retail price stability would be maintained. In those countries which had most closely approached the limit of their resources in 1955, notably Norway, Sweden and the United Kingdom, the combination of advancing real wages and a slowing down of the rate of increase in productivity seems to have led to some decline in profit margins which could not be expected to continue. The same development probably also took place in western Germany towards the end of the year. Even where productivity gains outweighed the advance in real wages, as for example in Canada and the United States, pressures on the durable goods industries were being reflected in rising prices for industrial raw materials such as steel and base metals, and for the finished products of these industries.

Table 75. Changes in Average Hourly Earnings[a] in Manufacturing, Cost of Living and Import Prices, by Country

(Percentage change from corresponding period of preceding year)

Country and year	Money wages	Cost of living	Import prices
Belgium:[b]			
1954	3	1	—4
1955	3[c]	—[c]	1
Denmark:[d]			
1954	4	1	—3
1955	4[e]	4[e]	1
France:			
1954	4	–	—2
1955	10	1	—1
Germany, western:[f]			
1954	3	–	—4
1955	6	2	4
Italy:			
1954	4	3	–
1955	7[c]	3[c]	1
Netherlands:[g]			
1954	11	4	—5
1955	5	2	2
Norway:[h]			
1954	5	4	—2
1955	6[c]	3[c]	2
Sweden:[h]			
1954	4	1	—1
1955	7	3	–
United Kingdom:			
1954	6	2	—1
1955	8	4	3
Canada:			
1954	4	1	–
1955	3	–	1
United States:			
1954	2	–	3
1955	4	–	—1

Source: Organisation for European Economic Co-operation, *General Statistics* and United Nations, *Monthly Bulletin of Statistics*.

[a] Denmark, France, Netherlands: hourly wage rates.
[b] Wages include mining, construction, transport, gas and electricity.
[c] Three quarters.
[d] Wages include construction, transport and commerce.
[e] First half.
[f] Wages include construction.
[g] Wages include mining and construction.
[h] Wages include mining.

Balance of payments problems

While in many respects there were important similarities between the situation in the United Kingdom and Scandinavian countries and in the other countries discussed above, it was only the former which encountered significant balance of payments difficulties during the period under review. A major part of these difficulties resulted from special factors. A poor harvest in 1954 in all these countries caused pressure in the food sector. Denmark suffered most from the harvest failure, which not only hampered exports but also made it necessary to increase imports of feed: the fall in Denmark's export balance in foodstuffs alone was equivalent to nearly half of the over-all deterioration in its balance of trade from 1953 to 1954. Similarly, about one-third of the deterioration in the United Kingdom trade balance from 1954 to 1955 was concentrated in the food sector: lowering of stocks in connexion with the transfer of government inventories to private hands more than compensated for losses from the poor harvest in 1954, but the impact was carried over into 1955.

A further special factor in the case of the United Kingdom was the drop in coal production and the decision to build up inventories in 1955 following the decline in 1954. The consequential decrease in balance of coal imports and exports from 1954 to 1955 represented more than one-fifth of the total deterioration in the balance of trade.

More generally, however, the balance of payments difficulties of these countries in 1955 reflected the heavy pressure of demand for producer and consumer durables discussed earlier in this chapter. In the Scandinavian countries growing imports of machinery and equipment and of passenger cars added considerably to the drain on foreign exchange resources. In Norway heavy purchases of ships also burdened the external balance. In the United Kingdom it was necessary to increase imports of basic materials in short supply—including steel as well as coal—while at the same time exports in some sectors were held back by growing domestic demand and capacity limitations. There was also some accumulation of inventories of certain imported raw materials.

A basic difficulty of these countries is that foreign exchange reserves are too low to enable them to absorb temporary maladjustments — such as those caused by harvest failure or by inventory fluctuation —without the need to resort to a severe contraction of demand. An additional problem of the United Kingdom seems to derive from the distribution of its exports. A relatively large share is marketed in primary producing countries, whose capacity to import has not risen in line with world trade as a whole during the current boom, as pointed out earlier in this chapter. Consequently, one of the limits to the rate of economic expansion in the United Kingdom is set, under present conditions, by the particular distribution of its exports, which could not, of course, be subjected to a major shift in direction in a short period, even if competition from other countries could be discounted.

Anti-inflationary measures

A striking feature of the anti-inflationary measures adopted in response to the situation described in the preceding section has been the reliance placed on monetary techniques. The levels of discount or bank rates attained in some countries by the end of 1955 surpassed those reached at any previous time during the post-war period. In many cases this marked a distinct departure from the policies of earlier post-war years, characterized by a concentration on fiscal measures and direct controls.

The timing of measures in the various countries that have taken action can be broadly indicated by the changes in discount rates shown below:[13]

The countries listed fall into two groups. The United Kingdom and the Scandinavian countries had already taken strong action in the second half of 1954 or the first half of 1955, including not only discount

[13] International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

	1954	1955				1956
		First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
Denmark	4.0 to 5.0		5.0 to 5.5			
United Kingdom		3.0 to 3.5				
		3.5 to 4.5				4.5 to 5.5
Norway		2.5 to 3.5				
Sweden			2.75 to 3.75			
United States			1.5 to 1.75	1.75 to 2.0	2.25 to 2.50	2.5 to 2.75
				2.0 to 2.25		2.75 to 3.0
Canada				1.5 to 2.0	2.0 to 2.25	
					2.25 to 2.75	2.75 to 3.0
Germany, western				3.0 to 3.5		3.5 to 4.5
Belgium				2.75 to 3.0		
Netherlands						2.5 to 3.0

rate increases, but a variety of monetary, fiscal and other measures designed to apply major restraint on the forces of expansion. On the other hand, Canada, western Germany, the Netherlands and the United States did not initiate significant restraint until later in 1955. Although Belgium did not experience significant inflationary pressure in 1955, the discount rate was raised slightly, mainly in order to discourage speculation and narrow the difference from comparable rates abroad.

In several countries, the revival of interest in monetary policy was part of a broad movement in the direction of greater orthodoxy in economic affairs and of circumscribing the scope of governmental interference in the functioning of the market economy. It was in the same general stream of events as the movement towards more liberal trade and payments policies, the re-establishment of freer markets in commodities and currencies, and the general elimination of controls.

Apart from this, however, monetary measures appeared particularly suited to the circumstances of 1954-1955 by virtue of their flexibility. Flexibility seemed necessary because of uncertainty regarding the strength and permanency of the expanionist factors, because of the relatively slow approach to an anticipated danger point and because, even in the hardest pressed countries, the boom in some sectors of the economy was accompanied by slackening of expansion in others. Applied on a modest scale in order to slow down an expansion of demand considered only a little too rapid, monetary measures were expected to achieve a moderate correction with a minimum of action and without any significant departure from an established trend of growth. This seems to have been the situation in those countries which resorted mainly to monetary measures and on a modest scale only—the second of the two groups mentioned above. Here the expansion during 1955 reached a point at which pressure against the limits of resources became just noticeable, for example in a tightening of the labour market and in a tendency for prices to rise. Plenty of elbow room was still left in these economies when the governments decided to slow down the pace and prevent outbursts of speculation.

In the countries where balance of payments difficulties accompanied or even preceded the appearance of domestic pressures, it was recognized that monetary policy would not suffice or in any case could not be permitted to carry the burden of adjustment alone. Although it should be noted that the monetary policies adopted in the past few years have included a variety of devices designed to strengthen the conventional techniques of monetary management and increase the number of points at which checks are applied to the expansion, it was inevitable that investment should bear the brunt. Exclusive reliance on monetary measures in a situation calling for substantial corrective force would consequently run the risk of adversely affecting the future rate of growth. Complementary use was therefore made of fiscal policy.

Nature of the measures

The raising of discount rates in these countries was generally supported by open market operations and often reinforced by government issues of high-interest loans. In Sweden, the central bank insisted on the fulfilment of certain liquidity quotas and ultimately required the commercial banks to decrease their loans (other than for housing) by 1 per cent over the period August-October 1955. In Norway, reserve requirements were introduced for the first time, and the banks were repeatedly asked to curb their loans in spite of substantial excess reserves. It was agreed in the end that no increase in private bank loans should take place in 1956. In the United Kingdom, the banks were also asked early in 1955 to restrict credit and were eventually requested to reduce advances by 10 per cent during the second half of 1955. In western Germany, in August 1955, the minimum reserve percentage on all deposits was raised one point. In the United States, the Federal Reserve System restricted its purchases of government securities as early as December 1954 and reduced its holdings in January-February and August-September 1955. In addition, margin requirements for stock-market purchases were raised twice: in January 1955 from 50 to 60 per cent and in April from 60 to 70 per cent.

In some cases specific restrictions were introduced to check building. In Norway, the central bank restricted its authorizations of housing loans to be floated by credit associations in 1955. In western Germany, bills used for interim financing of building projects were no longer accepted for rediscounting by the Central Bank after October 1955. In Sweden, building loans—which had expanded at an unusually rapid rate in 1954—bore the brunt of the efforts of the banks to contract credit in 1955. This resulted in difficulties in financing housing during the first half of 1955 which had not quite been foreseen by the Government. In Denmark, building subsidies were restricted in 1954 and cut sharply in 1955. Housing subsidies were also reduced in the United Kingdom. In the United States, in July 1955, down-payments were increased and the period of repayment shortened on mortgages guaranteed by the Federal Government. Subsequent indications of a slackening in the demand for housing were followed by the reinstatement of the original provisions.

In Norway and Sweden, special investment taxes were introduced early in 1955 in an attempt to affect the level of private investment directly by fiscal means. In Sweden, new investment in industry and agricul-

ture was subjected to a levy of 12 per cent. In Norway, a 10 per cent sales tax was imposed on all building and construction activity (except new farm dwellings and buildings). A temporary 10 per cent tax on payments under new contracts for large ships was also introduced in order to encourage either postponement of such purchases or resort to credit from abroad.

All the measures thus far mentioned were directed mainly towards investment but could, of course, be expected to improve the balance of trade depending upon the import content of the investment affected and the extent of the contraction generated in total domestic demand. But in those countries where the balance of trade was of major concern, the problems posed by the rapid increase in the consumption of durable goods had to be tackled by direct means as well. In the Scandinavian countries, special attention was given to the sale of motor vehicles, which had expanded rapidly in all three countries in 1953 and 1954. In Norway and Sweden, a 10 per cent sales tax was introduced at the beginning of 1955, and Norway reduced motor vehicle import quotas. In Denmark, special measures had already been taken in 1954 to curtail imports of passenger cars and motorcycles by reducing the number of import permits granted and by raising the price of certificates obtained through the dollar export incentive scheme. Limitations were also imposed in Denmark in 1954 on hire-purchase contracts, and a turnover tax of 10 to 15 per cent was applied to a wide range of consumer goods in March 1955. The United Kingdom restricted hire-purchase in February 1955 but in April removed the purchase tax on certain textile goods. Later in the year the purchase tax was increased generally by 20 per cent on household goods and cars, and the coverage was extended. In February 1956 instalment buying was further restricted, and subsidies cut on certain essential foods.

In most previous instances of balance of payments difficulties, governments had generally acted to limit imports by direct means. This step was also taken in several countries in 1954-1955. Apart from the measures noted above, Norway, for example, reduced authorizations for controlled imports. In no case, however, was there a general tightening of quantitative trade controls, as had frequently occurred in earlier post-war years, although in some cases it proved impossible to proceed with further measures of liberalization as had originally been intended.

A new feature of the policies adopted in 1954-1955 was the attempt to exert a downward pressure on prices, and thereby check demands for wage increases, by allowing freer entry to imports. A number of western European countries, particularly western Germany and the Netherlands, liberalized imports from the dollar area; and in addition western Germany lowered import duties on a number of items in March 1955.

Three countries actually reduced income taxes in 1955—western Germany at the beginning of the year, the United Kingdom in April, and the Netherlands in the latter part of the year. It might be thought that the risk of excess demand for consumption was thereby enhanced. This risk was accepted, however, in an attempt to deal with the complementary danger of a wage-price spiral: it was hoped that tax reductions would encourage restraint in demands for higher wages, and also provide additional incentives to greater productivity. As already noted, the United Kingdom was compelled to raise purchase taxes and cut subsidies later in 1955.

Various schemes have been devised to promote voluntary saving. In Denmark, small-scale savings are accorded income tax relief if deposited in blocked savings accounts. In Norway, savings deposits up to a certain limit have been exempted from income and capital taxes. In Sweden, high premiums (15 to 20 per cent) are offered for savings deposited in special bank accounts in 1955 and 1956 if these are not withdrawn before the end of 1960. The United Kingdom Government has proposed the introduction of a premium savings bond.

Impact of the measures

In the credit market the impact of the monetary measures was seen in the higher private bank and bond interest rates and a slowing down or reversal of the previously rapid growth in credit volume. In the Scandinavian countries and in the United Kingdom, the volume of credit ultimately levelled off; and, in Sweden and the United Kingdom, at the end of 1955, the credit volume began to decline below the level reached in the corresponding period of the previous year, as shown in table 76. In these countries the effects of the change in monetary policy have thus been transmitted fairly quickly to the credit market. No over-all effect on credit volume is yet visible in Canada and the United States.

The full impact of the credit restrictions can be expected to appear only after some delay; some indication of their incidence upon different sectors may already be gleaned, though the information available thus far is meagre. In Sweden, at the end of 1955, bank lending for non-residential construction and personal credit were far below the levels reached at the end of 1954. Except for housing loans, which increased towards the end of the year, other credits were approximately unchanged. In the United Kingdom, bank advances to the engineering and food industries at the end of 1955 were above the corresponding level in 1954 and rising; on the other hand, advances to the textile industry and to local government authorities, as well as personal loans, were below the 1954 level and falling. A considerable decline in borrowing by public utilities also took place. If public

utilities are excluded from the credit figures of the United Kingdom, the peak was not reached until the third quarter although the decline in the fourth quarter still brought the credit volume comparatively close to the 1954 level. It is, of course, extremely difficult to distinguish the active and passive elements in changes in bank lending; in the United Kingdom, for example, declining advances to the textile industry and increased advances to the engineering industry might have been expected in any event. However, there has certainly been a considerable lag between the contraction in the credit market of the Scandinavian countries and that in the United Kingdom, which may to some extent explain the relatively greater expansion in private investment in the United Kingdom in 1955.

In some instances the effect of anti-inflationary measures upon specific sectors is clearer than upon the economy as a whole. Reference has already been made to the decline in demand for housing in the United States following the tightening of mortgage facilities, and the reversal of the latter measure which resulted. The effect of various restraints in curbing residential construction in the United Kingdom and Scandinavian countries was also noted above. Similarly, restrictions on consumer credit and the rise in purchase tax in the United Kingdom led fairly rapidly to a fall in sales of passenger cars and certain other durables and a decline in their production.

Insufficient time has elapsed to permit an evaluation of the general effect of the anti-inflationary measures upon balance of payments positions. In Denmark the situation improved considerably in 1955 owing mainly to a better harvest and to the tightening of restrictions on imports of vehicles: the improvement resulting from these two factors alone was nearly as large as the over-all reduction in the trade deficit. However, the slackening in domestic demand probably also contributed to the outcome by leading to a fall in imports of miscellaneous consumer goods and forest products.

The Economic Outlook for 1956[14]

Any assessment of the present economic situation and outlook in the industrial countries must necessarily take full account of the governmental anti-inflationary measures discussed above. These measures will undoubtedly be modified by governments from time to time depending upon the manner in which the situation evolves. It is, however, obviously impossible to foresee and allow for all the changes which may come about in government policy, especially since considerations beyond the scope of the economist are involved. For this reason the discussion which follows attempts in general to evaluate the economic tendencies emerging at the beginning of 1956 without seeking to indicate what the response of governments is likely to be. This approach does not, of course, imply that appropriate adjustments in government policy will not be made as the need arises.

Industrial output and trade in the industrial countries are expected by governments to continue to rise in 1956 but at somewhat lower rates than those experienced during the past two years. Such data as were available at the end of April 1956 suggested that this expectation was being fulfilled in the early months of the current year. The rate of increase in industrial production in western Europe in the first two months of 1956 appeared to have slackened appreciably. In the United States industrial output in the first quarter of 1956 showed no increase over the last quarter of 1955, on a seasonally adjusted basis.

As pointed out earlier, the relatively high rate of expansion of national product achieved in some countries in 1955 depended in part upon the availability of unemployed labour and unutilized industrial capacity. By the end of 1955, however, unemployment in most countries had fallen to low levels and idle pro-

[14] This section is largely based upon replies of governments to the annual United Nations questionnaire on full employment and balance of payments, 18 November 1955. Supplementary information has been obtained from other official publications.

Table 76. Indices of Commercial Bank Credit,[a] Selected Countries

(Corresponding quarter of previous year=100)

Country	1954				1955			
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Canada	115	110	102	100	98	103	110	119
Denmark	107	109	108	107	105	101	101	102
Germany, western	110	110	110	115	117	120	120	116
Netherlands	131	134	125	124	120	122	122	124
Norway	101	105	106	108	110	106	104	103
Sweden	106	109	110	112	109	103	100	95
United Kingdom	98	104	109	111	115	119	109	98
United States	103	104	102	105	108	112	116	116

Source: Organisation for European Economic Co-operation, *General Statistics.*

[a] Data relate to short-term or medium-term credits from commercial banks outstanding at the end of each quarter.

ductive capacity had also been reduced. The expansion of output in 1956 is therefore expected by governments to depend, to a larger extent than in 1955, on a continuing increase in labour productivity. In the light of the large volume of industrial investment undertaken in 1955, some increase in labour productivity can be expected.

On the demand side, consumption in most countries is not expected to increase as rapidly as in 1955, nor indeed is investment, except in Canada and the United States. At the same time, however, governments have not expressed concern that the expected levels of total demand will be insufficient to maintain output at full employment levels. Indeed, in some countries the problem is rather the reverse; the main concern in 1956 is to restrain the rise in demand from outstripping that of total supply. No drastic change in the pattern of demand is generally envisaged.

The reduced rate of expansion in demand and output in the industrial countries is expected to lead to a corresponding decline in the rate of growth of the volume of trade. This development is likely to affect adversely those countries whose exports have been a major contributing factor to the expansion in economic activity.

Under the prevailing conditions of full employment, the pressure for higher wages is expected to continue. By April 1956, a number of claims for substantial wage increase had been made in several countries, while others were expected later in the year. In so far as the expectation of a slowing down in the increase in labour productivity coupled with a substantial increase in wages is realized, the stability of the cost and price structure may be adversely affected.

Prospects for individual countries

By the end of 1955, economic expansion in individual countries had already exhibited divergent tendencies. In some, the restrictive measures which had already begun to slow down the expansion during 1955 are expected to continue to exert a restraining influence in 1956. In others, a slackening in the rate of expansion is forecast on the basis of limitations of manpower and industrial capacity. In a third group of countries the expectation has been expressed that falling exports to other industrial countries will contribute to a slackening in the rate of expansion.

In Norway and Sweden, a slowing down in the rate of growth of domestic demand had already become evident during the second half of 1955. The anti-inflationary measures introduced in 1955 will be relied on to exert continuing restraint upon domestic demand in 1956. While consumption in both countries is expected to increase as much as in 1955, a further slackening in the rate of fixed capital investment is foreseen. Curtailed domestic demand is expected to provide the basis for an improvement in the balance of payments.[15]

In the United Kingdom, the rate of expansion in domestic demand had also eased during the second half of 1955 and, as noted previously, the consumption of durables, especially motorcars, had slackened. In the early months of 1956 industrial production was only some 2 per cent higher than in the corresponding period of 1955 and the balance of trade had improved significantly, largely as a result of a decline in imports. However, the pressure of domestic demand is expected by the Government to continue high. This is mainly owing to the fact that in the investment sector, where a very large amount of work has already been put in hand, the rate of increase in demand in 1956 may not fall significantly below that of 1955. In these circumstances, the Government has felt it necessary to reinforce its restrictive measures in February and again in April 1956.

Several other western European countries which experienced accelerated rates of economic growth in 1955 anticipate a slackening in the expansion in 1956 but for varying reasons. In the Netherlands, this expectation is based upon the fact that output in 1955 rapidly approached full utilization of capacity. Unemployment, which had already reached very low levels in 1955, is expected to be reduced even further in 1956. Increases in private consumption and fixed investment are not expected to match those recorded in 1955. At the same time, the balance of trade is expected to deteriorate as a result of a smaller increase in exports coupled with an unchanged rate of increase in imports.

Belgium and France also envisage a slowing down in the rate of growth of national product in 1956. External stimuli have been of considerable importance in their current expansion, but there is a likelihood that economic policies presently being pursued in other countries may generate a decline in the demand for their exports. Consequently, the rate of improvement in the balance of trade recorded in 1955 is not expected to be maintained in 1956. The substantial backlog of outstanding orders for Belgium exports may, however, prove to be a partially offsetting factor in that country. In France a fall in agricultural production is expected to result in an increase in imports and a reduction in exports; this together with increased commitments in Algeria is expected to accentuate the deterioration in the balance of payments. The unfavourable changes in the external balance of Belgium and France are not expected to be fully offset by increases in other sources of demand.

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[15] No official forecast for 1956 was available for Denmark. Substantial slack had developed in the economy by the beginning of 1956, but some revival during the course of the year seemed possible as a result of an expected increase in exports and some recovery in building activity.

In Japan, as in Belgium and France, a deterioration in the balance of trade is expected to be the main contributing factor to a slowing down in the rate of growth. Exports are forecast to increase much less than in 1955 because of slackening foreign demand and inelastic supply in such major export items as ships and iron and steel. At the same time, imports are expected to show a significant increase in 1956, while United States special procurements will decline further.

The prospects in the United States are summarized in the following passage from the *Economic Report of the President:*[16] "Taking recent developments all together, it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favourable to further economic growth." The report points out, however, that, in an economy operating close to full capacity, "cross-currents multiply and become more prominent". These cross-currents are clearly revealed in the present situation.

Following the completion of recovery from the recession, the rise in national output in the United States began to slow down, particularly after the third quarter of 1955. Industrial production in the first quarter of 1956 was at the same level as in the final quarter of 1955, as noted previously, while total output was only slightly higher, on a seasonally adjusted basis. Consumption was also rising much more slowly than a year before, mainly because of a drop in expenditure on consumer durables to a level below that of the first quarter of 1955. This development was almost entirely due to a sharp decline in sales of passenger cars which began in the fourth quarter of 1955 and has continued into 1956. The volume of construction early in 1956 was about 4 per cent lower than a year earlier, while housing starts were also lower. The rate of investment in producers' durable equipment, however, continued to rise during the first quarter of 1956. On the whole, total fixed investment was stable during the nine months ending in March 1956, the decline in residential construction being offset by a rising trend in business fixed investment. Although the rate of inventory accumulation remained relatively high, preliminary estimates suggest a slight fall from the fourth quarter of 1955 to the first quarter of 1956. By the end of February 1956, the volume of inventories had reached the pre-recession peak of mid-1953, but were in the aggregate supporting a volume of economic activity about 5 per cent higher.

Thus the major "cross-currents" in the United States economy at the beginning of 1956 were, on the one hand, significant declines in demand for passenger cars and new housing and, on the other hand, a substantial increase in business expenditure on plant and equipment. The most recent survey of business intentions[17] indicates that outlays on fixed capital are expected to increase by 22 per cent in 1956. It is upon the realization of this expansionary factor that an increasing national product in 1956 will mainly rely.

In Canada, an increase of 21 per cent in fixed investment by private business is expected,[18] as in the United States, to be the major contributing factor to a further advance in national product. That limitations of productive capacity are likely to be crucial factors in the 1956 rate of growth has already become evident. Canada's balance of trade deteriorated sharply in the final quarter of 1955 and has continued to worsen in early 1956, owing to the rise in imports.

[16] Washington, D. C., 1956, page 49.

[17] Undertaken by the Securities and Exchange Commission and the Department of Commerce between late January and early March 1956.

[18] Department of Trade and Commerce, *Private and Public Investment in Canada, Outlook 1956* (Ottawa).

Chapter 5

RECENT TRENDS IN PRIMARY PRODUCING COUNTRIES

Among the characteristics common to most of the countries dealt with in this chapter—comprising Africa, Asia (exclusive of mainland China and Japan), Latin America, and Australia and New Zealand—are the general nature and relative magnitude of their foreign trade. This trade consists to a very large extent of an exchange with the industrial countries of primary products for manufactured goods of various kinds. Though manufactures are tending to be featured more prominently among the exports of a few of the countries in the group—Argentina, Australia, Brazil, India, Mexico and the Union of South Africa, in particular—raw materials and foodstuffs continue to constitute the overwhelming bulk of exports. Similarly, though raw materials and foods, and in some instances fuels, are of major significance, both qualitatively and quantitatively, among the imports of some countries in the group, in the main their imports consist very largely of industrial goods.

The importance of foreign trade to these countries is indicated by the high proportion of gross domestic product originating in the export sector. In consequence of this, the course of economic events in the countries which constitute the main markets for their export products is a matter of considerable significance to them.

The second characteristic of most primary producing countries is the high proportion of total exports contributed by one or two products. In almost all of the thirty-nine countries listed in table 77, two leading export products contributed more than a third of the gross export value in 1953-1954; in about 80 per cent of the countries the two main products accounted for more than half of export earnings and in about 50 per cent for more than three-fourths of export value. In general, this dependence on one or two commodities tends to increase the sensitivity of the economy to fluctuations in external markets. However, since elasticity of both supply and demand differs appreciably from one commodity to another, specialization in the export sector also results in considerable diversity in the effects upon the primary producing countries of changes in the level of output and income in industrial countries.

Trends in Foreign Trade

Demand for primary commodities

As indicated in chapter 4, the rise in production in western Europe in 1954 and 1955 and in the United States in 1955 was not the result of a uniform growth in all sectors of the industrial economy. Hence there was a considerable range of variation in the extent to which the total demand for primary products changed, while movements in the demand for imported raw materials were even more diverse.

Since it was generally the heavy industries and those producing durable goods—both capital and consumption—that experienced the largest increase (the output of motorcars, in particular, showing a notable expansion), the most marked rise in demand for raw materials imported from the primary producing countries was for metals and rubber. The only other category of materials in which demand increased and prices were firm or rising throughout the period under review was that of petroleum and its products. The demand for natural fibres and hides and skins remained relatively weak; only the hard fibres, abaca and sisal, moved against the trend, recovering partially in 1955 from the low levels of 1954.

In western Europe, the demand for bread grain imports from the primary producing countries remained below the 1952/53 level. The demand for sugar imports also failed to rise at the rate at which the output of cane-sugar was expanding; the market, which had weakened in 1954, would probably have followed the trend in the grain market had not some unexpected large purchases by eastern Europe helped to reduce the rate at which surpluses were being accumulated. Since higher consumer incomes in the industrial countries tended to reinforce the secular trend of demand away from high calorie foods and towards high protein foods, the market conditions for the other foodstuffs was more varied and on the whole—in the case of mutton and beef, for example—somewhat stronger than for the bread grains. A rise in meat production in Europe had a counterpart in larger imports of grain for feed.

In the case of beverage crops, changes in demand seem to have been less significant than expectations of changes in production. There was probably some substitution in demand—tea for coffee and other types of confectionery for cocoa, for example—in response

Table 77. Gross Domestic Product, Total Exports and Principal Export Commodities, by Country

(Millions of indicated currency units)

Country and currency unit	Gross domestic product at market prices		Value of exports[a]		Average ratio 1953-1954 (percentage)		Principal export commodities
	1953	1954	1953	1954	Total exports to gross domestic product[b]	Principal export commodities to total exports[c]	
Venezuela (bolívar)	9,158[d,e]	...	4,858[e]	5,661	53	94	Petroleum
Malaya (Malayan dollar)	5,780	...	3,020	3,109	52[f]	55	Rubber, tin
Rhodesia and Nyasaland (Rhodesian pound)	290	322	141	147	47	76[g]	Copper, tobacco
Gold Coast (pound sterling)	183	...	81	105	44	76	Cocoa
Mauritius (Mauritius rupee)	598	587	274	251	44	98[h]	Sugar
Surinam (Surinam guilder)	80[d,i]	...	31[i]	55	39	80[j]	Bauxite
Belgian Congo and Ruanda-Urundi (Belgian Congo franc)	53,660	57,450	19,917	19,801	36	52	Copper, coffee, cotton
Ceylon (Ceylon rupee)	4,641	5,038	1,568	1,809	35	90	Tea, rubber, coconut products
Cuba (peso)	2,070	...	669	539	32	80	Sugar
Haiti[k] (gourde)	1,045[d,e]	...	279[e]	278	27	84	Coffee, sisal
Honduras (lempira)	499[l]	437[l]	134	120	27	80	Bananas, coffee
New Zealand[m] (New Zealand pound)	834[l]	927[l]	242	236	27	71	Wool, butter, lamb
Burma[k] (kyat)	4,620	4,583	1,297	1,064	26	82	Rice
Syria (Syrian pound)	1,410	...	372	460	26	58	Cotton, wheat, barley
Dominican Republic (peso)	435[l]	471[l]	105	120	25	87	Sugar, coffee, cocoa
Kenya and Uganda (pound sterling)	224	...	56	64	25	68[h]	Coffee, cotton
El Salvador (colón)	846[l]	...	171[l]	263	20	87	Coffee
Nigeria (pound sterling)	680[k,n]	...	126[k]	149	19	72	Cocoa, palm kernels and oil, ground-nuts and oil
Guatemala (quetzal)	558[l]	...	100	110	18	91	Coffee, bananas
Jamaica (pound sterling)	85[l]	...	15[l]	31	18	59	Sugar, bananas
Union of South Africa (South African pound)	1,586[l]	1,737[l]	287	318	18	26	Wool, diamonds
Australia[o] (Australian pound)	4,560	4,832	815	761	17	57	Wool, wheat

Ecuador (sucre)	9,349	10,421	1,460	1,919	17	86[p]	Bananas, cocoa, coffee
Colombia (peso)	8,712	...	1,410	1,579	16	82	Coffee
Egypt (Egyptian pound)	865[q]	...	137	138	16	83	Cotton
Peru (sol)	22,539[l]	...	3,695	4,744	16	52	Cotton, sugar, lead
Chile (peso)	316,330	...	41,134[r]	...	13	74[s]	Copper, nitrates
Thailand (baht)	33,855	...	4,558	4,510	13	73[s]	Rice, rubber
Indonesia (rupiah)	93,422[e]	...	10,651[e]	9,759	11	57	Rubber, petroleum
Mexico (peso)	50,200[d]	59,180[d]	4,637	6,300	10	48	Cotton, coffee, lead
Paraguay (guaraní)	6,243[l]	9,550[l]	573	813	9	67[h]	Cotton, timber, quebracho
Philippines (peso)	8,338	8,567	785	792	9	65	Coconut products, sugar
Brazil (cruzeiro)	410,700	...	32,047	42,968	8	74	Coffee, cotton
China: Taiwan (new Taiwan dollar)	18,914[q]	21,565[q]	1,984	1,451	8	80	Sugar, rice, tea
Lebanon (Lebanese pound)	1,155[d]	1,185[d]	88	93	8	15	Beans, oranges
Pakistan[m] (Pakistani rupee)	19,308[q]	...	1,301	1,191	7	78	Jute, cotton
Turkey (Turkish lira)	16,351	...	1,109	938	7	58	Tobacco, cotton, wheat
Argentina (peso)	105,360[n]	116,740[n]	7,189	6,757	6	51[h]	Meat, wheat, wool
India[m] (Indian rupee)	106,100[q]	...	5,307	5,835	5	44	Tea, jute manufactures

Source: United Nations, *Statistics of National Income and Expenditure*, Statistical papers, series H; and *Yearbook of International Trade Statistics, 1954* (sales number: 1955.XVII.9); replies of the Government of China:Taiwan and Honduras to the United Nations questionnaire of 18 November 1955 on full employment and balance of payments; International Monetary Fund, *International Financial Statistics* (Washington, D.C.); Mauritius: Central Statistical Office, *The National Income and National Accounts of Mauritius, 1948-1954* (Port Louis, 1956); Union of South Africa: South African Reserve Bank, *Quarterly Bulletin of Statistics*, December 1955 (Pretoria). Countries are arranged according to ratio of exports to gross domestic product, in descending order; export commodities are in order of importance.

[a] Unless otherwise stated, general exports, including re-exports, excluding gold.

[b] In countries with multiple exchange rates (notably Argentina, Brazil, Ecuador, Indonesia, Paraguay, Thailand), the figures tend to understate the actual rates because the element of export tax implicit in the exchange rate structure is not allocated and added to exports.

[c] Unless otherwise stated, percentages are based on weighted averages and represent for each country the proportion that the exports of the commodities mentioned bear to its total exports, including re-exports.

[d] National income.

[e] 1952.

[f] Exports of domestic produce represent 26 per cent.

[g] 1954 only.

[h] 1953 only.

[i] 1950.

[j] 1951-1952.

[k] Years ending 30 September.

[l] Gross national product at market prices.

[m] Years beginning 1 April.

[n] Gross domestic product at factor cost.

[o] Years beginning 1 July.

[p] Based on exports during the period 1 January 1953 to 30 September 1954.

[q] Net domestic product at factor cost.

[r] Including export of services.

[s] Based on dollar values.

to price movements. These took the form of statistically similar, though differently phased, cycles, cocoa and coffee prices reaching their peaks in mid-1954 and tea prices at the turn of the year. During 1955 all three prices declined—that of tea by about an eighth, that of coffee by about a sixth and that of cocoa by almost a third.

With the growing use of chemical detergents, the market for most oils and fats remained weak throughout the period. Consumption of butter, however, appears to have increased during 1955 and prices remained fairly firm. Under the influence of greater activity in construction, demand for linseed oil also rose.

In general these changes in market conditions reflect changes in demand in the face of an unresponsive supply. There is little evidence that market weakness induced a decline in production in any of the important internationally traded commodities. Even in cases in which sizable surpluses had been accumulated, such as cotton and sugar, production continued to exceed consumption.

Just as the output of foods and fibres was not cut back in response to market weakness, so expansion in the output of commodities for which demand was increasing—metals and rubber, in particular—tended to lag behind consumption. In the case of copper, strikes of miners in Chile and Northern Rhodesia added to the technical difficulties of increasing production in the short run. As a result, there was a tendency for stocks—especially those in the hands of producers—to be reduced between mid-1954 and the end of 1955. In the case of rubber, however, this tendency was reversed by slackening of demand in the closing weeks of the year.

The results of the interaction of variable demand and rather unresponsive supply are epitomized in the price series summarized in table 78. Under the influence of the price boom in beverage crops, the food price index rose to a maximum in mid-1954, declined rapidly to below the 1953 level by mid-1955 and then remained fairly steady. Reflecting recovering cotton prices in 1954 and rising rubber prices in 1955, the price index of agricultural raw materials increased steadily until the third quarter of 1955, dropping back to the 1953 level, however, in the final quarter of the year. The mineral price index, which did not begin to increase until the end of 1954, continued to rise throughout 1955.

Though price is often the most significant indicator of the state of the market for a particular commodity, it is only one of the variables determining what for most primary producing countries is the critical magnitude, namely export proceeds. In order to throw some light on the latter, in so far as they were affected by developments in the industrial countries during 1954 and 1955, table 79 presents in summary form changes in the value of net imports into North America and western Europe of commodity groups that are of particular importance to the trade and income of primary producing countries. Chart 19 provides similar information, and some price data, for specific commodities.

Net imports of these commodities into western Europe expanded by 8 per cent between the first three quarters of 1954 and the corresponding period of 1955. There was, however, a partly offsetting expansion of exports from North America, so that over-all expansion of net imports into the industrial areas was only in the neighbourhood of 5 per cent.

Table 78. Indices of Prices of Primary Commodities entering World Trade[a]
(Corresponding period of preceding year=100)

Period	*All commodities*	*Food*	*Commodities other than food*		
			Total	*Agricultural[b]*	*Mineral[c]*
1954	104	109	100	99	100
1955	97	90	103	103	106
1954:					
First quarter	102	109	97	95	100
Second quarter	106	113	100	99	102
Third quarter	104	108	100	101	99
Fourth quarter	103	107	101	102	101
1955:					
First quarter	99	94	103	103	104
Second quarter	94	86	102	102	104
Third quarter	97	88	105	105	106
Fourth quarter	99	91	105	100	110

Source: United Nations, *Monthly Bulletin of Statistics*, March 1956.
[a] Based on c.i.f. import prices and f.o.b. export prices in equal proportion.
[b] Including rubber and other forest products.
[c] Excluding metals.

Table 79. Value of Net Imports of Selected Commodity Groups into North America and Western Europe[a]
(Millions of dollars)

Commodity group	1953		1954		1954 Three quarters		1955 Three quarters	
	North America	Western Europe	North America	Western Europe	North America	Western Europe	North America	Western Europe
Metals and ores	965	913	590	1,198	498	855	364	1,145
Rubber	347	380	272	371	196	259	312	431
Petroleum and products	448	1,762	544	1,838	380	1,416	525	1,583
Natural fibres	50	2,496	—340	2,460	—208	1,932	14	1,765
Hides and skins	36	237	—5	217	–	168	1	144
Basic foods[b]	—872	1,885	—373	1,490	—178	1,080	—300	1,242
Beverages	1,781	1,139	1,912	1,557	1,450	1,130	1,237	1,059
Tobacco	—330	394	—295	414	—160	213	—226	269
Oil-seeds, oils and fats[c]	—52	1,039	—217	1,110	—126	862	—165	903
Total, above groups	2,373	10,245	2,088	10,655	1,852	7,915	1,762	8,541

Source: United Nations, *Commodity Trade Statistics*, series D. Exports f.o.b., and "special" in all countries except Ireland, the United Kingdom and the United States, for which they are "national"; imports c.i.f., except for Canada and the United States, where they are f.o.b., and "special" for all except Ireland and the United Kingdom, where they are "general" imports.

[a] Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden and the United Kingdom.

[b] Wheat, maize, rice, sugar and meat.

[c] Including butter.

The relatively small effect that the upswing in activity in the United States exerted upon imports from the primary producing countries in 1955 cannot be ascribed to a continuation of the long-run decline in the ratio of raw material input to industrial output; excluding the intake of the government stockpile, the volume of raw material imports from all sources was 15 per cent higher than in 1954—an increase much greater than that registered by industrial production or gross national product. The explanation lies rather in the high proportion of the increment in these imports coming from Canada and Europe, and in the composition of imports from the primary producing countries. The value of imports of semi-manufactures increased by 20 per cent and of raw materials by 18 per cent, while imports of crude foodstuffs were 9 per cent lower. Imports of the principal categories of primary products from the less developed countries increased by a mere 7 per cent—only rubber (68 per cent), petroleum and its products (25 per cent), and metals and ores (15 per cent) recorded an expansion greater than the average, while there were decreases in the imports of oil-seeds, oils and fats, basic foods and beverage crops. Total imports from the thirty leading primary producing suppliers of the United States were only 4 per cent higher in value in 1955 than in 1954.

Petroleum and its products constituted the only category to register an increase in net imports into both North America and western Europe in the two years, 1954 and 1955. Net imports of metals and ores increased substantially in both years in western Europe —by 24 per cent and 34 per cent, respectively—but in 1954 there had been a decline of 35 per cent in the value of net imports into North America. Net imports of rubber, though appreciably higher in the first three quarters of 1955 than in the corresponding portion of 1954, had declined in both areas in 1954.

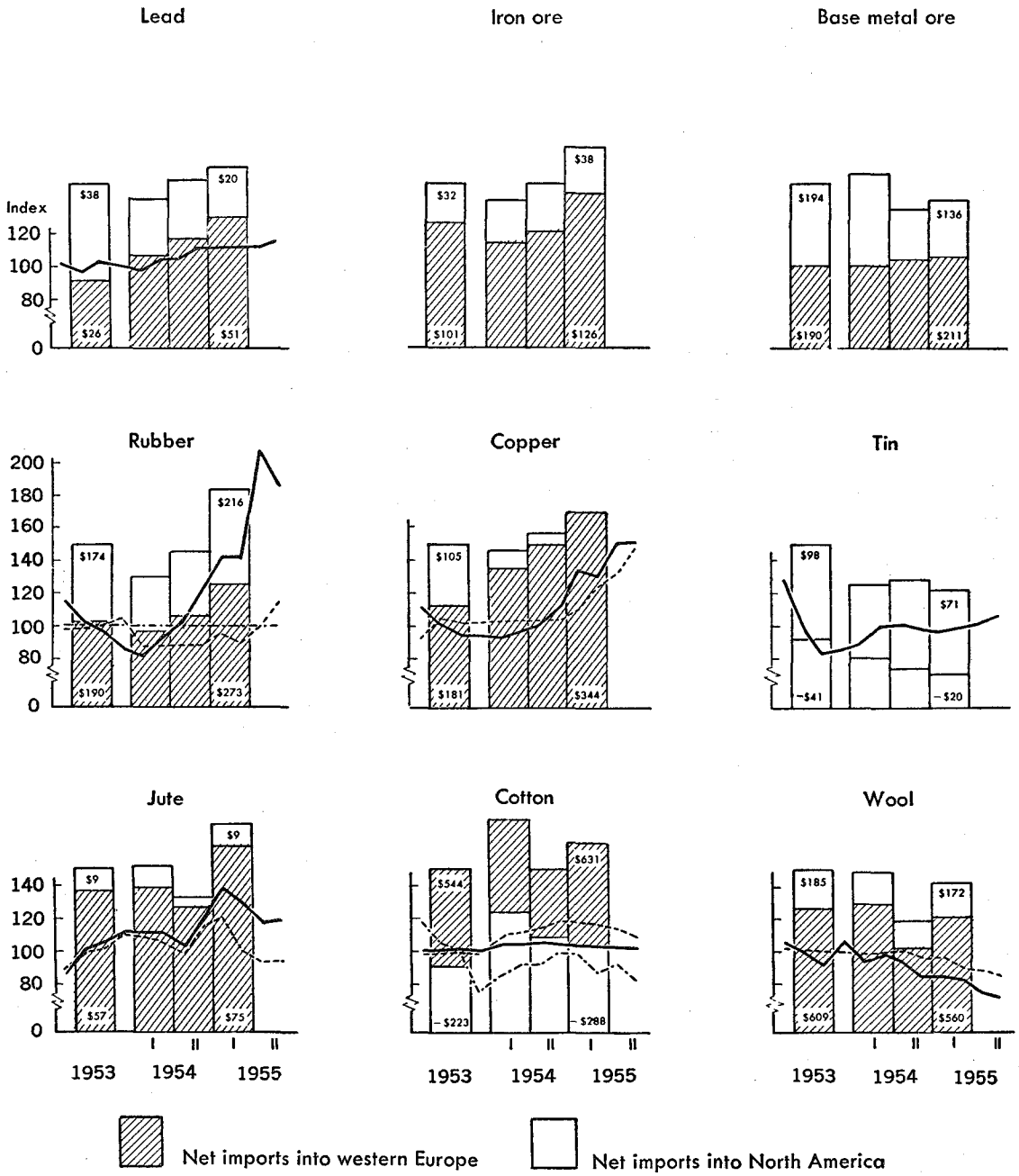
Between the first three quarters of 1954 and the corresponding period of 1955, there was an expansion of net imports into western Europe of cereals and meat, while in North America there was a decrease in net imports of meat and sugar and an increase in net exports of wheat and maize; only in the case of rice was there a reduction in net exports. So far as oil-seeds and oils and fats are concerned, increasing net imports into western Europe in both 1954 and the first three quarters of 1955 were accompanied by increasing net exports from North America.

The value of tea imports by industrial countries, which had increased in 1954, continued to rise in the first three quarters of 1955, but cocoa and coffee imports declined sharply, cocoa by 14 per cent in North America and 19 per cent in western Europe, and coffee by 16 per cent in North America and 10 per cent in western Europe. Net imports of both cotton and wool fell in western Europe, but in the United States there was a 17 per cent increase in wool imports, under the impact of recovery from the recession, and a 33 per cent decline in net exports of cotton. Net imports of hides and skins into the industrial countries declined in both 1954 and 1955.

It is evident from this summary that the main impact of the general upswing in business activity in industrial countries upon imports from primary producing countries was concentrated on metals, rubber and petroleum. Its impact on imports of other commodities was limited either by failure of demand to expand markedly—as in the case of some of the food-

Chart 19. Price Indices and Value of Net Imports of Selected Commodities into North America and Western Europe

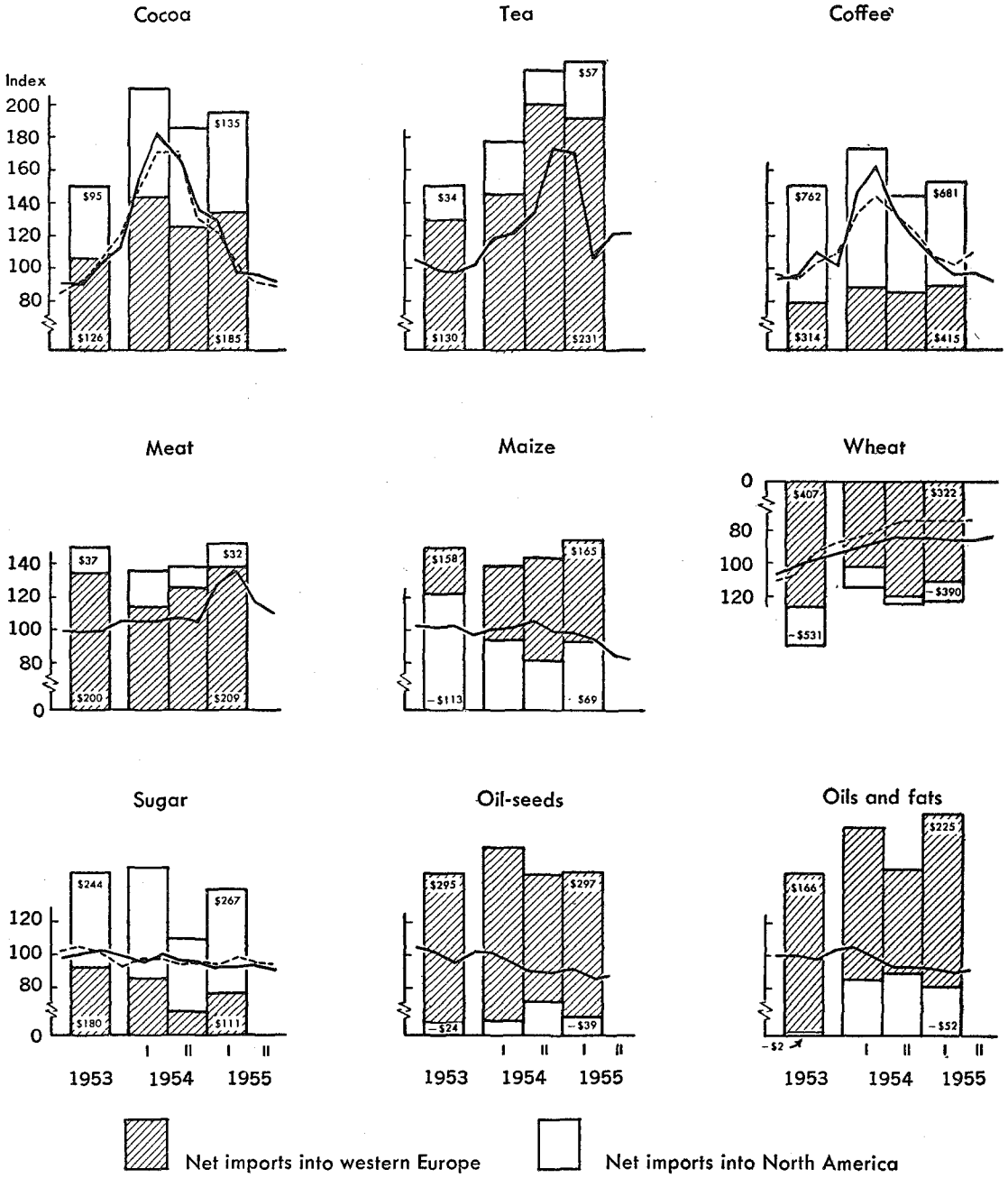
(Value of imports in millions of dollars; price indices, 1953=100)



Source: United Nations Bureau of Economic Affairs; see table 79 for definitions. Values for 1953 represent half-year averages. Negative figures indicate net exports (tin from western Europe; cotton, maize, wheat, oil-seeds, oils and fats from North America). Price indices are for following commodities:

Lead: United States, domestic, pig, common grade, New York.
Rubber: ———— Malaya, No. 1 RSS, in bales, f.o.b.
— — — Ceylon, RSS, f.o.b., Colombo, including duties.
—•—•— United States, synthetic, GR-S, New York.
Copper: ———— United Kingdom, electrolytic.
— — — United States, domestic electrolytic, Connecticut Valley.
Tin: Malaya, Singapore, ex-works.
Jute: ———— India, first grade, Calcutta.
— — — United Kingdom, raw, Pakistan, mill firsts, c. and f. Dundee.
Cotton: ———— United States, middling 15/16, average of ten markets.
— — — Egypt, Karnak, good, spot, including export taxes.
—•—•— Brazil, type 5, São Paulo.
Wool: ———— Australia, average prices of greasy wool at auctions in Sydney.
— — — United States, greasy, raw 56's, Boston.

Chart 19. Price Indices and Value of Net Imports of Selected Commodities into North America and Western Europe (*continued*)
(Value of imports in millions of dollars; price indices, 1953 = 100)



Cocoa: ——— Brazil, Bahía.
— — — United States, Accra type, f.o.b., New York.
Tea: Ceylon, Colombo, market price, including exports duties and taxes.
Coffee: ——— Brazil, Santos No. 4, Santos.
— — — Colombia, green Manizales, ex-dock, New York.
Meat: United Kingdom, London, first quality, English longside.
Maize: United States, No. 2, yellow, Chicago.
Wheat: ——— Canada, sales other than under International Wheat Agreement.
— — — Australia, commercial.
Sugar: ——— Cuba, 96° centrifugal, f.o.b., exports to United States.
— — — Cuba, 96° centrifugal, f.o.b., exports to rest of world.
Oil-seeds: International market prices of seven major oil-seeds.
Oils and fats: International market prices of fourteen major oils and fats (excluding butter).

stuffs and textiles which tend to have a relatively low income-elasticity in industrial countries—or by the possibility of meeting part of the increase in demand from production or stocks in the industrial countries themselves. In the United States, for example, stocks which had reached high levels in the first half of 1954 were subsequently drawn down; in addition, releases from government-owned stocks or diversions from previously arranged government purchases helped to augment commercial supplies from time to time, especially when metal shortages threatened.

A significant force in the market for certain primary products during 1955 was heightened demand on the part of the Soviet Union and some eastern European countries, which became important purchasers from several under-developed countries, in line with decisions to increase the domestic availability of consumer goods. The commodities chiefly affected—sugar, cotton, rice and, more recently, grain—were among those in which prices were weak and stocks tending to accumulate in exporting countries. Though the quantities involved were usually small by world standards, they were often important for individual countries.

Distribution of exports

It is evident from the preceding discussion and from chapter 4 that the upswing in activity in 1955 had much less influence on the trade of the primary producing countries than on that of the industrial countries. In fact, while exports from the latter were 12 per cent higher in value in the first three quarters of 1955 than in the corresponding period of 1954, the expansion in exports from the primary producing countries was about 5 per cent.

In the first half of 1955, exports from industrial to primary producing countries, reversing the 1954 trend, increased only half as much (7 per cent) as those within the industrial group; they remained, however, almost three times as much as exports within the primary producing group, which continued to constitute about 8 per cent of world trade (see table 80). Exports from the primary producing countries to North America, Japan and western Europe were all higher than in the first half of 1954, though they remained below 1953 rates in the first two of these areas, largely as a result of smaller shipments from Latin America. The expansion of exports within the primary producing group (by 6 per cent) affected most of the constituent areas,

Table 80. World Exports, by Origin and Destination

(Values in millions of dollars; indices, corresponding period of preceding year=100)

Origin	World total[a]		Destination: Industrial countries[b]		Destination: Primary producing countries		Destination: Mainland China, eastern Europe,[c] USSR	
	Value	Index	Value	Index	Value	Index	Value	Index
Total world exports:[a]								
1953	70,698		46,146		23,236		1,316	
1954	74,338	105	47,862	104	24,835	107	1,641	125
1954 First half	36,170		23,118		12,204		848	
1955 First half	39,340	109	25,391	110	13,078	107	871	103
Industrial countries:[b]								
1953	44,176		26,756		16,679		741	
1954	46,953	106	28,037	105	17,996	108	920	124
1954 First half	22,757		13,418		8,889		450	
1955 First half	25,281	111	15,290	114	9,478	107	513	114
Primary producing countries:								
1953	25,118		18,527		6,016		575	
1954	25,845	103	18,849	102	6,275	104	721	125
1954 First half	12,697		9,260		3,039		398	
1955 First half	13,126	103	9,537	103	3,231	106	358	90
Mainland China, eastern Europe,[c] USSR:								
1953	1,404		863		541		...	
1954	1,540	110	976	113	564	104	...	...
1954 First half	716		440		276		...	
1955 First half	933	130	564	128	369	134	...	...

Source: United Nations, *Monthly Bulletin of Statistics*, August 1955 and February 1956.

[a] Excluding trade among mainland China, eastern Europe and the Soviet Union, special category exports from the United States and certain other exports whose destination could not be determined.

[b] Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey, United Kingdom; Canada and United States; Japan.

[c] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania.

Table 81. Changes in Destination of Exports, Selected Groups of Countries
(Millions of dollars)

Group[b] and period[a]	Total value	Changes from previous period[a] in value of exports to: World[d]	Industrial countries[c] Total	North America	Western Europe	Japan	Mainland China, eastern Europe,[e] USSR	Primary producing countries Total[d]	Oceania and southern Africa[f]	Latin America	Other countries
Rubber exporters:											
1954	1,872	66	15	—31	30	16	6	44	15	12	17
1955		391	360	107	204	49	23	51	12	38	1
Mineral exporters:											
1954	897[g]	—54	—59	—99	40	—1	2	—4	1	—17	13
1955		170	168	27	143	—1	—2	—3	7	4	—15
Cotton exporters:											
1954	1,120	—63	—87	—4	—30	—53	23	—4	4	—8	–
1955		61	—27	13	—52	12	56	50	7	10	33
Wool exporters:											
1954	4,603	—441	—520	—116	—330	—76	91	—76	26	—35	—68
1955		137	55	19	—6	43	—30	41	32	4	7
Coffee exporters:											
1954	2,218	83	—15	—140	96	28	13	87	1	37	49
1955		—194	—195	—113	—73	—7	9	—9	—2	—5	—3
Cocoa exporters:											
1954	739	140	122	—12	134	–	10	6	5	–	1
1955		—54	—46	2	48	–	—7	—1	—1	–	—1
Tea exporters:											
1954	1,541	97	32	—26	82	—23	1	35	35	—16	17
1955		126	87	30	38	19	—14	37	3	1	32
Sugar exporters:											
1954	1,037	—121	—130	—42	—67	—21	–	10	–	—6	16
1955		32	12	—10	—8	30	37	—16	–	—4	—12
Rice exporters:											
1954	531	—55	—13	—19	8	—2	1	—42	–	–	—42
1955		42	28	26	12	—9	10	4	–	–	4

Source: United Nations, *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development. Figures for Argentina, Bolivia and Thailand are derived partly or wholly from the statistics of partner countries.

[a] The periods covered, in the comparison of 1955 with 1954, are as follows: Argentina, Bolivia, Brazil, Burma, Thailand, six months; Peru, seven months; Sudan and Uruguay, eight months; Belgian Congo, China:Taiwan, New Zealand, Nigeria, nine months; Chile, Colombia, Cuba, Gold Coast, Rhodesia and Nyasaland, Union of South Africa, ten months; India, Indonesia, Philippines, eleven months; Australia, Ceylon, Egypt, Malaya, Pakistan, twelve months.

[b] Countries grouped according to principal export commodity: Rubber exporters: Indonesia, Malaya; mineral exporters: Belgian Congo, Bolivia, Chile, Rhodesia and Nyasaland; cotton exporters: Egypt, Pakistan, Peru, Sudan; wool exporters: Argentina, Australia, New Zealand, Union of South Africa, Uruguay; coffee exporters: Brazil, Colombia; cocoa exporters: Gold Coast, Nigeria; tea exporters: Ceylon, India; sugar exporters: China:Taiwan, Cuba, Philippines; rice exporters: Burma, Thailand.

[c] Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey, United Kingdom; Canada and United States; Japan.

[d] Totals include a variable but in most cases small proportion of exports whose destination could not be determined more precisely.

[e] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania.

[f] Australia, New Zealand, Rhodesia and Nyasaland, Union of South Africa.

[g] Excluding Rhodesia and Nyasaland, for which 1953 figures were not available.

the only significant exception being south-eastern Asia, where a decline in the rice trade and stricter import controls in some countries combined to reduce imports from primary producing countries. The 10 per cent decline in exports to the centrally planned economies reflects a substantial decrease in exports from the group of countries comprising Australia, New Zealand, Rhodesia and Nyasaland, and the Union of South Africa, from Latin America (chiefly to the Soviet Union) and from western European dependencies, only partly offset by a 25 per cent increase in exports from the Middle East.

Expansion of exports from rubber producing countries was widespread in 1955, that from mineral producing countries somewhat less so, declines being registered to Japan, eastern Europe, south-eastern Asia and the Middle East (see table 81). Though there was some recovery in exports from cotton producing countries, after their decline in 1954, this did not extend to

western Europe, which registered a further decrease in shipments not only from cotton producers but also from wool producing countries. There was also a decline in exports from wool producers to the eastern European area, though as a result of the switch from Australia to Latin America, following the withdrawal of the Soviet Union from Australian wool sales in 1954, exports from Argentina and Uruguay to this area in the first half of 1955 remained well above 1953 rates. Exports from the coffee and cocoa producers were markedly lower in 1955 to almost all destinations, but those from the tea producers continued to rise, except to mainland China, to which exports from Ceylon declined appreciably. So far as the sugar producers are concerned, a substantial rise in exports to Japan (chiefly from China:Taiwan and the Philippines) and to the eastern European area (chiefly from Cuba) more than offset decreases in exports to almost all other destinations. As implied above, exports from the rice producers to south-eastern Asia were substantially lower in the first half of 1955, but larger shipments were made to all other areas, with the exception of Japan, to which exports, particularly from Burma, declined again.

Some of the changes in the direction of exports and in the rates of expansion to different destinations reflect changes in composition. The expansion of exports to western Europe in 1955 from countries classified as rice producing, for example, was due largely to increased shipments of rubber and tin rather than rice. Similarly, the fact that the rise in Indonesian exports in 1955 was much smaller than that recorded in Malaya is in part a result of differences in composition, reflecting in turn differences in official policy towards the rubber industry: in Indonesia it has not been accorded a high priority in public or government-sponsored investment programmes whereas in Malaya development plans are based very largely on the improvement and expansion of rubber production. In comparison with 1954 levels of production, a 9 per cent increase in Malaya contrasts with a 1 per cent decrease in Indonesia.

While development policy in the primary producing countries continued to stress economic diversification, the progress of such diversification tended to be obscured, in the short run, by fluctuations in the price or output of the major items. Even if the changes are small, a rise in the price of the leading export tends to submerge any increase that may have taken place in the export of minor items, in the same way as a fall in that price tends unduly to magnify their gain in relative importance. Hence, though there was an appreciable expansion of such secondary exports as iron ore from Venezuela, cotton cloth from Egypt, hessian from Pakistan, and various manufactures from China: Taiwan, Mexico and Southern Rhodesia, its significance from the point of view of foreign exchange earnings was in most cases only marginal.

Nevertheless, many primary producing countries continued to provide special encouragement for minor exports during the period under review. This was usually done by way of tax privileges or more favourable rates of exchange than those accorded major exports —as in Argentina and other Latin American countries, for example—or by means of exchange control incentives which gave exporters of specified products the right to use part of the proceeds for importing goods from an approved list—as in Pakistan and Turkey. On the other hand, several countries—Brazil, Colombia and Nicaragua, for example—reversed their earlier policy of withholding privileges from traditional agricultural export activities. Towards the end of the year, Argentina also narrowed the range of differential export rates, and Thailand, while retaining a system of export taxes, eliminated the preferential exchange rates previously accorded to minor exports.

Composition of imports

One of the post-war characteristics of the import pattern of primary producing countries has been the tendency for capital goods to claim an increasing share of available foreign exchange. This continued during the period under review, especially in countries in which there was some acceleration of development programmes —India, Iraq and Pakistan, for example. In some countries it was reinforced by renewed balance of payments difficulties, which prompted more stringent controls and hence in most cases a significantly larger cut in imports of consumer goods. Where payments pressure was particularly severe—in Argentina and Burma in 1955, for example—imports of capital goods were also restricted, fuel and raw materials receiving a prior claim on foreign exchange. Where import controls were made less discriminatory—as in the Belgian Congo and the Union of South Africa in 1954—the commodity composition was not noticeably affected, but where there was a general relaxation of controls, following an easing of the payments position—as in the case of Australia and New Zealand early in 1954 and of Colombia in the second half of that year—there was a rise in imports of consumer goods. Even among countries that relaxed controls somewhat, however, lists of prohibited imports were often retained, sometimes to conserve exchange for more "essential" goods, sometimes on the grounds that the items in question could be produced in adequate quantity and quality by local factories. In some instances, indeed, the limit to such relaxation was set less by the means of payment than by decisions to protect domestic industries, particularly those that had grown up or expanded under the shelter of import control and were not yet able to compete with foreign goods. As a result, an increase in customs duties was sometimes associated with the easing of quantitative controls—as in Australia, Peru and the Union of South Africa, for example.

Table 82. Exports of Principal Categories of Manufactures from North America and Western Europe[a] to Selected Groups of Countries

(Values in millions of dollars; indices, corresponding period of previous year=100)

Group[b]	Chemicals			Machinery and transport equipment			Other manufactures			Total, three categories		
	Value 1953	Index		Value 1953	Index		Value 1953	Index		Value 1953	Index	
		1954	1955[c]		1954	1955[c]		1954	1955[c]		1954	1955[c]
Rubber exporters	51	109	133	192	89	86	247	80	123	490	87	109
Mineral exporters	105	114	121	517	95	102	312	88	112	934	95	108
Petroleum exporters	57	119	117	370	120	104	365	100	112	792	111	108
Cotton exporters	60	123	108	162	129	107	167	93	112	389	113	109
Wool exporters	156	145	119	1,084	108	116	946	129	110	2,186	120	114
Coffee exporters	114	151	77	565	113	84	336	121	67	1,015	120	77
Tea exporters	76	119	114	278	112	122	162	102	132	517	110	124
Sugar exporters	73	96	103	177	101	128	332	94	107	582	97	113
Rice exporters	13	118	89	59	74	108	56	82	99	128	82	101
Total, twenty countries	706	126	108	3,404	107	106	2,922	108	106	7,033	109	107

Source: United Nations, *Commodity Trade Statistics*, series D.

[a] Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Turkey, United Kingdom.

[b] Countries grouped according to principal export commodity: Rubber exporters: Indonesia, Malaya; mineral exporters: Belgian Congo, Chile, Mexico; petroleum exporters: Iran, Iraq, Venezuela; cotton exporters: Egypt, Pakistan; wool exporters: Argentina, Australia, New Zealand, Union of South Africa; coffee exporters: Brazil, Colombia; tea exporter: India; sugar exporters: Cuba, Philippines; rice exporter: Thailand.

[c] First nine months.

In food deficit countries highest priority in foreign exchange budgeting is usually given to imports of foodstuffs. Hence, in countries which achieved a notably higher domestic output of food during the period under review—Egypt, India and Mexico, for example—a larger amount of foreign exchange could be applied to other purposes. In general, this resulted in an increase in the proportion of capital goods imported. The obverse of this occurred in some countries in which internal inflationary forces were strong: here government policy encouraged imports of consumer goods—at least in the essential category—if necessary, by the provision of foreign exchange at favourable rates.

Some of the above points are illustrated in table 82, which shows changes in the value of imports from North America and western Europe into some of the major primary producing countries of three significant categories of goods: chemicals, machinery and transport equipment (including motorcars) and other manufactures. Though only imports from the major industrial regions are covered, they represent a high proportion of the total in these three categories of goods. The countries are again roughly grouped in accordance with their principal export product, and hence in accordance with a major determinant of import capacity. The value of the imports analysed amounts to about a third of the total value of imports into primary producing countries during this period.

On the average, the rate of imports of machinery and transport equipment in the first three quarters of 1955 was about 6 per cent above that of the corresponding period in 1954 and about 13 per cent higher than in 1953. There was a wide range of change, however, from decreases of over 25 per cent in Brazil, Indonesia and Pakistan to increases of over 35 per cent in Argentina, Cuba and Egypt. In a majority of the countries covered, imports of machinery and transport equipment exceeded those of other manufactures in value, but this was not the case among some of the countries which had relaxed controls in 1954—Australia and New Zealand, for example—or among some whose export earnings rose in 1955, such as the Belgian Congo, Indonesia, Iran and Malaya.

Irrespective of the change in total imports, there was a tendency for imports of chemicals to increase, and to a greater degree than imports of manufactures, reflecting, perhaps, the fact that this category consists to a large extent of raw materials essential to industry and agriculture and hence accorded high priority in most import control systems.

By and large, the only countries in which there was a substantial rise in the imports of other manufactured goods were those in which controls had been relaxed, as in Argentina, Australia, Brazil, Colombia, Iran and New Zealand in 1954. The trend was reversed in the case of the coffee exporters, Brazil and Colombia, in 1955, in the wake of new import restrictions—direct in Brazil, indirect in Colombia. In most of the other countries, imports of manufactured consumer goods were higher in the first three quarters of 1955—Pakistan and Thailand being the only other exceptions—but they were still below 1953 rates not only in Pakistan and Thailand, but also in Chile, Indonesia, Mexico, the Philippines and Venezuela.

Terms of trade

The unit value of exports from the industrial countries as a group, after declining by 2 to 3 per cent between 1953 and 1954, was practically constant during 1955. Given the predominant pattern of trade, it follows that changes in the terms of trade of primary producing countries induced by changes in import prices are likely to have been relatively small. Apart from the gain flowing from the reduction in export unit values of the industrial countries in 1954, those that increased their proportion of imports from Japan in 1955—some countries in Africa, for example, in which Japanese cotton piece-goods tended to replace textiles from Europe—probably enjoyed a further, if slight, lowering of their import unit values.

A few of the countries in the primary producing group—Argentina, Australia, India and the Union of South Africa for example—experienced a rise in import unit value by virtue of the relative magnitude of their imports of some of the materials whose prices rose most during the period under review—beverage crops in 1954 and metals and rubber in 1955. The widespread increase in freight rates in 1955 also tended to raise c.i.f. import prices, particularly in countries far from their principal sources of supply—Australia and New Zealand, for example.

The principal determinant of the terms of trade of primary producing countries, however, remains the unit value of exports. For the group as a whole the outstanding feature of average unit value during the period 1953 to 1955 was its stability—in marked contrast to the rapid rise and fall that had characterized the preceding three-year period. However, as the earlier reference to commodity prices and trade indicated, this relative stability of the average conceals considerable variation among the component groups of primary producing countries and even greater variation among the countries themselves.

Between 1954 and 1955, for example, increases of over 10 per cent were experienced by several of the rubber or mineral exporting countries, such as Belgian Congo, Indonesia and Malaya; while decreases of over 10 per cent were registered not only in coffee and cocoa exporting countries—El Salvador, Brazil and Colombia—but also in the wool exporters, Australia and the Union of South Africa. The extent to which these changes in unit values are reflected in the terms of trade is illustrated by the figures assembled in table 83, which, though only estimates in a number of cases,

indicate the influence of the predominant export commodity on the terms of trade. With the exception of Ceylon, the exporters of beverage crops, whose terms of trade had improved most in 1954, all experienced a sharp setback in 1955. The wool, rice and copra exporting countries, which sustained the greatest deterioration in their terms of trade in 1954, were for the most part unable to recover any of the lost ground in 1955. It was the rubber exporting countries that enjoyed the greatest improvement in their terms of trade in 1955, though the mineral exporters also registered gains.

Differences in the movements of export unit values were apparent not only among countries in which the composition of exports was dissimilar but also, in a number of instances, among countries exporting much the same type of commodity. Some of these divergences may be ascribed to differences in markets—as in the case of the mineral output of the Belgian Congo, Chile and Rhodesia, for example. Others are due to differences in the basic export product; in the case of wool, fine merino declined in price more than coarser crossbred types, with consequential differences in impact on the exports of Australia and the Union of South Africa on the one hand, and Argentina, New Zealand and Uruguay on the other. There were also divergences between the price trends of mild and hard coffee, which tended to make the decline in export unit values in 1955 somewhat less severe in countries producing the former, such as Colombia, than in countries producing the latter, such as Brazil[1]. Appreciable differences were also to be found among sugar exporters. Marketing agreements of the United Kingdom with Commonwealth sugar producers (such as Jamaica and Mauritius), and of the United States with Cuba and the Philippines, helped to cushion the exporting countries against a decline in price that was felt much more severely by producers such as China:Taiwan, whose sugar exports were all sold on the free market. During the period under review, about two-thirds of Cuban sugar exports went to the United States at an average price just over 50 per cent higher than that realized on sales to other countries.

While many trade agreements and institutionalized marketing arrangements tended to insulate the participating countries from price changes taking place on the world market, not all of them remained unaffected by these changes. Ceylon shipped a large proportion of its rubber output to the more profitable markets of western Europe in 1955, and the rubber-rice exchange agreement with mainland China was re-negotiated in the light of divergent price trends in these two commodities. In much the same way, Chile diverted part of the output of its copper mines to Europe at the time when the price of copper there was substantially higher than in the United States, and subsequently, in April 1956, arranged to base the price of Chilean copper on quotations ruling on the London Metal Exchange.

[1] The deterioration in Brazil's terms of trade in 1955, compared with the extremely favourable level of 1954, prompted some discussion of an international stabilization scheme. Since a large number of countries are involved—African as well as Latin American, importing as well as exporting—and since the incidence of the price decline in 1955 was by no means uniform, these discussions have not passed beyond the exploratory

Table 83. Changes in Terms of Trade, Selected Groups, by Country

(Corresponding period of preceding year=100)

Group and country	1954	1955
Rubber exporters:		
Indonesia	105	114[a]
Malaya	104	127[b]
Mineral exporters:		
Cyprus	108	104
Belgian Congo	107	111
Chile	91	113
Cotton exporters:		
Egypt	116	...
Sudan	112	...
Pakistan	108	91
Peru	103	101
Wool exporters:		
New Zealand	105	102[b]
Union of South Africa	92	...
Australia	92	84[c]
Coffee exporters:		
El Salvador	136	77
Brazil	130	74[d]
Colombia	126	86[a]
Cocoa exporters:		
Gold Coast	147	95[a]
Nigeria	116	93[b,e]
Tea exporters:		
Ceylon	127	108
India	108	95[a]
Sugar exporters:		
Cuba	95	...
Philippines	91	97
Rice exporter:		
Burma	83	91[f]

Source: United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics;* United Nations Economic Commission for Latin America, *Economic Bulletin*, vol. 1 (Santiago), 1956. Belgian Congo: General Secretariat, *Bulletin mensuel des statistiques générales du Congo belge et du Ruanda-Urundi* (Leopoldville); Central Bank of Chile, *Boletín Mensual* (Santiago); Gold Coast: Office of the Government Statistician, *Digest of Statistics* (Accra); Nigeria: Department of Statistics, *Digest of Statistics* (Lagos).

[a] Estimate based on data for eleven months.

[b] First three quarters.

[c] Import unit value in the second half of 1955 presumed to be unchanged from first half.

[d] First eight months.

[e] Full year, 1954 = 100.

[f] First ten months.

Table 84. Balance of Payments, Selected Groups of Countries

(Millions of dollars)

Item and year	Exporters of									
	Rubber[a]	Minerals[b]	Petroleum[c]	Cotton[d]	Wool[e]	Coffee[f]	Cocoa[g]	Tea[h]	Sugar[i]	Rice[j]
Merchandise trade balance:[k]										
1953	75	—60	730	—88[l]	1,339	601	159	—143	—1	7
1954	147	191	931	—78[l]	258	250	274	—78	—141	—18
Investment income:[m]										
1953	—67	—271[n]	—565	—62[o]	—294	—235	...	—19	—91	—3
1954	—82	—195[n]	—696	—72[o]	—316	—192	...	—19	—92	—1
Other services:[p]										
1953	—181[q]	31[r]	—67[c]	—160[s]	—413[t]	—350	—70	220	171	—50
1954	—131[q]	—4[r]	—107[c]	—169[s]	—409[t]	—356	—64	154	145	—63
Current account balance:										
1953	—173	—300	98	—310	632	16	89	58	79	—46
1954	—66	—8	128	—319	—467	—298	210	57	—88	—82
Private capital and official long-term capital:[u,v]										
1953	41[w]	188[x]	104	313	165[y]	21	17	32	55	—4[z]
1954	—43[w]	21[x]	1	232	174[y]	205	36	1	66	—32[z]
Official short-term capital and monetary gold:[aa]										
1953	131	49	—140	—107	—762	77	—106	—82	—47	39
1954	109	30	—54	81	101	60	—246	—72	103	101
Net errors and omissions:[v]										
1953	1	63	—62	104	—35	—114	...	—8	—87	11
1954	–	—43	—75	6	192	33	...	14	—81	13

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 6 (Washington, D.C.), and *International Financial Statistics*. A minus sign indicates a debit. Exports and imports are valued f.o.b., except in the case of Argentina, Burma, Ceylon, Chile, China:Taiwan, Colombia, Egypt, El Salvador, Haiti, India, Indonesia, Iran, Iraq, Mexico, Netherlands Antilles, Sudan, Surinam, Thailand and Uruguay, whose imports are c.i.f. For countries whose imports are valued f.o.b., the freight and insurance payments are included in "Other services".

[a] Indonesia, Liberia and certain United Kingdom dependent territories (Brunei, Christmas Island, Cocos-Keeling Islands, Federation of Malaya, North Borneo, Sarawak and Singapore).

[b] Belgian Congo, Bolivia, Chile, Mexico, Federation of Rhodesia and Nyasaland and Surinam.

[c] Iran, Iraq, Netherlands Antilles and Venezuela; for Iran, years beginning 21 March. In the case of the Netherlands Antilles, gross transactions of foreign-owned oil and mining companies are not included; however, net receipts from these transactions are included under "Other services".

[k] Including non-monetary gold movements. Because of timing and other adjustments these figures do not necessarily agree with balances given elsewhere.

[l] Imports in the case of Pakistan cover private imports only, part f.o.b. and part c.i.f.

[m] United Kingdom dependent territories' investment income is included with "Other services".

[n] For Mexico, in 1954 excluding direct investment income payments, which amounted to $83 million in 1953.

[o] Excluding investment income for the Sudan.

[p] Including transportation and insurance, and private and official donations.

[q] For Liberia, excluding official donations.

[r] For Surinam, private donations are included under "Private capital and official long-term capital".

[s] For Egypt, excluding donations; for Pakistan, including government imports.

[t] For Argentina, excluding donations.

[d] Egypt, Pakistan, Paraguay, Peru, Sudan, Turkey and United Kingdom dependent territories in East Africa (Aden and Perim, Kenya, Somaliland Protectorate, Tanganyika, Uganda, Zanzibar and Pemba); in the case of Pakistan, excluding transactions with Afghanistan.

[e] Argentina, Australia, New Zealand, Union of South Africa and Uruguay.

[f] Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Ethiopia, Guatemala, Haiti and Nicaragua; in the case of Haiti, years ending 30 September.

[g] United Kingdom dependent territories in West Africa (Cameroons under British administration, Gambia, Gold Coast, Nigeria, Sierra Leone and Togoland under British administration).

[h] Ceylon and India.

[i] China:Taiwan, Cuba, Dominican Republic, Philippines and United Kingdom dependent territories in the West Indies (Bahamas, Barbados, Bermuda, British Guiana, British Honduras, Cayman Islands, Jamaica, Leeward and Windward Islands, Trinidad and Tobago, and Turks and Caicos Islands).

[j] Burma and Thailand.

[u] Including private long-term and short-term capital, and official and banking long-term capital. A debit indicates a net outflow of capital, that is, an increase of assets abroad or a reduction of liabilities, and a credit indicates the opposite.

[v] For United Kingdom dependent territories net errors and omissions are included under "Private capital and official long-term capital".

[w] For Liberia, in 1953 excluding private capital, which amounted to $10 million in 1954.

[x] For Mexico, in 1954 excluding movements of direct investment capital, which amounted to $41 million in 1953.

[y] In the case of Australia, excluding private capital; for the Union of South Africa, in 1954 excluding private capital, which amounted to $78 million in 1953.

[z] For Thailand, excluding private capital.

[aa] Including official and banking short-term capital and monetary gold. A debit indicates an increase of assets, including monetary gold holdings, or a reduction of liabilities, and a credit indicates the opposite. For the United Kingdom dependent territories, sterling assets only.

Table 85. Exports, Imports and Trade Balances, Selected Groups of Countries

(Millions of dollars)

Group[a]	Exports f.o.b.			Imports c.i.f.			Trade balance			Ratio of change in trade balance to value of trade[c]	
	1953	1954	1955[b]	1953	1954	1955[b]	1953	1954	1955[b]	1954	1955
										(Percentage)	
Rubber exporters	2,109	2,151	2,604	2,034	1,868	2,078	75	283	526	10	12
Mineral exporters	1,917	1,873	2,176	2,040	1,999	2,098	—123	—126	78	–	11
Petroleum exporters	2,652	3,063	3,407	2,138	2,401	2,446	514	662	961	6	11
Cotton exporters	1,973	1,892	2,045	2,323	2,208	2,406	—350	—316	—361	2	—2
Wool exporters	4,994	4,665	4,715	4,465	5,219	5,782	529	—554	—1,067	—23	—10
Coffee exporters	2,648	2,808	2,610	2,513	2,859	2,543	135	—51	67	—7	4
Cocoa exporters	607	744	663	541	557	662	66	187	1	21	—29
Tea exporters	1,445	1,562	1,678	1,535	1,590	1,668	—90	—28	10	4	2
Sugar exporters	1,600	1,461	1,566	1,660	1,702	1,845	—60	—241	—279	—11	—2
Rice exporters	561	532	560	514	516	514	47	16	46	—6	6

Source: International Monetary Fund, *International Financial Statistics.*

[a] The composition of the groups is the same as in table 84.

[b] Preliminary: estimates based on less than twelve months' returns in some cases.

[c] Ratio of change in trade balance to average of exports and imports in preceding year.

Changes in External Balance

In most cases, the movements in the trade balance of primary producing countries that took place between 1953 and 1954 tended to continue in the same direction during 1955. Most of the groups that achieved a larger surplus (or smaller deficit) on their balance of trade in 1954—rubber, mineral, petroleum and tea exporters—registered a more active (or less passive) balance in 1955, while among the groups whose balance of trade deteriorated in 1954, the sugar and wool exporters recorded increased deficits in 1955. The exceptions to the tendency were the cotton and cocoa exporting groups, whose merchandise balance improved in 1954 because of a cut in imports in the former and an expansion of exports in the latter but deteriorated in 1955 when these trends were reversed; and the coffee and rice exporters, whose merchandise balance worsened in 1954 as a result of a rise in imports in the former and a fall in exports in the latter but improved in 1955 when these trends were also reversed. It was thus only the coffee exporting groups whose external balance did not move in conformity with price trends in foreign markets, and the explanation for this lies largely in the failure of Brazilian exports to expand—as imports had done—during the coffee boom.

The course of trade and payments: the quantitative background

Four of the groups of countries listed in table 84 had improved their current account balance in 1954: those exporting rubber, minerals, petroleum and cocoa. The marked reduction in the current account deficit of the rubber exporting group in 1954 reflected a more favourable trade balance, brought about chiefly by a decline in imports, especially into Indonesia, where stringent quantitative restrictions had been imposed in May. In 1955 there was a further improvement in merchandise accounts, due largely to a 21 per cent expansion of exports (see table 85)—29 per cent in the Malayan area and 9 per cent in Indonesia. Continued restrictions on imports—higher surcharges reinforcing quantitative control in the second half of the year—helped to enlarge Indonesia's active balance to about $330 million and its official reserves by 24 per cent, as well as to reduce payment agreement liabilities by $16 million.

The improvement in the current account of the mineral exporting group in 1954—in contrast to that in the rubber group—had been the result of greater exports.[2] The net inflow of long-term capital and private short-term capital, though higher in the Belgian Congo, had been significantly lower in most of the other countries in the group, and in Chile there had been some disinvestment. Notwithstanding the improvement, the current account had remained in deficit and there had been a sizable reduction in official foreign exchange holdings (see table 86)[3]—at least for the Latin American members of the group. Under the influence of a firm market and rising metal prices, exports expanded by about 16 per cent in 1955 and as imports were only 5 per cent higher there was a considerable improvement in the group's merchandise balance. Bolivia was the only significant exception to the trend: imports rose markedly while exports were stable and, despite grants from the United States and loans from Europe, the payments position deteriorated sharply.[4] Though it is not yet possible to measure it, there was substantial net inflow of capital into the other countries of the mineral exporting group, accompanied by a notable recovery in exchange reserves. In Chile and Mexico, for example, official holdings of gold and foreign exchange more than doubled in the course of 1955.

In 1954 the petroleum exporting group had increased its current account surplus, with both exports and imports at a higher level. Compared with 1953, however, there had been a much smaller net inflow of capital—especially into Venezuela, where the large-scale post-war development programme of the oil companies had been completed—and hence a reduction in the rate of expansion of foreign assets. Between 1954 and 1955 exports expanded at about the same rate as during the previous period, and since imports were only slightly higher, the active trade balance rose by about one-half and there was a sizable (15 per cent) increase in foreign exchange reserves. Following several years of trade deficits, increased petroleum exports from Iran brought that country's merchandise accounts into better balance in 1955 even though imports were also substantially higher. Official holdings of gold and foreign exchange remained fairly constant during the year at an appreciably higher level than in 1954. In Iraq a slightly smaller export balance in 1955 was the result of a more rapid rise in imports; the current account surplus permitted repayment of the outstanding portion ($6.3 million) of a 1950 loan from the International Bank for Reconstruction and Development as well as an increase both in foreign investments by the Government and central bank and in official exchange holdings.

[2] Adjustments made for valuation and timing for payments purposes account for the differences in trade balance between table 84 and table 85. These adjustments—details of which are given in the source—affect every group of countries, but only in the mineral group are they of such dimensions as to reverse the trend shown in the customs returns of exports and imports.

[3] The thirty-one countries covered by table 86 account for about 80 per cent of the exports included in tables 84 and 85, which have a coverage of seventy countries and dependencies.

[4] The exchange rate of the boliviano, officially 190 to the dollar, moved on the free market from 720 at the end of 1953 to 4,260 at the end of 1955 (and 5,730 in March 1956) and there was a serious depletion of official reserves, which had its counterpart in a flight of capital and an increase in private holdings in United States banks.

Table 86. Estimated Gross Holdings of Gold and Foreign Exchange of Official Institutions,[a] Selected Groups of Countries

(Millions of dollars at end of month indicated)

Group	Holdings					Official reserves in mid-1954 as a percentage of imports in 1954
	December 1953	June 1954	December 1954	June 1955	December 1955[b]	
Rubber exporter[c]	212	157	248	257	307	25
Mineral exporters[d]	308	160	252	358	520	13
Petroleum exporters[e]	844	910	894	1,025	1,029	65
Cotton exporters[f]	1,324	1,367	1,382	1,353	1,312	79
Wool exporters[g]	2,162	2,218	1,966	1,710	1,503	52
Coffee exporters[h]	950	905	887	809	783	33
Tea exporters[i]	1,879	1,960	1,951	1,939	1,995	124
Sugar exporters[j]	749	813	697	734	683	70
Rice exporters[k]	513	447	397	407	389	87
Total, thirty-one countries	8,941	8,937	8,674	8,592	8,521	59

Source: International Monetary Fund, *International Financial Statistics.*

[a] Unless otherwise stated, the figures relate to gross holdings of gold and foreign exchange of the treasury, central bank, exchange stabilization funds, and other official institutions.

Foreign exchange ordinarily includes foreign currencies, bank deposits abroad, payment and clearing agreement balances, and short-term bills and securities (generally those with an original maturity of one year or less). It does not include subscriptions to the International Monetary Fund, undrawn portions of foreign loans, and similar rights to incur foreign debts. Payments agreement balances are important in some countries, such as Brazil, Chile, Indonesia and Turkey. In certain cases, the official foreign exchange holdings include some long-term securities, notably sterling securities held by Egypt and countries in the sterling area.

[b] End of December for twenty-seven countries, but January 1956 for Bolivia, November 1955 for Uruguay and Venezuela, and September 1955 for Syria.

[c] Indonesia; payment agreement liabilities (not deducted above), mainly to Japan and the Netherlands, amounted to $96 million at the end of 1953; $140 million at the end of June 1954; $152 million at the end of December 1954; $150 million at the end of June 1955; and $136 million at the end of December 1955.

[d] Bolivia, Chile, Mexico; for Chile, excluding Amortization Fund and including net balance on payment agreements with Brazil, Ecuador and western Germany.

[e] Iran, Iraq, Venezuela.

[f] Egypt, Pakistan, Paraguay, Peru, Syria and Turkey; for Pakistan, State Bank Issue Department holdings only.

[g] Australia, New Zealand, Union of South Africa, Uruguay; for Australia, including holdings of banks, net of foreign exchange liabilities, which relate mainly to Australian import bills accepted in London; for Uruguay, including foreign exchange holdings reported on a net basis.

[h] Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Nicaragua.

[i] Ceylon and India.

[j] Cuba, Dominican Republic, Philippines.

[k] Burma and Thailand.

The only other group to improve its current account in 1954 had been that exporting cocoa. Its greater current surplus had been entirely the result of higher export earnings, reflecting in turn higher cocoa prices. There had also been a greater inflow of capital into the area, and in the course of the year its sterling assets rose by no less than £88 million ($246 million) reaching a figure equivalent to thirty months' imports at the 1954 rate. With the downswing in cocoa prices, 1955 brought a reversal of the position: while imports continued to rise, the value of exports was one-ninth lower.

Despite the high prices received for coffee in 1954, especially in the first half of the year, there had been a marked deterioration in both trade and current account balances of the coffee exporting group, owing to the fact that imports rose substantially more than exports. Whereas the group's current account had been slightly in surplus in 1953, the deficit in 1954 had amounted to $298 million, of which Brazil alone accounted for $235 million. There had been a considerable increase in foreign indebtedness, as well as a 7 per cent reduction in official exchange holdings. These group aggregates, however, conceal a marked divergence between the movements in Brazil and Colombia. In the former, official reserves had declined by as much as 20 per cent, while in Colombia, where there had been an appreciable inflow of capital during the year, official reserves had risen by 35 per cent.[5]

In 1955 there were several reversals of 1954 trends. The group as a whole improved its merchandise balance, for, though exports were about 7 per cent lower, imports were reduced by 11 per cent. The reduction in imports, however, was concentrated very largely on Brazil, which, by means of a 20 per cent cut, offset a decline in exports and achieved a sizable active balance. In Colombia, by contrast, imports remained at the 1954 rate and in view of an 11 per cent drop in exports there was a further worsening of the trade balance and a considerable drawing down of official reserves, accompanied by a rise in private balances in the United

[5] In so far as can be judged from changes in private holdings in United States banks, these movements were associated with some flight of capital from Brazil and some repatriation into Colombia.

States. In the aggregate, the merchandise account of the remaining members of the coffee exporting group also deteriorated, though as a result of developments in Guatemala their combined official holdings of gold and foreign exchange increased somewhat in the course of the year.

The tea exporting group occupies a position between the cocoa group and the coffee group; despite the rise in export unit values in 1954 the current account had remained with approximately the same surplus as in the previous year. The aggregate increase in exports in 1954 had been larger than the increase in imports mainly because imports into Ceylon had been appreciably lower than in 1953; the improvement in the group's merchandise balance, however, had been offset by a decline in other current receipts, notably net donations received by India. Despite a decline in net movements of private capital and official long-term capital into Ceylon, foreign exchange reserves—official and in the hands of commercial banks—had increased by no less than 47 per cent. There had also been an increase (of about 3 per cent) in Indian reserves. The trade balance of the group improved further in 1955, exports rising by 7 per cent and imports by 5 per cent, a surplus in Ceylon more than compensating for a deficit in India. As a result, total foreign exchange holdings rose again—by 27 per cent in Ceylon and by 1 per cent in India.

Like the coffee exporters, the sugar exporting group had experienced a considerable deterioration of its current account in 1954. In the aggregate, this was largely the result of an expansion of imports while exports declined, but it had been accentuated by a net reduction in other current receipts, chiefly of the Philippines and China:Taiwan, where increased donations had been more than offset by an expansion of other current debits. Though there was probably a slight increase in net receipts of long-term and private short-term capital, exchange reserves had declined; in this respect, however, there was a divergence between Cuba and the Philippines on the one hand—where total reserves had been reduced by about 7 per cent—and the Dominican Republic and the British West Indies on the other. Here, exports had been somewhat higher in 1954 and reserves—sterling balances in the case of the dependencies—increased during the year. Though exports of the sugar group rose by about 7 per cent between 1954 and 1955, imports rose slightly more and there was a further worsening of the merchandise balance. Again there were divergences, however, for in China: Taiwan, where imports were reduced slightly in 1955, and in Cuba there was an improvement on merchandise account. Largely as a result of this, exchange reserves recovered in Cuba to the 1953 level, equivalent to about twelve months' imports at 1955 rates, while they continued to fall in the Philippines, amounting to the equivalent of about four months' imports at the end of the year. A deterioration of the trade balance in the Dominican Republic—caused mainly by expanding imports—was reflected in a decline in the foreign exchange holdings of the commercial banks, also to the 1953 level.

The increase in the current account deficit of the rice exporting group in 1954 reflected a decline in exports from Thailand, combined with a rise in imports into Burma. As this was accompanied by a somewhat larger net outflow on account of private capital and official long-term capital, there was a substantial (23 per cent) reduction in the group's official holdings of gold and foreign exchange. Expansion in 1955 raised exports to above the 1953 level in Thailand but they fell short of that level in Burma. Since imports into Thailand were only moderately higher, there was a substantial improvement in its trade balance, and official exchange reserves, though lower than at the end of 1953, rose by about 9 per cent during the year. In Burma, on the other hand, though imports were held down to the 1953 rate, foreign exchange holdings continued to decline, at least until October 1955.

Though the terms of trade of the cotton exporting group of countries had improved in 1954, its merchandise balance had remained passive at a somewhat lower level of trade. Another large trade deficit was recorded by the group in 1955, imports having expanded slightly more than exports. In comparison with 1954, the largest gain in trade balance was that of Pakistan, contributed to a more or less equally by a rise in exports and a fall in imports. The Sudan also registered a sizable gain, for which increased exports alone were responsible. A small gain in Paraguay, on the other hand, reflected chiefly a reduction in imports. All the cotton exporting countries whose merchandise balance deteriorated in 1955 had higher import bills, and the largest increase in trade deficit in this group—about $92 million, in the case of Egypt—was entirely the result of an expansion of imports. The deterioration that occurred in the trade balance of Turkey (about $42 million) was due almost as much to an increase in imports as to a reduction in exports, while in the case of Peru, a 20 per cent rise in imports exceeded a 10 per cent rise in exports.

The foreign exchange reserves of the cotton exporting group (table 86) were 5 per cent lower at the end of 1955 than at the end of 1954, the reduction of holdings in Egypt and Syria and to a less extent Peru being somewhat greater than the expansion of holdings in Pakistan and, on a smaller scale, Paraguay and Turkey. This expansion in the case of Turkey, whose trade deficit continued a grow, was accompanied by mounting commercial indebtedness.

By far the greatest deterioration in 1954 had been that experienced by the wool exporting group. The main reason for this was the combination of declining exports (except in New Zealand and the Union of South Africa) and expanding imports, but since other current

payments—particularly to foreign investors—had also risen, there had been an even sharper shift in current balance: for the five countries included in the group the change from surplus to deficit had involved $1.1 billion. Hence, despite a greater inflow of long-term capital, aggregate exchange reserves, which had been built up significantly in 1953, had been drawn down sharply in 1954, only the Union of South Africa running counter to the trend. The further deterioration in the trade balance that occurred in 1955 was shared by all five members. It was largest in the case of Argentina, which was the only country in the group to have achieved an active balance in 1954; in the other four countries the deterioration was less in 1955 than it had been in 1954, though it was again very substantial in Australia and New Zealand. Only in Uruguay did the deficit increase in spite of a reduction in imports; in the other four, expansion of imports was the principal factor in the deterioration. In the Union of South Africa, where an improvement had been expected, a decline in the rate of capital inflow added to the effect of lower prices for wool, maize and other export products. In the course of the year, there was a marked decline in official foreign exchange holdings in all five countries.

Problems and policies

Official policies affecting the external balance of primary producing countries in this period were as diverse as the course of foreign trade and payments. There was no broad trend towards a more liberal commercial policy such as was discernible among the industrial countries: changes in the laws governing trade and exchange and in the administration of such laws were generally of an empirical nature based chiefly on changes that had occurred or were expected to occur in export earnings. Protection of the balance of payments by control over external transactions continued in almost all primary producing countries outside the dollar area; relaxation or intensification of controls tended to follow the course of trade, often on the basis of immediate expediency.

One of the consequences of this was reflected in the amplitude of swings in the merchandise balance. Adjustments in policy rarely have an immediate effect on the course of trade; and, as such adjustments are usually made only after the trend they are designed to influence has been in operation for a measurable span, there tends to be a considerable lag between a trade policy decision and its results in terms of changes in the volume or nature of imports or exports. Thus, the payments difficulties of Argentina and Australia in 1955, for example, were largely the result of import liberalizing measures adopted in 1953, a year of current account surplus. Though steps restricting imports again were taken in Australia in 1954, the rising trend continued throughout 1955. Similarly, relaxation of controls in Colombia in the wake of the coffee boom in 1954, resulted in a considerable trade deficit in 1955, in spite of subsequent restrictive measures.

The extent of the lag and its significance for the balance of payments vary with such factors as the institutional organization of the foreign trade sector, the effective distance between the country in question and its trading partners, the relative magnitude of its exchange reserves, and its vulnerability to sudden changes in oversea markets. Much depends on the reaction of traders to government measures, and since this reaction tends to be based largely on experience in the post-war period it is itself often destabilizing. Thus, when exporters' response to a deteriorating payments position is to hold back supplies and the collection of outstanding claims in expectation of a more favourable exchange rate following partial or general devaluation, the consequence is an aggravation of the imbalance of trade, as in the case in Uruguay in 1955. Similarly, when importers' reaction to liberalizing measures is based on fear of reimposition of more stringent controls, the resultant tendency to excessive importation (and perhaps the earlier payment of import bills) makes for larger deficits and in effect helps to precipitate a payments crisis and renewed import restriction. This process was reflected in the large inventory changes that have characterized the investment process in such countries as Australia and the Union of South Africa in recent years.

Commodity markets are themselves so changeable and the factors affecting production and export so numerous that it is extremely difficult to anticipate changes in the course of trade by appropriate and effective measures. Even prompt changes in policy may not prevent violent fluctuations in the trade balance. The deterioration in Brazil's balance in 1954, for example, resulted in part from a relaxation of import controls in anticipation of higher export earnings, which did not materialize to the extent expected.

The possibility of fluctuations of this nature and magnitude in the export earnings and the trade balance of primary producing countries throws emphasis on the adequacy of foreign exchange reserves. In this respect the situation varies widely, but few countries have reserves large enough to allow them to sustain the range of movement that occurred, for example, in the cocoa producing group during the period under review. The rise in imports that this group experienced in 1954—induced in part by higher cocoa earnings—continued in 1955 when the price of cocoa was falling rapidly to very low levels, drawing export proceeds down; as a result, an improvement of the trade balance in 1954, amounting to 21 per cent of the average value of trade, was followed by a deterioration amounting to nearly 29 per cent of the average value of trade.

Though the apparatus of import and exchange control remained in operation in most of the primary producing countries, there were a number of instances in which it was modified to meet changing conditions, either internal or external. In Indonesia, for example, quantitative controls and multiple exchange rates were replaced late in 1955 by a freer system, imports being made subject to graduated surcharges. In Thailand, where the Government had given up its monopoly of the rice trade in 1954 after the collapse of prices, and had offered more favourable exchange rates in order to stimulate private exports, the multiple rate system was replaced in the third quarter of 1955 by one embodying a single rate plus a series of export taxes. In Peru where the sol had depreciated by about 27 per cent in 1953, a stabilization fund was established with the assistance of the International Monetary Fund and the United States early in 1954; the arrangement was renewed in 1955 and 1956 and though imports (with the exception of motorcars) were for the most part freed from control, the value of the sol was well maintained. In Egypt, an "import entitlement" scheme which, while intended as an incentive to exporters, had the effect of creating multiple rates, was replaced in September 1955 (after an additional release of sterling balances had been arranged) by a general 7 per cent tax on imports. In New Zealand, a major step towards freer trade was taken at the beginning of 1955 with the abandonment of the system of exchange allocation which had originated in the 1952 payments crisis. In some countries, the relative significance of quantitative controls was appreciably reduced by a general currency devaluation—as in Pakistan in August 1955, in Argentina in October 1955 and in Paraguay in March 1956.

Following the achievement of a more satisfactory external balance in the second half of 1953 or the first half of 1954, a number of countries, without altering the nature of their control system, granted importers somewhat larger allocations of foreign exchange. This action tended to result in higher imports, not only immediately but also in 1955. Where there was no comparable rise in exports, deterioration of the external balance resulted. In most cases this was met by more stringent quantitative controls, but general or selective devaluation and various taxes on imports were also among the measures adopted to improve the balance. Colombia, for example, began imposing surcharges on "luxury" imports in the last quarter of 1954 and a stamp tax—graduated according to degrees of "essentiality"—early in 1955, and in October actually removed capital goods from the list of imports entitled to privileged rates of exchange; imports in 1955, however, though declining during the first three quarters of the year, were at the record 1954 level for the full year, about 23 per cent above the 1953 level. Burma began restricting private imports in March 1955 and, by curtailing government development expenditures as well, succeeded in reducing the year's outlay of foreign exchange to the 1953 level.

By contrast, Egypt, half of whose trade was conducted under payments agreements, allowed imports to rise in 1955 from the low level of the previous year and continued to seek restoration of a higher level of exports through bilateral arrangements and by such means as the institution of a system of insurance to help finance private exporters engaged in selling surplus cotton and rice.

In the face of falling exports in 1954 and 1955, Uruguay cut back imports by about a fifth in 1955 and introduced more favourable exchange rates for exports, first for wool and then for dry hides. Australia began reducing import allocations as early as October 1954 and tightened quantitative controls again in April and October 1955; imports declined only slowly, however, and the 1955 total was the highest since the 1951 boom. Though record exports in 1955 reduced the strain on New Zealand's balance of payments, even that country, where only 18 per cent of total 1955 imports were subject to licence, resorted to certain direct controls towards the end of the year, introducing an import quota to limit the number of motorcars imported in 1956 to about 60 per cent of the record 1955 figure.

Partial or selective devaluation was used not only by Uruguay, as indicated above, but also by other countries with multiple exchange rate systems—Bolivia, Brazil, Chile, China:Taiwan and Indonesia, for example—the primary objective being either to discourage imports or to facilitate exports by offsetting the rise in internal costs. In Chile the less favourable rates for imports were even applied to equipment and raw materials, which had previously enjoyed privileged rates. Turkey sought to achieve much the same purpose by increasing taxes on less essential imports and using the funds thus collected to subsidize certain exports; continued deterioration of the external balance also prompted stricter administration of import controls and an insistence that applicants for foreign exchange make larger cash payments. Stricter control was also exercised in Pakistan, while Turkey and Pakistan were among the countries introducing exchange retention schemes—akin to that abandoned in Egypt later in 1955—in order to stimulate secondary exports.

Changes in Internal Balance

In 1955, inflationary and deflationary forces in the primary producing countries appear generally to have been in a fair degree of balance, but as compared with 1954 the change was more in the direction of inflation than of deflation. If the retail price index is taken as a criterion, 15 per cent of the sixty countries covered in table 87 showed signs of deflation during 1955, compared with 25 per cent in 1954, while the proportion in approximate price equilibrium declined from about 28 per cent to 23 per cent. Many of the countries registering relatively small increases in retail prices in 1955—between a fourth and a third of those covered in the table—gave evidence of other signs of inflationary pressures. Though the countries in which the cost of living index rose by more than 10 per cent included some in which deflationary forces had prevailed in 1954—Burma and Thailand, for example—the group consisted for the most part of those in which inflationary forces were of longer standing.

Since domestic factors were the predominant influence in economic activities in some countries and external factors in others, it is not surprising that, although there was a slight tendency for improvement in the balance of trade to be positively associated with rising domestic prices (see chart 20), the degree of correlation between changes in external balance and trends in the cost of living were relatively low. Among countries with fairly stable prices, for example, there were some whose imports declined markedly in the face of constant or rising exports and a consequent inflationary stimulus from the external accounts—

Table 87. Frequency Distribution of Primary Producing Countries according to Changes in Cost of Living Indices

Percentage change in cost of living index[a]	*Number of countries* 1954	1955
−7 to −1	15	9
0 to 2	17	14
3 to 5	11	16
6 to 10	7	7
11 to 20	6	9
Over 20	4	5

Source: United Nations, *Monthly Bulletin of Statistics;* Gold Coast: Office of Government Statistician, *Digest of Statistics;* Nigeria: Department of Statistics, *Digest of Statistics.*

[a] Unless otherwise specified, changes are from December of preceding year to December of year stated, as measured by official indices, relating in most cases to the capital city. Exceptions are Bolivia and Paraguay: June 1955 compared with June 1954; Burma and China:Taiwan: November 1955 compared with November 1954; El Salvador: July 1955 compared with July 1954; Haiti: September 1955 compared with September 1954; Nigeria: July 1954 compared with average for the year 1953 and July 1955 compared with July 1954.

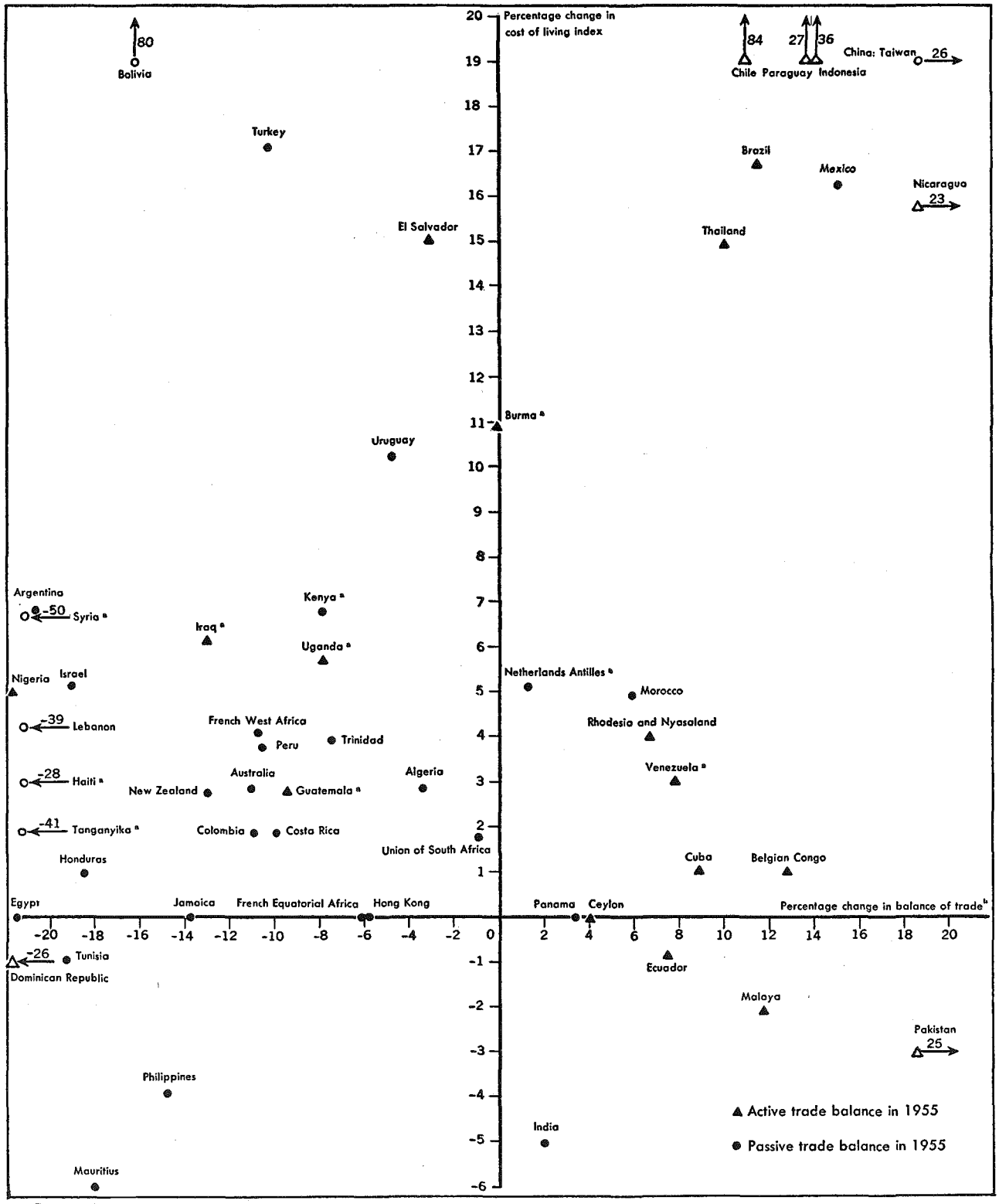
Ecuador and Venezuela, for example—and others whose imports increased markedly in the face of constant or declining exports, thereby exerting a deflationary influence—Egypt and the Dominican Republic, for example. Price stability also characterized the Belgian Congo and Ceylon, where there was an appreciable increase in the export balance; the Gold Coast, where export receipts declined drastically in the face of rising imports; and Jamaica, where imports rose more rapidly than exports.

Among countries in which there was some evidence of deflationary forces in 1955, only in the Philippines, whose imports rose substantially, while exports changed little, did external accounts play a significant part in determining the internal balance. A decline in exports had exercised a similar effect in Cuba in 1954, but, although there were still traces of deflation in 1955, an increase in the export surplus helped to reduce them. An improvement in the trade balance in Pakistan and Malaya also tended to offset deflationary forces discernible in parts of these countries. In India the slight change in the external balance had little or no influence on the internal situation; the deflationary tendencies that prevailed in 1954 and 1955 were of domestic origin.

Among the countries in which inflationary forces mounted rather suddenly in 1955, efforts to increase exports—as in Burma, China: Taiwan and Thailand—probably served to reinforce influences that had their origin largely in public expenditure. A reduction in imports into Indonesia and Paraguay, as well as Burma, probably had a similar effect. In the countries in which inflationary forces were most acute—Bolivia and Chile, in particular—domestic factors were predominant and the trend of prices in 1955 was similar to that in 1954 and earlier years.

Differences in the relationship between export balances and price trends generally reflected differences in the relative importance of the external sector, but in some countries institutional features played a significant part in modifying the influence of developments in foreign trade. Particularly important in this period was the effect of the operations of foreign companies, as in the Belgian Congo, Rhodesia and Venezuela, whose profits bear the main incidence of fluctuations in commodity prices and to a large extent are distributed abroad, and of marketing boards, as in the Gold Coast and Nigeria, whose income varies with commodity prices and to a large extent has been placed in reserves held abroad. In other countries policies were adopted specifically to insulate the internal economy from changes in the foreign trade sector; thus, destabilizing forces arising in price changes of

Chart 20. Distribution of Primary Producing Countries according to Changes in Cost of Living Indices and in Balance of Trade, 1954 to 1955



Source: United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics.* Changes in cost of living indices measured from December 1954 to December 1955, except as noted in table 87. Marginal symbols indicate that indices lie outside the range shown on the axes; in such cases, the missing co-ordinate is given.

[a] Based on a comparison of nine months in 1955 with the corresponding period in 1954.

[b] Change in balance of trade as percentage of mean value of imports and exports in 1954.

specific export products were met in many instances by compensatory changes in exchange rate or commodity tax.[6]

In many of the less developed countries export taxes, which are used to cushion the impact of commodity price changes, also make a major contribution to over-all economic stability; by reducing a budget deficit—as they did in Malaya in this period, for example—the expanded proceeds of an export tax may help to offset the inflationary effect that a rise in export prices may tend to have, while their contraction may exert a similar stabilizing influence by enlarging a deficit in times of falling prices. In this way, adjustments of export taxes seem to have played a significant part in maintaining economic stability in Ceylon during a period in which the prices of its main export products—tea, copra and rubber—were subject to major fluctuations. Higher export taxes were also used to siphon off windfall profits and reduce the inflationary effects of devaluation in Pakistan and Argentina.

Changes in output and domestic demand

The period under review seems to have been characterized by widespread, though in many cases only small, increases in production among the primary producing countries. Though few precise measurements are available, the modal increase in gross domestic product (crudely adjusted for price changes), which was of the order of 4 to 6 per cent between 1953 and 1954 (see table 77), was probably of the same order between 1954 and 1955. There may have been a decline in the rate of expansion—in income, though not necessarily in output—in some of the coffee and cocoa producing countries, and a somewhat greater advance in the rate in the rubber and mineral producers. Since the wool exporting group consists chiefly of countries in which manufacturing contributes more than agriculture to the domestic product—over one-fifth in Argentina, Australia and the Union of South Africa, for example—it is not unlikely that the higher level of industrial output in this group in 1955 more than offset the effect on national income of the decline in the terms of trade. In the Union of South Africa, gross national product, which at current prices had risen by 7 per cent between 1952/53 and 1953/54, increased by about 6 per cent between 1953/54 and 1954/55.

Manufacturing output expanded in other countries, too; though precise measurements are lacking it would appear, on the basis of the countries listed in table 88, that the average increase in 1955 may have been slightly above the rate of 8 per cent achieved in 1954. These rates of growth, though somewhat below those registered in western Europe, are above the average for primary production in the less developed countries.

Table 88. Indices of Industrial Production and Production of Electricity, Selected Countries
(Corresponding period of previous year=100)

Country	Industrial production[a]		Production of electricity	
	1954	1955	1954	1955
Algeria	109	114[b]	107	107[c]
Argentina	108	112[d]	109	107[d]
Australia	105[e]	103[e]	112	111
Belgian Congo	111[f]	...	...	...
Brazil	107	105[b]	110[g]	110[g]
Chile	104[h]	98[h]	109	105
China: Taiwan	105	107[c]	115	110[c]
Colombia	117[i]	104[i,j]	113[k]	108[k]
Guatemala	100	105	104	108
India	108	110	112	113
Israel	107[e]	109[e,l]	118[m]	117[m]
Mexico	107[i]	108[i,j]	110	111
New Zealand	104[e]	104[d,e]	109[n]	108[n]
Pakistan	122[f]	...	119	119[o]
Philippines	112[f]	111[f]	112[p]	111[p]
Union of South Africa	102[e]	103[e]	110	112
Venezuela	110[i]	116[i,j]	116	118

Source: United Nations, *Monthly Bulletin of Statistics*, and *Statistical Yearbook, 1955* (sales number: 1955.XVII.10); United Nations Economic Commission for Latin America, *Economic Review of Latin America* (Santiago), August 1955, and *Economic Bulletin*, vol. 1, January 1956; Central Bank of the Philippines, *Annual Report, 1954*, and *Central Bank News Digest* (Manila).

[a] Manufacturing, mining, electricity generation and gas manufacture, except where noted.
[b] First nine months.
[c] First eleven months.
[d] First ten months.
[e] Manufacturing employment.
[f] Manufacturing only.
[g] Consumption in Rio de Janeiro and São Paulo.
[h] Excluding mining.
[i] Manufacturing and construction only.
[j] First half compared with 1954.
[k] Three principal public utilities only.
[l] First five months.
[m] Sales.
[n] Deliveries.
[o] First seven months.
[p] Manila.

As far as the composition of manufacturing output is concerned, post-war trends appear to have continued in 1954 and 1955. The production of capital goods continued to spread. A new integrated iron and steel plant, its first, started operation in Colombia. Additional capacity was laid down or became operative in a number of older producers, including Argentina, Australia, Brazil, India and the Union of South Africa, as well as in a number of countries—Pakistan and the Philippines, for example—in which only rerolling plants are operated. Cement capacity was also

[6] Among taxes that were lowered in the course of 1955 were those on ground-nuts in the Belgian Congo; coffee in Brazil, Ethiopia, Guatemala and Tanganyika; cocoa, copra and tea in Ceylon; and black pepper, castor oil and tea in India. In the case of wool, more favourable exchange rates were offered exporters in Argentina and also—by way of export premiums—in Uruguay. Rubber was one of the few commodities on which export taxes were raised, as in Malaya, for example. The devaluation in Pakistan led India to reduce its export taxes on cotton cloth and abolish those on jute.

augmented in several places, and plants were established for the first time in some of the smaller consuming countries—Jordan, Kenya and Malaya, for example. Crude steel output in the primary producing countries, which had risen almost 10 per cent in 1954, increased by about 4 per cent in 1955; cement production, which had risen by almost 12 per cent in 1954, expanded by about 10 per cent in 1955. The expansion of cotton textile production was somewhat less: about 8 per cent in 1954 and 4 per cent in 1955. Smaller relative increases in the output of other consumer manufactures in a number of the primary producing countries probably reflect the slower growth of demand—as in the industrial countries—as well as the statistical fact that in general the base on which expansion is computed is greater than in the case of the heavy industries.

In a few countries the rate of industrial expansion had been reduced somewhat by relaxation of import restrictions in 1954 in view of favourable trade balances in 1953. The resultant increase in supply of imported goods revealed the competitive weakness of some local industries in such countries as Argentina, Australia, Brazil, Colombia, New Zealand and the Union of South Africa, and, despite active local demand, higher tariff protection was judged necessary in a number of instances. The rapid deterioration in the payments position of several of these countries also brought problems for local industry, for, although tightening of controls and the subsequent cut in imports tended to restore the domestic market to local producers and hence raise industrial output, it was severe enough in some—Argentina and Brazil, for example—to threaten supplies not only of consumer goods but also of capital goods, raw materials and fuel. The result in these cases was under-utilization of industrial capacity and higher unit costs of production.

Table 89. Indices of Dwelling Construction, by Country

(Corresponding period of previous year=100)

Country and basis of measurement	*1954*	*1955*
Algeria (floor area of permits, 58 cities)	104	94[a]
Argentina (floor area of completed construction, Buenos Aires)	79	156[b]
Australia (number of dwellings completed)	99	104
Brazil (floor area of permits, state capitals)	91	83[c]
Chile (floor area of permits, 13 communes)	110	108
Colombia (ground area of permits, 18 cities)	102	110
Cuba (number of permits)	99	105[b]
Guatemala (floor area of completed private construction, Guatemala City)	148	76
Israel (ground area of completed construction)	126	129[a]
Lebanon (floor area of permits, Beirut)	133	152
Morocco, French (floor area of permits)	88	94
New Zealand (number of permits)[d]	123	96[e]
Panama (value of private construction permits, Panama City and Colon)	100	127
Philippines (number of permits, Manila)	84	68
Syria (floor area of permits, Damascus)	117	113[b]
Trinidad and Tobago (floor area of permits)	109	102[a]
Tunisia (ground area of permits, 4 cities)	129	...
Union of South Africa (number of dwellings completed, 18 principal urban areas)	99	130
Venezuela (ground area of permits)	100	95

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

[a] Based on nine months.

[b] Based on ten months.

[c] Based on seven months.

[d] Years beginning 1 April.

[e] Based on seventy-seven urban centres.

A high level of investment was among the causes of inflationary pressures in a number of countries. Investment in transport and communications, for example, was at a relatively high level in several, particularly in Africa, where rail and road construction has a high priority in public investment plans. The course of other forms of construction was generally more variable. Building activity declined markedly in Brazil and slightly in Venezuela, for example, but increased in Chile and Colombia; and there was notable recovery in the number of houses completed in Buenos Aires in 1955 after a major reduction in 1954 (see table 89). Residential construction was an important form of investment in Australia, New Zealand and the Union of South Africa.[7]

In Burma and Indonesia, the volume of construction was reduced as a result of government policy, but the lower levels of building activity registered in the Philippines were more the result of the deflationary forces prevailing in that country.

More important as a determinant of the cost and level of living in most of the less developed countries were changes in agricultural production, especially of food. By and large, this had been markedly higher in 1953/54 than in 1952/53 both in the food importing and in the food exporting countries (see table 90). Among the few countries that had not enjoyed a record level of production were Burma, Colombia, Cuba and Malaya—Burma being almost the only country in which food output had not regained pre-war levels.

[7] In Australia, dwelling construction absorbed £A 20 million more in 1954/55 than in 1953/54, and other private building an additional £A 20 million; by March 1955 the level of building employment had regained the peak of the 1951/52 construction boom. In the Union of South Africa, records were established in 1955 both for the number of dwellings completed and for their value. In New Zealand the 18,500 housing units completed in the year ending in March 1955 (11 per cent above the 1953/54 figure) also constituted a record and accounted for a substantial proportion of the £NZ 78 million (48 per cent) increase in capital formation. From April, however, the Government began to exercise a stricter control over building with a view to reducing the strain on both materials and labour; permits issued for new houses and flats in the second and third quarter were down by 9 per cent in number and 4 per cent in value compared with the corresponding period in 1954.

Table 90. Indices of Agricultural Output, by Country
(Previous year=100)

Country	Food		All agricultural commodities	
	1953/54	1954/55[a]	1953/54	1954/55[a]
Turkey	110	82	109	83
Thailand	115	83	114	87
Mexico	104	109	103	112
Colombia[b]	99	99	100	99
Morocco, French	115	104	113	104
Ceylon	108	107	106	105
Union of South Africa[b]	112	110	111	110
Cuba	100	97	100	97
Peru[b]	105	101	104	103
Uruguay[b]	105	105	103	104
Philippines	103	101	103	101
Tunisia	111	91	111	91
Chile[b]	106	100	105	99
Brazil[b]	104	103	102	104
Madagascar[b]	102	100	103	99
Malaya	98	105	98	103
New Zealand[b]	102	97	102	98
China:Taiwan	103	103	102	104
Australia	103	97	102	98
Egypt	111	108	101	108
India	109	99	110	99
Argentina[b]	133	95	130	95
Indonesia	108	106	104	106
Algeria	109	108	110	106
Korea, southern	116	100	114	102
Pakistan	104	102	97	102
Burma	98	101	98	100

Source: Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome), February 1956. The countries are listed in descending order of increase of agricultural output in 1953/54 above pre-war, which for most countries comprises the period 1934-1938.

[a] Preliminary.

[b] Index numbers refer to calendar years 1953 and 1954.

The 1954/55 harvest brought a further gain to a number of countries, notably Algeria, Ceylon, Egypt, French Morocco and the Union of South Africa, where it exercised a significant influence in maintaining a fairly stable cost of living, as it helped to do in Malaya also, where food production rose to a post-war record. There was also an increase in food production in Indonesia, Mexico, Uruguay and to a less extent in Brazil and China:Taiwan, though in these countries inflationary forces originating outside the food sector made for a rapidly rising cost of living.

In relation to the high production levels of 1953/54, the 1954/55 harvest was substantially lower in Thailand, Tunisia and Turkey and there was also a decline, of smaller proportions, in Argentina, Australia, Cuba and New Zealand. Since these countries are all significant exporters of food, the smaller output is likely to have affected the external balance more directly than the internal balance.

On the whole the disinflationary effect of a rise in agricultural production is probably somewhat greater than the figures alone might suggest. This is partly because of the relative importance of food in consumption for most of the less developed countries and partly because agricultural output increased in recent years much more for domestic use than for export. In Latin America, for example, the growth of agricultural output for internal consumption amounted to 3 per cent in 1953/54 and 7 per cent in 1954/55, whereas that for export declined slightly in 1953/54 and rose by only 3 per cent in 1954/55.[8] Another manifestation of the same phenomenon is the lag in the non-food component of agricultural output, which traditionally has been more closely linked to export demands than the food component. The only countries among the twenty-seven listed in table 90 in which the relative increase in output of agricultural commodities other than food was significantly higher than that of food in 1954/55 were Mexico, Peru and Thailand.

The disinflationary consequences of a general rise in food production were most pronounced in Asia. In 1954, living costs had declined in food exporting countries such as Burma and Thailand, as well as in food importing ones such as Hong Kong, India and Malaya, even though crops were actually smaller in Burma and Malaya. In 1955 the decline in prices was confined to the food importing countries, in almost all of which a larger domestic harvest reinforced the effects of a lower unit value of food imports. Greater production of food for domestic consumption was also a major deflationary force in Egypt, Syria and Cuba in 1954 and in the Dominican Republic in 1955. In Iraq, on the other hand, a poorer harvest was reflected in rising retail prices in 1955, while from a long-run point of view the failure of domestic farming to keep pace with expanding needs remained an underlying factor tending to accentuate inflationary pressures in several food importing countries—notably Bolivia and Chile.

Over-all measurements of food production are not available for a more recent period than the 1954/55 agricultural year, but some indication of the food position in 1955 is given in chart 21, which shows the preliminary figures, or forecasts, for the 1955/56 harvest of four of the principal crops in a number of the major producing countries. Wheat output was above the 1954 level in five of the eleven countries covered, notably in Australia and Turkey, but below in five: Argentina, Chile, Egypt, Pakistan and Uruguay. Maize production was lower in six of the seven countries covered, the only exception being Argentina, where the crop regained the 1953 level after a drastic

[8] In 1954/55 production for home consumption is estimated to have been 68 per cent above the pre-war average, whereas production primarily for export was only 13 per cent higher (United Nations Economic Commission for Latin America, *Economic Bulletin*, vol. 1, No. 1, 1956, page 13).

fall in 1954. Appreciable increases in rice production were registered in China:Taiwan, India, Indonesia and Thailand, but in none of these countries was the 1953 harvest equalled; in Egypt, however, a further expansion of the rice crop raised production to twice the 1953 level. The output of sugar was slightly higher in China:Taiwan and Cuba, and substantially higher in Indonesia and the Union of South Africa, but somewhat lower in Australia and the Philippines, where production declined below the 1953 level.

Fiscal and monetary policies

Where inflationary forces were strongest, as measured by the rate and continuity of price increases, the basic cause frequently lay in unbalanced government budgets—as in Bolivia, Chile, Indonesia, southern Korea and Uruguay. In Brazil and Turkey, where inflation was also rapid and chronic, deficit spending by autonomous public agencies added to the pressure generated by unbalanced budgets. In Argentina, too, at least until the reforms of October 1955, the financing of various government agencies—in grain trading, mortgage lending, exporting and transport, in particular—contributed to the pressure of demand on real resources. Government deficit spending also increased significantly in 1955 in Burma, China:Taiwan and Thailand and was the major cause of the substantial rise in prices registered in these countries.

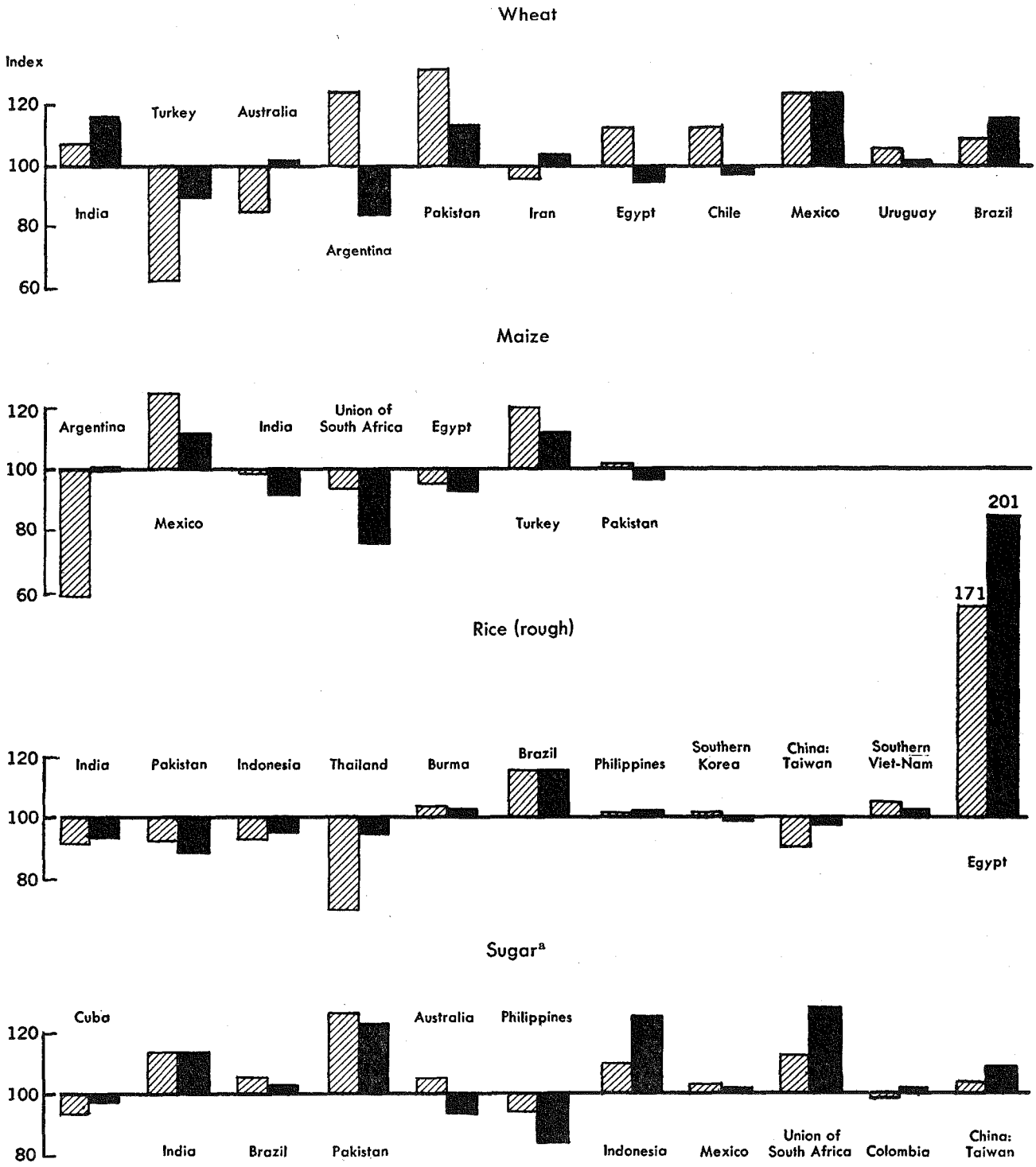
In India, however, the budgetary shortfall—as measured by the increase in floating debt and drawing down of cash balance, by both state and central governments—though increasing from about 600 million rupees in the year ending in March 1954 to over a billion rupees in 1954/55 and an estimated two billion in 1955/56, did not prove to be inflationary even though accompanied by an increase in bank credit of 3 per cent between June 1953 and June 1954 and a further 11 per cent by June 1955. There were good harvests and an appreciable increase in industrial production; and since, in addition, the unit value of imports continued the decline begun in 1953, the net effect on prices was deflationary. The wholesale price index declined by 6 per cent in 1954 and by a further 6 per cent in the first half of 1955 before the trend was reversed. The cost of living index followed the same course, food prices declining even more. The increase in production was chiefly the result of such causes as more favourable weather, better utilization of capacity and higher productivity of workers, without any marked expansion of employment. Since one of the characteristics of industrialization—involving, as it usually does, increased urbanization and the commercialization of agriculture—is to convert traditional forms of under-employment into more easily measurable categories of unemployment, there was a rapid increase in the number of applicants for work at Indian employment exchanges: in the course of the two years registrations rose by 170,000, or about 32 per cent, while in mid-1955 total urban unemployment was estimated at about 3.4 million.

Just as the unbalanced budget in India did not precipitate a rise in the price level, so a balanced budget in Mexico did not prevent such a rise. The Mexican rise appears to have stemmed chiefly from the increased peso cost of imports following the devaluation of April 1954, though a higher rate of investment and a tendency for wages to increase more rapidly than the national income are likely to have contributed to the same end.

Budgetary deficits in Colombia were quite small; the deflationary effects of a deteriorating external balance were offset more by the high level of domestic investment associated with an increasing degree of diversification of production and employment. In Ceylon, on the other hand, budget surpluses constituted an important stabilizing factor in both 1953/54 and 1954/55; unexpected increases in revenue enabled the Government to expand its development expenditure while at the same time it counteracted the inflationary consequences of the improved external accounts. The number of applications at labour exchanges—a rough measure of unemployment—continued to rise, however: by an average of 7 per cent in 1954 and 19 per cent in 1955. The budget was also used as a stabilizing instrument in Cuba, where increased public works expenditure served as a means of reducing unemployment that had its origin in depressive forces in the export sector in 1954.

In Australia, New Zealand and the Union of South Africa, a high level of economic activity, decreasing, low or negligible amounts of unemployment and indirect taxes on an expanding volume of imports all contributed to budgetary surpluses on current account in the fiscal years ending in 1954, 1955 and 1956. Though part of the 1954/55 surplus was used for debt redemption in Australia, in none of these countries was fiscal policy strongly disinflationary, even in 1955 when all three were beginning to reveal signs of strain on real resources, and, particularly in the case of Australia and New Zealand, on foreign exchange reserves too. In general, the current surpluses were transferred to loan account to finance capital expenditure, and, except in New Zealand where special depreciation allowances were reduced in 1955, tax schedules tended to favour investment. In Australia, however, supplementary measures introduced in March 1956—raising the corporation tax and customs and excise duties on such items as motor vehicles, petrol, beer, spirits, tobacco and cigarettes—were designed to increase the 1955/56 budget surplus, both as an anti-inflationary device and as a means of cutting expenditure on imports. This was also the dual purpose of a 10 per cent cut in public works outlay announced in Australia in October 1955. Similarly intended reductions of government expenditure were made in Burma in 1955 and in Indonesia, both in 1954 and again towards the end of 1955.

Chart 21. Indices of Production of Selected Foods
(1953=100)



Source: United States Department of Agriculture, Foreign Agricultural Service, *Foreign Crops and Markets* (Washington, D. C.). Countries arranged in descending order, from left to right, according to absolute size of harvest in last year shown.

Years shown refer, for wheat and maize, to years of harvest in the Northern Hemisphere and the harvests immediately following in the Southern Hemisphere (preliminary forecasts are for 1955/56); for rice and sugar, to 1954/55 and 1955/56 (preliminary).

[a] Centrifugal (raw value) and non-centrifugal sugar.

The rudimentary nature of the credit and banking structure in many under-developed countries tends to limit the extent to which indirect monetary methods of control can be used to correct internal disequilibria. As a result there was a marked contrast between the policies pursued in the industrial countries generally, in 1955, and those followed in primary producing countries, even when basically similar forces were operating.

The principal exception to this generalization was New Zealand, where with the multiplication of inflationary symptoms within the economy and a mounting import balance on external account, monetary policy was exploited in preference to a restoration of more stringent direct control over foreign trade. The central bank discount rate was raised to 3.5 per cent in October 1954 and to 4 per cent in December 1954, and on three further occasions during 1955: to 5 per cent in June, 6 per cent in September and 7 per cent in October. These increases accompanied an active policy of varying the ratio of reserves to demand liabilities that commercial banks were required to maintain, the objective being to retard the rate at which bank advances had been growing. To a large extent this was achieved, and after March 1955 there was a slight tendency for aggregate advances to decline even though over-all pressure on reserves was unabated.

By and large, however, primary producing countries made much less use than industrial countries of interest rate adjustment as an instrument of monetary control.[9] In the face of rapidly rising prices, indeed, small changes in interest rates—such as the increase in the commercial bank rate in Chile from an average of 12.3 per cent in 1953 to an average of 13.5 per cent in the first half of 1955—are unlikely to have any appreciable effect on borrowing. Similarly, the effect of an increase in the central bank discount rate in June 1955 from 3 to 4.5 per cent in Turkey—where retail prices were rising at the rate of 17 per cent a year—was not very marked.

In some instances competition for capital induced an upward movement of rates despite the government's desire to keep down the cost of its own borrowing. In Australia, for example, yields on government long-term securities rose above 4.5 per cent in the second half of 1955—notwithstanding central bank support of the market—and public loans issued in this period at the 4.5 per cent rate, which had been successfully used in 1954, were not fully subscribed. Thus, although interest rates remained appreciably below the levels ruling elsewhere,[10] there had been some slight upward adjustments in commercial and savings bank deposit rates in the course of the year, and in March 1956 banks were permitted to raise deposit rates and overdraft rates slightly.

Control over bank credit was practised more generally than the active adjustment of interest rates. As in New Zealand, regulation of reserve requirements was the most frequent technique, but requests for restraint on lending were also common,[11] while in at least one instance—in China:Taiwan—there was a temporary suspension of bank lending. Restrictions on bank credit were supplemented by restrictions on consumer credit, which had expanded substantially in a number of instances, especially in Australia, New Zealand and the Union of South Africa.

Since the equilibrating adjustments effected by the process of inflation tend to be socially inequitable, penalizing in particular those whose income is not susceptible of protection against the decline in its purchasing power, many governments took steps to mitigate some of the least acceptable consequences of internal disequilibrium. In some countries compensatory increases in wage rates were authorized or ordered, a particularly large general increase being enacted in Brazil in May 1955, and one of 10 per cent in Argentina in February 1956. In countries in which there was a more formal link between wages and prices, adjustments tended automatically to follow

[9] In some primary producing countries interest rates tended to remain low not so much in relation to rising internal price levels but in relation to local shortage of capital on one hand and to the rising rates of interest in many of the industrial countries on the other. This gave rise to some difficulties when the connexions between capital markets were fairly close—as within the sterling area. In the Union of South Africa, for example, the principal object of an increase in treasury bill rates and in the reserve bank discount rate (from 4 to 4.5 per cent) in September 1955 was not to curb the expansion of domestic credit so much as to stem the outflow of short-term capital by reducing the disparity which had developed between local rates and the higher levels in the United Kingdom. In February 1956 short-term rates were raised again, but rather than follow the upward movement of the bank rate in the United Kingdom, the South African Government confirmed the 4.5 per cent level and extended direct controls over the movement of capital.

[10] At the end of 1955 the rate on three-month treasury bills or their equivalent stood at 1 per cent in Australia, compared with over 2.5 per cent in Canada and the United States, 3 per cent in the Union of South Africa and over 4 per cent in the United Kingdom.

[11] In 1955 in Peru, where bank credit increased by 17 per cent between January and October, the Government twice raised the minimum ratio of reserves to deposits by repeating in November a measure first adopted in April and thus creating a three-tiered structure: a basic 22 per cent ratio on sight deposits, a 50 per cent ratio on deposit increases between April and November and a 70 per cent ratio on increments after November, the corresponding time deposit ratios being fixed at 11 per cent, 25 per cent and 35 per cent.

In the Union of South Africa, the ratio of commercial bank advances to deposits rose to a peak of almost 65 per cent in May 1955 after which declining liquidity, combined with a request from the Reserve Bank to restrict the supply of credit for hire-purchase finance and fixed investment, brought about a gradual reduction. Legislation now before Parliament would give the central bank greater control over commercial bank liquidity, by the introduction of flexible reserve ratios.

In Australia, in September 1955, when the ratio of advances to deposits stood at 65 per cent (the highest since mid-1952), the banks were requested not to extend further credit, either for capital expenditure or for financing imports.

changes in the cost of living; in some, however—Chile, for example—efforts were made to restrain the upward spiral by subsidizing food or other important consumer goods. Where consumers were heavily dependent on imported goods and local inflation was causing a rapid depreciation of the currency—as in Bolivia, for example—essential imports were subsidized in an effort to hold down urban living costs. In the Union of South Africa a bread subsidy was continued, partly to hold down living costs, partly to encourage consumption of a nutritionally fortified loaf.

In other countries local developments induced governments to adopt other means of protecting consumers. Where harvests were below expectation, for example, exports of foodstuffs were restricted. Thus, in the course of 1955 a prohibition was placed on the export of olive oil from Jordan, barley from Syria and maize from Argentina. In Australia, though the rise in the cost of living index during 1955 was only 3 per cent, some areas began reimposing price controls on essential items; in China:Taiwan a sharp advance in prices towards the end of the year induced the Government to resume the rationing of certain essential consumer goods; and in other countries various other special steps were taken to mitigate some of the ill effects of internal inflation.

In contrast, the easing of food supplies in India made it possible to liberalize exports of a number of agricultural commodities, and Ceylon, having achieved a better balance both internally and externally, was able to withdraw food subsidies without serious effects on the cost of living.[12]

[12] In Uruguay, however, it was budget stringency that prompted the withdrawal of a bread subsidy previously paid to offset the relatively high cost of local wheat; in the inflationary conditions prevailing in that country this helped to push up the cost of living index.

Economic Outlook[13]

The prospective slackening in the rate of expansion in industrial countries, discussed in the preceding chapter, may cause some fall in demand for several of the commodities that experienced particularly firm markets in 1955. Though in many cases an absolute decline in consumption does not seem to be envisaged, even small changes in current or expected demand (or supply) may precipitate large changes in price. In view of the strong forces tending to keep export unit values of industrial countries from falling, no major improvement in 1956 in the over-all terms of trade for primary producing countries is suggested by current trends; on the contrary, some deterioration is indicated for exporters of a number of important primary products.

Whether or not this will result in a reduction in the export earnings of any particular country depends in part upon the volume of production and exports. In the case of rubber, which is one of the commodities whose price moved downwards in the first quarter of 1956, substantial expansion seems unlikely, at least among the major exporters, notwithstanding the active policy of rehabilitating and improving plantations in such countries as Ceylon and Malaya. Thailand expects to export at least the same volume of rubber as in 1955. On the other hand, production of copper—the commodity whose price reached record levels in 1955—may well increase; exploration and development have been at a high level in recent years and 1955 output was below capacity in several countries, notably Northern Rhodesia, where about 40,000 tons was lost during a strike. In Chile, greater freedom given to mining companies to market their output and more favourable rates of exchange granted for domestic purchases may also be expected to stimulate the production and export of copper.

Mexico hopes to expand its exports of metals and manufactures and so make good any decline in the proceeds of agricultural exports. The Government of the Union of South Africa reports that "the value of exports is likely to rise appreciably in 1956 as a result of increases in the production of gold and uranium and the existence of considerable surpluses of maize and sugar available for export". Thailand, on the other hand, expects a decline in the volume and value of tin exports.

Petroleum exports from most major producers seem likely to expand in both volume and value, with Iran showing the largest proportional gain as production is gradually restored to earlier levels. In Venezuela, exports of other products, particularly iron ore, may expand. Iraq, however, does not expect to see its recent investments in the agricultural sector bear fruit in higher exports in 1956.

On the whole, fibre producing countries are not looking forward to higher export earnings from this source. New Zealand expects "steady prices for . . . major exports", including wool; slightly larger wool clips are expected in Australia and the Union of South Africa, and efforts are being made to expand production in Argentina and Uruguay. Average prices realized during the 1955/56 season, however, were below those of the previous season. Cotton prices remained fairly firm in the first quarter of 1956, when a million bales of United States surplus were successfully marketed,

[13] Information for this section was derived in large part from the replies of governments to the United Nations questionnaire of 18 November 1955, on full employment and balance of payments.

but several countries appear uncertain of the prospects of cotton earnings for the rest of the year. Prices of hard fibres were all higher in the first quarter of 1956 than during 1955. Pakistan jute acreage continues to be regulated, but in India all but 5 per cent of mill capacity has been unsealed in expectation of a somewhat greater demand for burlap. The jute carry-over is not excessive and sisal stocks are reported to be low, but export earnings from these products depend very largely on agricultural output and trade in various parts of the world.

No great change appears to be in prospect in the volume and distribution of trade in the beverage crops. Exports from specific countries depend very largely upon individual harvests and these tend to vary with local climatic conditions. The Governments of both El Salvador and Ethiopia, for example, seem to expect a somewhat smaller output of coffee in 1956. Brazil's export earnings are likely to be affected by the extent of inventory selling as well as by the output and price of hard coffee—factors which themselves are partly interdependent. In Honduras, coffee exports are not expected to increase much, but a sizable expansion in shipments of bananas is thought possible. Greater investment in the tea industry in Ceylon may result in an early expansion of output and exports, but much depends on prices.

In Thailand, the considerably larger rice harvest of 1955/56 has left an estimated 1.2 million to 1.4 million metric tons for export; its successful disposal would increase the value of total exports to about 6 per cent above the 1955 level, but difficulties may well be encountered, since rice output may have expanded in a number of food importing countries. Egypt, like Burma, appears to be extending its barter arrangements in order to sell surplus rice. Among the sugar exporters, the Dominican Republic expects to ship at least the 1955 volume, and China:Taiwan looks forward to a slight increase in exports.

Stocks having been drawn down in 1955, the market for oils and oil-seeds was firmer in the first few months of 1956 in the face of lower production in the Mediterranean region. The market for grains, by contrast, is more likely to be influenced by the existence of large stocks: in the case of wheat, for example, exportable supplies in the four main sources—Argentina, Australia, Canada and the United States—early in 1956 were not only higher than a year earlier but amounted to more than twice the current annual volume of world trade in wheat and flour.

In most of the primary producing countries, trade policy in general and import policy in particular tend to reflect export opportunities and the state of export industries, influenced in each case by the size of available foreign exchange reserves. Countries whose reserves were reduced in 1955 and whose export earnings seem unlikely—on the basis of current trends—to expand significantly may well have a smaller import bill in 1956. In Australia this seems assured by progressively more stringent quantitative controls imposed in the course of 1955. In Colombia and New Zealand, reduction of imports is less certain: both countries are continuing to rely largely on indirect controls. Increased customs duties and taxes on imports in Colombia, and restraints on bank and consumer credit in New Zealand, did not bring about any reduction of imports in 1955; this was also the experience of Honduras, where the demand for imports is considered to be very inelastic. In Argentina, on the other hand, the devaluation of October 1955, together with regulations classifying and taxing imports in order to conserve foreign exchange with least impediment to growth, was designed to reduce the import bill, which was higher in 1955 than in 1953 or 1954. Changes in internal policy have also been introduced with the object of expanding exports, but external markets for many of the products that Argentina exports are far from buoyant.

Among the other countries that may import less in 1956 are some of those whose imports rose in 1955 as an aftermath of a particularly favourable balance of trade in 1954. Included in this category are many of the coffee and cocoa exporting countries whose external balance deteriorated markedly in 1955. By the same token, some of the countries with substantial export balances in 1955—the rubber and metal producers, in particular—may well experience a considerable rise in imports in 1956, when export earnings may be appreciably smaller. This possibility is implicit in the statement of the Government of Ceylon that the rise in bank deposits that took place during the period of high tea and rubber prices constituted a "potential threat" to external assets "if and when . . . export earnings declined".

In general, the petroleum exporters may be expected to import more in 1956 than in 1955. This would reflect increased oil revenues and, in the case of Iraq, a commercial policy designed to maintain the supply of "essential goods" and prevent the emergence of any inflationary tendencies. Iraq, like others in this group, has development plans which require a sizable inflow of capital goods. Increasing investment—public or private—is also likely to keep imports at a high (or perhaps even expanded) level in a number of other countries, including Mexico, Honduras and India. In Thailand, the lifting of quantitative controls in 1955 is expected to result in slightly greater imports despite an anti-inflationary internal policy and higher customs duties, especially on non-essentials. In countries in which direct controls are strictly enforced, the trend in imports tends to follow that of exports. Thus, in the Union of South Africa, imports in 1956 are "unlikely to be allowed to rise much above their 1955 level" even if the steps taken to curb the expansion of credit do not check the demand for imported goods.

In a few countries—China:Taiwan, for example—the volume and composition of imports are geared less to export returns than to the course of foreign aid and, in general, this is not expected to decrease in 1956.

Though the official reserves of several groups of countries—cotton, wool, coffee, sugar and rice exporters, in particular—were appreciably lower at the beginning of 1956 than at the beginning of the two preceding years, there is little evidence of any widespread fear of a further decline in the course of 1956. In most cases this reflects confidence in defensive measures already taken or contemplated, rather than any significant upswing in balance of payments surpluses. Given these measures, the existing reserves appear to be considered adequate to absorb minor fluctuations in the external balance. Relatively few primary producing countries, however, possess reserves large enough to permit major relaxation of trade and exchange controls without risk of grave deterioration. The margin of safety, in other words, continues to be a very narrow one, and in some of the countries in which restrictive policies are being applied to the domestic economy they are chiefly for the purpose of protecting the external equilibrium.

A greater appreciation of the close relationship between internal and external equilibrium—and in particular of the difficulty of satisfactorily balancing external accounts in the face of severe domestic imbalance—is perhaps one of the most notable features of the current economic outlook. It is apparent not only in those countries in which relatively mild inflationary pressures have been countered by credit restrictions, increases in commodity taxes, curbs on hire-purchase and other measures intended primarily to restrain the demand for imports—Australia, Colombia, New Zealand, Peru and the Union of South Africa, for example—but also in countries in which the internal and external disequilibrium is far more deep-seated, including Argentina, Chile and Indonesia.

The change in Argentine policy commenced in October 1955 with devaluation of the peso. Part of the gain accruing to exporters from the higher peso prices which resulted was diverted to government use by means of taxes graduated in accordance with external market conditions on the one hand and two internal objectives—better balanced industrialization and restoration of agriculture—on the other. The first of these objectives is to be furthered by support of industries contributing most to restoring the external balance—by producing exportable goods and by not consuming imports, for example—and of basic industrial facilities, such as transport and power, neglect of which created bottlenecks to development. Agriculture is to be stimulated not only by the higher peso prices for exports but also by basic guaranteed prices for the 1955/56 crop and by special facilities for importing farm equipment. Underlying these reforms there is to be a reduction of the inflationary forces previously generated by deficits in the budgets of the Government and its various commercial agencies.

The Indonesian stabilization programme also started in the second half of 1955 by a drastic cut in government expenditure, especially on capital account, and a liquidation of much of the government rice stock. Tax revenue was expanded by means of the imposition of substantial surcharges on imports; the main incidence of this appears—to judge by the subsequent course of prices—to have been on traders. Simultaneously, external accounts were brought into equilibrium, chiefly by a rise in export receipts, especially from rubber. Reform in foreign trade control is intended to eliminate quantitative restrictions so far as possible, and to improve the administration of exchange allocation, thereby restoring the price mechanism to a large extent. A slight disinflationary effect was also achieved by requiring importers to pay for their currency requirements at the time of applying for a licence. The estimated budget deficit for 1956 is less than a third of that estimated for 1955—and not much over half the realized deficit in 1955—and is considered to be of manageable proportions, capable of being financed by non-inflationary means.[14]

The drive for equilibrium in Chile appears to be directed along four interconnected fronts: loosening of the link between wages and the cost of living, reduction of the budgetary deficit, tightening of bank credit and simplification of exchange control. The rise in the discount rate—graduated from 4.5 to 9 per cent or more in accordance with the ratio of borrowings to capital and reserves—forced the rationing of commercial bank credit and apparently induced some repatriation of funds held abroad. The benefit of this to the country's external balance—indicated by a substantial improvement in the free market rate of the peso, which had deteriorated rapidly during 1954 and most of 1955—has been reinforced by setting up a stabilization fund and standby credits organized jointly by the International Monetary Fund and official and private United States agencies.

It is too early to predict success or failure for these measures; what seems more important in the present context is the very fact that such efforts are being made to restore internal equilibrium as an accompaniment, if not a prerequisite, to the restoration of external equilibrium. A similar intention is discernible in Thailand, where inflationary pressures were also powerful in 1955. While it is hoped that production will be stimulated by the relaxation of controls over trade, the immediate objective is to hold government expenditures in check, improve tax collection methods —thereby raising revenue—and reduce the 1956

[14] Address of the Indonesian Minister of Finance, reprinted in *Ekonomi dan Keuangan Indonesia* (Djakarta), January 1956.

budget deficit to a level at which it can be financed by non-inflationary borrowing. The stabilization fund that was set up in mid-1955 also appears helpful in maintaining equilibrium in external accounts.

Since changes in commodity prices and in export earnings have a direct effect upon revenue, in many primary producing countries budgetary intentions are quite vulnerable to the vagaries of the export market. Budget estimates alone, therefore, are an uncertain guide to the forces that are likely to influence internal equilibrium from the fiscal side. Nevertheless, it is not without significance that budgetary caution characterizes the 1955/56 or 1956/57 estimates of many of the primary producing countries.

Neutral budgets are expected in a number of countries, including El Salvador, Ethiopia and Iraq, and sizable surpluses on current account in Australia, New Zealand and the Union of South Africa. Though it is intended that enlarged rehabilitation or development expenditures will be more or less offset by increased revenue in Honduras and Mexico—the result of higher tax levels in the case of the former—price increases of up to 10 per cent are expected in the course of the year. The Government of Mexico recognizes that "the problem of internal price levels will have to be dealt with in 1956" and foresees a number of anti-inflationary measures, including, in particular, limiting bank credit by suspending discount facilities and enforcing reserve ratios, sterilizing the proceeds of sales by public investment and mortgage banks, as well as attempting to induce consumers to retain some of the funds in their own hands, by minting silver coins for hoarding purposes.

Budget deficits in India have gone hand in hand with deflationary tendencies in the past two years, and are not expected to have any "untoward effects" in 1955/56. The second five-year plan, which comes into operation in 1956, however, is much more ambitious than the first; higher taxes—with a large excise element which may itself induce a price rise—will not prevent a substantially larger over-all deficit. Raw material prices reached their lowest average in mid-1955 and since September have been rising steadily. It may be signficant that the Government has recently taken a number of precautionary steps, including prohibition of pulse exports, increase of export duties on vegetable oils and investigation of the local commodity situation. Though a greater harvest is expected in 1956, food stocks are being strengthened, and there is a general recognition of the importance of developments in the agricultural sector.

The only countries that have indicated any slackening in 1956 of the rate of growth experienced in the past few years are to be found among those that are seeking greater stability through monetary and fiscal restrictions, and even in these cases no marked rise in unemployment is foreseen. In Australia and New Zealand, indeed, labour shortages are regarded as a more significant problem in 1956. In the Union of South Africa, "the post-war rate of increase in the gross national product is expected to level off, mainly because of the limitation imposed by [a lag in] basic services and shortage of labour".

In China:Taiwan, by contrast, expansion in 1956 is expected to exceed that of earlier years because of the maturing of various investments. In India, also, an increased rate is expected, in line with the greatly enlarged scope of investment under the second five-year plan, which has as one of its principal targets the annual absorption of 2 million workers in other than agricultural employment. On a smaller scale, this applies to Ceylon, too, where a six-year programme of public investment enters its third year in mid-1956. A new five-year development programme which is due to get under way in the Philippines should also raise the rate at which output has been increasing; as in the case of India, this programme has been shaped largely by the need to expand employment opportunities and reverse the upward trend in unemployment. In the Philippines, raising efficiency and reducing costs may prove equally urgent needs as its privileged position in the United States market is gradually lost in line with revisions to the Bell Trade Act of 1946. Iraq is also proceeding with its development programme, emphasizing agriculture and irrigation; and a high rate of investment is expected in the Federation of Rhodesia and Nyasaland, both on private account in industry and mining and on public account in transport and power. Government investment is expected to increase in Egypt, while some expansion is foreseen in Pakistan, where development expenditure has tended to lag behind planned rates because of scarcity of skilled labour and other bottlenecks in resources.

Development programmes whose principal aim is to step up the rate of domestic investment have to be designed, in the first instance, within the framework of the multiple problems of internal balance. However, since investment in primary producing countries usually requires, in varying degrees, the use of capital goods obtainable only from abroad, and since the consequent rise in incomes usually involves some expansion in the demand for other imports, these development programmes inevitably transcend the problems of internal balance, and have also to be fitted into the framework of the external balance. To this extent, therefore, the economic growth of primary producing countries is a function of the demand for their export products and the international movement of capital, both of which, in turn, depend largely on progress and policies in industrial countries. In this sense, the outlook for the primary producing countries as a group is bound up with that of the industrial countries.

Chapter 6

RECENT TRENDS IN THE CENTRALLY PLANNED ECONOMIES

Economic activity expanded significantly in all centrally planned economies in 1955. Higher output per man and, to a lesser extent, higher employment contributed to an increase in industrial production. Agricultural output recovered in most countries, owing both to improved weather conditions and to the more favourable agricultural policies which had been introduced earlier. In several countries agriculture accounted for a larger share of the national income in 1955 than in preceding years. With the notable exception of mainland China and Yugoslavia, the share of investment in national income declined. However, the plans for 1956, the first year of the new five-year plans of development, provide for a marked increase in the investment share in a number of countries.

Foreign trade also rose in 1955, but in contrast to earlier years, trade within the group rose less than trade with the rest of the world. Exports expanded far more rapidly than imports, so that the net import balance of the first half of 1954 was converted to a net export balance in the first half of 1955.

Domestic Economic Developments

Industrial production and employment

Industrial production in all centrally planned economies rose in 1955. In Bulgaria, Poland and the Soviet Union, the rate of increase was approximately the same as in 1954, and in eastern Germany slightly less, but in countries which had experienced a substantial decline in rate of growth in 1954—Czechoslovakia, Hungary and Romania—the rate was accelerated in 1955, as shown in table 91. The sharp fluctuations in the rate of growth in these three countries reflect the fact that their output, more than that of the other centrally planned economies, had been hampered by bottlenecks during the period of rapid expansion before 1953 and by a slackening in the rate of increase in output per man.

The only country of the group where the rate of expansion fell sharply was mainland China: in 1953 industrial production had risen by 32 per cent, in 1954 by 17 per cent and in 1955 by only 7 per cent. This slackening in the rate of growth was largely the result of the rapid absorption of unused capacity, which had existed in appreciable amounts at the beginning of the current plan of development, especially in consumer goods industries; indeed, the decline in the rate of expansion in 1955 was chiefly due to a sharp deceleration in the output of consumer goods. Furthermore,

Table 91. Indices of Industrial Production, by Country
(Preceding year=100)

Country	1954			1955		
	Total	Producer goods	Consumer goods	Total	Producer goods	Consumer goods
Bulgaria	109	116	103	110	...	106[a]
China, mainland	117	120	114	107	114	103
Czechoslovakia	104	104	105	110	109	112
Germany, eastern	110	110	110	108	109[b]	107[b]
Hungary	103	94	109	108	109[b]	107[b]
Poland	111	111	111	111	106[a]	111[a]
Romania	107	104	111	114	116[b]	110[b]
USSR	113	114	113	112	116	110
Yugoslavia	114	...[c]	115	116	...[c]	113

Source: Reports on fulfilment of plans; Federal Statistical Office, *Indeks*, No. 3 (Belgrade), March 1956; Memorandum of the Government of the People's Republic of China to the Economic Commission for Asia and the Far East (ECAFE/L.103; mimeographed); estimates of the United Nations Bureau of Economic Affairs and the secretariat of the Economic Commission for Europe.

[a] Planned.

[b] Estimated.

[c] Indices for capital goods: 1954, 104; 1955, 117; for basic materials: 1954, 114; 1955, 118.

Table 92. Indices of Industrial Production, and of Output of Fuel, Power and Basic Materials
(Preceding year=100)

Item	USSR		Other eastern European countries[a]	
	1954	1955	1954	1955
Industrial production ..	113	112	108	109
Coal and lignite	108[b]	113[b]	104[c]	107[c]
Crude oil	112	119	110	110
Electric power	111	113	109	113
Pig-iron	109	111	108	114
Crude steel	108	109	103	109
Cement	119	118	102	114

Source: Reports on fulfilment of plans; the aggregate index of industrial production was estimated by the United Nations Bureau of Economic Affairs, on the basis of 1938 weights.

[a] Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania.

[b] Including brown coal and lignite on ton-for-ton basis.

[c] Hard coal, brown coal and lignite in hard coal equivalent.

the situation in 1954 and 1955 was influenced by shifts in the allocation of investment, from small-scale industries, where substantial increases in output could be achieved rapidly, to large-scale heavy industries with much longer periods of maturation.

Although the available information on changes in output of producer and consumer goods is incomplete, it is probable that, in contrast to 1954, output of producer goods in 1955 increased faster than that of consumer goods in several centrally planned economies. The most striking change occurred in the Soviet Union, where differences in the rates achieved by these two sectors had been rather small before 1954, whereas in 1955 the output of producer goods expanded at a rate 1.6 times higher than that of consumer goods. Only in Czechoslovakia, and perhaps in Poland, did the output of consumer goods increase more than that of producer goods. These changes in relative rates of growth were partly the effect of the renewed emphasis placed on producer goods industries in 1954, which was reflected in the pattern of output in 1955, and in plans for 1956.

An important change in the pattern of production in 1955 was the fact that the output of fuel, power and basic materials rose more rapidly than total production, indicating a further improvement in the balance between supply and demand of these products (see table 92). For the group of six countries for which an aggregate index of industrial production was computed, the ratio of the output of energy and fuel, as well as of basic materials, to total production increased significantly. In the Soviet Union, where the divergence between changes in total output and those in basic materials and fuel and power had been much smaller, it also narrowed, especially in oil. In contrast to 1954, the improvement in 1955 was not achieved through a greater deceleration in total production than in fuel, power and basic materials, but through a larger increase in their output as compared with total production.

In all countries except Yugoslavia, the rise in industrial production in 1955 was achieved chiefly through a substantial increase in output per man (see table 93). As in the case of industrial production, the rates of increase in output per man, which had declined sharply in 1954 in most countries, in 1955 generally regained or exceeded the rates achieved in 1953.[1] The improvement was due not only to the elimination of some bottlenecks but also to more stringent enforcement of regulations linking wage increases to productivity.

Employment generally rose less than in 1954—in most countries by about 2 per cent. Although available manpower was probably increased by a reduction in the armed forces,[2] the policy of increasing the agricultural labour force, or at least preventing its reduction, continued; in several countries, shortages of labour persisted in certain industries and in building. In Yugoslavia the rise in industrial production was mainly accounted for by the increase in employment which rose at approximately the same rate in 1954 and in 1955. Output per man, which had been unchanged in 1954, rose 3 per cent in 1955.

Agricultural production

There was a marked recovery in agricultural production in most centrally planned economies in 1955, as shown in table 94. Contributing to the rise in production were both improved weather conditions and more favourable policies toward agriculture which had

[1] In the Soviet Union output per man in 1954 increased at a slightly higher rate than in 1953 while in Poland the rate of increase was smaller in 1954 compared with 1953.

[2] Reductions announced for the armed forces of Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the Soviet Union represented from about one per cent to 1.5 per cent of the number of wage and salary earners.

Table 93. Indices of Employment and Output Per Man, by Country
(Preceding year=100)

Country	Employment		Output per man	
	1954	1955	1954	1955
Bulgaria	106	102	102	108
China, mainland[a]	110	...	115	...
Czechoslovakia	102	102	102	108
Germany, eastern	105	100	104	108
Hungary	104	102	99	106
Poland	104	104	107	106
Romania	104	103	103	111
USSR	106	102	107	108
Yugoslavia	114	113	100	103

Source: Reports on fulfilment of plans; Yugoslavia: Federal Statistical Office, *Indeks*, No. 3, March 1956.

[a] State and joint government-private enterprises.

been introduced earlier; these included substantially increased supplies of fertilizers, farm machinery, equipment and building materials, reduced taxation and delivery quotas, higher government prices for farm produce and greater supplies of industrial consumer goods for rural areas.

Increases in agricultural production were chiefly due to much better harvets. The number of cattle rose very little in most countries, but the number of pigs increased significantly in all except the Soviet Union. Grain output was higher in most countries—above the post-war peak and also above the pre-war level of output in countries where it had not been reached before 1955. In the Soviet Union, for which more detailed data are available, the icreases were substantial or most crops, as may be seen from the following indices (1950 = 100).[3] Raw cotton and potatoes were exceptions.

	1954	1955
Grain	105	129
Sunflower seeds	106	207
Sugar-beets	95	147
Raw cotton	118	109
Flax fibre	85	149

Higher yields were largely responsible for the rise in output; acreage increased only slightly in all countries except the Soviet Union and declined in eastern Germany. In the Soviet Union, where the area under crops increased by 12 per cent in 1955, only about one-third of the increment in output was due to this extension, owing to poor weather conditions in the eastern areas where most of the newly cultivated land is located.

[3] *Pravda* (Moscow), 15 February 1956.

National income, investment and consumption

The acceleration in both industrial and agricultural production led to a larger rise in national income in 1955 than in 1954 in most centrally planned economies (see table 95). Only in mainland China and, to a lesser extent, in the Soviet Union did national income rise at a lower rate than during the preceding year. In contrast to developments during most of the post-war decade, the share of agriculture in national product increased in 1955 in several countries, including Czechoslovakia, Yugoslavia and, notably Romania.

In Bulgaria, mainland China, eastern Germany and Romania, investment rose between 8 and 15 per cent in 1955. In the latter two countries investment had declined in 1954, and had not regained the 1953 level in 1955. In Poland investment increased only slightly in both 1954 and 1955—by 2 and 3 per cent, respectively—and in Czechoslovakia it remained at its 1953 level in 1954 and 1955. The only country in which investment declined during both years was Hungary, where it fell by 30 per cent in 1954 and again by 10 per cent in 1955. In the Soviet Union the rate of increase in investment, after rising from 4 per cent in 1953 to 15 per cent in 1954, fell to 6 per cent in 1955.

In most countries the share of investment in national income declined in 1954, and also in several cases in 1955, though to a lesser extent. In the Soviet Union the share of investment in national income, which had declined substantially in 1953, increased in 1954, but

Table 94. Indices of Agricultural Output, by Country

(Preceding year=100)

Country	Total		Grain		Cattle		Pigs	
	1954	1955	1954	1955	1954	1955	1954	1955
Bulgaria	...	...	79	135	...	...	...	...
China, mainland	103	107	102	107	106	...	106	...
Czechoslovakia[a]	98	111	...	118[b]	100[c]	101[c]	118[c]	117[c]
Germany, eastern	...	...	95	106	100[c]	99[c]	102[c]	108[c]
Hungary	94	...	90	114	...	102[d]	...	118[e]
Poland[f]	105	103	98	121	104[g]	103[g]	100[g]	111[g]
Romania[h]	95	121	...	133	...	...	...	...
USSR	...	...	104	122	106[i]	106[i]	108[i]	102[i]
Yugoslavia	86	116	75[j]	130[j]	112[k]	95[k]	...	...

Source: Replies of governments to the United Nations questionnaire of 18 November 1955 on full employment and balance of payments; reports on fulfilment of plans and other official sources; United Nations, *Economic Survey of Europe in 1955* (sales number: 1956.II.E.2).

[a] In 1955, crop output rose 14 per cent and livestock production 8 per cent.

[b] Wheat, rye, barley. The output of all grains in 1955 was 6 per cent above 1953.

[c] Data for end of year.

[d] March.

[e] October.

[f] In 1954, crop output rose 7 per cent and total livestock production 2 per cent, compared with 1953.

[g] June.

[h] The number of cattle was 9 per cent higher and of pigs 55 per cent greater in 1955 than in 1953.

[i] October.

[j] Total crop output.

[k] Total livestock production.

Table 95. Indices of National Income, Investment and Retail Sales, by Country
(At constant prices; preceding year=100)

Country	1954			1955		
	National income	Investment	Retail sales	National income	Investment	Retail sales
Bulgaria	...	104	...	114	108	115
China, mainland	109[a]	114	112	106[a]	115	107
Czechoslovakia	104	100	120	109	100	111
Germany, eastern	109	89	114	111	112	107
Hungary	99	70	121	108	90	105
Poland	107	102	118	108	103	111
Romania	104	...	115	118	109	110
USSR	111	115	118	110	106	105
Yugoslavia[b]	103	112	120	110	113	107

Source: Reports on fulfilment of plans; replies of governments to the United Nations questionnaire of 18 November 1955; United Nations, *Economic Survey of Europe in 1955;* Yugoslavia: Federal Statistical Office, *Indeks,* No. 3, March 1956; Memorandum of the Government of the People's Republic of China to the Economic Commission for Asia and the Far East (ECAFE/L.103).

[a] Aggregate gross output of industry and agriculture.

[b] Indices of national income were furnished by the Government of Yugoslavia to the United Nations Bureau of Economic Affairs; indices of investment are estimates of the Bureau of Economic Affairs. The index of national income in 1954 differs from that given in table 47, possibly because of revisions or differences in coverage.

fell again in 1955. Mainland China and Yugoslavia were the only countries of this group in which investment increased in relation to national income both in 1954 and in 1955.

The effect on consumption of the changes in national income and investment cannot be easily ascertained because of lack of comparable data on changes in inventories, military expenditure and balance of trade. The announced reductions in the armed forces were accompanied in most countries by a rise in planned military outlays in the budgets for 1955, following reductions in 1954. So far as can be judged from data on retail sales, the rise in consumption of marketable goods was less in 1955 than in 1954; except in mainland China, Czechoslovakia and Poland, the rise in consumption in 1955 was also less than in national income.[4] In 1954, by contrast, increases in sales had by far exceeded the rise in national income. Apart from the possible effect of changes in military expenditure, the divergence between changes in national income, investment and retail sales in 1954 and 1955 was due largely to fluctuations in the supply of food in relation to national income. The supply of food during most of 1955 was influenced by the poor harvest of 1954, while the rise in national income in 1955 was in part the result of the increase in agricultural output, which was not fully reflected in consumption before 1956. In addition, the decumulation of stocks which had occurred in 1954 ceased in 1955, either because stocks were already drawn down or because of decisions to replenish government reserves. Finally, imports of consumer goods, which had increased significantly in 1954, slackened in 1955.

In Yugoslavia, investment in 1954 increased more than national income, but retail sales rose at even higher rates. This was probably due to the fact that while the rise in national income was limited by a decline of 25 per cent in agricultural production in 1954, the supply of food during that year showed a marked improvement owing to the 52 per cent rise in agricultural output which had occurred in 1953. The supply situation during most of 1955 was influenced by the poor harvest of 1954, and the share of consumption in national income seems to have declined.

Table 96. Indices of Average Real Wages, by Country
(Preceding year=100)

Country	1954	1955
Bulgaria	105[a]	104[a]
China, mainland[b]	103	105
Czechoslovakia	120[c]	102
Hungary	115	104
Poland	113	106
Romania	108[a]	108
USSR	105	103
Yugoslavia	108	91[d]

Source: Reports on fulfilment of plans and replies of governments to the United Nations questionnaire of 18 November 1955; Yugoslavia: Federal Statistical Office, *Indeks,* No. 3, March 1956; *People's Daily* (Peking).

[a] Money wages; the increase in real wages was greater because of price reductions.

[b] Money wages and salaries in State and joint State-private sectors.

[c] End of 1954 compared with third quarter of 1953.

[d] First half.

[4] In mainland China, however, the share of marketable goods in total consumption is smaller than in most of the other centrally planned economies.

Changes in prices in government and co-operative trade and in money wages were more nearly in line with changes in supply in 1955 than they had been in 1954, and this led to a relaxation of pressure of demand upon supply. Despite this improvement, specific shortages continued to exist; as in the previous years, meat, fats and some durable consumer goods were in short supply in most countries.[5] Prices of consumer goods were reduced in Bulgaria, Czechoslovakia, Poland and Romania, but the reductions were substantially smaller than in 1954.[6] In the Soviet Union, however, for the first time since 1947, there was no general reduction in retail prices in government and co-operative trade;[7] on collective farm markets, food prices during the first nine months of the year were substantially higher than during the same period in 1954, but after the new harvest they declined and were below the level of the fourth quarter of the preceding year. The cost of living in Yugoslavia, which had dropped about 2 per cent in 1954, increased about 13 per cent in 1955.

As a result of these developments, real wages increased much less than in 1954 except in mainland China, as may be seen from table 96. Average real incomes of peasants generally increased more than real wages. In Poland, Romania and the Soviet Union, countries for which quantitative data are available, average peasant incomes rose by 7, 15 and 7 per cent, respectively, in 1955 while real wages rose by 6, 8 and 3 per cent. In Yugoslavia, real wages increased by about 8 per cent in 1954, but in the first half of 1955 they declined by about 10 per cent.

Plans for 1956

The plans for 1956, the first year of new five-year plans in most of the centrally planned economies, represented a departure from the policies of the previous two years. The most significant changes in countries for which data are available were very sharp increases in planned investment, both in absolute terms and in relation to national income (see table 97). While it was planned to increase national income by 8 per cent in Czechoslovakia, 6 per cent in Hungary and probably no more than 9 per cent in eastern Germany, the planned increase in investment was 20, 30 and 40 per cent, respectively. In the Soviet Union, investment was to increase by 15 per cent, that is, by the same percentage as in 1954, but 2.5 times the increase in 1955. Poland, for which final data are not available, planned a considerable increase in the share of investment in national income for 1956. In conformity with this programme, the output of producer goods in most countries was to increase at a substantially higher rate than that of consumer goods. In the Soviet Union, however, the difference between these rates was very small. Industrial employment was to rise by about 2 per cent in most countries, while the planned increase in output per man was 5 to 9 per cent in 1956. Planned increases for 1956 in industrial production were somewhat lower than actual achievements in 1955 in Czechoslovakia, Hungary, the Soviet Union—and perhaps Poland and Romania—and slightly higher in Bulgaria[8] and eastern Germany. In mainland China, however, the plan called for a 22 per cent increase in industrial production, against 7 per cent in 1955.

Incomplete data on the allocation of investment among various sectors indicates that in most countries the largest increases were planned for engineering industries and those producing basic materials, fuel and power. In the Soviet Union, for which data are more complete, the plan provided for an increase in the share of investment allocated to heavy industry, agriculture and transport, and a decline in the share of investment in consumer goods industries, as shown in the following percentages.[9]

	1955 Actual	*1956 Planned*
Heavy industry	57	60
Light industries and food processing	8	5
Agriculture	11	13
Transport and communications	12	14
Other	13	9

[5] However, in several countries retail stocks of unsaleable consumer goods, especially low-quality textiles, increased substantially in 1955, an indication of gains in levels of living and consumer demand for quality, largely a result of improvements after 1953.

[6] In Poland, for instance, the retail price index declined 6 per cent in 1954 and 2 per cent in 1955.

[7] Exceptions were substantial reductions in prices of television sets, cameras and some aluminium kitchen ware.

[8] Planned increase of 12 per cent, compared with actual increase of 10 per cent in 1955.

[9] Distribution of investment in 1955 estimated by the secretariat of the Economic Commission for Europe; 1956 data based on statement of Minister of Finance, reported in *Pravda*, 27 December 1955.

Table 97. Planned Targets for 1956, Czechoslovakia, Eastern Germany, Hungary and the Union of Soviet Socialist Republics
(1955=100)

Item	*Czechoslovakia*	*Eastern Germany*	*Hungary*	*USSR*
National income	108	...	106	...
Investment	120	140	130	115
Industrial production	109	109	106	111
Producer goods	110	111	110	111
Consumer goods	107	105	103[a]	110
Industrial employment	102	...	102	102
Output per man	107	109[b]	105	108
Agriculture	109	...	103	...
Retail sales	105	105	104[c]	...

Source: Pravda, 27 December 1955; *Zycie Gospodarcze* (Warsaw), 11 March 1956; replies of the Governments of Czechoslovakia and Hungary to the United Nations questionnaire of 18 November 1955.

[a] It was planned to increase the production of food by 10 per cent and to reduce the output of light industries by 3.8 per cent.

[b] Government industries only.

[c] Consumption was to increase 5 per cent.

In Yugoslavia, emphasis for 1956 was placed on the elimination of disproportions caused by the high rate of investment during previous years. National income was to increase by 4 per cent, compared with the 10 per cent gain achieved in 1955. At the same time, investment was scheduled to decline and its composition was to be altered in favour of consumer goods industries and agriculture, with preference given to projects with short periods of maturation. Industrial production was to increase at a slower rate than in 1955; among industrial items, output of consumer goods was to rise faster than that of basic materials. The rate of increase in employment was to be substantially less, while productivity was to rise more than in 1955.

Foreign Trade

Trade of the centrally planned economies continued to expand in 1955. However, in contrast to the trend prevailing during most of the post-war decade, trade with the rest of the world expanded more than trade within the group. This is suggested by the data reproduced in table 98; while incomplete, it covers a large proportion of the total trade of the centrally planned economies and may therefore be considered indicative of the general tendency. The shift was particularly significant in the case of Czechoslovakia, eastern Germany and Poland, which together accounted for about 35 per cent of the trade of the centrally planned economies in 1954, but the percentage change was even greater in countries with a smaller volume of trade with the west, such as Hungary and Romania. While the trade of mainland China with the rest of the world also increased at a higher rate than its trade with the other centrally planned economies, it is not known whether a similar shift occurred in the trade of the Soviet Union.

A tendency for trade with the rest of the world to increase had appeared in 1954 in Czechoslovakia and Poland and, most significantly, in the Soviet Union, but in 1955 this trend apparently became general. Trade of the Soviet Union with the rest of the world

Table 98. Indices of Trade Turnover, by Country
(Preceding year=100)

Country	1953	1954	1955		
			Total	With other centrally planned economies	With rest of world
Bulgaria	122	107	...	...	...
China, mainland	136	105	113[a]	111[a]	122[a]
Czechoslovakia	107	105	114	107	134
Germany, eastern	129	123	112	109[b]	120[b]
Hungary	109	104	110	...	158[c]
Poland	101	109	104	93[d]	130[e]
Romania	116	105	112	105	200[f]
USSR[g]	111	109	...	99	...

Source: United Nations, *Economic Survey of Asia and the Far East, 1955* (sales number: 1956.II.F.1), and replies of governments to the United Nations questionnaire of 18 November 1955. Mainland China: *People's Daily*, 30 July and 5 October 1955; *Ta Kung Pao* (Tientsin), 11 February 1955; *Czechoslovak Economic Bulletin*, No. 306, 1956 (Prague); *Prague News Letter* (Prague), 20 August 1955; *Statistische Praxis* (Berlin), October 1955; *Die Wirtschaft* (Berlin), 13 October and 3 November 1955, 9 February 1956; *Hungarian Review*, No. 7, 1955 (Budapest); *For a Lasting Peace, for a People's Democracy* (Bucharest), 10 February 1956; *Trybuna Ludu* (Warsaw), 20 April 1954, 1 February 1956; *Gospodarka Planowa* (Warsaw), January 1956; *Scinteia* (Bucharest), 23 August 1955, 10 February 1956; *Planovoe Khozyaistvo*, No. 1, 1954 (Moscow); *Vneshnyaya Torgovlya*, Nos. 7, 10 and 11, 1955 (Moscow); *Pravda*, 15 August 1955, 22 February 1956.

[a] First eight months of 1955. Trade with the rest of the world represented 20 per cent of the total trade of mainland China in 1955.

[b] Data on east-west trade relate to nine months of 1955 compared with the same period of 1954. The index for trade within the group is derived from the index of eastern Germany's total trade and its trade with the rest of the world; the latter represented 25 per cent of the total trade of eastern Germany in 1954.

[c] Exports only; total exports increased 15 per cent in 1955.

[d] The index for trade within the group is derived from that of total trade and of Poland's trade with the rest of the world, which was equal to 30 per cent of the total in 1954.

[e] Index of trade with western Europe, 122; with non-European countries, 148.

[f] Trade with western Europe only.

[g] Based on the following data on trade turnover at current prices (in billions of roubles): total trade: 1952, 20.8; 1953, 23; 1954, 25; trade with the centrally planned economies: 1952, 16.6; 1953, 19.0; 1954, 19.6; 1955, 19.5.

had increased much more rapidly than its trade with other centrally planned economies in 1954, the respective increases being 35 and 3 per cent. In 1955, its trade with the other countries of the group declined slightly.[10]

During the first half of 1955, the trade of the centrally planned economies with the rest of the world increased by 15 per cent, compared with the same period in 1954 (see table 99), but probably even then did not represent more than about 30 per cent of the total trade of the centrally planned economies.

Exports of the centrally planned economies increased 30 per cent during the first half of 1955 compared with the corresponding period of 1954, while imports increased only 3 per cent. As a result, a net import balance of about $130 million in the first half of 1954 was replaced by a net export balance of about $60 million. This change was accounted for in large part by a reduction in the net imports of the Soviet Union, the aggregate trade balance of the other countries of the group having changed only slightly.

In 1955, western European countries continued to account for more than half the trade of the centrally planned economies with the rest of the world. Trade with these countries increased during the first half of 1955 by 17 per cent, and with Finland by just over 10 per cent. The deficit of about $44 million with western Europe in the first half of 1954 was replaced by a surplus of about $10 million during the corresponding period of 1955. The Soviet Union's imports from OEEC countries declined, so that there was a marked increase in its net export balance with this area, mainly with the United Kingdom.

[10] Trade with Yugoslavia was stimulated by credits received from some of the countries of eastern Europe and was many times its very low 1954 volume. The Soviet Union extended a ten-year credit to Yugoslavia, consisting of $54 million and a gold or foreign currency loan of $30 million; the credit, bearing 2 per cent interest, was repayable in kind. The trade agreement for 1956 was set at double the 1955 value of trade.

Table 99. Trade of Centrally Planned Economies with Rest of World[a]

(Millions of dollars; f.o.b.)

Reporting area and period[b]	USSR		Other eastern European countries		Mainland China		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total:								
1954	204.5	347.5	349.6	365.5	161.8	135.0	715.9	848.0
1955	230.6	235.3	481.1	498.2	221.2	137.8	932.9	871.3
Canada and United States:								
1954	5.9	2.9	15.1	1.0	1.5	—	22.5	3.9
1955	6.3	1.7	19.2	5.6	2.0	1.0	27.5	8.3
Latin America:								
1954	7.0	55.1	33.2	34.6	1.1	4.3	41.3	94.0
1955	14.3	32.4	42.0	48.4	1.0	1.7	57.3	82.5
Middle East:								
1954	7.7	12.6	29.4	18.6	5.6	10.3	42.7	41.5
1955	17.7	17.0	24.2	26.4	2.4	8.5	44.3	51.9
Western Europe:[c]								
1954	146.8	140.1	209.9	264.7	40.6	36.3	397.3	441.1
1955	145.9	96.6	295.4	337.3	55.7	52.6	497.0	486.5
Finland:								
1954	33.5	74.3	39.1	17.7	1.7	1.2	74.3	93.2
1955	38.1	65.6	51.0	20.3	1.9	3.8	91.0	89.7
Asia and the Far East:								
1954	2.1	7.7	10.1	12.4	101.9	81.8	114.1	101.9
1955	3.4	3.4	28.9	26.2	140.8	66.3	173.1	95.9
Other areas:[d]								
1954	1.5	54.8	12.8	16.5	9.4	1.1	23.7	72.4
1955	4.9	18.6	20.4	34.0	17.4	3.9	42.7	56.5

Source: United Nations, *Monthly Bulletin of Statistics*, February 1956; *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development.

[a] Data as recorded by the trading partners of the centrally planned economies.

[b] First half of each year.

[c] Metropolitan countries in the Organisation for European Economic Co-operation.

[d] Residual figures from total world trade with eastern Europe and mainland China.

The trade of the centrally planned economies with North America increased by one-third in the first half of 1955, from the very low level in the first half of 1954. Despite the increase in 1955, trade with North America still accounted for only about 2 per cent of all east-west trade.

Trade with the world, excluding Europe and North America, in 1954 and 1955 accounted for one-third of total east-west trade, and it increased by about 10 per cent from the first half of 1954 to the first half of 1955.[11] This rise was due entirely to greater exports, which increased by about 40 per cent, while the value of imports dropped by about 10 per cent, the result being a sharp increase in the export balance of the centrally planned economies with this part of the world. Trade with Asia and the Far East rose by one-quarter, trade with Burma, India, Indonesia and Japan being prominent in the increase. Trade with the Middle East also rose by 14 per cent, reflecting in large part the expansion of trade with Egypt. In trade with Latin America, which had grown considerably in 1954, as well as in trade with dependent territories and the oversea sterling area, total turnover did not rise during the first half of 1955 but in each case the exports of the centrally planned economies increased while their imports declined.

The growing importance of mainland China's trade was responsible for much of the increase in the trade of the centrally planned economies with Asia and the Far East. Thus, the increase in trade with Japan largely reflected the expansion of Chinese exports.[12] The trade of eastern European countries with Asia and the Far East, although much smaller than that of mainland China, also expanded substantially in 1955. Hungary and Poland, for example, quadrupled their exports to Indonesia, and several agreements concluded between eastern European and Asian countries indicated an intention to expand this trade in the near future.

Imports of centrally planned economies from the Middle East in 1955 were concentrated mainly on Egyptian cotton; these absorbed between one-fifth and one-sixth of Egypt's total exports of cotton in the course of the year. In exchange Egypt received capital goods and armaments.

The fragmentary information available on the composition of trade among the centrally planned economies does not suggest any marked change in 1955 although the share of capital goods may possibly have declined somewhat since 1954.[13] Certain significant

[11] Trade with primary producing areas increased less than that with western Europe and North America, despite a perceptible shift in the trade of several centrally planned economies towards the former areas. This was especially significant in the trade of eastern Germany. In 1950 only 7 per cent of its total trade with the west was with under-developed areas, but the share of this trade rose to about 20 per cent in 1954 and to more than 25 per cent in 1955. Similar tendencies were apparent in the trade of Czechoslovakia and Poland.

[12] During the first three quarters of 1955, mainland China's exports to Japan were almost twice as large as during the corresponding period of 1954.

[13] A certain divergency in trends appears in the 1955 foreign trade plans of eastern Germany and Poland. For the former, the largest increases were scheduled to occur in exports of rolling mill and textile manufacturing machinery, which were to rise by over 50 per cent (*Statistische Praxis*, June 1955). Polish planned exports, however, envisaged a 19 per cent increase in manufactured consumer goods during 1955 and only a 3.2 per cent increase in sales of machinery and transport equipment (*Polish Foreign Trade*, Nos. 28 and 29, 1955 (Warsaw), and *Vneshnyaya Torgovlya*, No. 7, 1955). The share of machinery and industrial equipment in total imports was to drop by 3 per cent and the share of industrial raw materials was to be raised correspondingly.

Table 100. Composition of Trade

(Millions of dollars)

Item	1954 First nine months			1955 First nine months		
	USSR	Other eastern European countries	Mainland China	USSR	Other eastern European countries	Mainland China
Total exports[a] of reporting countries[b]	284.5	397.9	49.0	249.2	491.6	72.9
Foodstuffs	58.3	121.5	—	33.8	151.0	0.4
Raw materials	46.2	113.6	11.7	42.2	131.8	15.5
Machinery and transport equipment	94.5	45.8	4.8	104.6	42.0	7.2
Other manufactured goods	82.4	113.7	32.5	68.1	163.4	49.7
Total imports[a] of reporting countries[b]	287.9	436.4	88.8	347.2	577.3	114.6
Foodstuffs	69.0	101.5	30.7	57.9	125.9	35.4
Raw materials	164.2	174.9	46.4	209.4	219.3	58.7
Machinery and transport equipment	5.8	35.3	—	9.3	50.5	0.3
Other manufactured goods	49.0	122.3	11.7	70.5	180.6	20.2

Source: United Nations, *Commodity Trade Statistics*. Data exclude re-exports of the reporting areas.

[a] Total trade includes additional commodities and trade with reporting countries not covered in the individual categories.

[b] Countries in the Organisation for European Economic Co-operation, except Switzerland; Canada, Finland, Malaya, United States; in addition, Japan, Nigeria and Yugoslavia in 1954, El Salvador in 1955 and January to September 1954, and Netherlands Antilles in 1955. The share of these countries in the total trade of the centrally planned economies is estimated at about 12 per cent in terms of value, constituting 70 per cent of total east-west trade in 1954.

changes in the composition of their exports to North America, western Europe and Finland, and to the one or two other countries covered by available data, are shown in table 100.[14] The share of manufactured goods in the exports of the centrally planned economies increased from 26 per cent of the total to 32 per cent, that of food declined from 26 to 21 per cent, while the share of raw materials changed only slightly during the first nine months of 1955 as compared with the same period in 1954. The change in the composition of their imports from the countries listed in the table was generally insignificant, but the share of machinery and equipment in their imports declined slightly.

[14] The reporting countries covered in table 100 represented about 70 per cent of the total value of east-west trade in 1954.

The tendency to expand exports of manufactures in exchange for imports of food and raw materials was much more pronounced in the trade of the centrally planned economies with under-developed areas. Although lack of data makes it difficult to ascertain recent changes in the composition of trade with these countries and their effect on total east-west trade, it is known that in addition to importing cotton from the Middle East in exchange for capital goods and military equipment, as already indicated, they made large purchases of sugar from Central America and of rubber, jute and rice from Asia and the Far East in 1955, for which they delivered, in exchange, significant numbers of complete industrial plants, other equipment and industrial semi-manufactures. The trade agreements concluded for 1956 suggested increased exchanges of capital goods for primary commodities in their trade with under-developed areas.

Long-term Plans of Economic Development

In embarking on new five-year plans of economic development, the countries of eastern Europe have sought to secure a greater co-ordination and division of labour among themselves than has prevailed in the past. With this in view, the long-term plans of development, which previously were not synchronized in time, have been arranged to begin simultaneously in 1956.[15] Apart from general statements of intent, little is known about the extent of integration aimed at in the new plans, although in some countries programmes of specialization in particular fields have been announced. Moreover, the Chairman of the State Planning Board of the Soviet Union has stated that that country's sixth five-year plan was prepared taking into account the corresponding plans of other eastern European countries. Thus far only Romania and the Union of Soviet Socialist Republics have announced comprehensive details of their plans for 1956-1960; these are briefly reviewed below, as is that of mainland China for 1953 to 1957. Details of the latter were announced in 1955.

Sixth five-year plan of the union of soviet socialist republics

The five-year development plan of the Soviet Union covering the period from 1956 to 1960 follows in many respects the pattern adopted for the two preceding ones. It provides, as did previous plans, for higher rates of expansion in heavy industries than in consumer goods industries, and for a more rapid advance in investment than in national income. The greater part of investment is once again to be allocated to industry, particularly to heavy industry. The most important difference from preceding plans is in the exceptionally high targets set for agriculture. It is also clear that a larger proportion of the rise in production than in the past is to be obtained by increases in productivity, and a smaller proportion through growth in employment. This involves greater reliance than heretofore on intensive mechanization and automation, with emphasis on specialization and mass production methods.

[15] Except in Bulgaria and mainland China, which started their plans earlier.

Table 101. Union of Soviet Socialist Republics: Fifth and Sixth Five-Year Plans

Item	1955		1960
	Planned (1950=100)	Actual (1950=100)	Planned (1955=100)
Agricultural production[a]	140 to 150	120 to 125	170
Industrial production ..	170	185	165
Producer goods	180	191	170
Consumer goods	165	176	160
Total employment	115	122	115
Employment in industry[b]	113	129	110
Output per man in industry	150	144	150
National income	160	168	160
Real wages	135	139	130
Real income of peasants	140	150	140
Retail sales[c]	170	190	150

Source: *Pravda* (Moscow), 15, 20 and 23 February 1956.

[a] Data for 1955 are estimates based on planned and actual output of specific agricultural items.

[b] Derived from data on production and output per man.

[c] In government and co-operative trade.

Targets for industry

Planned rates of expansion in industry continue very high, though they are substantially lower than those achieved during the past five years. Total output of industry is planned to rise at an average rate of 10.5 per cent per annum during the next five years, compared with a rate of 13 per cent recorded from 1950 to 1955. The reduction in the rate of increase in industrial output is reflected in the production both of consumer goods and of producer goods, as may be seen in table 101. It will be noted that the spread between the rates of increase for these two sectors of production is somewhat smaller than in the preceding plan. Among producer goods industries, the largest increases in production are planned for engineering. The importance attached to agriculture is reflected in a considerable acceleration planned in the production of agricultural machinery and mineral fertilizers. Output of basic materials such as iron and steel is to increase much more slowly than in the past, and much is made of the need for greater economies in use. Expanded use of oil, gas and hydroelectric power is expected to reduce substantially the proportional contribution of coal to total power consumption; this, together with the increase planned in coal output, is intended to eliminate the bottlenecks in fuel which had limited the growth of industry in earlier years (see table 102).

Among consumer goods, the increases planned in output of meat, butter and sugar are substantially greater than for consumer goods as a whole, and also greatly exceed the actual achievements of 1951-1955, as is called for by the raising of agricultural targets. Production of textiles and clothing is to increase less, on the whole, than the average for consumer goods. On the other hand, output of consumer durables is to rise several fold from presently low levels.

Output per man in industry is planned to rise by 50 per cent during the next five years[16]—the same target

[16] In view of the fact that daily working hours are to be reduced from eight to seven, and in certain industries to six, the planned increase in output per man-hour is at least 70 per cent from 1955 to 1960.

Table 102. Union of Soviet Socialist Republics: Targets for Selected Producer and Consumer Goods

(Millions of indicated unit, unless otherwise stated)

Item and unit	*Planned output 1960*	*Index, 1960 (1955=100)*
Producer goods:		
Steel (tons)	68.3	151
Timber (cubic metres)	264.0	134
Cement (tons)	55.0	245
Coal (tons)	593.0	152
Crude petroleum (tons)	135.0	191
Gas (billions of cubic metres)	40.0	388
Electricity (billions of kilowatt-hours)	320.0	188
Mineral fertilizers (tons)	19.6	204
Caustic soda (tons)	1.0	177
Steam and gas turbines (kilowatts)	10.5	258
Hydraulic turbines (kilowatts)	2.6	173
Metal-cutting lathes (thousands of units)	200.0	190
Tractors (thousands of units)	322.0	197
Grain combines (thousands of units)	140.0	292
Diesel locomotives (units)	1,630.0	1,200
Freight cars (thousands of units)	52.0	151
Consumer goods:		
Cotton fabrics (metres)	7,270.0	123
Woollen fabrics (metres)	363.0	145
Silk fabrics (metres)	1,074.0	204
Shoes (pairs)	455.0	152
Radios and television sets (units)	10.2	255
Refrigerators (household; thousands of units)	635.0	419
Washing machines (thousands of units)	528.0	608
Bicycles (thousands of units)	4,230.0	147
Sugar (refined; thousands of tons)	6,530.0	191
Meat (industrially processed; thousands of tons)	3,950.0	178
Butter and other milk products (in terms of milk; tons)	25.0	185
Vegetable oil (thousands of tons)	1,846.0	165
Canned food (standard cans)	5,580.0	178

Source: *Pravda*, 26 February 1956.

set, though not actually realized, in the previous plan. This would imply that about four-fifths of the rise in industrial production is to be achieved through higher productivity, and that industrial employment will increase by only 10 per cent, compared with 29 per cent from 1950 to 1955.

Since the total number of wage and salary earners is to increase by about 15 per cent, it is clear that, in contrast with the preceding period, there will be some diversion of labour to non-industrial occupations. The increment in the non-agricultural labour force is to come mainly from the natural growth of urban populations, and recruitment of such labour from among the rural population is to be abandoned except for the creation of new industrial centres.[17]

One of the most significant features of the new plan is the shift in emphasis from expansion of productive capacity through construction of new plants towards raising efficiency in existing plants by improved administration, greater specialization and modernization of equipment and production methods. This shift is reflected in the fact that improvements to be introduced in existing plants are to account for 35 to 65 per cent of the total increase in output, depending on the industry. The rapid expansion of capacity in earlier years was not always accompanied by efficient utilization, leaving substantial opportunities to raise output with little or no additional equipment. At the same time the extremely wide differences in productivity between establishments engaged in the same industrial process are to be reduced through replacement of obsolete equipment.[18]

[17] *Pravda*, 15 February 1956. A certain shift from agricultural to non-agricultural occupations is implied by the fact that the planned rise in employment by far exceeds the rate of population growth.

[18] It was stated by N. A. Bulganin, for example, that most of the casting machinery in use in the engineering industry was only one-third to one-fourth as productive as modern semi-automatic machinery (*Pravda*, 22 February 1956). At the time of adoption of the sixth five-year plan, strong condemnation was voiced of the widespread view that obsolescence does not occur in a non-competitive economy; this view was considered to have held back technological progress in some areas.

Table 103. Union of Soviet Socialist Republics: Indices of Agricultural Output

Commodity	1955 Actual production (1950=100)	1960 Planned production (1955=100)
Eggs	154	254
Meat	130	200
Milk	119	195
Potatoes	...	185
Sugar-beets	147	154
Cotton (raw)	109[a]	156
Flax fibre	149	135
Wool (raw)	142	185

Source: *Pravda*, 15 and 26 February 1956.
[a] The figure for 1954 was 118.

The promotion of greater productivity will also involve greater specialization and standardization. Efforts are to be made to limit the number of small plants engaged in highly diversified production and to encourage concentration of output in specialized plants. Plans are also laid for a gradual transition from mechanization of individual operations to full-scale automation of entire factories. In line with these plans, the amount of electric power used per industrial worker is scheduled to increase by 60 per cent during the next five years.

Plans for agriculture

The 70 per cent increase in agricultural output planned for the next five years may be compared with the 40 to 50 per cent increase projected in the preceding plan and the considerably smaller increase actually achieved (table 101). The target set for grain output—180 million tons in 1960—is considered necessary to satisfy domestic consumption, establish adequate stocks and expand exports.[19] Planned increases in the output of other agricultural products are generally much higher than those achieved during the preceding plan, as indicated in table 103.

The rise in output is to be obtained by expansion of the area under crops and by a rise in yield. The plan does not contain quantitative data on expansion of the cultivated area but calls for use of previously fallow and virgin land "not requiring great capital investment and which can produce good yields" in the eastern territories. The area under maize, which increased from 4.4 million hectares in 1954 to 18 million in 1955, is planned to reach 28 million in 1960.

Mechanization of agriculture is to be accelerated. After allowing for depreciation, the stock of tractors is evidently scheduled to be doubled and grain combines more than doubled in the course of the next five years.[20] It is expected that extended use of machinery will shorten the time required for harvesting and reduce the substantial losses caused by delayed or premature harvesting.

No details have been announced for livestock. Marked increases in output of meat, milk and raw wool

[19] Although not explicitly stated, the target for 1956 was probably set in terms of actual yield, while the goal of 175 million to 188 million tons set for 1955 in the preceding five-year plan represented biological yield. The plan for 1960 does not state the anticipated rate of increase for grain output from 1955 to 1960, and lack of data on actual output in 1955 makes it difficult to estimate the implied rate of increase. The absolute figures on grain output contained in the reports on fulfilment of plans in 1950, 1951 and 1952 (131 million tons in 1952, for example), expressed in terms of biological yields, do not coincide with the index for 1950-1955 published in *Pravda*, 15 February 1956, which presumably refers to barn yield.

[20] Deliveries of tractors from 1956 to 1960 are to total 1.65 million compared with a stock of 1.4 million in mid-1955; the corresponding figures for grain combines are 560,000 and 350,000, respectively.

Table 104. Union of Soviet Socialist Republics: Government Investment during Fifth and Sixth Five-Year Plans

Sector	Actual (1951-1955)		Planned (1956-1960)		
	Billions of roubles[a]	Per cent of total	Billions of roubles[a]	Per cent of total	Index (1951-1955=100)
Industry	353	59.4	600	60.6	170
Heavy industry	...	...	400[b]	41.6[b]	...
Light industry and food industries	34	5.7	59	6.0	175
Agriculture	64	10.7	120	12.1	188
Cultural and social services[c]	120	20.2	200	20.2	167
Other sectors	57	9.6	70	7.1	119
TOTAL	594	100.0	990	100.0	167

Source: *Pravda*, 22, 23 and 24 February 1956.

[a] In prices of 1 July 1955.

[b] It is not clear whether this represents all investment in heavy industry. According to a report of N. A. Bulganin, in *Pravda*, 22 February 1956, "The major part of this capital investment is scheduled for the construction of electric plants, enterprises in ferrous and non-ferrous metallurgy, and the chemical, oil and coal, building materials and forest industries. It is planned to invest more than 400 billion roubles in these branches." In other statements, this sum was referred to as "investment in heavy industry". It is possible that the difference between total investment in industry and the outlays listed in the table under the headings heavy industry, light industry and food industries, amounting to 141 billion roubles, is allocated, at least in part, to investment in engineering, which was not mentioned in the statements.

[c] Housing, public utilities, schools, universities, scientific institutions, hospitals and other health services, theatres, kindergartens and other institutions.

are to be achieved largely through a rise in productivity. Special attention is to be devoted to breeding of hogs, which is expected to make the main contribution to the sharp increase planned for meat; pork is to constitute about half of all meat produced by the end of the period. This reflects the experience of the past few years, when encouragement given to hog-breeding, together with a rise in the supply of fodder, produced substantial results.

National income and investment

The increases projected for industrial production, agriculture and other sectors of the economy involve a 60 per cent growth in national income from 1955 to 1960. This rate of increase is the same as that contemplated in the previous five-year plan, but lower than the actual increase of 68 per cent recorded from 1950 to 1955. A significant reversal of the trend of preceding years is implied in the expected rise in the share of agriculture in the national income, since agriculture is scheduled to expand faster than the national product as a whole.

The new plan provides for government investment during 1956-1960 at a rate two-thirds above the level of the preceding five years in real terms, as shown in the following data, in billions of roubles at prices of 1 July 1955:

	Government investment during period
1946-1950	311
1951-1955	594
1956-1960	990

Source: *Pravda*, 22 February 1956.

Changes in the distribution of investment among the various sectors of the economy, though not very considerable, indicate some shift towards agriculture and industries producing consumer goods. As in the preceding plan, the largest share of government investment is again allocated to industry and, within the industrial sector, to heavy industry. Investment in consumer goods industries is scheduled to increase more than for industry as a whole, though its share in total investment increases only slightly. Investment in agriculture is to be almost twice as high as in the preceding five years, amounting to about 12 per cent of total government investment, as shown in table 104.[21]

Two-thirds of investment in industry is allocated to fuel, power and basic raw materials. The share of investment for cultural and social purposes remains the same as in the previous period, but the rate of housing construction is to be nearly doubled. Investment in transport and communications is planned to increase by 70 per cent.

Although the five-year plan does not contain data on the rate of increase anticipated in investment from 1955 to 1960, the share in national income is apparently scheduled to rise during this period.[22] This would be in contrast with the developments of the previous five years, when national income rose by

[21] Collective farms are expected to invest 100 billion roubles during the five-year period. This would raise the share of agriculture in total investment to about 20 per cent.

[22] An estimate based on the planned aggregate investment during the five-year period, the planned investment for 1956 and the actual investment in 1955 suggests a 70 per cent increase from 1955 to 1960, compared with a 60 per cent increase in national income.

68 per cent and government investment by about 57 per cent.

The emphasis placed on more rapid development of the eastern territories is reflected in the allocation of one-half of total investment to them. While total investment during 1956-1960 is to be two-thirds higher than in 1951-1955, investment in western Siberia is to increase 2.5 times, in eastern Siberia 2.8 times and in Kazakstan 2.7 times.

Consumption and real wages

The only indication of the planned increase in consumption of goods is the target set for retail sales in government and co-operative trade, which is to increase by 50 per cent from 1955 to 1960. This could be considered as roughly indicative of the expected change in the consumption of wage and salary earners, though not of members of collective farms.[23]

Planned increases in real wages and in real peasant income, including both money income and income in kind, seem to indicate that total personal income and consumption are expected to rise by about 50 per cent by 1960. Real wages and salaries are to increase in the next five years by about 30 per cent, which, together with a growth of 15 per cent in total employment, implies an advance in the total real wage bill of about 50 per cent. Average peasant incomes are to increase about 40 per cent in real terms. Since the number of working peasants is likely to increase by more than 5 per cent, the general order of increase in peasant incomes will also be about 50 per cent.

Although the average real income of peasants is to rise faster than that of wage and salary earners, the hourly wages of workers are expected to increase much more because of gradual reduction in hours of work from eight to seven, or less, in the course of the five-year period, without loss of pay.[24] Shortening of the work week will limit the extent to which the prices of consumer goods can be reduced. This represents a significant departure from the policy pursued heretofore. Previously, increases in productivity were translated into higher real income through price reductions; during the next five years part of the rise in the level of living is to take the form of an increase in leisure.

[23] The data on retail trade include a certain amount of investment goods, such as tools and building materials, sold mostly to peasants, and do not reflect changes in consumption of their own produce by peasants. Retail sales do not include, moreover, sales on collective farm markets, which, in 1954, represented about 10 per cent of the total.

[24] Beginning in 1956 working hours are to be reduced to six hours on Saturdays and the day preceding an official holiday. The six-hour working day is to be re-established for youths between sixteen and eighteen years of age. Beginning in 1957, a seven-hour working day is to be introduced in all industries, except in underground work in mining, where it will be six hours. In those industries in which it is found convenient, a five-day forty-hour work week is to be introduced (*Pravda*, 26 February 1956).

SECOND FIVE-YEAR PLAN OF ROMANIA

The new five-year plan for Romania is similar in many respects to the first plan, and differs from it more in the rates of growth projected than in terms of structural change. As indicated in table 105, the rate of increase in industrial output is to be appreciably less from 1955 to 1960 than in the preceding five years.

The targets set for industry indicate an effort to reduce the gap which had developed during the past few years between output of fuel and basic materials and that of the engineering industries. Thus, while the target rates of increase set for engineering are much lower than those recorded from 1950 to 1955, those for coal and steel are much higher. Planned increases in the production of textiles and shoes are substantially above those recorded from 1950 to 1955. As in the Soviet Union, 75 to 80 per cent of the increase in production is to be achieved through a rise in output per man of 45 to 50 per cent over the five-year period. Industrial employment is planned to increase by about 10 per cent.

Available information on specific agricultural targets suggests a relatively small expansion; grain output is to increase 25 per cent, the number of cattle 4 per cent and hogs 7 per cent. The main effort in agriculture is to be concentrated on securing a substantial increase in marketable surpluses, especially through acceleration of production on collective farms and extension of the collectivized sector of the economy.

National income is planned to increase 50 per cent from 1955 to 1960. Government investment is to increase by 65 per cent, the share of agriculture and residential construction rising, while the share of consumer goods industries and building industries de-

Table 105. Romania: First and Second Five-Year Plans[a]

Item	1955		1960
	Planned (1950=100)	Actual (1950=100)	Planned (1955=100)
Industrial production	244	221	160 to 165
Producer goods	...	...	170 to 175
Consumer goods	...	...	150 to 155
Employment in industry	140	150	110
Output per man in industry	175	148	145 to 150
National income	...	190	150
Real wages	...	128	130
Retail sales	217	200	160
Investment in fixed capital	...	...	165

Source: Based on reports to the Second Congress of the Romanian Workers' Party (Bucharest, 1955) and on decisions of the Congress regarding the five-year plan of development of the national economy in 1956-1960.

[a] Several of the indices reproduced in this table were given as approximations.

clines (table 106). While no data were announced for planned increases in consumption, retail sales in government and co-operative trade are to expand by 60 per cent.[25]

First five-year plan of mainland China[26]

The central theme of the first five-year plan of development of mainland China is concentration on investment in large-scale heavy industry, with the intention of providing a foundation for future rapid development. About 58 per cent of total fixed investment, from 1953 on, was to be allocated to industry, and of this about 89 per cent was to be devoted to the development of heavy industry. Investment in industry was to be accompanied by rapid development of transport, which was to absorb about 19 per cent of all expenditure on fixed investment. In contrast, agriculture was allocated only about 8 per cent of the total. It was decided to postpone any extensive mechanization of agriculture until completion of large-scale tractor factories during the period of the second five-year plan.

[25] Government and co-operative trade accounted in 1955 for about 80 per cent of total trade turnover, 90 per cent of trade in manufactured goods and 75 per cent of trade in food.

[26] Though the first five-year plan covers the period from 1953 to 1957, the full text of the plan was not published until 30 July 1955. Previously, apart from a general statement of aims and policies, the Government had announced only annual production targets. Agricultural plans were subsequently amplified and revised in the "twelve-year programme", published in January 1956, in which production targets were raised and the time for completing the organization of collective farms shortened (*First Five-Year Plan for Development of the National Economy in the People's Republic of China* (Peking, 1955; in Chinese); and *Draft Twelve-Year (1956-1967) National Programme for Agriculture* (Peking, 1956; in Chinese)).

Table 106. Romania: Government Investment during First and Second Five-Year Plans
(Percentages of total)

Sector	1951-1955		1956-1960
	Planned	Actual	Planned
Agriculture and forestry	10.0	10.4	12.5
Industry	51.4	58.0	56.0
Producer goods	42.1	50.6	50.0
Consumer goods	9.3	7.4	6.0
Construction and building industries	2.0	4.6	2.5
Transport and communications	16.2	11.2	11.5
Trade	2.2	2.5	2.5
Housing	3.2	3.8	5.5
Social, cultural and other services[a]	15.0	9.5	9.5

Source: Based on reports to the Second Congress of the Romanian Workers' Party and on decisions of the Congress regarding the five-year plan.

[a] Including educational, cultural, health and scientific institutes; geological surveys, state administration and other services.

Table 107. Mainland China: Planned Changes in Structure
(Percentage of totals)

Item	1952	1957
Production:		
Industrial	32.7	42.9
Producer goods	13.0	19.5
Consumer goods	19.7	23.4
Handicraft[a]	8.8	9.4
Agricultural[b]	58.5	47.7
Industry:		
Government enterprises[c]	56.7	65.7
Joint government-private enterprises	5.0	22.1
Private enterprises	38.3	12.2
Retail trade:		
Government and co-operative	34.1	54.9
Joint government-private enterprises	0.3	24.0
Private enterprises	65.6	21.1
Agriculture:[d]		
Producers' co-operatives	0.1	57.0[e]
Collective farms	—	33.3[e]

Source: *First Five-Year Plan for Development of the National Economy in the People's Republic of China; Draft Twelve-Year (1956-1967) National Programme for Agriculture.*

[a] Output of handicraft co-operatives and individual handicraftsmen.

[b] Including output of rural handicraftsmen.

[c] Including co-operative sector.

[d] Figures are in relation to total peasant households.

[e] Targets for 1956; according to the plan, complete collectivization is to be achieved by 1958.

Table 108. Mainland China: Planned and Actual Rates of Growth in Certain Sectors
(1952=100)

Item	1955		1957
	Planned[a]	Actual	Planned
Agricultural production	113	113	123
Food crops	110	111	118
Raw cotton	114	115	125
Industrial production	151	165	198
Producer goods	163	187	227
Consumer goods	142	150	180
Employment in industry	112	...[b]	120
National income[c]	128	131	151
Average earnings[d]	119	114	133
Retail turnover	142	152	180

Source: *First Five-Year Plan for Development of the National Economy in the People's Republic of China;* Memorandum of the Government of the People's Republic of China to the Economic Commission for Asia and the Far East (ECAFE/L.103; mimeographed).

[a] Calculated on the basis of the planned average annual rate of increase between 1953 and 1957.

[b] The rise in industrial employment in 1953 and 1954 was in line with that planned.

[c] Value of production in agriculture and in industry.

[d] Money wages and salaries in State and joint State-private sectors; social insurance benefits not included.

The pattern of investment of the first five-year plan was designed to bring about by 1957 a marked change in the composition of total production as well as in the structure of the economy. The process of transforming co-operative farming into collective farming[27] was to be accelerated and the socialized sector in industry and trade was to be extended (see table 107).

As indicated in table 108, industrial production has been expanding at a rate higher than that provided in the plan. In anticipation that a considerable portion of investment undertaken during the previous three years will mature in 1956, the Government decided to revise upwards the planned rate of increase in industrial production for 1956 from 15 per cent to 22 per cent, so as to advance by one year the date of completion of the first five-year plan.[28]

[27] For the difference between co-operative and collective farming, see chapter 3.

[28] The planned rates of increase in output of food crops and raw cotton for 1956 were also revised upwards.

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