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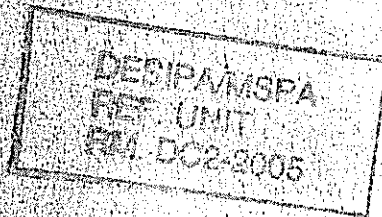
NATIONS

DEPARTMENT OF ECONOMIC AFFAIRS

# ECONOMIC REPORT

SALIENT FEATURES OF  
THE WORLD ECONOMIC SITUATION

1945-47



Success

January 1948

New York

## P R E F A C E

This economic report is the first in a planned series of such reports. It is designed to meet the need which has been recognized by the General Assembly and the Economic and Social Council for an appraisal of world economic conditions and trends to be made from time to time as a prerequisite for recommendations as to concerted national or international action in the economic field. It is hoped that it will also serve students of economics and the general public throughout the world.

Although the Department of Economic Affairs of the United Nations is responsible for the report as a whole, generous assistance was received from the staffs of the specialized agencies, and certain sections of the report have been prepared by them. Within the Department of Economic Affairs of the United Nations, the Division of Economic Stability and Development had the major responsibility for organizing the report and for its completion. In this task it received the full assistance of all other divisions of the Department and the secretariats of the Economic Commission for Europe and the Economic Commission for Asia and the Far East.

The reviews, "The World Food Situation" and "World Man-power Problems", in part III of the report have been contributed by the secretariats of the Food and Agriculture Organization and the International Labour Organisation, respectively. Brief notes in which these two specialized agencies, the International Bank for Reconstruction and Development and the International Civil Aviation Organization survey their economic activities are presented in part IV, which also includes a summary of the functions and activities of the central organs of the United Nations in the economic field and a note on the International Monetary Fund, based on data made available by the staff of that agency.

This report thus illustrates the effective co-ordination existing among the staffs of the United Nations and the secretariats of the specialized agencies.

The form and content of the report are experimental and will change with experience and changing needs; in making such changes weight will be given to the comments and criticisms which it is hoped will be freely made.

David OWEN  
*Assistant Secretary-General  
in charge of Economic Affairs*

Lake Success  
January 1948

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## EDITORIAL NOTE

This economic report consists of three main parts. It is not a continuous narrative.

Part I, "World Economic Highlights", covers the entire world picture in broad terms, seeking to describe those trends and relationships which today are of causal importance. In doing this it draws freely upon the material in the following parts, but it does not attempt to deal fully with conditions in given areas or with given problems.

Parts II and III may be regarded as consisting of several monographs, grouped according to subject matter, supplementing the general analysis in part I. Part II deals with regional development in the economic field and part III with outstanding world economic problems. Here also certain restatements of basic facts or conclusions are inevitable. In economic affairs neither single problems nor regions can be treated in isolation. A regional approach may throw a different emphasis on certain problems, as compared with other approaches to those problems. As the differences of stress and outlook correspond to differences which frequently arise in the day-to-day discussion of such issues, there has been no striving for an exact identity of emphasis or evaluation.

Part IV is designed to record briefly the activities of the various organs of the United Nations in the field of economic affairs. It, too, supplements part I as a guide to the machinery of international collaboration which now exists and the functions that machinery is performing.

The Chronology serves as a general guide to the events of the period under review.

Because this is to be a periodical publication it has not been thought essential to treat all major countries and subjects exhaustively in this issue. Some sections, therefore, are more general than others; some countries and subjects of major importance have not been taken up at all but it is expected to cover them in later issues of the Economic Report.

Throughout this report frequent references have been made to "surplus" countries, "devastated" countries, and "under-developed" countries—categories which are not mutually exclusive. While in most instances the grouping of countries under these categories is self-explanatory, there are countries which belong to more than one category and had therefore to be arbitrarily assigned to one of these three categories.

For the purposes of this report, certain regional groupings of countries have been made to simplify the presentation of data. It is believed that these groupings will facilitate the understanding of certain major economic tendencies. Such combinations, however, are solely for purposes of exposition and have no other significance whatever.

Throughout this report references to "dollars" are to be read as referring to United States dollars unless otherwise indicated.

A word may be said regarding the scanty data upon which some of the studies presented have been based. Although there has been a steady recovery in statistical services since the end of the war, there is still lost ground to be made up and in many cases much further progress needs to be made if any thorough economic analysis is to be attempted. This paucity of data has handicapped some of the studies here presented.



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DEPARTMENT OF ECONOMIC AFFAIRS

# ECONOMIC REPORT

## SALIENT FEATURES OF THE WORLD ECONOMIC SITUATION

1945-47

Lake Success

January 1948

New York

## INTRODUCTION

The first twelve to eighteen months after the close of hostilities were months of rapid economic reconstruction and recovery. The period since then was characterized by retardation of economic progress in so many countries that the year 1947 must be regarded as one of frustrated hopes.

Although more than two years have elapsed since the close of hostilities, the world as a whole is producing less than it did a decade earlier while the reduced volume had to meet the needs of a population a tenth larger.

The distribution of the production of this reduced volume of supplies was, moreover, different from that of the pre-war years. Some countries which then were important producers of either manufactured goods or primary products suffered a severe deterioration of their productive capacity during the war, while a few countries greatly improved their capacity to produce and are now almost the sole source of the imports needed for the reconstruction of the war-devastated countries.

In the present world economic situation the fact looms large that the economic potential of the United States of America has enormously increased during the war, while that of many other important production centres has considerably diminished. This shift in the distribution of the world's productive facilities is at the root of the present dollar shortage. The prominent position of the United States is also responsible for the apprehension with which the factors underlying the present level of United States production are being regarded; it is feared that some of these factors may prove impermanent and that any serious declines of production, employment, and income in the United States may have devastating deflationary effects on the economies of other parts of the world.

At present, however, there is considerable inflationary pressure in the world. In most countries this is the result of the extraordinarily high demand in relation to the scarce supply of consumer goods; this high demand is generated by budget deficits, by high net exports, by high rates of private investment, or by the spending of war-time accumulations of liquid assets. The scarcities and the inflationary situations in the several countries have interacted upon one another and have thus tended to spread the inflationary pressures around the globe.

The origins, behaviour and treatment of both inflationary and deflationary processes are better understood today than in the past. In order to create conditions of stability, maintain full employment and promote economic and social progress and development, there may be required drastic governmental action of a kind that in some countries has heretofore not been regarded as appropriate during peace-time. Some Governments have already taken vigorous measures; others are considering such measures; and all Members of the United Nations have pledged themselves to take action for the achievement of conditions of stability and well-being.

This part of the report summarizes the available data on the world supply of goods, international trade and credits, major obstacles to the expansion of world production, and the inflationary pressures in the world today.

PART I

WORLD ECONOMIC HIGHLIGHTS

## THE WORLD'S SUPPLY OF COMMODITIES

### WORLD PRODUCTION

The world's population is now greater than a decade ago by almost 200 million or nearly ten per cent, but the world's production of key industrial commodities for which data are available has, in many instances, not yet reached the pre-war level. As much coal, steel and rubber was produced in the world in 1947 as in 1937, but the production of pig-iron was lagging behind pre-war levels. There has, however, been a vast expansion in the production of electric power.

Table 1

INDEXES OF WORLD PRODUCTION OF SELECTED COMMODITIES,<sup>a</sup> 1947<sup>b</sup>  
(1937 = 100)

Fuel and energy <sup>c</sup> .....	118
Coal <sup>d</sup> .....	102
Electricity <sup>d</sup> .....	165
Pig-iron and ferro-alloys .....	95
Steel .....	101
Copper .....	99
Lead .....	82
Zinc .....	96
Tin .....	55 <sup>e</sup>
Natural rubber .....	104 <sup>f</sup>
Cement .....	100

Source: Statistical Office of the United Nations.

<sup>a</sup> The selection of the major commodities shown in this table was determined by the availability of production statistics on a world-wide basis. In all instances the world figures exclude the USSR, data for which are not available.

<sup>b</sup> Unless otherwise indicated, 1947 annual rate is based on production during the first nine months of 1947.

<sup>c</sup> Coal, lignite, crude petroleum, and hydro-electricity. For the calculations in this table, lignite, crude petroleum and hydro-electricity were reduced to terms of coal by means of constant conversion factors.

<sup>d</sup> Excluding China.

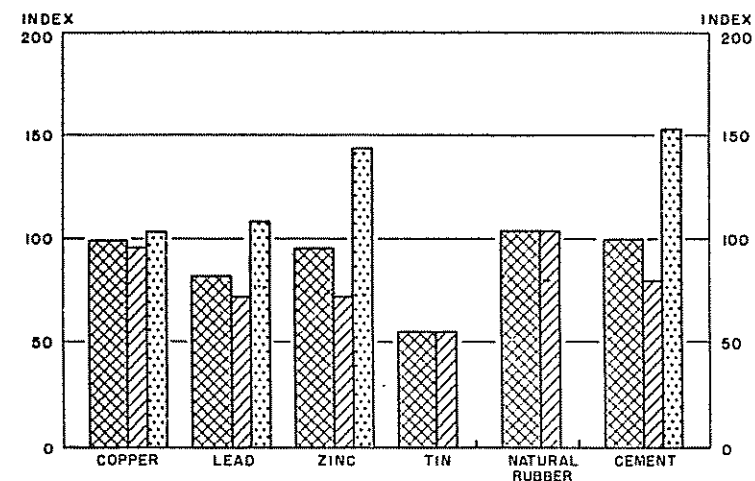
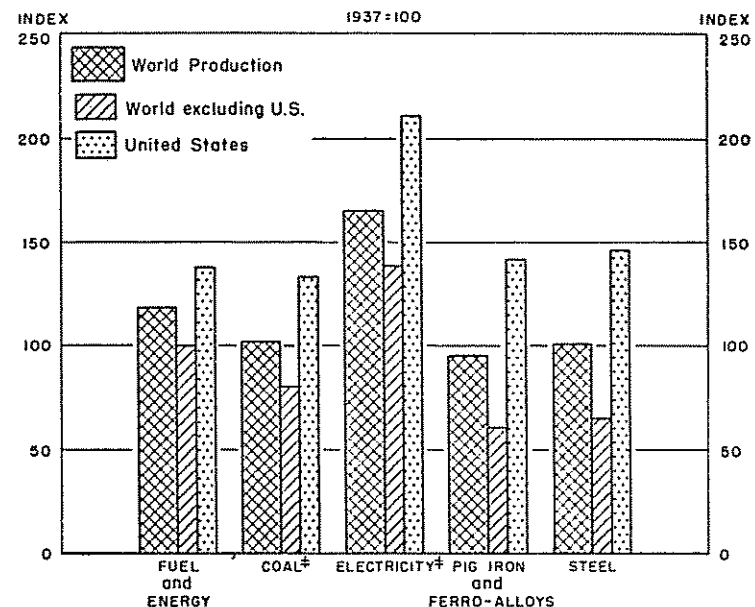
<sup>e</sup> 1947 annual rate based on production during the first seven months of 1947.

<sup>f</sup> 1947 annual rate based on production during the first eight months of 1947.

World food production increased in 1946/47 over 1945/46, and it had been anticipated that a moderate recovery would continue through 1947/48. Instead, production is slightly below the previous year and seven per cent below pre-war levels. The world food situation is now as critical as at any time since the end of the Second World War.

## PRODUCTION OF SELECTED COMMODITIES

WORLD PRODUCTION\*, WORLD EXCLUDING U.S., UNITED STATES  
1947<sup>†</sup>



Source: United Nations Statistical Office

\* Excluding U.S.S.R.

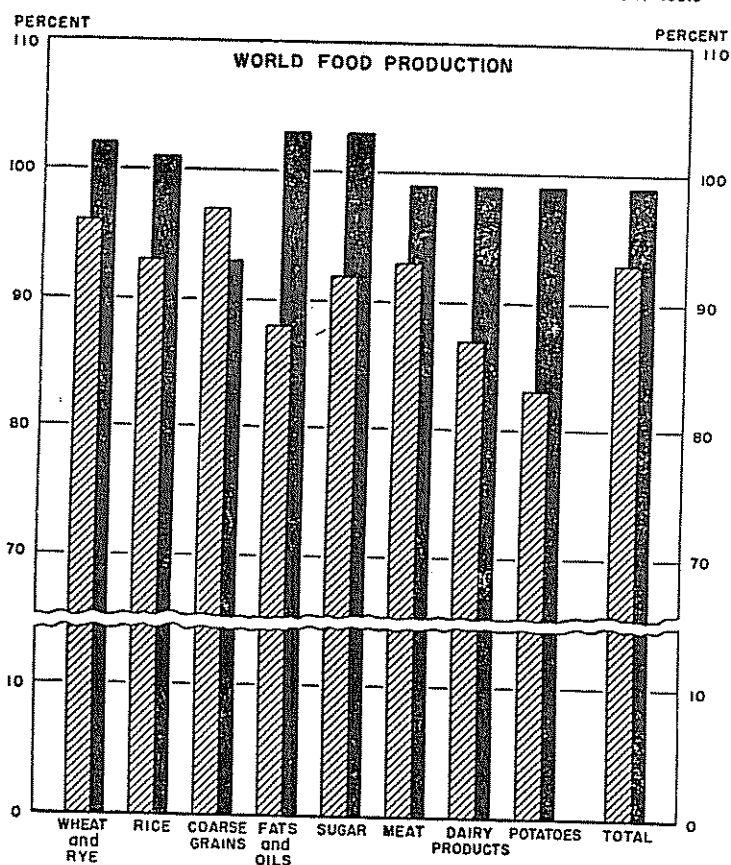
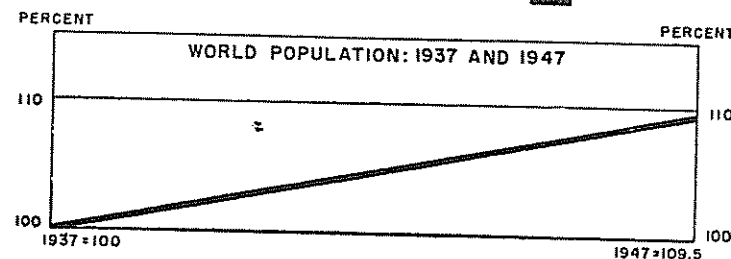
‡ Excluding China

† First 9 months of 1947

## WORLD FOOD PRODUCTION

1947/48 AS PERCENT OF

PREWAR AND OF 1946/47



Source: International Emergency Food Council

Table 2

## WORLD FOOD PRODUCTION

1947/48 production as percentage of pre-war<sup>a</sup> and of 1946/47 levels

	1947/48 as percentage of	
	Pre-war <sup>a</sup>	1946/47
Wheat and rye.....	96	102
Rice .....	93	101
Coarse grains .....	97	93
Fats and oils .....	88	103
Sugar .....	92	103
Meat .....	93	99
Dairy products .....	87	99
Potatoes .....	83	99
TOTAL .....	93	99

Source: International Emergency Food Council, *Report of the Secretary-General to the Fifth Meeting of the Council*, part I, table 1.  
<sup>a</sup> 1935-1939 average.

Food production had suffered from war devastation in many countries, and its recovery is being retarded by delays in replacement of equipment and by shortages in fertilizers, draught power and quality seed. In many parts of the world the adverse weather of 1946/47 constituted an additional obstacle to the recovery or expansion of food production.

Preliminary estimates of the 1947 crop provide a gloomy picture of the world food position from now until the 1948 harvest. *Per capita* food consumption in general is expected to be two or three per cent below that of last year and nearly ten per cent below pre-war levels. The *per capita* production of bread grains and rice in 1947/48 is thirteen per cent below the average of the years 1934 to 1938. While the world's exportable supply of fats and oils increased from 2.5 million tons in 1946 to 3.5 million tons in 1947, it is anticipated that the European and North American supply of fats will drop in 1948 as a result of a reduction in the volume of animal feed likely to be available in those countries.

Even if the present production of manufactured goods, primary products and food were at pre-war peak levels there would still be serious scarcities. If, moreover, effective demand is maintained in the years ahead, supplies may continue to be inadequate unless deliberate steps are taken, both on national and on international levels, to bring supply into a more adequate balance with needs.

Against this general background of shortages, the geographic distribution of the world's production may be analysed.

## GEOGRAPHIC DISTRIBUTION OF PRODUCTION

### NON-AGRICULTURAL PRODUCTION

Table 3 indicates the disparity between the growth of non-agricultural production during the last decade in the United States and in the rest of the world, apart from the USSR. In almost all the instances in which world production appears to have reached or exceeded pre-war levels (see table 1) it is owing to the fact that the United States has far surpassed its pre-war position, while the rest of the world is still lagging far behind the position of ten years ago.

**Table 3**  
COMPARISON OF PRODUCTION OF SELECTED COMMODITIES IN THE UNITED STATES, WITH THE REST OF THE WORLD<sup>a</sup>  
(1937 = 100)

	United States	1947 <sup>b</sup> World excluding U.S.
Fuel and energy <sup>c</sup> .....	138	100
Coal <sup>d</sup> .....	133	81
Electricity <sup>d</sup> .....	211	138
Pig-iron and ferro-alloys.....	142	61
Steel.....	147	65
Copper.....	103	96
Lead.....	108	72
Zinc.....	144	72
Tin.....	—	55 <sup>e</sup>
Natural rubber.....	—	104 <sup>f</sup>
Cement.....	153	80

Source: Statistical Office of the United Nations.

— Nil.

<sup>a</sup> The selection of the major commodities shown in this table was determined by the availability of production statistics on a world-wide basis. In all instances the world figures exclude the USSR, data for which are not available.

<sup>b</sup> Unless otherwise indicated, 1947 annual rate is based on production during the first nine months of 1947.

<sup>c</sup> Coal lignite, crude petroleum, and hydro-electricity. For the calculations in this table, lignite, crude petroleum and hydro-electricity were reduced to terms of coal by means of constant conversion factors.

<sup>d</sup> Excluding China.

<sup>e</sup> 1947 annual rate based on production during the first seven months of 1947.

<sup>f</sup> 1947 annual rate based on production during the first eight months of 1947.

A more detailed picture of the changes in the production of certain selected non-agricultural commodities in a number of countries is obtained by the analyses made in tables 4 and 5.

**Table 4**  
PRODUCTION OF SELECTED COMMODITIES, BY COUNTRY  
1947 production as percentage of pre-war production<sup>a</sup>

Per cent	Coal <sup>b</sup>
Under 50 .....	Germany
50- 69 .....	Japan
70- 89 .....	Belgium, Netherlands, United Kingdom
90-109 .....	Canada, Chile, Czechoslovakia, France, Italy, Mexico
110-129 .....	Hungary, India, New Zealand, United States
130-149 .....	Australia, Southern Rhodesia
150-199 .....	Poland, Portugal, Turkey, Union of South Africa
200 and over.....	Brazil

<sup>a</sup> Only those countries for which data are available are included in this table. In the case of Germany and Poland, pre-war production for pre-war boundaries and the 1947 production for post-war boundaries.

<sup>b</sup> 1947 production based on third quarter 1947 rates. Pre-war production relates to 1937.

**Table 4 (continued)**

	Electricity <sup>b</sup>
Under 90 .....	Luxembourg
90-109 .....	Finland
110-129 .....	Belgium, France, Japan, Norway
130-149 .....	Italy, Mexico, Netherlands
150-179 .....	Argentina, Canada, Czechoslovakia, Denmark, Guatemala, Ireland, Portugal, Sweden, Switzerland, United Kingdom, Union of South Africa
180-199 .....	Austria, India, New Zealand, Poland
200 and over.....	Australia, Brazil, Bulgaria, Chile, Colombia, Palestine, United States

	Steel <sup>b</sup>
Under 50 .....	Germany, Japan
50- 69 .....	Austria
70- 89 .....	Belgium, France, Luxembourg, Sweden
90-109 .....	Czechoslovakia, Hungary, Italy, United Kingdom
110-129 .....	Australia, Poland
130-149 .....	India, United States
150-199 .....	Canada
200 and over.....	Mexico, Union of South Africa

	Cotton yarn <sup>c</sup>
Under 50 .....	Germany, Japan
50- 69 .....	Czechoslovakia, Poland, United Kingdom
70- 89 .....	Mexico, France
90-109 .....	Belgium
110-129 .....	India, Hungary, Netherlands
130-149 .....	Canada
150-199 .....	Turkey
200 and over.....	Argentina

	Woven cotton fabrics <sup>c</sup>
Under 50 .....	Japan, United Kingdom
50- 69 .....	Czechoslovakia
70- 89 .....	France, Hungary, Poland
90-109 .....	Canada, India
110-129 .....	Mexico, United States
130-149 .....	Belgium, Portugal
150-199 .....	Chile
200 and over.....	Bolivia

Source: Statistical Office of the United Nations.

<sup>c</sup> 1947 production based on the rate of output in the first eight or nine months of 1947. Pre-war production relates to 1937, 1938 or 1939, depending on the availability of data for the respective countries.



Although industrial production in the United States during the third quarter of 1947 stood sixty-three per cent above that of a decade earlier and its output of durable goods had nearly doubled during the same period, it is also evident that significant changes are occurring in the world's distribution of industrial production. The formerly sharp distinction between "industrialized" countries and those producing primary products tends to become more and more blurred. Table 4 indicates that the countries whose production of coal, electricity, steel, cotton yarn and fabrics exceeds pre-war volume include many of the "under-developed" countries of Latin America, the Middle East, Asia and Europe. In the long run these tendencies, especially if supported by deliberate action to promote development schemes, could prove more significant than the present prominence of the United States in world production, which was perhaps to be expected immediately after a period of war devastation in the rest of the industrialized world.

Table 5

WORLD PRODUCTION OF FUEL AND ENERGY, BY AREA<sup>a</sup>  
1938, 1946 and 1947

	Production			Percentage distribution of production			
	1938	1946	1947 <sup>b</sup>	1937	1938	1946	1947 <sup>b</sup>
	1937 = 100				(Per cent)		
North America <sup>c</sup> .....	86	128	138	45.6	41.8	54.4	54.5
Latin America <sup>d</sup> .....	99	164	182	4.3	4.6	6.6	6.6
Europe <sup>e</sup> .....	99	77	87	40.4	42.8	29.1	29.2
Asia <sup>e</sup> .....	105	101	108	7.8	8.7	7.3	7.3
Africa .....	105	164	151	1.0	1.1	1.5	1.4
Oceania .....	99	121	118	0.9	1.0	1.1	1.0
TOTAL <sup>e</sup> .....	94	107	118	100.0	100.0	100.0	100.0

Source: Statistical Office of the United Nations.

<sup>a</sup> Coal, lignite, crude petroleum, and hydro-electricity. For the calculations in this table, lignite, crude petroleum and hydro-electricity were reduced to terms of coal by means of constant conversion factors.

<sup>b</sup> Partly estimated. Based on production during the first nine months of 1947.

<sup>c</sup> Canada and United States.

<sup>d</sup> Mexico, Central and South America.

<sup>e</sup> Excluding the USSR, for which data are not available.

The profound changes which are taking place in the world economy are best illustrated by the data on the production of fuel and energy shown in table 5. It is true that the United States and Canada produced more than half of the world's total in 1946 and 1947 and that the output of these two countries rose by more than one-third during the past decade. But the output of fuel and energy of the Latin American countries rose by more than 80 per cent during the same period, and their share in the world's total increased appreciably; to a somewhat lesser extent this was also true of Africa and Oceania.

While Asia, owing to the expansion of production in the Middle East, showed only a small decline in its relative position and Europe was still repairing its war damage and slowly approaching its pre-war production volume, there can be no doubt that as soon as tranquillity can be established in Asia and certain basic improvements can be made to the principal coal and hydro-electric power installations of Europe, the energy production of these continents will rapidly outstrip their pre-war figures.

#### AGRICULTURAL PRODUCTION:<sup>1</sup>

The post-war pattern of food production is also drastically different from that which prevailed in the world before the war. While the world's total food production in 1947/48 was seven per cent below pre-war levels, the greatest reductions in crop production occurred in regions which had large food deficits even before the war. The import needs of these regions have therefore risen sharply. At the same time food production in the world's food exporting countries has greatly increased, although large parts of the additional output are being consumed domestically. The result is that some countries now consume thirty per cent less food *per capita* than before the war, while others consume as much as fifteen per cent more.<sup>2</sup>

In Europe, crop production was most adversely affected by an excessively severe winter succeeded by an extremely dry summer. The production of wheat, rye, barley, oats, maize, and potatoes in Europe (excluding the USSR and Albania) amounted to 181.8 million metric tons in 1946 and declined to 178.2 million tons in 1947; the pre-war (1934/38) average was 250.2 million metric tons. The only countries in Europe which escaped without serious crop losses, or harvested larger crops in 1946/47, were Bulgaria, Hungary, Roumania, the USSR, and Yugoslavia.

In the Middle East, where 1946 grain production exceeded pre-war levels, production in 1947 declined below the pre-war average.

In the Far East, the 1947/48 output of rice is estimated at 125.3 million metric tons, compared with the pre-war average of 133.9 million tons. However, conditions varied greatly from country to country. In India and Pakistan, at present great deficit areas, the rice crop is estimated to be six per cent below 1946/47 and the wheat crop nine per cent smaller. China had somewhat larger rice and wheat crops in 1947/48 than in the preceding year; Burma and Siam, rice surplus countries, also had better crops, although they were still below pre-war levels; Indo-China, another large surplus country, had a poorer rice crop than in the preceding year.

In the United States, total agricultural production, which had risen during the war to almost thirty per cent above the pre-war level, continued at that high rate. The Canadian wheat crop was unfavourably affected by weather and is estimated to be below the 1946 output by about two million tons. Canadian production of secondary grains was also lower.

The Food and Agriculture Organization of the United Nations estimates that the countries in the temperate zone of the Southern Hemisphere have somewhat improved crop prospects for 1947/48.

<sup>1</sup> For more detailed discussion, see part III, chapter 1 of this report.

<sup>2</sup> International Emergency Food Council, *Report of the Secretary-General to the Fifth Meeting of the Council*, part I.

Australia expects its next crop of wheat to be about two million tons greater than in the preceding year, and the Union of South Africa expects some increase in grain production, but not enough to meet its own needs. Estimates for Argentina indicate smaller harvested areas of wheat and of secondary grains.

### INTERNATIONAL TRADE AND CREDITS

The lack of economic balance in the world is manifest not only in the shortages of supply in the several countries. In international transactions, the unbalance is reflected in unprecedented deficits in the foreign transactions of most countries.

The aggregate value of world exports in 1938 was about \$22,600 million. In the first half of 1947, world exports, including UNRRA deliveries and certain other exports of a non-commercial nature, were proceeding at an annual rate of some \$22,400 million if computed at 1938 prices and \$45,000 million at current prices. World imports represented somewhat higher figures owing to the inclusion in the values recorded by most countries of transport costs up to the domestic frontier.<sup>1</sup> While the dollar value thus almost doubled during the period considered, the dollar prices of the goods entering into trade also doubled and the "quantum" of trade was practically the same as in 1938.

Table 6

#### VALUE, PRICE AND QUANTUM OF WORLD EXPORTS, 1938-47

	1938 semi-annual average	1946 1st half	1946 2nd half	1947 1st half
(Millions of U.S. dollars)				
<i>Value of world exports of merchandise</i>				
At 1938 prices .....	11,300	8,800	10,000	11,200
At current prices .....	11,300	14,700	18,500	22,500
<i>Indexes of world exports</i>		(1938 = 100)		
Quantum .....	100	78	88	99
Dollar price .....	100	167	185	201
Dollar value .....	100	130	164	199

Source: Statistical Office of the United Nations.

Comparisons among national trade values are clouded by the fact that certain countries do not publish up-to-date information concerning their external trade and by the difficulty, under existing conditions of largely inconvertible exchanges, of turning values expressed in different currencies into a common measurement without bias. But a rough idea of the trends of trade may be obtained from the following indexes of the "quantum" of the trade of a few countries which compute such indexes.

<sup>1</sup> Compared with 1938, however, the discrepancy between recorded world imports and recorded world exports has declined owing to the omission by most countries from their recorded imports of UNRRA deliveries and certain other Government purchases. Recorded world imports in 1938 amounted to \$25,000 million and in the first and second halves of 1946 and the first half of 1947 to \$14,700, \$19,300 and \$22,900 million respectively.

<sup>2</sup> A "quantum" index reflects the changes in the value of the goods actually imported or exported computed at the prices obtained in the base year (in the present case, 1938).

Table 7. QUANTUM INDEXES OF MERCHANDISE TRADE OF SELECTED COUNTRIES, 1946 AND 1947<sup>a</sup>

Average of first and second half 1938 = 100

	Imports			Exports		
	1946 1st half	1946 2nd half	1947 1st half	1946 1st half	1946 2nd half	1947 1st half
United Kingdom .....	66	71	72	91	108	102
United States .....	135	141	134	193	187	255
France .....	118	106	122	33	54	83
India .....	57	77	90	56	58	64
Argentina .....	67	96	131	88	85	77
Australia .....				103	118	94
Switzerland .....	95	114	139	87	113	112
Norway .....	55	101	127	58	65	83
Finland .....	26	35	53	40	43	50
Cuba .....	118	113		143	143	
Ireland .....	75	86	106	63	83	55
Hungary .....	8	24	45	7	23	25
Turkey .....	51	64	84	55	105	105
Bulgaria .....	39	83	52	22	49	38

Source: Statistical Office of the United Nations.

... Not available.

<sup>a</sup> Arranged in the order of the total value of their imports and exports in 1938.

In the majority of the countries shown, the quantum of imports has increased, while that of exports has fallen or increased at a lower rate. The difference would undoubtedly have been more evident if more countries had been covered. Among the countries for which no data are available, the most important are Germany and Japan, which have been absorbing considerable imports of foodstuffs and other supplies while their export trade is negligible in relation to what it was before the war.

Only in a few countries have exports risen more than imports. This is true, for instance, of the United Kingdom which has been meeting the heavy pressure on its balance of payments by a considerable reduction in imports and a rise in exports to a level exceeding that of 1938. The most striking increase in exports, however, is that recorded by the United States. In 1938, United States exports already exceeded those of any other country and represented fourteen per cent of the value of all goods entering into world trade; during the first half of 1947, after having risen 2.5 times in quantum and five times in dollar value, they represented a third of world exports. United States imports, on the other hand, stood only a third above their quantum in 1938 which, incidentally, was abnormally low as a result of the heavy impact of the business recession of that year upon the United States.

The effect of the divergent trade movements upon the balance of merchandise trade (computed in dollars at official rates of exchange) is shown in table 8 for a number of trading countries grouped into "surplus", "devastated", and "under-developed" countries.<sup>1</sup>

<sup>1</sup> To a certain extent, the distribution of the countries considered among these three groups is arbitrary. Thus, several of the "surplus" countries have recently had a deficit in their current foreign transactions. Also, it may be questioned whether Denmark is a "devastated" country. Certain countries are both "devastated" and "under-developed"; this is true, for instance, of China.



**Table 8**  
IMPORT (—) OR EXPORT (+) BALANCES OF MERCHANDISE  
TRADE OF SELECTED COUNTRIES<sup>a</sup>  
Monthly averages—1938, 1946 and 1947

	1938	1946 1st half	1946 2nd half	1947 1st half	1947 3rd qu
	(Millions of U.S. dollars—"Special trade")				
<b>"Surplus countries":</b>					
United States of America . . . . .	+ 92	+400	+385	+774	+680
Canada . . . . .	+ 15	+ 28	+ 39	+ 16	+ 16
Australia . . . . .	+ 1	+ 11	+ 28	+ 13	- 22
Sweden . . . . .	- 5	- 13	- 24	- 47	- 55
Union of South Africa . . . . .	- 26	- 32	- 48	..	..
Argentina . . . . .	0	+ 42	+ 61	+ 22	+ 8
Switzerland . . . . .	- 5	- 19	- 10	- 25	- 30
New Zealand . . . . .	+ 1	+ 11	+ 4	+ 9	..
<b>"Devastated countries":</b>					
United Kingdom . . . . .	-157	-110	-111	-179	-268
France . . . . .	- 37	-102	- 84	- 84	-102
Belgium-Luxembourg . . . . .	- 3	- 34	- 53	- 32	- 33
Netherlands . . . . .	-17	- 41	- 44	- 75	- 79
Italy . . . . .	- 3	+ 2	- 3	- 42	..
China: <sup>b</sup>					
Manchuria . . . . .	- 14	..	..	..	..
Rest of China . . . . .	- 9	- 30	- 45	- 11	- 13
Denmark . . . . .	- 2	- 15	- 28	- 14	- 19
Czechoslovakia . . . . .	+ 5	+ 2	+ 11	+ 1	- 7
Norway . . . . .	- 8	- 8	- 26	- 35	- 29
Poland . . . . .	- 2	- 2	+ 1	..	..
Finland . . . . .	0	- 2	+ 1	0	+ 5
<b>"Under-developed countries":</b>					
India . . . . .	+ 4	+ 14	- 3	- 2	..
Brazil . . . . .	0	+ 22	+ 24	- 13	- 1
Venezuela . . . . .	+ 6	+ 10	+ 21	..	..
Egypt . . . . .	- 3	- 9	- 3	..	..
Mexico . . . . .	0	- 12	- 16	- 24	- 15
Chile . . . . .	+ 3	+ 2	+ 2	+ 3	- 3
Turkey . . . . .	0	+ 6	+ 10	+ 11	..
Colombia . . . . .	- 1	- 3	- 2	- 13	- 7

Source: Statistical Office of the United Nations.

.. Not available.

<sup>a</sup> Within each of the three groups shown, the countries are arranged in the order of the total value of their imports and exports in 1938.

The comparability of the figures for post-war years is affected by varying national practices in the reporting of UNRRA goods and, in general, government purchases and sales.

The balances are computed as the difference between recorded imports and exports. Attention should be paid to the fact that in the case of countries recording imports f.o.b. (the United States, Canada, the Union of South Africa, Venezuela, and Mexico) the balance appears more "favourable" (that is, the export balance is larger, or the import balance smaller) than in the case of countries which record imports on a c.i.f. basis.

<sup>b</sup> Excluding trade between Manchuria and rest of China.

<sup>c</sup> Average of July and August.

The following figures show the distribution of United States trade by groups of commodities.

**Table 9**

UNITED STATES MERCHANDISE TRADE, 1938, 1946 AND 1947

	1938			
	Semi-annual	1946	1946	1947
	average <sup>a</sup>	1st half	2nd half	1st half
	(Millions of U.S. dollars— "Special trade")			
Imports:				
Crude materials .....	288	808	918	917
Crude foodstuffs .....	130	401	413	515
Manufactured foodstuffs .....	156	233	270	316
Semi-manufactures .....	193	413	516	592
Finished manufactures .....	209	383	462	467
TOTAL .....	975	2,238	2,580	2,807
Exports:				
Crude materials .....	304	640	774	849
Crude foodstuffs .....	125	353	295	428
Manufactured foodstuffs .....	92	860	664	816
Semi-manufactures .....	247	441	453	853
Finished manufactures .....	762	2,333	2,686	4,500
TOTAL .....	1,529	4,627	4,873	7,446

Source: United States official trade returns.

<sup>a</sup> Attention should be paid to the fact that in 1938 United States imports were abnormally low.

The monthly export surplus of the United States in 1946 was more than four times that of 1938. Nevertheless, that surplus was again doubled in the first half of 1947. During the third quarter of 1947 none of the "devastated" countries (except Finland) or the "under-developed" countries, and only Canada and Argentina among the "surplus" countries for which figures are available, showed a "favourable" balance of merchandise trade.

One of the important facts brought out by table 9 is the heavy increase in the export of manufactured products from the first half of 1946 to the first half of 1947. Almost nine-tenths of the increase in total export value during that year was due to semi-manufactures and finished manufactures. While the total quantum of United States exports rose by one-third during the year, the quantum of primary products (including processed foodstuffs) declined; but that of semi-manufactures increased by half and of finished manufactures by nearly two-thirds. The increases took place largely in machinery, automobiles and other durable goods.

It is also of interest, and of considerable importance, that while Europe still absorbs the bulk of the United States export surplus, the positive balances to other continents have recently grown very rapidly, as is shown in table 10.

Table 10

GEOGRAPHICAL DISTRIBUTION OF UNITED STATES EXPORT (+)  
OR IMPORT (—) BALANCES, 1938, 1946 AND 1947

	1938	1946	1946	1947
	Semi-annual average	1st half	2nd half	1st half
	(Millions of U.S. dollars—"General trade")			
Europe .....	+380	+1,839	+1,468	+2,441
Latin America .....	+ 39	+ 106	+ 296	+ 917
North America .....	+104	+ 197	+ 350	+ 548
Asia .....	- 26	+ 242	+ 194	+ 468
Africa .....	+ 32	+ 120	+ 63	+ 271
Oceania (chiefly Australia and New Zealand) .....	+ 39	- 16	- 51	+ 271

Source: United States official trade returns.

The bulk of United States imports before the war consisted of raw materials in a volume which varied with activity in United States manufacturing industry. In 1947, however, when the level of United States manufacturing activity was about seventy per cent higher than in the pre-war boom year 1937, the quantum of United States total imports was below the 1937 level. This phenomenon may be ascribed to the war-time development in the United States of primary, particularly agricultural, production as well as production of synthetic substitutes for articles previously imported (silk, rubber), and to reduction in the supply of finished manufactures from abroad.

## SURPLUSES AND DEFICITS ON CURRENT ACCOUNT

In the majority of countries, the trade balance is the chief component of the balance of current transactions. A deficit on current account, accompanied by a corresponding influx of foreign capital, has been a normal phenomenon in many countries over long periods. In the present situation, however, the deficits incurred are unusually large owing to the heavy import balances, and in the case of certain European countries, to the decline in the income from investments abroad or from shipping and other services rendered. Moreover, the deficits have shown a tendency towards abnormal increase. Since private loans and credits raised on a commercial basis are almost non-existent, deficit countries have to a large extent had to rely on government credits. Such credits have been very large but they have not been able to prevent a rapid decline in the gold and foreign currency resources of certain countries during 1947.

The official computation of the United States balance of payments, summarized in the table on page 17, indicates a surplus on account of goods and services of \$16,700 million between the middle of 1945 and the middle of 1947. Of this amount, \$6,000 million was supplied in the form of "unilateral transfers", including contributions to UNRRA, while the remainder represented chiefly an outflow of American capital and to an increasing extent the sale of foreign gold holdings. Attention is also directed to the rapid increase in the United States surplus on current account towards the end of the period. During the second quarter of 1947 that surplus exceeded \$3,000 million, or more than

Table 11  
INTERNATIONAL TRANSACTIONS OF THE UNITED STATES  
Credit (+) or debit (—) balances, 1945-47

Quarter	Goods and services			Capital operations			Errors and omissions
	Merchandise	Interest, services, etc.	Total	Unilateral transfers <sup>a</sup>	U.S. capital abroad	Foreign capital in U.S.	
				(Millions of U.S. dollars)			
1945:							
Third	+ 1,021	+ 159	+ 1,180	- 817	- 683	+ 278	+ 188 -146
Fourth	+ 1,178	+ 327	+ 1,505	- 884	- 700	+ 27	+ 8 + 60
1946:							
First	+ 1,496	+ 283	+ 1,779	- 879	- 390	- 160	- 227 -123
Second	+ 2,099	+ 369	+ 2,468	- 887	- 1,220	- 361	+ 31 + 31
Third	+ 1,690	+ 281	+ 1,971	- 783	- 917	- 271	+ 77 + 77
Fourth	+ 1,591	+ 324	+ 1,915	- 561	- 768	- 431	+ 288 +133
1947:							
First	+ 2,451	+ 222	+ 2,673	- 602	- 3,986 <sup>b</sup>	+ 1,642 <sup>b</sup>	+ 81 <sup>b</sup> +192
Second	+ 2,825	+ 427	+ 3,252	- 624	- 1,664	- 368	+ 792 +196
TOTAL from mid-1945 to mid-1947	+ 14,351	+ 2,392	+ 16,743	- 6,037	- 10,328	+ 356	- 1,154 -420

Source: Based on data published in United States Department of Commerce, *Survey of Current Business*.

<sup>a</sup> Bookkeeping entries offsetting deliveries of goods and services (without compensation) recorded in the preceding columns.  
<sup>b</sup> It will be observed that the International Monetary Fund and the International Bank for Reconstruction and Development are not treated as being within the United States. If United States subscriptions to these international agencies during the first quarter of 1947 are excluded, the items for United States capital abroad, foreign capital in the United States and gold show debit balances during the quarter of about \$1,100 million, \$600 million and \$600 million, respectively.

twice the corresponding quarterly figures during the early part of the period examined.

The active global balances on current account have been less spectacular in other "surplus" countries and have not shown the same tendency to increase rapidly as have those of the United States. In fact, those of Canada fell off rapidly from 1945 on; those of Sweden were replaced by a growing deficit; Argentina has been favoured by the fact that its export prices have risen far more than its import prices, but its surplus on current account, estimated at 1,271 million pesos in 1945 and 1,709 million pesos in 1946, must have fallen off considerably in 1947 with the rise in its imports from the United States.<sup>1</sup> In several other Latin American countries the dollar balances held have also recently been reduced.

The global deficits of each country do not, however, tell the whole story. The strain on the majority of countries is increased by a fact which is not, to the same extent as the exceptional shortages of goods, inherited from the war, since it originates in disturbances in international trade which plagued the world during the greater part of the 1930's.

#### THE DIFFICULTIES OF MULTILATERAL SETTLEMENT AND CONVERTIBILITY OF CURRENCIES

Until the financial crisis of 1931, surpluses resulting from a country's transactions with certain areas could always be used to meet deficits with others; that is, currencies were freely convertible. The exchange controls instituted during the early 1930's brought the convertibility of certain currencies to an end. Changes in international financial and economic relationships during and after the war have further increased the difficulties of the multilateral settlement of accounts.

Thus, in the *Economic Survey for 1947*, presented by the Prime Minister of Great Britain to Parliament in February 1947<sup>2</sup> it is pointed out that the British dollar position is much more difficult than would appear from the total balance of payments of that country. The United Kingdom, it is pointed out, cannot use its surplus with the Eastern Hemisphere to meet its deficit with the Western Hemisphere, partly because many of the Eastern Hemisphere countries have no gold or dollars with which to pay and partly because surpluses to certain countries of this hemisphere are absorbed for the payment of debt. The dollar loan of \$3,750 million raised by the United Kingdom in July 1946 was indeed coupled with the obligation of restoring the convertibility of sterling balances arising from current transactions on 15 July 1947. Even before that date a number of steps had been taken by the United Kingdom in preparation for the return to free currency markets. The loan in question and that of \$1,250 million granted simultaneously by Canada had originally been intended to carry the United Kingdom through a transitional period of several years. Actually, four-fifths of the loans were exhausted by 15 July 1947 when convertibility was restored, and the very heavy withdrawals which then resulted from the conversion of sterling balances gained by other countries necessitated

<sup>1</sup>The recorded export surplus of Argentina from January to October 1946 amounted to 1,206 million pesos. During the corresponding period of 1947, there was an import surplus of 6 million pesos.

<sup>2</sup>Cmd. 7046, page 19.

suspension of convertibility on 20 August. The previous tendency in the world towards the relaxation of currency restrictions was reversed. A series of restrictions intended to cut down domestic consumption, imports and other transactions involving currency outlay were introduced in the United Kingdom, and a number of other countries were forced to take similar steps.

In the devastated countries of western continental Europe, production was before the war geared to an export surplus to the United Kingdom which was used for financing net imports from the United States and other non-European countries. The disappearance of Germany as a major exporter of manufactured goods has in some cases turned the balance in "favour" of the United Kingdom; but some countries, for instance Belgium and Italy, have maintained an export surplus with the United Kingdom and were adversely affected by the inability, after the suspension of convertibility, to utilize the surplus for meeting their dollar deficits. Belgium has since the end of the war accumulated over 12,000 million francs in various European currencies (particularly pounds sterling, florins, French francs, and Danish and Norwegian kroner), but its trade deficit with the United States during the first nine months of 1947 exceeded that figure, and Belgium has recently had to liquidate part of its gold holdings.

The typical under-developed countries—at least those outside Europe—were normally net exporters to the United States and frequently net importers from Europe (particularly from the United Kingdom). Owing to their increased demand for capital equipment with a view to economic development and the reduced ability of Europe to export, these relations have at present been reversed and their trade usually results in a deficit with the United States and frequently a surplus with Europe and the sterling area. If that surplus is due in dollars or other "convertible" currency, as is usually the case in Latin American countries, it is likely to be very limited in size, since the foreign importers have little such currency available; if it is due in inconvertible currency, it may well be considerable, but cannot be utilized for financing the deficit with the United States.

The hardships due to lack of convertibility are not confined to the devastated and under-developed countries, but also affect some more developed countries which managed to go through the war with their production facilities practically unscathed or even improved.

A case in point is Canada which, as table 8 shows, has maintained a global export surplus in merchandise trade. The traditional Canadian export surplus to Europe (and the United Kingdom in particular) has only to a certain extent been available for financing the trade deficit with the dollar area. Thus, out of an export surplus of close to Canadian \$1,000 million in 1946 to countries not belonging to the dollar area, three-fourths had to be financed by loans and grants, while a heavy excess of imports from the dollar area could be financed only by the import of United States capital and by a drop of \$263 million in Canada's gold and dollar resources. At the same time, Canada's trade has tended to become increasingly dependent on a triangular settlement of accounts for which the prerequisites appear to have been lacking. As a result, Canada's exchange reserves fell from \$1,245 million at the beginning of 1947 to less than \$500 million in November, at which time stringent restrictions were introduced to curtail imports, particularly from the United States.

The case of Sweden is similar, though that country has actually an increasing global deficit on merchandise, as well as on total current account since 1945, in which year there was a surplus in relation to soft-currency countries of 714 million kronor. In 1946, the balance of payments surplus with those countries fell to 142 million kronor while the deficit with hard-currency countries, which delivered half of the total imports as against a fourth before the war, rose to not far from 1,000 million kronor. "These trends," it is pointed out in a statement of May 1947 by the Board of Directors of the Bank of Sweden, "would not necessarily have led to the present acute shortage of foreign exchange if the proceeds of Sweden's exports to the European countries could have been used for payments to other parts of the world in the same way as before the war. It would then have been possible to use the proceeds of our export surplus during 1945 to compensate the heavy deficit which developed during 1946 in relation to the dollar sphere." While the Bank of Sweden and the Swedish Treasury have accumulated holdings of inconvertible currencies as a result of export surpluses to the countries concerned, their holdings of gold and convertible currencies (United States dollars and Swiss francs) fell from 2,196 million kronor at the end of 1945 to about 400 million kronor in October 1947. At that time, severe restrictions on certain imports from the United States were imposed and private holdings of hard currencies required.

Decreases in the official gold and dollar assets have therefore taken place during 1947, not only in countries with a heavy global deficit in their accounts but also in those with a small global deficit or even with a surplus. Countries such as Belgium, Sweden and the United Kingdom, which during the early post-war period were able to export on credit to certain other European countries, have become increasingly reluctant to do so. Several countries outside the sterling area, both in continental Europe and elsewhere, have become wary of their increased holdings of inconvertible currency. New debit balances incurred have accordingly had to be settled in gold or in dollars to a larger extent than earlier.

In the absence of a functioning network of world-wide multilateral settlement, a considerable number of payments and trade agreements providing for bilateral exchange of goods and services, in some instances allowing for triangular settlement, regulate trade particularly among European countries and between certain European and Latin American countries. During the early post-war period several of these agreements provided for considerable credits by the country with a surplus in the bilateral exchange. With the tightening of the exchange situation, however, such credits have declined as mentioned above. Although the bilateral exchange of goods may involve some shifts in the direction and the composition of trade, it serves the purpose of making the exportable surpluses of countries with inconvertible currencies available for the mutual benefit. To some extent, therefore, the existing framework of trade and payments agreements tends to reduce the dependence of these countries on loans and assistance from the United States and other countries of the dollar area. The planned arrangement for multilateral settlement of accounts among European countries, if successfully carried out, would undoubtedly further reduce their dependence on outside aid.

In the long run, the dollar shortage can be eliminated only through large oversea purchases of goods and services by the United States. Larger purchases

of course, depend in the first instance on increased production in the exporting countries, but they also depend on continuing prosperity in the United States and on its willingness to accept imports from other countries.

As from the beginning of 1948, certain countries, including the United States, have agreed to give provisional effect to the tariff reductions they negotiated in the course of the Geneva session of the United Nations Preparatory Committee on Trade and Employment. These tariff reductions may well be expected in due time to increase the net dollar receipts of the non-dollar countries to some extent.

The foreign gold and short-term dollar assets used to finance imports from the United States amounted to about \$1,800 million in 1946 and approximately \$2,300 million in the first half of 1947. "Although some of this use of gold and short-term dollar assets was offset by new gold production, the utilization of monetary reserves at such a rate cannot be continued very long, even to maintain essential imports." Import restrictions and other measures introduced by many countries since the middle of 1947 in order to save hard currency appear to have had only limited effect. Between the end of June and the middle of November 1947, United States gold holdings increased again by close to \$1,200 million, a fact which aggravated the exchange position of other countries.

The price increases in the United States following upon economic decontrol in the middle of 1946 did not seriously check the desire of many countries to acquire United States goods. The heavy net import of these countries, however, has undoubtedly contributed to the further rise in the prices of such goods. This rise, again, has tended to render international credits granted insufficient for their original purposes and has caused them to be exhausted earlier than had been expected.

As this is written a large volume of financial assistance to a number of countries is being considered by the United States Government and by the International Bank for Reconstruction and Development. Immediate "interim aid" is being afforded by the United States Government to France, Italy, and Austria whose liquid resources have fallen to very low levels. However, while new international credits are of importance in the present emergency it is no less necessary that national policies be so shaped as to facilitate and encourage domestic production now and to reduce the tension in international economic relations in the future.

### PRODUCTION BOTTLE-NECKS<sup>1</sup>

In the interest of improving, or at least maintaining, the present levels of production, it has become urgent to concentrate attention on the stimulation of production of those goods and services—food, fuel, steel, and transport—which are crucial in the production of other essential goods. In certain countries, however, other industries—such as timber and fertilizers—are of outstanding importance and may require special governmental action.

In Europe, the coal shortage is one of the chief obstacles to industrial recovery.<sup>2</sup> Europe was self-sufficient with respect to coal before the war. With German production only slightly exceeding one-half of its pre-war rate (within

<sup>1</sup> International Monetary Fund, *Annual Report of the Executive Directors* for the fiscal year ending 30 June 1947, page 14.

<sup>2</sup> For more detailed discussion see part II of this report.

<sup>3</sup> See part III, chapter 2.

its post-war boundaries), Europe (excluding the USSR) produced in 1947 only eighty-four per cent of its pre-war output. Excluding Germany, European output was ninety-two per cent of pre-war production. To meet its most urgent needs, Europe must now import high-cost coal from the United States. Timber imports have not met the coal deficit and it is unlikely that Europe will produce enough coal in 1948 to meet its requirements.

Coal is also the most urgent industrial requirement of India, particularly with regard to its steel industry. Indian coal production averaged 25 million tons per year in 1938/39, rose to 29.5 million tons during the war, but in 1947 had declined by approximately one million tons, mainly because of the difficulty of replacing outworn equipment.

In China the best pre-war output of coal was 41 million tons per year against 18.4 million tons in 1946 and an annual rate of only 15 million tons in the first half of 1947.

The shortage of steel also impedes European recovery. Before the war Europe produced about forty per cent of the world total. Its output in 1947 was about 56 million tons (excluding the USSR which then produced 14 million tons). The 1947 production in Europe (excluding the USSR) is estimated at slightly over 35 million tons, or sixty-three per cent of the pre-war volume. Before the war, Europe exported considerable quantities of steel and steel products. Apart from Germany, Europe consumed about 32 million tons in 1937 and its present output has almost reached its pre-war consumption. The reconstruction requirements are, however, very high and the planned increase in the 1948 steel output, even if realized, would not meet the need.

India, which produced 1.6 million tons of pig-iron in 1938, increased its output to a two million ton peak during the war, but its estimated production in 1947 declined to 1.6 million tons. The great possibilities of expansion in the iron industry are limited by shortage of good coking coal.

Shortages of equipment and machinery are practically universal and seriously affect the devastated areas and the under-developed countries of the world. To cite only a few examples of shortages of equipment which determine to a large extent the rate of industrial recovery or development: lack of machinery impedes expansion of coal production and of steel; lack of equipment impedes further expansion in the generation of electric power; and lack of sawmills and logging equipment hampers lumber production.

In the poorly equipped countries of Latin America and Asia, it was escapable that the production demand associated with the war should increase the wear and tear on plant and equipment, while largely precluding regular maintenance, replacement or repair work. Initially inadequate industrial equipment was called upon to produce far beyond its rated capacity, with the result that there is now an exceptional demand for replacement.

Important industrial developments in India during the war, involving diversion of productive power to meet the demands of the war and considerable overworking of plant and equipment, sharply increased the rate of depreciation of equipment and machinery.

In Europe, softwood for building, packing, transport, and many other uses is scarce. Pit props, essential in the drive for increased coal output, and timber sleepers are among other items in which shortages are experienced. With the end of the war, overseas trade, particularly in pulp and paper, was reopened so as to obtain food, equipment and other goods in exchange. At the same

time, the pent-up demand for timber for reconstruction within Europe was released. Against this demand for timber, there has been an exceptional drop in available supplies. The normal yield of accessible forests of Europe is no longer sufficient to meet the bulk of European needs, and export from the Americas cannot close the gap for Europe. In general, the capacity of European forests to produce large logs suitable for the manufacture of sawn timber and boards has declined and the pre-war pattern of timber distribution has been disrupted. The USSR, for instance, is absorbing most of its timber output in reconstruction and development within its own borders. Higher domestic consumption, in part caused by the shortage of coal, and the lack of timber-cutting machinery have aggravated the situation in respect of countries which normally have timber surpluses for export.

Serious labour shortages now exist in various parts of the world. Many types of skilled workers are lacking in all countries. While the under-developed countries generally have chronic under-employment, they are also short of technical personnel required for industrialization. In Europe acute shortages of man-power, particularly of coal miners and other skilled workers, are slowing down reconstruction. The general efficiency of labour has suffered because of the loss of skilled and professional workers through German action in occupied countries and the lack of training of the young generation during the war.

The war caused heavy damage and disorder to all means of transport and communication in Asia and Europe, but by the middle of 1947 railway freight traffic in almost all European countries exceeded the pre-war level, though generally at the cost of overtaxing the existing transport equipment.<sup>2</sup>

In the Far East, the rehabilitation of the transport system has been progressing much more slowly. In many countries of that region internal feuds hinder rehabilitation and development of the transport system. The inadequacy of transport facilities in turn hampers economic reconstruction.

The main factors of an economic and technical nature impeding the rehabilitation and development of transport, both in Europe and in Asia, are lack of rolling-stock and other equipment, spare parts and repair facilities, shortage of fuels, both solid and liquid, and lubricants, and shortage also of skilled workers. In comparison with Europe, the Far Eastern countries are handicapped in present circumstances by not possessing engineering industries capable of producing needed transport equipment which, for lack of requisite foreign exchange, they are unable to import from the industrially advanced countries overseas.

The shortage of rolling-stock is likely to remain a serious bottle-neck in the operation of European and Asian railways for some time, both because of the dollar shortage and in view of the fact that certain types of railway equipment normally obtained from the United States are in short supply in that country.

Among the chief obstacles to the expansion of food production are shortages of fertilizers, machinery, other farm equipment and draught-power. Farm labour shortage has been experienced in Europe and, to some extent, in North America, and the deterioration and depletion of draught-power and machinery in the devastated areas of the world have added to the relative shortage of

<sup>1</sup>For more detailed discussion see part III, chapter 4 of this report.

<sup>2</sup>For more detailed discussion see part III, chapter 3 of this report.

labour by requiring more hand labour than before the war to produce same quantity of food.<sup>1</sup> The world shortages of nitrogenous fertilizers are The 1947/48 supply of this type of fertilizer is estimated at 2.6 million against the requirement of 3.5 million tons, a deficit of some 900,000. Although the current production is estimated to equal that of 1937, the owing chiefly to the expansion of production in the United States. The outside of the United States is producing fourteen per cent less than in largely as a result of the coal shortage. Phosphates and potash are now tively in good supply. The shortage of fertilizers affects the devastated ctries of Europe, Asia and Africa in particular; since they experienced shortages of fertilizers during the war, soil fertility has deteriorated and is a huge demand for commercial fertilizers to rebuild soil fertility and the increase food output.

The United States, Canada and the United Kingdom together produce twice as much farm machinery in 1946 as in 1938. The exportable supply are expected to increase in 1948. Nevertheless, it is unlikely that the requirements of importing countries will be met, partly because of the magnitude of their demand and partly because their exchange position will make it difficult for them to buy the supply that might be made available to them.

The shortages which impede production in the devastated and under-developed areas cannot be entirely overcome by imports, partly because of the world shortage of food and certain other materials and equipment, and partly because of the limited and unevenly distributed supply of hard currency, which most of these imports have to be paid. Overcoming these shortages requires strenuous and heroic efforts on the part of the deficit countries themselves and a concentration of energies in each country on the activities which are crucial in its reconstruction or development; and these involve not only increased production but also important fiscal, monetary, and economic policies designed to check inflation.

### INFLATIONARY PRESSURES

The prevailing inflationary pressure has been described in some detail in a report prepared by the Secretariat of the United Nations.<sup>2</sup> This report indicated that these tendencies existed in all parts of the world, in war-devastated countries as well as in under-developed countries, in surplus countries as well as in deficit countries.

In most countries, the inflationary pressures may be attributed on the one hand to the pressure of demand generated by budget deficits, or large government expenditures, or high rates of private investment, or spending of accumulated assets, and on the other hand, to the scarce supplies of consumer goods. The situation has caused a rise in prices which tends to adjust the demand for consumption goods to the supply by raising profits to the point where the savings resulting from these profits are sufficient to finance the increased investment and government deficits. In the process the relative share of wages in national income falls and the necessities of life tend to be distributed

equitably. The resulting efforts by workers to prevent deterioration in their position by wage increases are frustrated by subsequent price increases and thus the inflationary spiral develops. The inflationary process tends further to be reinforced by the speculative hoarding of essential commodities.

Inflation can generally be prevented by monetary and fiscal measures which reduce the requirements for savings or increase the supply of savings at given prices and output. Such measures include reductions in government expenditure, increases in income taxation, and monetary reforms designed to eliminate pent-up demand or to restore confidence in money. However, where inflation cannot be checked by monetary and fiscal measures, direct control of investment and rationing of essential consumption goods may prove necessary. Such measures are frequently difficult to institute for administrative and political reasons. Emergency situations, however, require emergency measures and it appears imperative to try to call a halt to inflation in the world.

The scarcity of food is of strategic importance in the general rise of prices because the repercussions of increases in food prices are considerably different from those of increases in non-food prices. One reason is that a rise in food prices affects the largest part of the expenditures of consumers in the lower income groups, especially of workers, and thus results in demands for wage increases and subsequent additional price increases. Another reason is that a rise in non-food prices tends directly to raise industrial and commercial profits which a considerable proportion is saved. A rise in food prices, however, tends to increase the incomes of farmers who usually spend a larger proportion of their incomes than would be spent out of business profits. This spending in turn exerts pressure on prices in the non-food sector of the economy and tends to increase profits there. The result is that in the case of food shortages leading to a rise in food prices a greater rise in cost of living and a greater fall in real wages is necessary in order to generate the same amount of savings than in the case of other shortages. A part of the increase in food prices may well be the profits of intermediaries rather than the income of farmers; however, once inflation is in full swing, the profit of intermediaries are not likely to contribute to the required savings, since they are likely to be invested in the hoarding of essential goods.

Another feature of the rise in food prices is that it cannot be properly dealt with by monetary measures designed to control general inflation. Although unbalanced budgets are a major factor in the general inflation in most countries, it must be noted that a budget balanced out of taxes on higher incomes would not materially reduce the pressure on food. The conditions of demand and supply for food would not be significantly changed by such taxes because the higher income groups are not likely to reduce their consumption of essential foodstuffs as a result of the increased taxes. Increased income taxes may, however, make some contribution to the food problem by facilitating the financing of additional food imports either by releasing domestic goods for export or by reducing imports of non-essential goods.

The curtailing of investment, public and private, would not reduce the pressure against the available food supply unless the labour and resources released could be shifted to the production of food or exportable goods in exchange for which imports of food could be obtained. Where this is not the

<sup>1</sup> See part III, chapters 1 and 4.

<sup>2</sup> International Emergency Food Council, *Report of the Secretary-General to the Meeting of the Council*, pages 46 and 54.

<sup>3</sup> *Survey of Current Inflationary and Deflationary Tendencies* (Lake Success, N.Y., September 1947).



case, inflationary pressures on food would be reduced by the curtailment of investment only as a result of a reduction of the effective demand of the working population through unemployment.

The inflationary effects of food shortages can thus properly be dealt with only by a tight system of food allocations and controls which not only control the prices of foodstuffs but ensure an equitable distribution of existing supplies. Such a system, however, requires that the total supply of essential food is secured at fixed prices through governmental agencies. Most countries have found that for various administrative and political reasons only part of the supplies could be secured in this manner while the rest appeared on the open market or leaked through to the black market. However, even such inadequate operation of food controls provides some protection to the lower income groups because the rations constitute a larger proportion of their consumption than in the case of the upper income groups; it cannot, however, solve the problem of inflationary impacts of food shortages.

Both the devastated and the under-developed countries are subject to inflationary pressures and the food shortage has an important bearing on the pressures in both cases.<sup>1</sup>

The inflationary pressure in devastated Europe is due mainly to the tendency to consume a higher proportion of national income than before the war. This tendency results from the decline in *per capita* real income, especially as measured in terms of essential consumer goods. At the same time, the requirements for savings are higher in relation to national incomes than before the war. The rate of investment, public and private, is in most cases higher in relation to the aggregate income. In spite of larger capital imports from abroad (and imports of goods and services) the portion of investment to be financed by domestic resources is higher in relation to national income than the pre-war rate. Since taxation is in many instances hardly adequate to cover the administrative budget, it does not in general contribute to meeting the requirements for investment expenditure. Hence the requirements for private domestic savings are higher in relation to national income than before the war.

As food is very scarce in Europe, food prices have tended to increase sharply and to reinforce the general inflation in the manner indicated above. Several countries have introduced monetary reforms designed to eliminate a large part of the liquid funds accumulated during the war and in this way to curtail effective demand. Attempts have also been made, albeit with varying degrees of success, to reduce the budget deficit. Only a few countries have been able to introduce a really effective system of rationing and thus to prevent or check the inflation in the price of necessities.

As reconstruction proceeds in devastated Europe it can be assumed that food scarcities will gradually decrease and that the inflationary pressure will turn to diminish.

The under-developed countries have not escaped the inflationary pressures of the war and post-war periods. In Latin America the inflationary pressures during the war resulted primarily from a large increase in exports which was not balanced by an increase in imports, but military expenditures by the United States in connexion with the war, governmental expenditures for development projects, investment by foreign companies in export industries, and residential building booms also contributed to the pressure. In India, the initial rise

demand during the war was largely owing to budget deficits and to Allied military expenditures.

A contributing factor to the continuation of the inflationary pressure in the under-developed countries after the war is the pent-up demand for investment and consumption goods, supported by a large volume of liquid savings accumulated during the war. A second factor in most countries concerned is the large government deficit caused in part by expenditure for development far in excess of pre-war levels.

The problems faced by under-developed countries in carrying out their plans for development bear a certain resemblance to those faced by industrialized countries where heavy war destruction of capital equipment can be overcome only by heavy capital formation. A large proportion of the population lives on a subsistence level and as the higher income classes also tend to consume a fairly large proportion of their income, projects for development that are financed by domestic means would tend to create inflation. Indeed, in such circumstances a very large increase in the production of consumption goods is required to meet the demand generated by development expenditures without causing inflationary pressure. Such an increase, however, is difficult to achieve in the short run, especially in the case of food.

To counteract the rise in food prices, the under-developed countries will need to give special attention in their development plans to an increase in food supplies. An early expansion of food production, however, is bound to encounter considerable difficulties because it involves social, economic, political, and legal problems which usually take a long time to solve.

Since food rationing is difficult to achieve in most under-developed countries, food imports may be necessary, at least in the first stages of development, particularly in the densely populated countries. To some extent these additional food imports could be financed through a reduction of non-essential imports, but an expansion of exports is likely to be necessary and, as has already been indicated, income taxes may be of help in both these respects. An expansion of exports presupposes, however, not only that the goods will be available for export but that other countries will be willing to expand their imports of these goods. Any remaining deficit on current account would then have to be financed through mobilization of private holdings of gold, foreign exchange and other foreign assets, through the use of accumulated official gold and foreign exchange, or through foreign loans.

Should an under-developed country find all these means insufficient to maintain the desired pace of development and simultaneously to secure the necessary food supplies, it would then be faced with the problem of choosing between imports of food and imports of industrial equipment, or a choice, in other words, between a reduced rate of development and inflation. The degree to which this type of problem is likely to arise will depend on the extent to which a country is able to use control devices for distributing its food supplies equitably among its people.

Even in the "surplus" and food exporting countries, the rise in food prices, especially where war-time price controls were removed, resulted in inflationary pressures which do not yet appear to have reached the peak.<sup>2</sup>

<sup>1</sup> For more detailed discussion see part II of this report.

<sup>2</sup> For more detailed discussion of economic conditions in Australia, Canada, the United States of America, and New Zealand, see part II of the report.

The United States, which is the most important "surplus" country, maintained almost full employment since the war, and in some sectors experiences significant inflationary pressures. The factors contributing to high level of demand in the United States in the post-war period are (1) high consumption of durable goods and business investment in plant and equipment and residential construction, resulting from the release of pent up demand; these expenditures were limited mainly by supply conditions; (2) large net exports resulting from the urgent needs of foreign countries, financed in large part by loans granted by the United States Government; (3) the rise in inventories, which had been low in relation to sales, to levels approximating the pre-war relationships.

Following economic decontrol in the middle of 1946 there was a considerable rise in profit margins on manufactured goods and a sharp rise in food prices. The rise in the cost of living contributed to the demand for increased wage rates and these, in turn, contributed to a further rise in prices. Average hourly earnings in manufacturing increased by sixteen per cent from June 1946 to October 1947, as compared with a rise of forty-one per cent in the wholesale prices of manufactured products and eighteen per cent in consumer prices. The tendency to restrict consumption of non-durable goods and services, resulting from the shift in the distribution of income, was offset by the increased expenditure on durable goods which was made possible by improving supply position.

Since present indications are that United States food production in 1948 may fall below the 1947 output, the inflationary pressures may become more pronounced in 1948 if full employment is maintained and food exports remain at the 1947 level. In his economic report to Congress, the President of the United States stated on 14 January 1948 that unless "well considered regulatory measures" are devised "we stand in great danger that runaway prices, over-extended credit and unbalanced developments will lead to economic recession. We cannot be sure that such a recession would not be severe and recovery slow and painful". He then went on to list the following three economic objectives for 1948: "The first objective for 1948 must be to halt the inflationary trend. . . . Our second main objective for 1948 should be to maintain maximum employment, achieve maximum production and adjust the price-income structure so as to stop the inflationary spiral without production cutbacks or extensive unemployment. . . . Our third main objective for 1948 should be to establish firmer foundations for the long-range growth and prosperity of our economy in the years ahead."

The post-war trends in other surplus countries such as Canada, Australia and New Zealand were in many ways similar to those in the United States. However, in Australia and New Zealand rationing and price control have been continued to date, with the result that the cost of living increased much less in those countries than in the United States and Canada. The economic situation in all three countries is also considerably affected by exports to the United States and is thus dependent directly on the latter's continuing prosperity.

## THE FIELD OF INTERNATIONAL ACTION

The United Nations, the several specialized agencies, and the Member Governments are continually engaged in national as well as international action relating to the economic problems discussed above.

The exceptionally high world demand for goods in 1947 was the result of the needs of reconstruction in war-devastated countries, of economic development of under-developed countries, and of the release of the pressure for all kinds of goods which was pent up during the war. At the same time the actual world supply of most goods was considerably less in 1947 than a decade earlier. The pressure of this demand against the available supply was aggravated by the fact that it was less evenly distributed throughout the world than before the war. In this situation inflation and inflationary pressures have become almost universal, but are most intense in the devastated and in the under-developed countries.

Co-ordinated national and international actions are required which take into account the factors limiting the volume of production in the world. Although these factors may be different in different countries, they tend primarily, to be those limiting the production of food and of fuel. Actions that would result in increased production of fuel and its distribution to the countries where it is most needed would go far to improve the production of most other urgently required goods in the world. But if there may be said to be one area of economic activity in which action is more needed than in others, it is the area involving the production and distribution of food. For some years to come, at least, a shortage of food in the world is likely to constitute a serious obstacle to economic recovery from war destruction and to economic development of under-developed countries, unless actions can be devised which will facilitate increased production of food as quickly as possible and will ensure a better distribution of the food available now, both within and among all countries.

The bulk of the human, natural and financial resources that will be required for an increased volume of production in any country, must necessarily come from that country itself. In the war-devastated and in the least developed countries, however, foreign financing and foreign goods are bound to play an important part in speeding reconstruction and in promoting economic development. In this connexion it may be of interest to note that the Sub-Commission on Economic Development, in its first report to the Economic and Employment Commission, dated 18 December 1947, pointed out that: "If economic development is to progress more rapidly during the next few years, then a larger and better regulated flow of foreign funds than is currently available will have to be promoted by and through international agencies working within the framework of the United Nations." Co-ordinated national and international action could thus facilitate and accelerate the flow of goods and services from surplus countries to those which urgently require them to rehabilitate, reconstruct, or develop their own production in a manner that would permit the most effective utilization of their resources and so fit them into an "expanding and integrated world economy".

<sup>1</sup> For detailed statements see part IV of this report.

<sup>2</sup> Document E/CN.1/47, part VI, paragraph 4.



The Sub-Commission quoted above also suggested that the "lending countries assume the special responsibility and take measures to the end that goods are available for export and that they are available at reasonable and fair prices. Borrowing countries have the responsibility of ensuring that the proceeds of foreign borrowing are actually used for the purpose of importing the goods" for which the foreign financing was intended. Concerted national actions designed to keep down prices of goods entering into foreign trade would tend to reduce the cumulative international inflationary effect of high prices.

Both in the interest of promoting "higher standards of living, full employment and conditions of social progress and economic development" as well as in the interest of creating and maintaining world economic conditions which would permit the eventual and orderly repayment of international loans that may now be extended for the purpose of promoting economic reconstruction and development, it is essential that national and international action be considered now, when levels of employment are high in almost all parts of the world, so as to ensure that high levels of employment and economic activity are maintained if it should prove that the factors underlying the existing high level are impermanent.

<sup>1</sup> Document E/CN.1/47, part VI, paragraph 17.

## PART II

### REGIONAL ECONOMIC CONDITIONS