WORLD ECONOMIC REPORT 1951-52

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EXPLANATION OF SYMBOLS

The following symbols have been used 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 fiscal year, e.g., 1950/51

Use of a hyphen (-) between dates representing years, e.g., 1934-38, normally signifies an annual average for the calendar years involved, including the beginning and end years. "To" between the years indicates the full period, e.g., 1948 to 1952 means 1948 to 1952, inclusive.

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

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

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INTRODUCTION

INTRODUCTION

World production, calculated on the basis of official reports by governments, rose to a new high level in 1952, but the rate of expansion, which had been rapid since 1949, slackened off considerably. This slackening was particularly marked in industrial production, which in the first nine months of 1952 was only some 2 per cent higher than in the corresponding period of 1951, as against an average annual increase in the two preceding years of about 13 or 14 per cent. The expansion of world agricultural output from the crop year 1950/51 to 1951/52 was also some 2 per cent. Production of food, however, rose only one per cent, thus barely keeping pace with the growth in population. International trade, measured at constant prices, was slightly lower in the first three quarters of 1952 than in the corresponding period of 1951. However, there appears to have been an upturn in both trade and industrial production in a number of countries towards the end of 1952.

The rise and decline of inflationary pressures

Developments in the world economy from 1950 to 1952, outside the group of centrally planned economies, were influenced successively by an upswing in effective demand and prices during 1950 and the first half of 1951, then by a slackening of demand and a steadying, or even recession, of prices that continued throughout 1952.

The movement of prices of primary products, which reacted most sensitively to the changes in demand, is illustrated by the indices presented in chart 1. For many raw materials, notably those produced largely in the oversea sterling area, the turning point in prices occurred during the first half of 1951, but others did not begin to fall in price until later. The majority of raw material prices underwent a severe relapse in the course of 1952. World food prices, on the other hand, showed greater buoyancy and in most cases averaged higher in 1952 than in 1951.

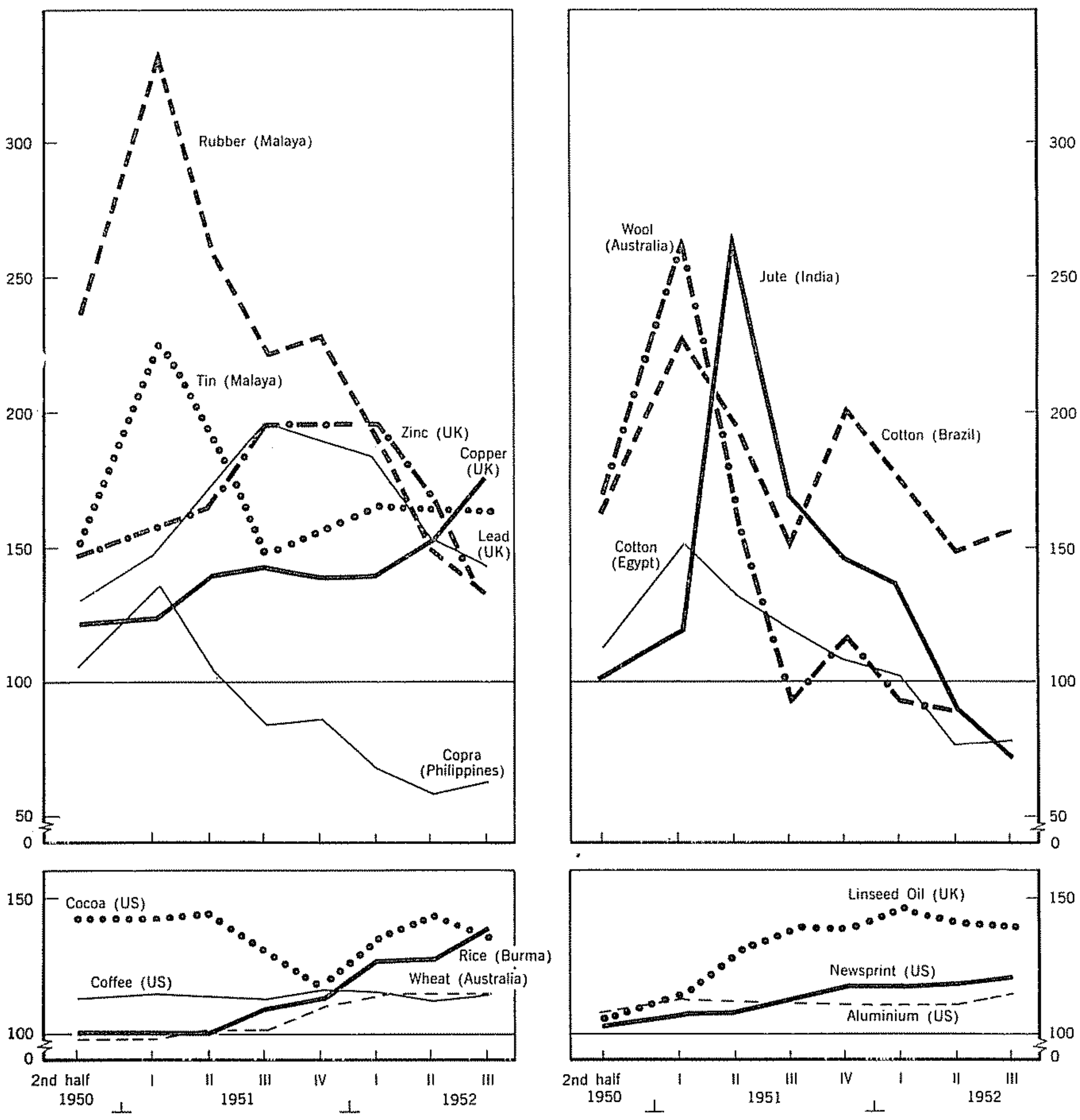
The prices of final products, reflected in the cost of living indices shown in chart 2, rose steeply throughout 1950 and 1951, but tended to level off in many cases during 1952—generally without falling significantly.

Since the outbreak of hostilities in Korea in mid-1950, two main dynamic influences have affected demand in the industrialized countries of North America and western Europe. The first has been a growth of public expenditure, largely on armament account, financed in the main, though not exclusively, out of additional taxation. The second has been a wave-like movement in the rate at which stocks of raw and semi-finished materials as well as more highly fabricated goods were currently accumulated in these countries. On the average, the proportion of national output absorbed by government expenditure rose from under 15 per cent in 1950 to nearly 20 per cent in 1952. The rate of expansion in government expenditure was lower in 1952. A growth of government expenditure of this order, even when balanced by a substantial increase in taxation, tended to bring about an expansion in demand and a rise in prices, particularly of primary products. This tendency was reinforced in 1950 and the early part of 1951 by a rapid build-up of inventories, but was subsequently counteracted in the later months of 1951 and in 1952 by the fact that inventories rose less quickly or, in some instances, began to fall.

The timing of the inventory cycle varied from country to country and from commodity to commodity. Broadly, however, the magnitude of the boom phase was due to an over-estimation of the scale of the armament effort and of the speed with which it could get under way. Expectations were widespread that there would be serious scarcities of goods accompanied by an upsurge in prices. The inventory boom characteristically fed on the price movements which it itself helped to generate. Correspondingly, the slackening of inventory accumulation in the latter part of 1951 and in 1952 resulted not only from the size of the accumulations but chiefly from the reversal of the initial expectations, which occurred when it became clear that the rearmament programmes would be phased over a longer period than originally anticipated. The fall in the rate of stock building was also influenced by fiscal and other measures adopted by governments, and was part cause and part effect of the decline in the prices of raw materials from the second quarter of 1951 onwards.

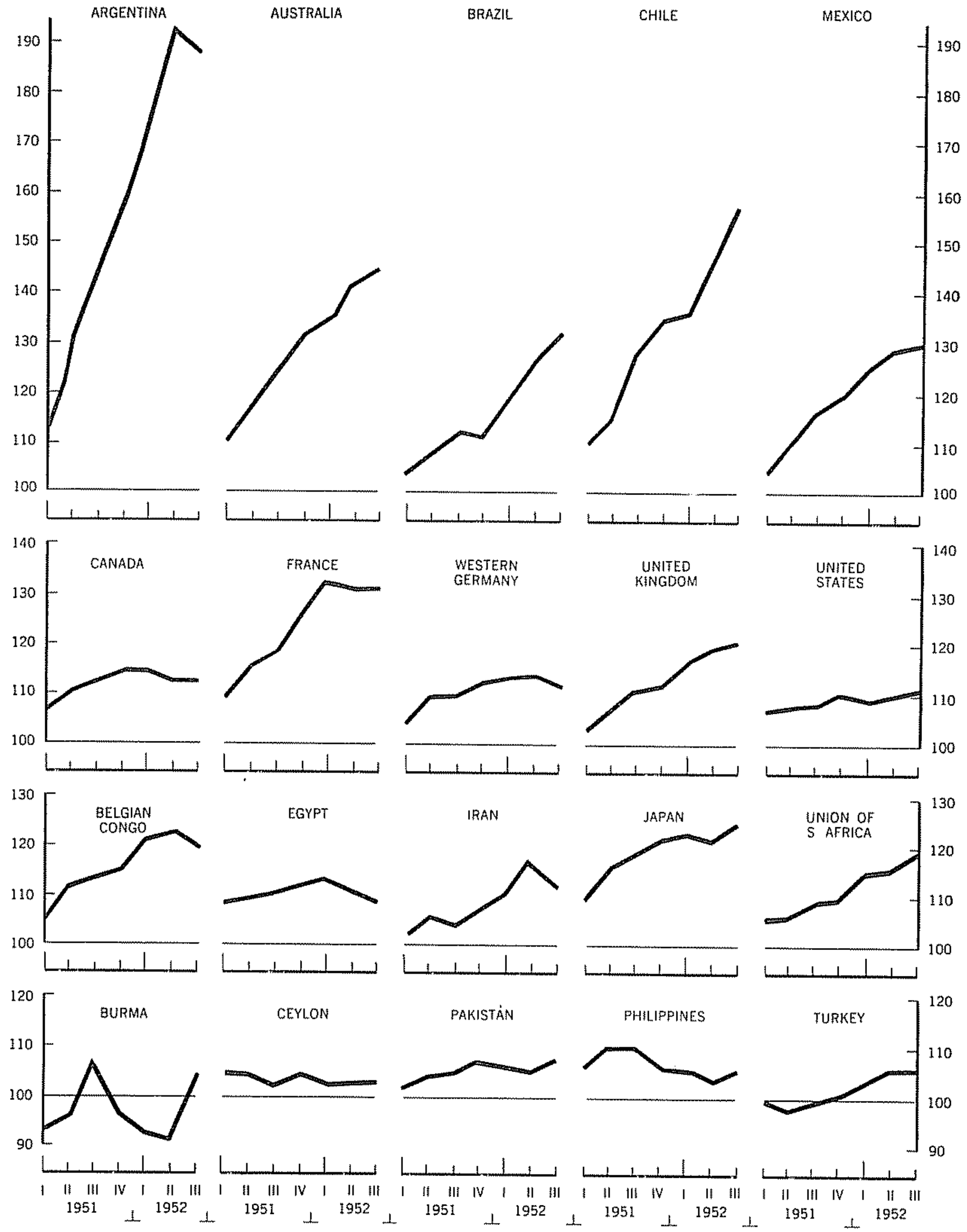
While the rate of accumulation of inventories fluctuated, investment in fixed capital was maintained. The capacity of the capital goods industries was considerably enlarged from 1950 to 1952, and there was probably also some expansion of capacity for the production of consumer goods.

Chart 1. Indices of Prices of Selected Primary Commodities, 1950 to 1952
(First half of 1950 = 100)



Source: See table 64.

Chart 2. Trends in Cost of Living Indices of Selected Countries, 1951 and 1952
(1950 = 100)



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

The tendencies towards excessive total demand which became evident after mid-1950 were powerfully restrained by the fiscal and credit policies of governments. Thus consumption was limited by higher direct and indirect taxation, and by reductions of subsidies on consumer goods and of consumer credit facilities. At the same time higher taxes on business, combined with increases in interest rates and a limitation of bank advances to industry, as well as the allocation by governments of certain industrial raw materials, helped to hold down private investment[1] in sectors outside the scope of defence activities. These measures owed some of their vigour to the general fear that inflation would result from the superimposition of the inventory boom of 1950/51 upon the first phase of the rearmament effort. In some cases, notably in western Europe, an additional objective of government policy was to check the growth of deficits in external trade and payments by internal measures restraining effective demand rather than through the use of direct exchange and trade controls.

In addition to acts of policy, certain "built-in" mechanisms operated to restrict demand. Thus the fact that social security payments by governments lagged behind the rise in the cost of living tended to limit consumption. A similar effect on consumption was exercised by the tendency, in countries with progressive income tax systems, for the proportion of the national income paid to the government in the form of taxes to increase automatically as money incomes followed the upward movement of prices.

There was, finally, a tendency on the part of consumers themselves in 1951 to devote to consumption somewhat less of the income available to them after taxes than in previous periods. It is not yet clear whether this change in the relationship of consumer expenditure to income was reversed in 1952.

The rather rapid rise in the prices of finished products that occurred in the latter part of 1950 and in 1951 despite these brakes on inflation was attributable not only to the pressures of demand and of soaring raw material prices, but also, in large measure, to the determination and ability of organized wage earners and other powerful income receiving groups to maintain and even increase their real income in the face of rising costs of living. This was offset only in part by the fall in the buying power of incomes relatively fixed in terms of money. The tendency towards a spiral process of wage and price increases was probably accentuated by the effect on the cost of living of higher indirect taxation or reduced subsidies.

[1] In this report investment is used in its economic sense of capital formation, that is, the addition of new plant and equipment and the accumulation of inventories, as distinguished from financial investment in securities, etc.

The anti-inflationary factors reviewed above had the effect, in the latter part of 1951 and in 1952, of checking the expansion in the demand for goods and services in the group of industrialized countries under consideration. The situation was not, however, uniform for all types of goods. Demand for the products of heavy industries, and for investment goods generally, was sustained at or near the level of the growing capacity by government expenditures, by a fairly steady level of outlay for private investment and, at any rate until the middle of 1952, by a high level of exports of capital goods to under-developed countries. On the other hand, the demand for articles of consumption other than food was, from mid-1951 to mid-1952, less than that required to keep the industries producing them working at capacity. The decline in demand affected in particular textiles and some other semi-durable goods. In some countries this decline in demand reflected only the ebbing or reversal of the inventory boom, but in others there was also reduced expenditure by the ultimate consumers. In a few cases, the extent of the slackening in demand gave rise, during 1952, to some relaxation by governments of the tighter credit policies instituted in the preceding period.

The fall in raw material prices in 1952 and the slackening in demand were not fully reflected in the prices of finished products, though these did level off and, in some cases, declined slightly towards the end of the year. This was not simply the result of normal time lags to be expected before changes in the prices of raw materials are communicated to those of finished goods. It was due to the fact that wage rates and various other costs tend to be far more flexible in an upward than in a downward direction. An additional factor contributing to the failure of living costs to fall appreciably was the short crop in many countries during the 1951/52 season. Consequently, the total supply of foodstuffs increased very little, and retail food prices did not, in general, show any significant tendency to decline up to the end of 1952.

Production in North America and western Europe

Total national production reported in the industrialized countries of North America and western Europe rose on the average from 1951 to 1952 by some 2 per cent. Marked increases in production occurred in Canada, where there was a record harvest and a general growth of the economy based on the further development of natural resources, and in western Germany, where the rise in output chiefly reflected higher investment and government expenditures. In some countries declines in production were reported. Except for certain steel users in the United

Kingdom, industrial production was not hampered to any significant extent in 1952 by the difficulties in raw material supply which had been manifest in several countries in 1951; most countries, in fact, were able to relax, in the course of 1952, such restrictions on the uses of raw materials as they had introduced in 1950 and 1951. Industrial production of many kinds of goods was, however, affected by the slackening in demand; for the most part industrial production fared worse than output as a whole. The total level of employment was, in general, little changed from 1951 to 1952. There were some increases in unemployment in certain countries in western Europe, as well as a slight reduction in working hours and a damping down in the growth of productivity, all of these being particularly marked in, or confined to, consumer goods industries. There was, however, a tendency in a number of countries towards recovery in the latter months of 1952.

Considering the whole period from 1950 to 1952, the amount by which the real value of the total output of this group of countries increased was larger than the rise in the corresponding value of arms production alone. The fact that civilian supplies—and hence real consumption and real wages—could rise notwithstanding the substantial increases in resources devoted to arms production contradicted widely held expectations. The achievement was due to a combination of considerable growth in industrial capacity, increases in productivity and higher levels of employment.

Trends in under-developed countries

It is more difficult to generalize about trends in the under-developed countries from 1950 to 1952 than about the situation in the group of industrialized countries reviewed above. To the extent that domestic developments were conditioned by changes in foreign trade, the outcome in individual countries depended upon whether the particular products which they export were those subject to especially sharp fluctuations in price and demand, such as rubber, tin and wool. Moreover, much depended, in particular cases, upon developments in food supply.

The accumulation of inventories of raw materials by industrialized countries in North America and western Europe in 1950/51 had a parallel in an expansion of inventories of imported manufactures in under-developed countries. This expansion reflected not only, in some cases, increases in real income, but also fears that, once rearmament was in full swing, the rearming countries would be precluded from maintaining the level of their exports to under-developed countries and that the prices of manufactures would rise considerably.

In 1951/52 a different sort of inventory accumulation made its appearancce in many of these countries. The accumulation of imported consumer goods, especially textiles, fell owing to the overbuilding of inventories in the preceding period and to the imposition of import restrictions to support the balance of payments. However, the fall in external demand for exportable raw materials was reflected in a piling up of many raw material inventories, particularly in those cases in which countries attempted by various means to support the prices of their exports. Some of these inventories were later cleared by such means as barter deals and partial devaluation of currencies.

Industrial production generally increased in under-developed countries in 1951 and 1952. In some cases there was a continuing expansion in the output and exports of mining industries in response to the fairly well sustained world demand for metals and petroleum products. In other cases, the process of substitution of domestic production for imported manufactures continued. In a number of countries, finally, there was an increase in residential construction and other investment in fixed capital, one of the factors in the rise being the reinvestment of export profits. The increase in fixed capital investment, which contributed to the expansion in industrial production, was accompanied by a high level of imports of machinery and equipment from the United States and western Europe. The favourable effects of the above factors on the over-all level of industrial production were in many cases partially offset by a slackening of demand for consumer goods, causing a levelling off or a decline in production, notably of textiles.

In the majority of these countries the improvement in terms of trade from 1950 to 1951 was followed by a setback in 1952 owing both to the fall in prices of exported raw materials and to the rise in prices of imported goods. However, the fall in incomes resulting from declines in the prices of exports in most cases had little effect on consumer demand. Both during the initial upsurge of raw material prices in 1950/51 and during their subsequent decline, the direct effects of these price changes on the incomes of the majority of the population—as distinct from indirect effects exercised through the stimulation of primary production and investment—were often relatively small. The price fluctuations as such were reflected mainly in an expansion and subsequent contraction of profits, or in some cases, of taxes, since a number of governments in the Far East drained off part of the profits in 1950/51 by such means as the imposition of export duties, and reduced the duties as prices fell.

In most under-developed countries the major factor in determining the trend in consumption was the level of the food supply. In general, there was an increase in the pressure of effective demand for food resulting from the rise in employment and incomes. On the other hand, the proportion of the larger total agricultural production that was devoted to commodities other than food increased in response to the previous rise in the prices of these items in relation to food prices, or as a result of governmental policies.[2]

Where the supply of food did not keep pace with rising demand, the higher money incomes of the industrial population were largely offset through a rise in the price of food. Another factor tending to raise the cost of living was the continued increase in import prices, intensified in some instances by currency devaluation. These increases in the cost of living tended both to restrain consumer demand for industrial goods, since the fall in urban demand was offset only in part by higher demand in rural areas, and to generate an upward spiral of wages and prices. In certain under-developed countries, notably in South America, such price spirals had begun in earlier years and were given additional momentum by developments during the period under review. In a number of countries in Asia, however, the rise in food supplies during the period under consideration sufficed to prevent any marked change in food prices or the cost of living, and consumption was maintained or increased in real terms.

Trends in international trade and payments

The changes in international trade and payments from 1950 to 1952 took place in a context of continuing international disequilibrium. This was reflected in the fact that it did not prove possible for most countries to comply with the provision in the Articles of Agreement of the International Monetary Fund for dispensing with exchange restrictions by the end of the post-war "transitional period", which expired in the early part of 1952.

The quantum of international trade outside eastern Europe and mainland China[3] dropped slightly in the first nine months of 1952 from the level of the previous year. Towards the end of 1950 and early in 1951 the quantum of trade had expanded sharply under the impact of a general rise in economic activity and, in particular, of an accumulation of inventories in both industrialized and under-developed economies. In 1952, on the other hand, the levelling off in economic activity and the decline in the rate of accumulation of inventories were associated in many cases with a fall in the demand for imports. Moreover, a number of countries which encountered balance of payments difficulties in 1951 were compelled to reduce their imports in 1952 through the use of disinflationary fiscal and credit policies or import restrictions, or both.

The period from 1950 to 1952 illustrates the sensitivity of balances of international payments to even moderate fluctuations in internal demand. During this period many countries experienced changes in their balances of external trade and payments out of all proportion to the movements in their aggregate incomes and output. In part this reflects the fact that the balance of trade may shift by relatively large amounts in response to smaller variations in exports and imports separately, while changes in the balance of trade are not necessarily reflected in corresponding variations in the total national product inasmuch as other factors may produce offsetting effects. Institutional and other factors may also contribute to the amplitude of fluctuations in balances of payments. Thus, changes in the balance of trade associated with successively rising and falling exports would tend to be magnified in so far as there were any delay in the adjustment of imports to the consequential movements in economic activity. This tendency would, moreover, be intensified in those cases in which considerable administrative time lags are involved in the relaxation or tightening of import restrictions in response to the balance of payments situation.

The main disturbing factors in international payments from 1950 to 1952 appear to have been two. The first consisted in variations between countries not only in the intensity but also—and perhaps more importantly—in the timing of the rise and fall in their demand for imports during this period. The second consisted in differences in the responsiveness of supplies of raw materials and of finished products to the changes in demand. These factors led to significant changes both in the quantum and in the terms of trade. Both factors were involved in the fluctuations in the balance of payments between industrialized and primary producing countries from 1950 to 1952, but changes in balances among the industrialized countries were associated primarily with differences in the timing of the expansion and subsequent contraction of their imports.

The changes in prices of primary products noted above were reflected, with a short time lag, in the export prices of the countries producing these goods. Thus, the export prices of primary producing countries, having risen until the first quarter of 1951, tended on the average to fall beginning in the second quarter and more steeply after the fourth quarter of that year. On the other hand, the prices of finished goods exported by industrialized countries, which had risen more slowly than the prices of imported primary products from mid-1950 to mid-1951, continued

[2] See Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture: Review and Outlook* (Rome), October 1952.

[3] For a list of countries included in "eastern Europe and mainland China", see footnote 6 in this chapter.

their upward movement until the early months of 1952 under the impact of the previous increase in raw material and wage costs. As a result, the terms of trade began to turn in favour of the industrialized and against the primary producing countries from approximately the middle of 1951. By the third quarter of 1952 the terms of trade of western Europe as a whole had virtually regained the position prevailing at mid-1950, although in the United States and some individual western European countries they were still less favourable than at mid-1950.

Since the quantum of western Europe's exports rose more than that of its imports from 1950 to 1951, changes in export and import prices sufficed to account fully, in a statistical sense, for the adverse movement in the balance of trade. Conversely, the entire improvement in the balance of trade in the first nine months of 1952 was attributable to the recovery in terms of trade, since the quantum of western Europe's exports fell slightly more than that of its imports. As for the primary producing countries, the improvement in their terms of trade was the major factor permitting them to increase considerably the quantum of their imports in 1951 from the United States as well as western Europe, since the quantum of their exports rose relatively little; and the subsequent setback in their terms of trade contributed in large measure to the substantial external deficits incurred by a number of these countries in 1952.

The decline which set in from the second half of 1951 in the export incomes of primary producing countries began, in 1952, to react adversely upon their demand for imports, especially of consumer goods. Nevertheless, owing to the lapse of time between the earning and spending of incomes, and still more to the time lags involved in the procurement of capital goods, import deliveries, especially of capital goods, continued on a high level for some time after the fall in export receipts had begun. In some countries, moreover, the demand for imports was sustained by continuing inflationary pressures, and in some, inadequate food production or crop failures in 1951/52 gave rise to a higher demand for food imports. These factors, together with the deterioration in terms of trade, contributed to the growth in the external deficits of a number of countries in the overseas sterling area, the Middle East and South America. Many of these countries had to draw down their reserves of foreign exchange, especially their sterling assets, and ultimately to impose restrictions on both dollar and non-dollar imports. In a few important cases, there was also a considerable accumulation of arrears in payments to the United States and western European countries; some of the latter countries reacted by imposing selective restrictions on their exports. These various restrictions on trade began to exert their maximum impact towards the middle of 1952.

Balances of payments were affected during the years 1950 to 1952 not only by fluctuations in terms of trade but also by inventory changes. Countries whose inventories are rising tend to run into deficit with those whose inventories are falling, especially since the import content of inventories is, in general, relatively high. Where imports are free from quantitative controls, inventory changes are normally a causal factor affecting imports and hence the external balance. When, however, import restrictions are varied in such a way as to keep external payments in balance and protect foreign exchange reserves, stock building and depletion may be as much a consequence as a cause of the changes in imports.

Differences in the timing of the rise and fall in the rate of accumulation of inventories in particular countries were frequently of considerable importance in the changes in their external balances from 1950 to 1952. This factor played an important part in determining the relative creditor and debtor positions of various countries on the books of the European Payments Union as well as changes in dollar deficits.

In the case of the sterling area, differences in the phasing of inventory changes in relation to other countries were a major influence in the exceptional instability of the area's balance of payments from 1950 to 1952, though other factors also played their part. Among the latter were fluctuations in export prices and money incomes in the primary producing countries in the area, and the inevitable time lags involved in adjustment of imports to the level of export receipts. Countries in the sterling area imposed severe restrictions on imports of dollar goods in 1950 while United States imports were rising, relaxed them in 1951 while United States imports were falling, and reimposed them in 1952 when United States imports rose again in quantum but fell somewhat in value. As a result of these developments, the sterling area balance of payments with the dollar area[4] passed from a surplus of over $800 million in 1950 to a deficit of more than $1,000 million in 1951, tending subsequently, in 1952, to move into balance. Similar, though smaller, fluctuations occurred in the external payments of other countries. Thus the deficit on current account[5] of continental western Europe with the dollar area increased from $1,400 million in 1950 to $1,800 million in 1951, but was reduced once more during 1952.

To a greater extent than in previous years, a number of countries in 1951/52 sought to curb domestic

[4] On current and capital accounts, excluding United States aid and changes in gold and dollar assets.

[5] Excluding United States aid.

demand in order to reduce the pressure on their external payments. Measures to this end were frequently supplemented by the tightening of exchange and import restrictions, which in many cases were designed to reduce over-all deficits, as well as dollar deficits, so that they were applied to external transactions in general and not merely to transactions with the dollar area. A tendency towards a mutual curtailment of imports resulted within the area covered by the European Payments Union, between western Europe and South America, and even within the sterling area. However, a number of countries made more strenuous efforts than in previous years to foster exports to the dollar area in preference to other destinations, particularly by means of financial incentives to exporters.

Production and trade in the centrally planned economies

There was relatively little mutual interaction in 1951 and 1952 between economic developments in eastern Europe and mainland China[6] on the one hand and the rest of the world on the other, reflecting the progressively diminishing importance of the economic links between the two areas.

These countries devote a high proportion of national income to capital formation, in accordance with their policy of rapid industrial expansion, simultaneously with their heavy military expenditures. They report continuing high percentage increases in industrial production. The rate of increase of industrial production from 1951 to 1952, though somewhat lower than in the previous year, ranged from 11 per cent in the Union of Soviet Socialist Republics to 24 per cent in Hungary. On the mainland of China, where industry is in process of reconstruction—and much of it is, in any case, at an early stage of development—the percentage increase in the index of industrial production was still higher. In all these countries the output of heavy industries, responding to the increase in investment and in military expenditures, rose faster than that of consumer goods industries. However, in some sectors of heavy industry the economic plans of Czechoslovakia, Hungary and Poland were not fully realized, though plans for industrial output as a whole were in general fulfilled. These developments were accompanied by an expansion of industrial productivity and employment, the latter being achieved in part through a transfer of labour from other occupations to industry. In some countries, shortages of labour were experienced by industry.

[6] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania, the Union of Soviet Socialist Republics and the area under the control of the Central People's Government of the People's Republic of China.

While industrial expansion was relatively rapid, agricultural output developed rather slowly and was subject to considerable variation because of changing weather conditions. The trend in consumption, especially of food, varied from country to country. In mainland China, eastern Germany and the Soviet Union, increases in supply were sufficient to permit a rise in real wages. In Bulgaria an improvement in the supply of consumer goods, together with a monetary reform designed to eliminate a major proportion of cash in the hands of the public, made it possible for rationing to be abolished.

In Czechoslovakia, Poland and Romania, on the other hand, the food supply situation deteriorated. This was the consequence of a lagging of agricultural output behind industrial production, aggravated by bad weather; of the tendency for per capita food consumption in rural areas to increase as the agricultural population was drawn off to other occupations; and finally, of the withholding of deliveries by peasants and speculation resulting from rising prices on the free markets. This led to a decline in per capita food consumption, and probably real wages, in the towns, though it also raised the real income of those peasants who sell a significant portion of their produce. In order to deal with this situation the countries affected introduced a number of measures, including the rationing of foodstuffs. Additional food supplies were made available outside the scope of the rationing schemes, at higher prices. Although Romania adopted a monetary reform along the lines of the Bulgarian reform, rationing continued. In Hungary a decline in the supply of food, accompanied by a rise in demand, resulted in the introduction of rationing at the beginning of 1951. An improved harvest in 1951 made it possible for rationing to be abolished but the situation deteriorated again after a poor crop in 1952.

Yugoslavia,[7] which had had a particularly poor harvest in 1950 owing to a drought, had a much better one in 1951, and food consumption and real wages recovered from the previous decline. The harvest of 1952 was, however, again severely damaged by drought. Industrial output rose 4 per cent in 1951 and was maintained at that level in 1952.

Before the war the eastern European countries other than Yugoslavia transacted some 90 per cent of their trade with the rest of the world and only 10 per cent with one another. Since then the quantity of trade of these countries with the rest of the world—

[7] The classification of Yugoslavia presents some special difficulties in that while it appears that economic activity continued to be centrally planned during the period under review, considerable changes were being introduced in the organization of the economy in the direction of decentralization and decontrol.

"east-west" trade—has been cut by one-half, and is of diminishing importance to both groups of countries concerned. By 1951 east-west trade accounted for only one-third of the trade of the centrally planned economies, other than Yugoslavia, and for a mere 2 per cent of the trade of the rest of the world. Moreover, the aggregate foreign trade of the former group of countries continued to be small in relation to their total production, imports from all sources being equivalent, probably, to not more than 2 per cent of the combined output of the area.

While trade between the centrally planned economies and the rest of the world has declined since pre-war years, the quantum of trade within both groups of countries has expanded substantially by virtue of an intensification of trade among the countries comprising each group. An exception to these trends is Yugoslavia, whose trade has now been reoriented owing to difficulties in relationships with other eastern European countries.

Continuing world economic problems

The course of recent world economic developments seen against the background of the situation in the earlier post-war years, as well as before the war, indicates significant elements of progress. Industrial production, which in 1946 barely exceeded the prewar volume in the world as a whole, and was well below that volume throughout most of Europe and Asia, has now reached a level which, on the average for all countries, is 75 per cent or more higher than in 1937. The world's output of food has also recovered from the effects of war-time devastation, being about one-tenth larger in 1951/52 than the average for the years 1934-38. Levels of employment have been higher in the post-war period than before the war, and unemployment has in general been lower. The rise in agricultural and industrial production has been accompanied by a growth in the quantum of international trade to a level about one-third higher than in 1937. Moreover, the increase in output in areas which suffered physical devastation has enabled them to restore a better balance in their international payments by raising their export capacities.

There are, however, important qualifications to be made in respect of the progress thus far achieved. The rise in industrial production in the world as a whole continues to reflect great divergencies in achievements among individual countries. Per capita production of food remains less than before the war, especially in Asia, since the growth in world population has been of the order of 15 per cent. While the danger of inflation is still present in some countries, the problem of maintaining present high levels of employment may become of considerable importance in the next few years. Finally, international trade continues to be beset by multifarious restrictions, and international economic balance has yet to be achieved.

The areas of continuing economic difficulty may be considered under three main headings—problems relating to the maintenance of economic stability, those concerned with persistent disequilibrium in international payments, and those arising from the relatively slow advance of the under-developed countries. While these three problems are conceptually distinct, they are in practice closely interrelated and the solution of each depends to some extent upon the success achieved in dealing with the others.

The problem of economic stability

In the major industrial countries of North America and western Europe, aggregate employment levels have generally been high throughout most of the post-war period, and serious unemployment has, on the whole, been confined to certain countries or industries confronted by special difficulties. Most countries have had to deal with problems arising from an excess of monetary demand rather than from an insufficiency of demand below the levels required for the maintenance of high employment. Inflationary problems were most acute during the period of shortages in the immediate aftermath of the war and in the first phase of rearmament which began at the end of 1950. In the earlier period the major factors in overcoming the pressure of inflation were the recovery of supplies of consumer goods and the reduction or elimination of the pent-up demand for goods which could not be satisfied during the war years, though governmental measures of fiscal and monetary policy designed to curb demand were also of considerable importance in a number of cases. A more widespread reliance upon such fiscal and monetary measures in 1951 and 1952 contributed largely to the subsiding of inflationary pressures which occurred in most countries by the beginning of 1953 although expansion in productive capacity and in supplies also played an important part.

While these measures were effective in restraining demand, they could not prevent a general upsurge in prices resulting initially from increased raw material costs, and subsequently from the responsiveness of wage rates and other costs to the rise in consumer prices. Though the wage-price spiral seems to have spent its force in most countries, it could certainly be set in motion again by any upturn in the cost of living.

The possibility of deflationary developments cannot, of course, be excluded from consideration, though there are many elements supporting demand in the present situation. It has already been noted that the rate of expansion in government expenditures in many of the industrialized countries of North America and western Europe was reduced in 1952. It is likely, however, that a relatively high volume of governmental demand for goods and services will be maintained. Changes in the other main elements in total demand cannot be predicted with any certainty at the present time since much depends upon the fiscal and monetary policies pursued by governments as their own expenditures level off. Under favourable conditions, there is in all these countries great scope for further growth in private investment, especially in those areas of productive enterprise and construction which, during the past two years, have been subject to limitations of various kinds designed to facilitate rearmament. On the other hand, however, private investment associated with the expansion of arms production may tend to decline.

In most of these countries the responsiveness of government tax revenues, social security contributions and social expenditures to changes in the level of activity and employment is nowadays sufficient to exercise a significant moderating influence on any spontaneous tendencies towards depression and declining employment. Substantial support to the level of effective demand could also be afforded through reductions in tax rates, as well as through useful investments of a type which governments can foster by means of appropriate fiscal and credit policies. The powers of governments in these respects have not as yet been seriously tested.

Even if it should prove possible to maintain a broad stability in the total demand for goods and services in the industrialized countries, the events of recent years suggest that this, of itself, would not provide immunity from erratic swings in inventory expenditures. Though the direct effect of such fluctuations on employment and economic activity in industrialized countries may be relatively minor, their repercussions on external payments and terms of trade are apt to be considerable. The under-developed countries are especially vulnerable to these fluctuations, as is indicated below, because the primary products which they export are a major component of the inventories of the industrialized countries. Instability in internal demand, and particularly in expenditure on inventories does, however, affect most countries in greater or lesser measure, and tends to expose their balances of payments to rapid changes. The existing supply of gold and foreign exchange in the hands of the great majority of governments, even when supplemented by international borrowing rights of the type provided by the International Monetary Fund and the European Payments Union, is insufficient to enable them to meet disturbances of the size of those which have occurred in recent years, without recourse to import restrictions or deflation. The elaboration of measures to mitigate the international impact of domestic instability continues, therefore, to call for international discussion.

International economic disequilibrium

A second area of continuing difficulty comprises the problem of international economic imbalance. It is difficult to see how this imbalance could be eliminated in the absence of a solution to the problems of domestic economic stability reviewed above. But the achievement of such stability would not be sufficient in itself to overcome the obstacles to the establishment of international equilibrium. From 1947 to the beginning of 1950 the abnormal external deficits incurred by many countries were progressively reduced as their production and exports recovered from the effects of war devastation, and as inflationary pressures subsided. The subsequent period from 1950 to 1952 was characterized, for reasons already discussed, by sharp fluctuations in balances of payments, leaving it somewhat obscure, for the present, as to whether the underlying trends have been towards or away from equilibrium. The main reason for optimism lies in the reduction of the dollar deficit achieved by the non-dollar countries in the course of 1952. The gap between United States exports and imports of goods and services, excluding exports financed by military aid, was significantly lower in the second half of 1952 than in the six months before the outbreak of hostilities in Korea.

This improvement was, however, precarious. It depended to a considerable extent upon tightened import restrictions by countries in western Europe, the oversea sterling area and Latin America. It reflected a slackening in economic activity and a fall in the rate of stock building in many non-dollar countries, combined with an expansion of activity in the United States, where unemployment was reduced to unusually small dimensions. And it included among its main components an increasing value of purchases of goods and services for use abroad by the United States Government and its personnel, which cannot necessarily be expected to continue indefinitely at current levels.

The world, therefore, remains confronted with major problems in the achievement of international economic balance and ultimately of the convertibility of currencies. These problems concern not merely the direct transactions between the dollar area and the rest of the world but also, as will be seen below, the pattern of production and international trade in the non-dollar countries. The most important single manifestation of disequilibrium, however, is the inability of most countries to balance their dollar accounts without recourse to financial aid from the United States and restrictions on dollar imports; and any advance towards international economic balance must therefore include as one of its major elements a further process of adjustment of the demand for dollars to the supply, excluding economic aid.

How far such adjustments will have to go in curtailing the demand for dollars will depend upon the extent to which a continuing decline in disbursements of economic aid by the United States may be offset by other transactions tending to raise the world supply of dollars—notably by a rise in United States imports or private capital outflow or both.

A continuation of the rapid growth of economic activity in the United States would tend to increase the outlays of that country for imports. This would to some extent raise the dollar earnings of industrialized countries from their exports to the United States. However, since United States imports consist predominantly of foodstuffs and raw materials, the most important direct beneficiaries of such a rise in imports would be the primary producing countries, though certain western European countries would also benefit to the extent that their affiliated currency areas contribute dollar surpluses to the metropolitan countries. Except in the case of such pooling arrangements, the effect on industrialized countries in present circumstances would depend primarily on how far they might be able to compete for the additional supplies of dollars made available through increases in United States imports. In the conditions of dollar shortage characteristic of recent periods, primary producing countries, other than countries in the oversea sterling area, have generally employed their dollar earnings to purchase goods in the United States rather than to finance imports from western Europe.

Any reduction of United States import duties, removal of customs formalities or consolidation of tariff concessions previously granted would also tend to increase the world supply of dollars and in this case, depending upon the goods affected, the direct benefit might accrue to a considerable extent to industrialized countries exporting manufactures. A very small increase in the proportion of the United States market for manufactured goods supplied by foreign producers would entail a substantial increase in the direct dollar earnings of these countries.

The world supply of dollars could also be raised through an increase in the outflow of long-term capital from North America to the rest of the world. Thus far in the post-war period, however, owing to the attraction of investment within North America and the political and economic obstacles and uncertainties facing foreign investors in many potentially capital-importing countries, the outflow of private investment from the United States has been too small to make much of an impression on the dollar problem. The degree to which an increase in the flow of United States private foreign capital to under-developed countries might contribute to the solution of the dollar problem of western Europe would depend partly on how far such investment took the form of freely disposable dollars and partly upon western Europe's ability to compete for such dollars.

Whatever expansion may be achieved in the supply of dollars is unlikely to dispense with the need for adjustments in the rest of the world to economize the demand for imports from the dollar area. This is all the more necessary in that such demand tends to be augmented as world real income expands. Since the dollar shortage is already compelling countries to restrain their consumption of dollar goods, the main scope for such adjustments would seem to lie in expanding the production and exchange, between non-dollar countries, of goods which compete with dollar imports.

The convergence of the demand of western Europe and primary producing countries upon the dollar area results in part from their failure to supply one another with enough of certain types of goods of particular importance for sustaining or developing their economies. This applies particularly to the requirements of western Europe for food and certain raw materials and to the demand of under-developed countries for capital equipment. Among the factors responsible for aggravating this situation are the progressive curtailment of east-west trade and the failure of food production in non-dollar countries to rise commensurately with population and income. In addition, the composition of goods available for export from western European countries has still not been fully adapted to the shift in the import demand of under-developed countries from consumer goods towards capital goods, especially where foreign exchange resources are inadequate to support imports of both types of goods. While western Europe's capacity to produce capital equipment has increased considerably since pre-war years, export capacity has not thus far risen commensurately owing to the prior claims of internal reconstruction and, more recently, of rearmament. Any solution to the problem of international economic balance at a high level of income and trade is likely to necessitate significant changes in the structure of trade in the non-dollar areas.

These adjustments will not come about unless there is an adequate incentive to produce additional supplies of the dollar-saving goods at prices competitive with those produced in the dollar area. For this purpose, and in order to expand direct sales to the dollar area, it may be necessary, in some cases, to apply general measures to check increases in wages and prices, or to adjust exchange rates. Such measures, however, have to be applied with care: in the case of deflation, lest they involve disproportionate sacrifice of domestic production, employment and productivity; and in the case of devaluation, lest they entail too steep a deterioration in terms of trade and set off an inflationary spiral of prices and wages. The loss of real income which adjustment by such a means would entail could, however, be avoided provided that a sufficiently rapid increase in productivity could be achieved by non-dollar countries.

Economic development

The economic development of under-developed countries continues to be a primary preoccupation of the United Nations and of its specialized agencies, as well as of their member countries.

Studies in recent years indicate that while world income has grown rapidly, it is now even more unequally distributed among countries than in the period immediately preceding the Second World War, and the last two or three years have done little to alter this general picture of a widening gap between rich and poor countries.

The problems of under-developed countries are formidable. So long as they remain dependent on the export of raw materials for a substantial proportion of their income and for the bulk of their foreign exchange receipts, they may be exposed to periodic setbacks resulting from the characteristic instability of external demand for such products even during periods of high and rising real income in the industrialized countries. Price fluctuations of the magnitude of those which have been typical of many primary commodities in recent years, besides leading to abnormal fluctuations in real income, subject the economies of under-developed countries to periodic distortion and make it extremely difficult for them to budget for an orderly programme of economic growth, based upon a stable level of foreign exchange resources adequate for the purchase of any necessary goods abroad. Many such countries have attempted in recent years to stabilize the incomes of domestic producers in the face of price fluctuations in export markets, but these efforts have not obviated the disturbing effects on their capacity to maintain imports. The achievement of a greater degree of stability in the export incomes and import capacity of under-developed countries may therefore also involve measures to stabilize the world demand for primary products.

On the other hand, recent attempts to expand and diversify the productive capacities of under-developed countries have likewise encountered great obstacles. The growth of investment activity and industrial employment in these countries tends to generate a rise in aggregate money incomes and hence in the demand for consumer goods, especially food. Consequently, unless industrial expansion is accompanied by a corresponding increase in the supply of food and other consumer goods, there ensues a mounting inflationary pressure of demand, accompanied frequently by an upward spiral of wages and prices with disturbing repercussions on production and economic development. In some countries inflationary price spirals have persisted throughout the post-war period. It is on account of the inadequacy of food supplies, moreover, that many of the under-developed countries have been compelled to devote a considerable proportion of their expanded foreign exchange incomes in recent periods to imports of foodstuffs. The lack of elasticity in the supply of food in under-developed countries continues to be a major hindrance to their plans for economic development. It is easier to indicate this difficulty than to find a solution for it. While technical assistance rendered by the economically advanced countries for the improvement of agricultural productivity in under-developed areas can contribute to the easing of this problem, the main burden of its solution rests with the under-developed countries themselves, especially since questions of the pattern of social organization and of land tenure are frequently involved.

Much also remains to be done in these countries for the more effective mobilization of domestic resources, for the channelling of those resources to productive activity, and for the strengthening of technical and administrative skills.

An accelerated pace of economic advance in the under-developed countries is likely to give rise to an expanded demand for imports of capital goods. Contrary to fears expressed in 1950, when it was thought that the countries engaged in rearmament would be unable to make adequate supplies of capital goods available for export, deliveries of such goods to under-developed countries rose in real terms from 1950 to 1951, and were at least maintained in the first half of 1952; and any subsequent slackening in such exports was due primarily to balance of payments difficulties experienced in a number of importing countries rather than to major dislocations from the side of supply. This is an indication that, given any relaxation in the pressure of military expenditures, there should be no difficulty, from the angle of supply, in providing the less developed countries with a greatly expanded volume of capital equipment, while at the same time providing for the continued needs for renovation and expansion in the industrialized countries themselves.

The question is rather that of the adequacy of the foreign exchange resources of under-developed countries for the financing of the imports which they need. The bulk of these resources will, at any rate for some time, continue to be derived from exports predominantly of raw or semi-processed primary products. The tempo of economic development could, however, be substantially accelerated with the aid of resources borrowed from the industrialized countries. For reasons of a political, social and economic character, some of which have already been mentioned, the flow of private funds from developed to under-developed countries is largely confined, with relatively few exceptions, to direct investment in extractive industries and shows little tendency to any major expansion. The flow of public funds, though growing, is likewise small. There is widespread agreement, however, that an expanded flow of capital to under-developed countries, if properly directed, could constitute a factor of major importance in raising the standards of living of their populations. The primary aim of such a flow of capital should, of course, be that of accelerating balanced economic growth in areas where it is most needed. But the additional demand for exports of industrialized countries which would thereby be generated could contribute materially to the maintenance of total demand and economic stability in these countries. Moreover, the effect of such a flow of capital in stimulating higher output and productivity in the under-developed countries could, under favourable conditions, offer opportunities for the enlargement of international trade in directions which would reduce the abnormal dependence of countries, both developed and under-developed, upon imports from the dollar area. In this manner an expanded flow of capital to under-developed countries could advance progress towards the solution of all three types of basic problems considered above.

Part I

MAJOR NATIONAL ECONOMIC CHANGES

Chapter 1

ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES

Summary

Economic changes in the developed private enterprise economies[1] in the period 1950 to 1952 were largely determined by certain developments of world-wide scope. In consequence, the pattern of changes in economic activity was with a few exceptions remarkably similar from country to country. This fact makes it useful, before entering upon more detailed analysis, to review developments in an aggregative sense by considering these countries as a single group.

National production in these countries increased significantly from 1950 to 1951. For the group as a whole, real gross national product increased over 7 per cent. However, by the second half of 1951 a slackening in the rate of increase was evident, and in 1952 the over-all gross national product increased only about 2 per cent as compared with 1951 (see table 1).

These changes in national production in the period considered were largely determined by the changes in effective demand engendered by two major developments following the outbreak of Korean hostilities in the middle of 1950: (*a*) large-scale rearmament and (*b*) the speculative raw material boom and subsequent slump. The rearmament programmes involved not only sharp increases in military expenditures but also the institution of measures designed to keep down private expenditures. The rise in private consumption was curbed mainly through an increase in the burden of direct and indirect taxation (or a reduction in subsidies). Private investment was restrained by corporate taxation and by such measures as the tightening of credit, the restriction of building licences and the allocation of strategic raw materials. At the same time the effect of the speculative raw material boom of 1950/51 and the subsequent slump of 1951/52 was reflected in a substantial rise and fall in the rate of inventory accumulation—both of raw materials and of finished goods.

As a result of these developments, decided changes occurred in only two of the major components of aggregate demand, namely, government expenditure and private investment in inventories. Government expenditure, as a result of the rise in military outlays, rose substantially and, in all the countries together, accounted for about three-fourths of the total increase in gross national product from 1950 to 1952.

Private investment in fixed capital was enhanced by the encouragement of investment related to rearmament but at the same time was restrained by the general governmental measures referred to above. Although these measures, introduced in late 1950 or in 1951, were relaxed in many instances in 1952, their impact was not negligible even in that year because of the time lag between investment decisions and actual investment. As a result of these divergent tendencies, investment in fixed capital increased only moderately during the period 1950 to 1952. In contrast, the inventory cycle associated with the raw material boom and slump was marked by a steep increase in investment in inventories in 1951. However, in the second half of 1951 the speculative reasons for further increases in inventories—expectation of future price increases and shortages—had already largely disappeared and in 1952 investment in inventories fell sharply. In consequence, total investment rose considerably in 1951 and fell in 1952 to a level not much higher than in 1950. These changes in the rate of inventory accumulation largely account for the wide disparity between the over-all rates of economic expansion in 1951 and 1952.

Changes in the real balance of exports and imports of goods and services of the group as a whole in this period were not so large as to play a significant part in determining the level of economic activity, even though the shifts in the real balances of individual countries were considerable.

Consumption showed only a comparatively small increase from 1950 to 1952 and thus fell in relation to gross national product. As suggested above, this was mainly due to the increased burden of taxation. The extra income generated by the rise in government expenditure was partly absorbed by the increase in tax revenue. At the same time the real value of government transfers (social benefits, etc.) was re-

[1] The countries covered in this chapter are Australia, Belgium, Canada, Denmark, France, western Germany, Italy, the Netherlands, Norway, Sweden, the United Kingdom and the United States.

Table 1. Aggregate Real Gross National Product, Unemployment, Cost of Living and Real Wages, in Developed Private Enterprise Economies as a Group, 1950 to 1952

Item	*1950*	*1951*	*1952*
Percentage of total 1950 gross national product, computed at constant prices:			
Gross national product	100.0	107.3	109.7
Personal consumption	68.4	69.2	70.4
Government expenditure	14.6	18.3	21.8
Private investment	16.9	19.5	17.6
Balance of exports and imports of goods and services	0.1	0.3	−0.1
Unemployment as percentage of civilian labour force available for hire	6.0	4.8	4.9
Indices (1950=100):			
Cost of living	100.0	110.2	115.7
Real wage rates	100.0	101.6	104.0

Source: See table 2.

Note: In order to present the data for all countries of the group on a comparable basis, all components of gross national product for the three years, 1950, 1951 and 1952, are expressed in percentages of the 1950 gross national product. Thus for 1950, the components of gross national product total 100, while for 1951 and 1952, the sum of the components represents the index for the 1951 and the 1952 gross national product, respectively, with 1950 as the base period.

In order to obtain a global figure (including western European countries, Australia, Canada and the United States) for real gross national product and its components as shown in this table, figures for individual countries were weighted alternatively by population and by industrial production. Since the two sets of results thus arrived at were very close, an arithmetical average was taken to represent an approximation to the global figure in question.

For comparability among countries, rough adjustments were made in some of the components of the gross national product of Norway, the United Kingdom and the United States. In the case of Norway and the United Kingdom, public investment expenditure was subtracted from gross capital formation and included in government expenditure. In the case of the United States, the component "net foreign investment" was replaced by the balance of exports and imports of goods and services, comparable with the concept used in the national accounts of other countries. This balance was obtained by adding net government unilateral transfers to net foreign investment, the corresponding item being omitted from government expenditure on goods and services. To the extent of these adjustments, the data used in obtaining the global averages for the components of the gross national product do not correspond exactly with the figures shown in table 2.

The weighted figures for the components of the gross national product for the year 1952 were calculated on the basis of preliminary data for individual countries. Since these estimates are crude, they are not shown in subsequent tables for individual countries in full detail. However, their preliminary character should not affect the global figures to a significant degree.

Data for individual countries, used in computing the global figures for unemployment as a percentage of the civilian labour force available for hire, are shown in table 7, and those used in computing the global figures of the cost of living and real wage rates, in table 8. Since statistics were not available for the full fourth quarter of 1952, figures for cost of living and real wage rates in 1952 represent the first three quarters of the year.

(Continued at foot of next column)

duced. In addition, consumption was unfavourably affected in 1951 by deterioration in the terms of trade of a number of countries of the group, by a shift to export profits in the distribution of income and, finally, by lower personal spending in relation to disposable income. However, in 1952 these influences were largely reversed.

Throughout most of the period, consumer demand was at a level below that which could have been supplied by available productive facilities. In fact, after the first half of 1951, when the period of rapid accumulation of inventories came to an end, pockets of unemployment developed in certain consumer goods industries.

The increase in gross national product was effected largely through a rise in output per man; this rise was, however, much greater in 1951 than in 1952, when the rate of increase in production slackened. Civilian employment increased from 1950 to 1952 only by about 2 to 3 per cent while gross national product rose by 9 to 10 per cent. Unemployment in this period fell by about one per cent of the labour force. In 1952 it was concentrated mainly in the consumer goods sector.

The index of real wage rates shows an increase of about 4 per cent from 1950 to 1952 for the group as a whole. However, the indices for individual countries (on which the aggregate index is based) are not always fully representative for all workers and exaggerate to some extent the rise in real wages in the period considered.[2] Moreover, the real wages represented by the indices are before taxes. The actual rise in real wages after taxes probably did not exceed 2 per cent. Together with the 2 to 3 per cent increase in civilian employment, this indicates an order of increase of 4 to 5 per cent in real labour income from 1950 to 1952. Like consumption, real labour income lagged behind the 9 to 10 per cent increase in the national product.

The cost of living rose rapidly from mid-1950 to mid-1951. Thereafter, the rate of increase slowed down, and in the course of 1952 the cost of living tended to level off. These movements reflected delayed effects of the raw material boom and slump, increases in indirect taxation or reductions in subsidies and, finally, increases in money wages in response to the primary rise in the cost of living, to the extent that they were not offset by the rise in productivity.

[2] See the analysis of changes in real wages in the sections which discuss major changes in economic activity in 1951 and 1952.

The global figures for cost of living and real wage rates were obtained by weighting the individual figures with the number of employed workers. The appropriate weighting factors are real payrolls; however, it is considered that the method actually used does not introduce perceptible inaccuracies into the results.

The above presents a broad picture of changes in the group of developed private enterprise economies as a whole. There were, of course, marked variations in the economic trends within the individual countries of this group. There were also certain specific developments which do not emerge in the analysis of changes in the gross national product and its components. One was the slump in textile production in the second half of 1951 and the first half of 1952, which affected all countries of the group; this slump largely reflected the inventory cycle, referred to above, but in many countries some other factors contributed to it as well. Another significant development was the adoption by several countries of policies restricting domestic demand in order to achieve equilibrium in their balance of payments. Such policies were introduced in Denmark and the Netherlands in late 1950 and early 1951 and, in some degree, by the United Kingdom and Sweden in late 1951 and 1952.

It is for this reason that, following a more detailed general analysis of the economic situation in 1951 and 1952, two sections of this chapter are devoted to an analysis of the textile slump and of the policies of Denmark and the Netherlands. The selection of Denmark and the Netherlands for special study in this respect was determined, not by their relative importance in the international picture, but by the fact that the policy of over-all curtailment of domestic demand with a view to improving the balance of payments position was introduced earliest and most intensively in these two countries, and that data covering a whole year in which these policies were fully operative were available.

Major Changes in Economic Activity in 1951

The previous *World Economic Report* presented a survey of economic developments in 1951 based on preliminary figures; final data on gross national product and its components are shown in table 2. Since the changes as compared with the preliminary information are not important, the detailed analysis of the economic situation in 1951 is not repeated, and only a general outline is given here.

The gross national product in constant prices increased from 1950 to 1951 in all countries of the group except Denmark, where there was no change. The increases ranged from one per cent in the Netherlands, Sweden and the United Kingdom, to 8 per cent in the United States and 16 per cent in western Germany.

The most important factors in the increases in gross national product from 1950 to 1951 were (*a*) the expansion of military expenditure and of related investment and (*b*) the rise in private investment, chiefly in the form of accumulation of inventories resulting from speculative orders. Government expenditure and private investment increased in all countries of the group considered. On the other hand, the direction of change in the real balance of exports and imports varied from country to country, and consumption in most instances failed to rise, or even fell, in spite of the increase in gross national product.

Private investment was affected by a variety of factors. There was a steep increase in that part of investment in fixed capital and inventories which was directly or indirectly related to rearmament. In addition, investment in other types of fixed capital and in inventories—and especially in the latter—was raised by speculative orders placed late in 1950 in anticipation of future shortages and price increases. On the other hand, investment in fixed capital not related to rearmament (in particular residential building) was restrained in many countries by corporate taxation, by tightening credit policies and in some countries, as in the United States and the United Kingdom, by direct allocation of strategic raw materials. In the final outcome, the rise in investment in fixed capital generally contributed less to the total increase in investment than did the rise in investment in inventories. It should be noted that the large accumulation of inventories was confronted in the second half of 1951 both with a weakening of speculative expectations and with a failure of consumption to rise. In consequence, by the fourth quarter of 1951 a sharp fall in the rate of accumulation had occurred in a number of countries, and a movement towards actual liquidation of inventories had been initiated in some.

The fact that consumption remained about the same, or diminished, in all countries except Australia,[3] western Germany, France and Italy is one of the outstanding features of developments in 1951. It should be added that, except in Australia, consumption in all countries fell in relation to gross national product (see table 3). This phenomenon cannot be considered a consequence of a shift of economic resources from consumption goods to armaments; indeed there were many instances of involuntary accumulation of inventories of consumption goods, and consumer goods industries generally did not fully utilize existing facilities. Restriction of consumption was due to a variety of factors, some of which, but not all, were the result of government policies designed to forestall inflationary pressures.

[3] With respect to Australia, all years referred to are fiscal years ending in June of the year indicated.

Table 2. Components of Gross National Product, at 1950 Prices,[a] in Western European Countries, Australia, Canada and the United States, 1950 and 1951

(Percentage of total 1950 gross national product)[b]

Country and year	Gross national product[b]	Personal consumption	Government expenditure	Private investment	Balance of exports and imports of goods and services
Australia[c]					
1950	100 0	69.9	16.6	15.4	−2.0
1951	105.5	75.5	19.7	17.2	−7 0
Canada:[d]					
1950	100 0	66 8	13 0	22 0	−1.8
1951	104 9	67.0	15 8	24.6	−2 5
Denmark:					
1950	100.0	68.1	14 0	21.4	−3.5
1951	100.1	65.6	14.5	18.8	1 2
France:					
1950	100.0	66.2	14.5	18.6	0.7
1951	106 1	70.0	15.7	19.8	0.6
Germany, western:					
1950	100.0	64 7	14.3	22 7	−1.6
1951	115.9	69.5	15.7	28.6	2 2
Italy:					
1950	100.0	73.1	13.5	13.4	
1951	106.3	74.9	14.1	17.3	
Netherlands:					
1950	100 0	63.4	15.4	25.8	−4.5
1951	101.4	61.4	16.3	22.4	1.3
Norway:[e]					
1950	100.0	62.0	11.9	31.0	−4.8
1951	103.1	60.3	13.2	34.3	−4.7
Sweden:					
1950	100.0	62 0	19.5	17.9	0.6
1951	101.4	61.2	20.7	22.1	−2.5
United Kingdom:[e]					
1950	100.0	70.5	15.8	11.7	2.0
1951	101.1	70.2	17.0	15.2	−1.4
United States:[f]					
1950	100.0	68 8	14.7	17.9	−1.4
1951	108.5	68.6	20.6	19.3	0.1

Source: Australia: Commonwealth Bureau of Census and Statistics, *National Income and Expenditure, 1951-52* (Canberra); Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure*, revised preliminary 1951 (Ottawa); Denmark: Department of Statistics, *Statistiske Efterretninger* (Copenhagen); France: Ministry of Finance; western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik* (Stuttgart); Italy: Replies of governments to United Nations questionnaire on full employment; Netherlands: Central Bureau of Statistics, *Statistische en econometrische onderzoekingen* (Utrecht); Norway: Central Bureau of Statistics, *Tendenser i den okonomiske utvikling, Varen 1952* (Oslo) and United Nations, *Monthly Bulletin of Statistics*; Sweden: Konjunkturinstitutet, *Meddelanden fran Konjunkturinstitutet*, serie A:21 (Stockholm); United Kingdom: Central Statistical Office, *National Income and Expenditure, 1946-1951* (London); United States: *Midyear Economic Report of the President* (Washington, D. C., July 1952).

[a] Australia and Italy: gross national product deflated by cost of living, except for balance of exports and imports, which was obtained as a difference between exports and imports deflated by their respective unit values of merchandise trade. Other countries: gross national product deflated by appropriate price indices of components.

[b] In order to present the data for all countries on a comparable basis, all components, in both 1950 and 1951, are expressed in percentages of the 1950 gross national product. Thus, for 1950 the components of gross national product total 100, while for 1951 the sum of the components represents the index of the 1951 gross national product with 1950 as the base period.

[c] Figures relate to twelve months ending 30 June of the year indicated. Estimated expenditure on passenger cars is included in consumer expenditure rather than in private investment.

[d] Real figures converted by components from 1935-39 to 1950 prices.

[e] Government expenditure excludes investment expenditure, which is included with private investment.

[f] At 1951 prices. Government expenditure includes net unilateral transfers. Balance of exports and imports represents net foreign investment, which is equal to the export surplus of goods and services minus net unilateral transfers.

Table 3. Indices of Real Consumption, Employment and Real Wages in Western European Countries, Australia, Canada and the United States, 1951
(1950=100)

Country	*Real personal consumption* (1)	*Civilian employment* (2)	*Consumption per employee* (1) ÷ (2) (3)	*Real wage rates*[a] (4)
Australia[b]	108	104[c]	104	104[d]
Canada	100	103	97	100[e]
Denmark	96	102[f]	94	98[g]
France	106	102[h]	103	109[i]
Germany, western	107	105	102	106[j]
Netherlands	97	102	95	96[k]
Norway	97	100	97	99[l m]
Sweden	99	101	98	106[l]
United Kingdom	100	100	100	100[n]
United States	100	102	98	100[o]

Source: For source of data for column (*1*) see table 2. For column (*2*): Australia: Commonwealth Bureau of Census and Statistics, *Monthly Review of Statistics* (Canberra); Canada: Dominion Bureau of Statistics, *The Labour Force, November 1945—March 1952* (*Reference Paper* No 35, Ottawa); Denmark and the Netherlands: Replies of governments to United Nations questionnaire on full employment and related matters, covering 1951 and 1952; France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique* (Paris); western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik;* Norway: Department of Commerce, *Nasjonalbudsjettet 1952* (Oslo); Sweden: United Nations, *Problems of Unemployment and Inflation, 1950 and 1951; Nationalbudget för ar 1953* (Stockholm); United Kingdom: Central Statistical Office, *Monthly Digest of Statistics* (London); United States: *Midyear Economic Report of the President,* July 1952. For column (*4*): United Nations, *Monthly Bulletin of Statistics;* Canada: Department of Labour, *Wages and Hours of Labour in Canada* (Ottawa); France, the United Kingdom and the United States: same as for column (*2*).

[a] Money wages deflated by cost of living or consumer prices.

[b] Data relate to the fiscal year ending 30 June 1951 (1949/50 = 100).

[c] Wage and salary workers, excluding rural, household domestic and defence workers.

[d] Hourly rates for male workers in manufacturing, mining, construction, transportation, commerce and services.

[e] Straight-time earnings in manufacturing, mining, forestry, construction, transportation and communications, and services (laundries).

[f] Employed insured wage and salary workers.

[g] Hourly earnings in manufacturing, construction, transport, commerce and services.

[h] Employed wage earners in industry, building, transportation, power, commerce and professions.

[i] Wage rates published by the Ministry of Labour, covering male and female workers in industry, building, transportation and commerce.

[j] Hourly earnings in manufacturing and construction.

[k] Hourly rates of male workers in manufacturing, mining and construction.

[l] Hourly earnings in manufacturing and mining.

[m] Male workers.

[n] Hourly earnings in manufacturing, construction, mining (excluding coal), public utilities, transport and communications (excluding railways, London Transport and British Road Services) and government service. General index computed by United Nations Department of Economic Affairs on the basis of indices for the industries specified.

[o] Hourly earnings in manufacturing, mining, construction, transportation, and wholesale and retail trade. General index computed by United Nations Department of Economic Affairs on the basis of indices for the industries specified.

The most general factor was the increase in taxation, both direct and indirect, to finance military expenditure.[4] This was most substantial in the United States and Canada but it also played a significant role in a number of European countries. The decline in the real value of transfers worked in the same direction.[5]

In some European countries the deterioration in the terms of trade was another important factor in the curtailment of consumption. Even in countries where the terms of trade improved (Belgium, Sweden and Norway), the increases in export prices of raw materials and semi-manufactured goods and in shipping rates went mainly into profits rather than wages and thus generated only a small additional demand for consumer goods and services. The considerable increase in import prices, on the other hand, was reflected in higher prices for consumer goods.[6]

[4] The increased burden of taxation resulted both from the increase in rates and from the influence of a progressive structure of income taxes in a period of rising money incomes.

[5] This decline was particularly large in the United States because transfers in 1950 included the veterans' insurance dividend.

[6] In Australia, the combined effect of the decided improvement in terms of trade and the shift to export profits, both mainly the result of the boom in wool prices, was to increase consumption in relation to gross national product. This is attributable to the fact that export profits accrued to farmers who spent a larger proportion of these profits on consumption than was the case in the countries referred to above.

In some countries, namely Italy and western Germany, where the terms of trade deteriorated, there was likewise an increase in export profits as a result of a greater rise in export prices than in internal costs. In these two countries there was also a shift to profits attributable to internal developments, namely to the increase in percentage markups of prices over domestic costs. On the other hand, in the United Kingdom the adverse influence on consumption of the deterioration of the terms of trade and higher taxation was partly counteracted by a relative shift in the distribution of income from profits to wages. This shift occurred as a result of the delayed reaction of consumer prices to very rapid increases in the prices of imports.

The above factors affected consumption adversely through their influence upon real income or its distribution. However, in some countries, especially in Canada, the Scandinavian countries and the United States, there was also a decline in consumption in relation to disposable personal income, which cannot be accounted for by a change in its distribution. This phenomenon resulted partly from some over-buying in 1950 and from restrictions on consumer credit. It is probable, however, that in some countries consumption in 1950 continued to reflect an element of pent-up demand carried over from the war and early post-war years, and that the reduction in consumption in relation to incomes may be due in part to the disappearance of this element.

The trends in consumption, on the one hand, and in military expenditure and related investment, on the other, were reflected in changes in the composition of production. The production of textiles for the group of countries considered, taken together, declined slightly from 1950 to 1951.[7] On the other hand, the production of steel and aluminium—most of which is consumed within the group considered—increased by 9 and 20 per cent, respectively. It should be noted that the United Kingdom did not share in this rise in production. Shortage of metals created a bottleneck, which restrained the expansion of gross national product in that country to a significant extent.

As a result of the factors restraining civilian investment and consumption, discussed above, the increase in the gross national product was slowed down, and no strong pressure of demand upon available resources materialized. In particular, the combination of these factors with a relatively high increase in productivity resulted only in rather moderate increases in civilian employment. This, coupled with the normal rise in the labour force, did not lead to significant reductions in unemployment except in the United States, Canada and, to a lesser extent, in western Germany. In the United States, where unemployment fell more than in the other countries, the entire expansion in civilian employment was reflected in reduced unemployment since the increase in the labour force was absorbed by the rise in the armed services. Towards the end of the year, unemployment increased significantly in Denmark and the Netherlands, and pockets of unemployment developed in a number of countries in consumer goods industries.

The increase in productivity, referred to above in the discussion of the employment situation, was a potent factor in the maintenance of real wages. Real wages were adversely affected by such factors as increases in taxes and the failure of money wages to rise proportionately to higher import prices, which tended to raise the cost of living in relation to wages. But in many instances the rise in productivity was enough to offset these adverse influences.

Real wage rates were maintained or showed some increase, except in Denmark, Norway and the Netherlands, where there were small reductions (see table 3). In most instances, the index of real wages per hour was higher than that of total consumption per employee. Since working hours did not change significantly, this would suggest that real labour income increased more than total consumption. It should be noted, however, that the indices of real wages used here are not always representative of all workers. For instance, the increase in average hourly earnings of all workers in France, western Germany and Sweden was probably lower than indicated in table 3.

Several factors, however, tended in fact to keep down consumption in relation to real labour income. First, in some countries direct tax rates, even on lower income groups, were increased, or the burden of taxation rose because of the incidence of the progressive income tax upon rising incomes. Thus the change in real earnings after taxes was somewhat less favourable than that in real wage rates before taxes, which is indicated in the table. Second, transfer income was reduced in real terms. Third, in Canada, the United States and the Scandinavian countries, consumption, as indicated above, declined in relation to disposable income.[8]

[7] There was a significant decline in textile production in the period from mid-1951 to mid-1952, compared with the preceding twelve months. This phenomenon is dealt with in some detail in a separate section on the slump in textiles.

[8] In the United States, the position is complicated by the fact that there was a considerable increase in the armed forces. As consumption in the armed forces is included in total consumption, while the index of employment refers to civilian employment only, the index of consumption per employee, if it were on a comparable basis, would in fact be smaller, and thus the discrepancy between real wages and consumption per employee would be even greater than shown in the table. This discrepancy is accounted for by the difference between wages before and after taxes, the decline in the real value of transfers and the significant fall in consumption in relation to disposable income (see footnote 5, above).

Although changes in real wages were for the most part rather small, there were considerable increases in all countries in the cost of living and money wages (see table 8, below). The primary factors in the increase in the cost of living were, in general, the raw material boom and also, to some extent, increases in indirect taxes. The response of money wages to these primary increases in the cost of living led to a further rise in prices, in so far as it was not offset by improvements in productivity.

Major Changes in Economic Activity in 1952

Production, employment and unemployment

During 1952 industrial production showed definite signs of slackening in the group of countries considered. The index of industrial production for the group as a whole showed no change from 1951 to 1952, as compared with a 10 per cent increase from 1950 to 1951. Industrial production rose in Australia,[9] Canada, France, western Germany, Italy and the Netherlands, but the rate of increase was much lower than from 1950 to 1951. In all the other countries, industrial production remained about the same or declined (see table 4). The fall in production occurred mainly in the sector of soft goods, for instance in textiles. To a great extent the declining rate of increase, or the fall, in industrial production was due to the inventory cycle. The rate of accumulation of inventories, which was high from the middle of 1950 to the middle of 1951, fell drastically thereafter, in many instances giving way to actual liquidation. However, production in heavy industry also was hampered, in the United Kingdom, by a shortage of steel during the first part of the year and by general limitations of capacity, and, in the United States, by the steel strike.

Table 4. Indices of Industrial Production and Real Gross National Product in Western European Countries, Canada and the United States, 1951 and 1952
(1950=100)

Country	*Industrial production*[a] 1951 (1)	1952 (2)	*Real gross national product* 1951 (3)	1952 (4)
Belgium	115	112	105.5	104.5
Canada	107	110	105.0	111.0
Denmark[b]	102	99	100.0	99.0
France	113	118	106.0	107.5
Germany, western	120	128	116.0	123.0
Italy	113	116	106.5	107.5
Netherlands	104	106	101.5	103.5
Norway[c]	105	105	103.0	104.5
Sweden[d]	104	102	101.5	102.5
United Kingdom[e]	103	100	101.0	100.0
United States[d]	110	110	108.5	111.5

Source: Columns (*1*) and (*2*): United Nations, *Monthly Bulletin of Statistics*. For source and footnotes for column (*3*), see table 2, except that the data for Belgium have been estimated by the United Nations Department of Economic Affairs. Column (*4*): France: Ministry of Finance; Norway: Central Bureau of Statistics, *Statistiske Meldinger* (Oslo); Department of Finance and Customs, *Nasjonalbudsjettet 1953*; Sweden: *Nationalbudget för ar 1953*; United States: *Economic Report of the President*, January 1953; other figures estimated by United Nations Department of Economic Affairs.

[a] Including mining, manufacturing, electricity and manufactured gas, unless otherwise stated.

[b] Industrial production includes manufacturing, electricity and gas.

[c] Industrial production includes mining, manufacturing and gas.

[d] Industrial production includes mining and manufacturing.

[e] Industrial production includes mining, manufacturing, construction, electricity and manufactured gas

The largest increase in industrial production as compared with 1950 occurred in western Germany, where it rose by 28 per cent. As a result, the relative share of western Germany in the total production of the group rose from 7.5 per cent in 1950 to 8.7 per cent in 1952. On the other hand, the share of the United Kingdom fell from 13.3 per cent to 12.0 per cent. The rapid increase in industrial production in western Germany since 1950 has brought it to about

[9] No index of industrial production is available; a rise in industrial production is indicated by higher output of coal, the major minerals and the majority of manufactured items. This statement, like other statements on Australia in this section, refers to fiscal years ending in June of the year indicated.

the same level in relation to pre-war output as the United Kingdom and France. The indices of industrial production in 1952 (1937 = 100) were: western Germany, 133; United Kingdom, 128; France, 134.

It will be seen from table 5 that whereas industrial activity tended to remain stagnant or to decline in the first half of 1952, it showed a distinct tendency to recover in the latter part of the year. The index of industrial production, related to the corresponding period of 1951, showed an increase between the first half and the fourth quarter of 1952 in all countries except France and Sweden. Moreover, except in Belgium, Denmark, Sweden and the United Kingdom, industrial production in the fourth quarter was higher than a year earlier. This upturn in industrial production was mainly the result of recovery from the inventory slump in the consumer goods sector

Table 5. Indices of Industrial Production in Western European Countries, Canada and the United States, 1952

(Corresponding period of 1951=100)

Country	1952		
	First half	*Third quarter*	*Fourth quarter*
Belgium	97	95	99
Canada	99	103	109
Denmark	94	97	100
France	107	104	101
Germany, western	105	108	110
Italy	100	101	106
Netherlands	97	105	106
Norway	100	98	103
Sweden	100	95	99
United Kingdom	98	94	99
United States	97	98	106

Source: See source and footnotes for columns (*1*) and (*2*) in table 4.

or of the increase in final consumption of some commodities, notably textiles.

Agricultural production increased significantly in both 1950/51 and the following crop year only in Canada, western Germany and Italy. In France, agricultural output rose appreciably from 1949/50 to 1950/51 but remained virtually unchanged in the following year. In all other countries, agricultural production in 1951/52 was about the same as in 1950/51 or less, and was either lower or not much higher than in 1949/50 (see table 6). From 1950/51 to 1951/52, agricultural production fell significantly in the Scandinavian countries, the United Kingdom and Australia. In Norway, Sweden and the United Kingdom, it resulted largely from below-average bread grain crops in 1951/52. In Denmark, livestock production declined as a result of the unfavourable relationship between the export prices of livestock products and the price of imported fodder. The significant fall in agricultural output in Australia in 1951/52 is accounted for by continued reduction in wheat acreage as a result of a shift of resources to other products, by the severe and prolonged drought which curtailed output of meat and dairy products in particular, and by the decline in the wool clip, also largely a consequence of poor weather. The fact that food production failed to expand from 1950/51 to 1951/52 was one of the factors which hampered the rise in real wages in 1952 in a number of countries (see section on prices and wages, below).

The pattern of changes in gross national product in 1952 was, as usual, similar to that of changes in industrial production in many countries but by no means in all (see table 4). In Canada, France, western Germany, Italy and the Netherlands, there were increases in both gross national product and industrial

Table 6. Indices of Agricultural Production in Western European Countries, Australia, Canada and the United States, 1950/51 and 1951/52

(1949/50=100)

Country	Food		All commodities	
	1950/51	*1951/52*[a]	*1950/51*	*1951/52*[a]
Australia	93	88	95	90
Belgium	99	95	99	97
Canada	112	120	111	120
Denmark	109	103	109	103
France	110	108	110	109
Germany, western	114	120	113	118
Italy	107	111	107	111
Netherlands	102	102	101	102
Norway	109	102	108	102
Sweden	99	95	99	95
United Kingdom[b]	106	102	106	102
United States	99	97	96	97

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

[b] Corresponding figures calculated by the United Kingdom Government are 99, 102, 100 and 104; these incorporate revised basic information and reflect differences in method, the chief of which is an allowance for changes in the volume of work in progress.

production. In France, gross national product rose much less than industrial production, because of the serious drop in agricultural output in 1952.[10] On the other hand, in Canada the increase in gross national product was greater than in industrial production owing in large part to a record crop.

In the United States, gross national product increased while industrial production remained roughly stable, a discrepancy which partly reflects the impact of the steel strike on industrial production. Similarly, in Norway and Sweden, industrial production remained unchanged or declined somewhat while gross national product increased a little. On the other hand, in Australia the national product remained about the same despite the rise in industrial production, because of the loss in agricultural output. Finally, in Belgium, Denmark and the United Kingdom, gross national product declined somewhat and industrial production fell much more.

The gross national product for the group as a whole increased from 1951 to 1952 by about 2 per cent. The increase is thus much smaller than from 1950 to 1951, when it amounted to about 7 per cent. In fact, gross national product declined slightly from 1951 to 1952 in Belgium, Denmark and the United Kingdom, and showed increases of less than 2 per cent in the Netherlands, Norway, Sweden, France and Italy; in western Germany and the United States, where the gross national product increased more than 2 per cent, the increases were much smaller than those from 1950 to 1951. The only country in which the rate of increase in the gross national product was maintained was Canada.

As shown in table 7, employment increased only in western Germany, Canada and France, where gross national product increased. However, in both Canada and France, the small increase in employment in terms of numbers was partly offset by a small reduction in working hours, so that the rise in man-hours of employment was negligible. Although in western Germany there was a significant increase in employment, it was much smaller than the rise in the gross national product. The higher increase in output than in employment in all three countries was due at least in part to the improvement in industrial productivity. However, in Canada, even more important in this connexion was the fact that the rise in gross national product resulted to a significant extent from the expansion of agricultural output, which did not involve any rise in employment in that sector.[11]

[10] According to table 6, agricultural production fell slightly from the crop year 1950/51 to 1951/52. There was, however, a serious decline from the calendar year 1951 to 1952, mainly owing to the fall in production of livestock products in the second half of the year.

[11] Employment in agriculture actually declined.

In all other countries employment remained stable or declined somewhat, even though in a number of these countries there were some increases in gross national product. This is partly explained by the improvement in industrial productivity, which was, however, much smaller than from 1950 to 1951 because of the slackening in activity. Moreover, in the countries where the increase in national product was not associated with a rise in industrial production, the increase in the other sectors did not require much additional employment. In some countries, as in the United Kingdom and, especially, in Belgium, the fall in employment measured in man-hours was greater than the decline in numbers employed, shown in table 7, because of the reduction in working hours.

Unemployment fell significantly only in western Germany. Indeed, as mentioned above, employment increased only in western Germany, Canada and France. However, the effect of this increase upon unemployment was offset, fully or to a considerable extent, by the rise in the labour force. A significant increase in unemployment occurred in Belgium, Italy, the Netherlands, the United Kingdom (by about one per cent of the labour force available for hire) and in Denmark (by about 3 per cent). This reflects declines in employment and, in the case of Italy, a growth in the labour force as well. In Belgium, Denmark and Italy, and also in western Germany, unemployment was at a relatively high level, the rates ranging from 7 per cent of the labour force available for hire in Belgium to 16 per cent in Italy.

Components of the gross national product

Gross national product increased from 1951 to 1952 by 2 to 6 per cent in the United States, Canada and western Germany (see table 7). In the majority of other countries of the group considered, gross national product in 1952 showed smaller increases, while Belgium, Denmark and the United Kingdom registered small declines. Government expenditure continued to increase, mainly as a result of rearmament. Total private expenditure (consumption, investment and the balance of exports and imports) fell in most countries, increasing only in Canada and western Germany. This fall in private expenditure was in general not due to a decline in consumption, which rose in most instances, but to a considerable reduction in investment in inventories.

The increases in military expenditure in 1952, as in 1951, were far from uniform from country to country. This is reflected in the increments in total government expenditure on goods and services. It was lower than 2 per cent of the gross national product in Australia, Denmark, Norway, the Netherlands and the United Kingdom. In the United Kingdom, where the increment in government expenditure amounted to

Table 7. Indices of Real Gross National Product and Employment, and Percentage of Unemployed in Western European Countries, Canada and the United States, 1951 and 1952

Country	1950 = 100: Real gross national product 1951 (1)	1952 (2)	Total civilian employment 1951 (3)	1952 (4)	Unemployed as percentage of civilian labour force available for hire 1950 (5)	1951 (6)	1952 (7)
Belgium	105.5	104.5	101	100	6.8[a]	6.1[a]	6.9[a]
Canada	105.0	111.0	103	104	4.6	2.8	3.2
Denmark	100.0	99.0	102	100	8.7[b]	9.7[b]	12.5[b]
France	106.0	107.5	102	103	2.0[c]	1.6	1.7[c]
Germany, western	116.0	123.0	105	108	10.3	9.0	8.0
Italy	106.5	107.5	...	...	14.0	15.0	16.0
Netherlands	101.5	103.5	102	101	2.7	3.0	4.3
Norway	103.0	104.5	100	100	1.0	1.2	1.2
Sweden	101.5	102.5	101	101	2.2[d]	1.8[d]	2.2[d]
United Kingdom	101.0	100.0	100	99	1.6[e]	1.3[e]	2.2[e]
United States	108.5	111.5	102	102	6.2	3.7	3.3

Source: Columns (1) and (2) repeat columns (3) and (4) of table 4. Column (3) repeats column (2) of table 3 except that the figure for Belgium is derived from Ministry of Economic Affairs, *L'Economie belge en 1951* (Brussels). Columns (4), (5), (6) and (7): United Nations, *Monthly Bulletin of Statistics*; Belgium: Ministry of Economic Affairs, *L'Economie belge en 1951*, and replies of governments to United Nations questionnaire on full employment and related matters, covering 1951 and 1952; Canada: Dominion Bureau of Statistics, *Reference Paper, The Labour Force, November 1945-March 1952*, and *Labour Force Bulletin* (Ottawa); Denmark: Department of Statistics, *Statistiske Efterretninger*; France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique*; western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik*; Italy: United Nations, *Economic Survey of Europe in 1951*; Netherlands: Reply to United Nations questionnaire on full employment and related matters, covering 1951 and 1952, and Central Plan Bureau, *Central Economic Plan, 1952* (The Hague); Norway: Department of Finance and Customs, *Nasjonalbudsjettet 1953* and Central Bureau of Statistics, *Statistiske Meldinger*; Sweden: *Nationalbudget för ar 1953*; United Kingdom: Central Statistical Office, *Monthly Digest of Statistics*; United States: Department of Commerce, *Current Population Reports, Labor Force*, series P-57, and *Economic Report of the President*, January 1953.

[a] Wholly unemployed.

[b] Unemployment expressed as a percentage of insured trade unionists. Insured trade unionists represent 70 per cent of non-agricultural wage earners, but a much smaller percentage of salary earners and agricultural workers. As a result, this ratio tends to exaggerate the degree of unemployment to some extent.

[c] Estimates obtained as follows: the total number of unemployed in 1950 and 1952 was assumed to be in the same proportion to the average number of applicants for work in these two years as the average of the total number of unemployed resulting from the national sample surveys of May-June and November-December 1951 was to the average number of applicants for work in 1951; and the number of employed salary and wage earners was assumed to vary in proportion to the over-all index of employment of the Ministry of Labour.

[d] Percentage of unemployment in trade unions.

[e] Including temporarily stopped.

about one per cent of the gross national product, the increase in military expenditure was restrained in order to reserve a larger proportion of the available products of heavy industry for export and thus to improve the balance of payments. The highest increases in government expenditure, amounting to 3 to 5 per cent of the gross national product, occurred in Belgium, Canada, France, western Germany and the United States. The substantial rise in government expenditure which occurred in western Germany was due in large part to the continued rise in occupation costs.

Private investment declined in all countries except Australia, western Germany and Italy. This decline occurred mainly in investment in inventories. Whereas in 1951 there was a large increase in accumulation of inventories, which reflected both earlier speculative buying and later inability to sell as much as had been expected, in 1952 the tendency was reversed; not only was the rate of accumulation reduced but frequently even liquidation of inventories took place. This tendency of course was especially strong in countries where there was no significant rise in total output and therefore no need to increase working capital. An additional factor keeping down investment in inventories in some countries was a stringent credit policy. This was especially the case in Denmark, the Netherlands, Sweden and the United Kingdom.

Although investment in fixed capital in general did not suffer a setback comparable to that in investment in inventories, it increased significantly only in Australia and Canada, while in other countries it remained roughly stable or even declined. Investment related to military expenditure continued to rise, but other investment was restrained by the preceding lull in consumer spending and by the change that had meanwhile taken place in the nature of expectations as to future shortages of investment goods. In addition, investment was adversely affected in a number of countries by credit restrictions or direct limitations applied in 1951. While there was a partial reversal of these policies in the first half of 1952, the effect of this new phase had not yet materialized in the actual production of investment goods. Thus investment fell in Denmark and the Netherlands, where the curbs on investment imposed in 1951 were particularly severe. In the United Kingdom, residential building increased because of relaxation of restrictions early in the year. However, other investment in fixed capital was reduced by allocations of steel and other scarce materials with a view to releasing more investment goods for export. In addition, credit restrictions were imposed for the same purpose. In the United States, curbs on allocation of materials for investment were relaxed in the course of 1952. Moreover, restrictions on mortgage credit bearing heavily on residential building, imposed in 1951, were cancelled in the second half of 1952. The effect of these changes in policy on investment could only partly materialize in 1952 because of the time lag involved. Investment remained stable, but this was in part a result of the delay in deliveries of equipment, caused by the steel strike.

The changes in the real balance of exports and imports differed considerably from country to country. Imports of goods and services declined in Belgium, the Netherlands, the Scandinavian countries and the United Kingdom, in all of which gross national product showed little change. This was largely a counterpart of the sharp reduction in investment in inventories which normally have a high content of imported goods. The fall in imports in some countries, especially in the United Kingdom, was due in part to the intensification of import restrictions. These declines in imports within the group, together with a fall in imports of under-developed countries, led to a decline in the exports of most countries of the group. The resulting changes in the real balance of exports and imports differed from country to country. A serious deterioration in the real balance took place in Australia, France and Italy, where imports rose, and also in Belgium, where exports fell more than imports. On the other hand, in the Netherlands there was a considerable increase in the export surplus, reflecting a rise in exports and a decline in imports. In other countries changes in the real balance did not exceed plus or minus one per cent of the gross national product.

Consumption increased in all countries except Australia and the United Kingdom. While in most instances these increases accompanied a rise in gross national product, in Belgium and Denmark consumption was higher than in 1951 even though national product declined somewhat.

This development is unlike that in 1951, when consumption in most instances remained unchanged or even declined while gross national product increased. The difference is due to the fact that many factors which acted to reduce consumption in relation to gross national product in 1951 were no longer operative or were even reversed in 1952. The burden of taxation continued to rise in a number of instances as a result of increases in tax rates (in Australia, western Germany and the United States) or because of the impact of progressive tax structures in a period of rising money incomes (especially in Sweden). However, these changes were of less importance than from 1950 to 1951.[12] The terms of trade generally did not deteriorate as compared with 1951 and for a number of countries, notably Canada, they improved. In Australia, where the fall in the price of wool caused a serious deterioration in the terms of trade, consumption fell while national output remained about the same.) The general tendency for a shift to export profits also did not continue. In the case of Norway and Sweden, it was definitely reversed because of a considerable rise in wages in relation to export prices. Finally, the drop in consumption in relation to disposable personal income in 1951, notably in Canada, Denmark, Norway and the United States, did not continue in 1952. Since the drop in 1951 was at least partly due to compensation for previous over-buying, and in some cases to restrictions on consumer credit which were relaxed in 1952 (in Canada and the United States), some reversal of this tendency could be expected. The data available at the time of preparing this report were insufficient to establish whether or not such was really the case.

The result of the interplay of all these factors was that in general there was no major change in the relation of consumption to gross national product. However, the ratio rose significantly in Belgium, France and the Scandinavian countries and fell in western Germany.

In all countries, consumer demand remained below the level which existing productive facilities could supply. In many instances, as mentioned above, there existed in 1952, as in late 1951, significant pockets of unemployment in consumer goods industries. It should be noted, however, that the relatively low degree of utilization of facilities in consumer goods industries is in part accounted for by the liquidation of inventories.

It is interesting to note that the United States, which has the largest weight in the group of countries considered, displayed in 1952 the typical characteristics of the group. There was a substantial increase in government expenditure, a sharp fall in investment in inventories, a roughly stable level of investment in fixed capital, no significant change in the real balance of exports and imports, and an increase in consumption roughly proportionate to that in gross national product. The figures below show gross national prod-

[12] In Denmark, the compulsory saving scheme was terminated early in 1952 and if this factor is taken into consideration the tax burden diminished.

Table 8. Indices of Import Prices, Cost of Living, Food Prices and Wage Rates in Western European Countries, Australia, Canada and the United States, 1951 and 1952
(1950=100)

Item and period	*Australia*[a]	*Belgium*[b]	*Canada*[c d]	*Denmark*[e f]	*France*[g]	*Germany, western*[h]	*Italy*[i]	*Netherlands*[e j]	*Norway*[k l]	*Sweden*[k]	*United Kingdom*[d m]	*United States*[n]
Import prices:												
1951 Full year	123	121	115	126	128	127	128	121	123	127	129	126
1952 First half	124	121	104	130	130	130	130	125	132	137	132	122
1952 Third quarter	..	116	98	121	118	116	124	119	126	132	124	117
Cost of living:												
1951 Full year	122	110	110	112	118	109	110	112	116	117	109	108
1952 First half	139	110	113	115	133	115	113	112	124	126	118	110
1952 Third quarter	144	109	112	114	131	112	115	112	129	128	120	111
Retail food prices:												
1951 Full year	130	108	114	111	116	112	107	109	118	116	111	111
1952 First half	158	111	113	115	128	123	110	112	129	131	126	113
1952 Third quarter	165	111	111	118	126	119	112	110	137	136	131	115
Money wage rates:												
1951 Full year	123	111	110	110	128	115	110	108	115	123	109	108
1952 First half	140	116	118	116	148	122	116	109	125	145	118	112
1952 Third quarter	148	115	122	..	149	124	127	112	129	154	119	114
Real wage rates:[o]												
1951 Full year	101	101	100	98	109	106	100	96	99	105	100	100
1952 First half	101	106	104	102	111	106	103	97	101	115	100	102
1952 Third quarter	103	105	109	..	114	111	110	100	100	122	100	102

Source: United Nations, *Monthly Bulletin of Statistics;* Belgium: University of Louvain, *Bulletin de l'Institut de recherches économiques et sociales;* Canada: Department of Labour, *Wages and Hours of Labour in Canada;* France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique;* Italy: Central Institute of Statistics, *Bollettino mensile di statistica* (Rome); Netherlands: Central Bureau of Statistics, *Statistisch Bulletin;* Norway: Central Bureau of Statistics, *Economic Survey, 1952;* United Kingdom: *Ministry of Labour Gazette* (London), and Central Statistical Office, *Monthly Digest of Statistics;* United States: *Economic Report of the President,* January 1953.

[a] Money wage rates represent hourly rates for male workers in manufacturing, mining, construction, transportation, commerce and services.

[b] Cost of living figures represent retail prices exclusive of rent. Wage rates represent hourly earnings of married workers in manufacturing and transportation, inclusive of family allowances. Except for import prices, averages of March and June represent the first half-year and figures for September, the third quarter.

[c] Money wage rates represent straight-time earnings in manufacturing, mining, forestry, construction, transportation and communications, and services (laundries).

[d] Except for import prices, data for April and October represent the first half-year and the third quarter, respectively.

[e] For comparability with other countries, cost of living figures exclude personal taxes and dues.

[f] Wage rates represent hourly earnings in manufacturing, construction, transport, commerce and services.

[g] Cost of living figures represent family consumption prices in Paris. Money wage rates are wage rates published by the Ministry of Labour for male and female workers in industry, building, transportation and commerce for all France.

[h] Money wage rates represent hourly earnings in manufacturing and construction. Except for import prices, averages of February and May represent the first half-year of 1952, and figures for August the third quarter of 1952.

[i] Money wage rates represent hourly rates for male workers in manufacturing, mining, construction and electricity, inclusive of family allowances.

[j] Money wage rates represent hourly rates for male workers in manufacturing, mining and construction.

[k] Money wage rates represent hourly earnings in manufacturing and mining.

[l] Male workers.

[m] Money wage rates are average hourly earnings for manufacturing, construction, mining (excluding coal), public utilities, transport and communications (excluding railways, London Transport and British Road Services), and government service. Earnings for the third quarter of 1952 are estimated on the basis of the change in the index of wage rates. General index computed by United Nations Department of Economic Affairs on the basis of indices for the industries specified.

[n] Money wage rates represent hourly earnings in manufacturing, mining, construction, transportation and wholesale and retail trade. General index computed by United Nations Department of Economic Affairs on the basis of indices for the industries specified.

[o] Money wage rates deflated by index of cost of living.

uct and its components at 1952 prices in the United States (as percentages of the 1951 gross national product):[13]

	1951	1952
Gross national product	100.0	102.7
Personal consumption	62.9	64.2
Government expenditure[a]	18.9	23.1
Private investment	17.9	15.4
Investment in fixed capital	14.7	14.5
Investment in inventories	3.2	0.9
Balance of exports and imports of goods and services[a]	0.3	0.1

[a] Government expenditure includes net unilateral transfers; the balance of exports and imports of goods and services equals the export surplus of goods and services minus net unilateral transfers.

As in other countries of the group, there was some idle capacity in consumer goods industries, and inflated inventories were being liquidated so that the rise in consumption did not entail increased pressure of demand upon supply. The increase in the gross national product of the United States was the same as for the group of countries as a whole, being lower than in Canada and western Germany although higher than in other countries. The increase resulted from the fact that the rise in government expenditure exceeded the fall in investment in inventories and that consumption rose more or less in proportion to gross national product. Government expenditure, private investment in fixed capital and, in consequence, gross national product would have been higher if the steel strike which occurred at mid-year had not hampered production in steel-using industries in the second half of the year.

Prices and wages

The raw material boom reached its peak early in 1951. In the course of 1951, prices of most industrial raw materials began to fall, some of the commodities first affected being those which had risen most during the preceding boom. By the third quarter of 1952, some commodity prices had fallen below the levels prevailing before Korean hostilities. While prices of raw materials were falling gradually from the spring of 1951 until the end of 1952, the movement of comprehensive indices conceals diverse trends in the prices of particular commodities. Prices of many food items either did not change much or rose in this period, this being the result of continuing high demand in association with substantially unchanged or reduced supply. The upward trend in the prices of some metals, such as copper and aluminium, which are required both for civilian and for armament purposes, also persisted.

The main reasons for the decline in commodity prices were: (*a*) speculative or precautionary purchasing came to a stop; (*b*) strategic stockpiling slowed down; (*c*) production in certain manufacturing industries declined, and thus eased the demand for their raw materials; slackening demand of manufacturing industries affected fibres especially, reflecting the slump in textiles which was itself largely a reaction against the accumulation of large stocks of finished goods and over-buying by consumers during the preceding boom;[14] (*d*) output of certain raw materials increased, largely in response to higher prices, a factor particularly important in oils and fats, jute and cotton.

The fall in raw material prices was reflected in a decline in the import prices of industrialized countries, but only after considerable delay. As usual, export prices of raw materials followed current price quotations with some time lag, mainly because of existing contracts; and the corresponding import prices, by virtue of the time required to ship goods to the country of destination, lagged even more. Moreover, the over-all fall in import prices was lessened by the influence of imported manufactured goods, whose prices continued to rise in many instances. In the first half of 1952, indices of import prices in most countries of the group still showed some increase over the 1951 average. A significant decline occurred only in Canada but this simply reflected the appreciation of the Canadian dollar. In the second half of 1952, however, import prices declined to levels significantly below those of 1951 (see table 8).

The cost of living increased less from 1951 to 1952 than from 1950 to 1951 in all countries except the United Kingdom. In many countries there was a distinct slackening in the rate of increase and in all countries there was a definite levelling off in the cost of living by the second half of 1952. Such increases as occurred were very small, and in some instances there was actually a downward tendency. These changes in general reflected the reversal of the upward trend in import prices following the raw material slump. The fact that the reductions in the cost of living which occurred were still quite small may be attributed only in part to the normal time lag between changes in prices of raw materials and retail prices. Wages, which naturally influence the cost of living both from the cost and the demand side, still continued to rise. Moreover, the supply position for food, the largest component in the cost of living, was not very favourable in a number of countries (see section on production, employment and unemployment above) and thus could not contribute to a reduction in the cost of living. In some instances, there were also increases in indirect taxation or reductions in subsidies.

[13] *Economic Report of the President*, January 1953.

[14] See the section below on the slump in textiles.

The discrepancies between changes in retail prices and prices of raw materials can be illustrated from the United States price series.[15] As may be seen from the selected United States price series given below, both import prices (reflecting in large part the changes in prices of imported raw materials), and prices received by farmers for their products, fell significantly from 1951 to 1952. The fall in prices received by farmers was accounted for mainly by lower prices for livestock products and cotton. The general index of wholesale prices, which is affected to a great extent by prices of finished goods, fell less, while the cost of living actually showed a small increase.

	1951 (1950 = 100)	1952
Import prices	126	119[a]
Prices received by farmers	118	113
Wholesale prices	111	108
Cost of living	103	110

[a] Preliminary.

As is indicated in the above discussion, the changes in the cost of living in the countries considered reflected mainly reductions in import prices and increases in wages. In this situation, the fall in import prices favoured a rise in real wages, the more so the higher the rise in money wages in relation to import prices. This factor helps to account for the general rise in real wages from 1951 to 1952. Increases in productivity also contributed to this result, but were rather small, as noted above, because of slackening industrial production.

The largest increases in real wages occurred in Belgium, Canada, France, Italy and Sweden. All these countries, except Belgium, experienced large increases in money wages in relation to import prices because of the rapid advance of the former and, in Canada, also because of the significant fall in the latter. In addition, in Sweden there seems to have been a delay in the adjustment of prices to rapidly advancing wage costs. In France, government policy to keep down prices seems to have played only a limited role in shaping real wages, except for government imports of food. In Canada and Italy, an important factor in the significant increase in real wages was the improvement in the food supply position.

In other countries, increases in real wages remained within a narrow range. Contributing to this in a number of countries was the fact that agricultural production in 1951/52 was the same as in the preceding year, or lower, or that indirect taxes were raised or subsidies reduced. In the United Kingdom, where real wages failed to increase at all, food subsidies were withdrawn in the first half of 1952. In western Germany, the increase in real wages was kept down by an increase in indirect taxation. In Australia, indirect taxes were increased and food prices rose rapidly, partly in reflection of government policies with respect to the pricing of farm products; the influence of these factors largely offset the large increase in money wages in relation to import prices, with the result that real wages rose very little.

In France, Italy and western Germany, all countries which experienced a relatively large increase in real wages between 1950 and 1952, the magnitude of the change is probably somewhat exaggerated by the indices shown in table 8, since the indices are not representative of the wage rates of all workers. Moreover, increases in real wages after taxes were in some instances lower than on a before-tax basis. This resulted both from increases in income tax rates, as for instance in the United States, and from automatic increases in the real burden of progressive income taxes as money incomes rose, as for example in Sweden. On the other hand, in the United Kingdom, real wages after taxes must have fallen a little less than before taxes because of some increase in income tax exemptions and a reduction in rates.

The Slump in Textile Production

Fluctuations in aggregate textile production

The steadily rising trend in textile production in the economically developed private enterprise economies in the post-war years reached its peak during the period from July 1950 to June 1951. As shown in table 9, textile production in these countries increased on the average by about 13 per cent in 1950/51 as compared with 1949/50[16] and fell from this peak level by about 14 per cent in the following year. Output in the individual countries, though following broadly the same pattern of fluctuations, showed divergent rates of change. In some countries, the level of production was much lower in 1951/52 than in 1949/50. However, in most countries a distinct recovery in production was apparent by the third quarter of 1952.

Factors influencing the fluctuations in textile production

In general, the cycles of textile production in individual countries during the period from July 1949 to June 1951 were influenced, in varying degrees, by four major factors. They were: (*a*) changes in

[15] *Economic Report of the President*, January 1953.

[16] In this section, references to years indicate periods from July to June.

Table 9. Indices of Textile Production in Western European Countries, Canada and the United States, 1950/51 and 1951/52

(1949/50=100)

Country	1950/51	1951/52
Belgium	126	97
Canada	114	93
Denmark	105	83
France	110	107
Germany, western	126	117
Italy[a]	116	105
Netherlands	108	92
Norway	111	109
Sweden[a]	105	96
United Kingdom[a]	106	91
United States	114	95
Weighted average[b]	113	98

Source: Belgium: University of Louvain, *Bulletin de l'Institut de recherches économiques et sociales;* Canada: Dominion Bureau of Statistics, *Statistical Review* (Ottawa); Denmark: Department of Statistics, *Statistiske Efterretninger;* France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique;* western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik;* Italy: Central Institute of Statistics, *Bollettino mensile di statistica;* Netherlands: Central Bureau of Statistics, *Maandschrift* (Utrecht); Norway: Central Bureau of Statistics, *Statistiske Meldinger;* Sweden: Kommerskollegium, *Kommersiella Meddelanden* (Stockholm); United Kingdom: Central Statistical Office, *Monthly Digest of Statistics;* United States: Department of Commerce, *Survey of Current Business* (Washington, D. C.).

[a] Including production of clothing.

[b] Weighted by the respective values of textile production of individual countries.

the rate of investment in inventories of textile products; (*b*) consumers' anticipatory buying of textile products and subsequent declines in purchases; (*c*) changes in the level of real income; and (*d*) changes in the volume of imports or exports of textiles.

First, during this period, changes in the rate of investment in inventories of textile products considerably influenced textile production in many countries. During 1950/51 the widespread voluntary accumulation of inventories of textiles by manufacturers and retailers led to an increase in production exceeding that in consumer demand. This accumulation, largely speculative in nature, was closely associated with the raw material boom which took place after July 1950. The sharp rise in world prices of textile fibres and textiles induced manufacturers and retailers to add to inventories. However, during 1951/52, as speculation subsided and domestic consumption of textiles failed to expand, rates of investment in inventories of textiles generally declined and, in some countries, large-scale liquidation actually occurred.

Second, textile production was influenced by abnormally heavy consumer purchasing of textiles and the subsequent reaction. In many countries there was large-scale over-buying of textiles by consumers after July 1950 in anticipation of either higher prices or possible scarcities. The high level of buying persisted until the late spring or early summer of 1951, and then was followed by a reversal of consumer demand. The decline in consumption in the period from July 1951 to June 1952 was therefore partly the result of the tendency of consumers to compensate for their previous over-buying by lower current purchases.

Third, the fall in textile consumption in 1951/52 reflected in some instances a decline in incomes. In the countries in question, real incomes, which had been rising steadily since the war, fell somewhat after the middle of 1951. The immediate response of consumers to a decline in income was to concentrate the curtailment of their expenditures on postponable purchases, such as textiles and other semi-durable and durable goods, instead of spreading it over all purchases. Only after a lower level of income has been maintained for some time do consumers begin to adjust their pattern of consumption to the new level of income.

The fall in consumption of textiles during 1951/52 has often been attributed to "consumer resistance" to high prices of textiles, since textile prices in many countries rose continuously from 1950/51 to 1951/52. However, textile prices were moving roughly parallel to over-all consumer prices so that the increase in textile prices does not explain the deviation of textile consumption from the trend of total consumption; that is, there were no such changes in relative prices as would encourage a shift of purchasing from textiles to other commodities. However, if consumers expected that a decline in textile prices was imminent, as they generally did in late 1951, the current high prices of textiles would then become an additional hindrance to the recovery in demand.

Last, changes in the volume of foreign trade in textile products also played some part in influencing the cycles of production during this period. In all the countries under consideration, there was a sharp expansion in foreign trade in textile products in 1950/51, which was followed by a sharp contraction in 1951/52. In the net exporting countries, the changes in net exports contributed to the fluctuations in output. These changes in net exports were partly the result of the sharp rise in the demand of raw material producing countries in 1950/51 and the abrupt decline in 1951/52. Another factor was the change in the demand of the net importing countries of the group considered. Indeed, in the latter countries the fluctuations in home demand were accompanied by corresponding changes both in home production and in imports.

The boom in the textile industry, July 1950 to June 1951

The rise in textile production in 1950/51 was, in general, accounted for by a rise in home consumption and voluntary accumulation of inventories of textiles. In those countries which are large exporters, increases in exports of textiles had some favourable influence on production. Although the character and magnitude of changes in domestic consumption and inventories of textiles in the countries under consideration differed considerably, nevertheless they may be broadly classified into three groups, as shown in table 10, on the basis of the timing and intensity of changes in consumption and inventories.

France, western Germany and the United Kingdom form a group[17] in which the indices of consumption and production of textiles changed in about the same proportions from 1949/50 to 1950/51. The increase in domestic consumption of textiles in 1950/51 was predominantly determined by consumers' anticipatory buying. This was reflected in the fact that consumer expenditure on clothing in 1950/51 rose more than in proportion to total expenditure. These large increases in domestic consumption of textiles played the leading role in initiating and sustaining the boom in these countries. Increases in exports of textiles also had a favourable influence upon textile output in France and the United Kingdom.[18] But this factor, as well as inventory movements, was generally of lesser importance in these countries.

Table 10. Indices of Textile Production, Consumption and Retail Prices, and of Total Consumption and Consumer Prices in Western European Countries, Canada and the United States, 1950/51 and 1951/52

(1949/50[a] = 100)

Country	Textile production		Textile consumption[b]		Total consumption[c]		Retail textile prices		Consumer prices	
	1950/51	1951/52	1950/51	1951/52	1950/51	1951/52	1950/51	1951/52	1950/51	1951/52
France	110	107	109	96	103	105	113	124	114	136
Germany, western	126	117	124	122	116	119	99	102	101	110
United Kingdom	106	91	106	88	103	99	107	117	104	114
Denmark	105	83	99	89	102	94	117	116	110	119
Netherlands	108	92	95	79	101	96	124	118	111	109
Norway	110	109	96	91	101	99	116	138	112	126
Sweden	105	96	101	85	107	102	110	127	107	123
Canada	114	93	102	98	104	102	104	116	107	116
United States	114	95	103	102	104	103	106	110	106	111

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

[a] July 1949 to June 1950.

[b] For Canada, western Germany, Norway, the United Kingdom and the United States, consumer expenditure on clothing. For France, deflated retail sales of clothing in department stores only. For all others, real retail sales of clothing.

[c] For Denmark, France, Netherlands, Norway and Sweden, total consumption for the period from January to June 1952 estimated on the basis of deflated retail sales.

The second group consists of the Scandinavian countries and the Netherlands, where increases in production of textiles were not supported by a rise in consumption, and thus the textile boom was induced by heavy accumulation of inventories. In 1950/51 as compared with 1949/50, consumption of textiles was either maintained or decreased, the trend being generally contrary to that of total consumption and incomes. This situation reflected the saturation of consumer demand for textiles following large purchases during the first half of 1950. The factor leading to such large purchases was the rush of consumers to replenish their stocks after the liberalization of imports or before the abolition of clothing subsidies. In Denmark, clothing subsidies were abolished as early as March 1950. In Norway, though abolition of subsidies did not become effective until November 1950, the announcement of the scheduled abolition in April 1950 prompted consumers to engage in heavy buying of textiles in the second quarter of 1950. There were no clothing subsidies in the Netherlands, and the abolition of subsidies in Sweden did not take place until January 1951. But in these two countries, as well as in Denmark and Norway, heavy purchases by consumers in 1949/50 for restocking were

[17] Available information indicates that similar changes also occurred in Belgium.

[18] For instance, as compared with 1949/50, the increase in the volume of exports of manufactured textiles in 1950/51 was 15 per cent in the United Kingdom and 25 per cent in France.

made possible by the liberalization of imports. The progressive liberalization of imports of textiles after November 1949,[19] accompanied in some countries by derationing of textiles, resulted in heavy purchases of textiles in the early part of 1950,[20] followed by slackening demand in the latter part of 1950. In Sweden, the shift in consumer spending towards such items as motorcars, furniture and other imported luxuries, brought about a sharp fall in the share of textiles in total expenditure, though consumption of textiles in 1950/51 continued to rise slightly above the 1949/50 level.

In the third group of countries, namely Canada and the United States, the large increase in textile production was the result of both the rise in domestic consumption and the accumulation of inventories of textiles. The latter factor, however, played the predominant role in initiating and maintaining the boom in these two countries. The absence of any significant anticipatory buying by consumers led to only moderate increases in textile consumption, which were more or less in line with changes in total consumption and incomes in these two countries.

The slump in the textile industry, July 1951 to June 1952

With the exception of France and Norway, where the level of production remained about the same, there was a slump in textile production in all countries in 1951/52. In most countries, the sharp drop from the peak in 1950/51 resulted in a level of production in 1951/52 actually lower than in 1949/50.

Canada and the United States differ from the other countries in that the entire cycle of textile production during the period 1949/50 to 1951/52 was almost entirely determined by a single factor. Just as the boom was the result of large-scale inventory accumulation, so the slump in production in 1951/52 reflected a reversal of this trend. The change in textile consumption in both countries played a very minor part, showing only a moderate decline, more or less in line with the small decline in total consumption. Thus the marked drop in textile output was chiefly the result of large-scale liquidation of inventories.

The nature of the slump in textile production was more complex in the other two groups of countries under consideration. Nevertheless, the slump in production was generally associated with a marked decline in textile consumption, while the role of inventory movements varied from country to country. In the countries which are exporters of textiles, such as France and the United Kingdom, production was also adversely affected by the decline in foreign demand in 1951/52.[21] The sharp drop in textile consumption meant a decline in its share of total consumption, which rose moderately in some countries and fell moderately in others from 1950/51 to 1951/52. This is explained mainly by the heavy buying of textiles in 1950/51 and the reaction in 1951/52, as well as by the reversal of the steadily rising trend in real income after the middle of 1951. This tendency was reinforced in some instances by the expectation that a fall in prices was imminent.[22]

The initial adverse effect on consumption of the reversal in the steadily rising trend of real income appears to have been concentrated on certain postponable items. This factor seems to have played an important role in Denmark, the Netherlands, Norway and the United Kingdom, where real disposable income, for the first time in the post-war period, fell slightly in 1951/52.

For instance, in the United Kingdom the decline in real personal disposable income in 1951/52 was accompanied by a higher percentage fall in consumption, which was concentrated largely on durable and semi-durable consumer goods. This phenomenon reflects, in addition to previous over-buying of these goods, the specific effect of the decline in income in the period considered on the purchasing of such postponable items as clothing, footwear and household goods (see table 11).

In the other countries where real income continued to rise in 1951/52, the fall in textile consumption was due largely to over-buying in 1950/51, as in France, western Germany and Sweden.

There was no uniform pattern of changes in inventories of textiles in these countries. It seems that, in the United Kingdom and France, there was some involuntary accumulation of inventories of textiles: in Denmark and western Germany, there was significant liquidation of inventories; and in the Netherlands, Norway and Sweden, there was curtailment of investment in inventories, mainly through reduction of imports.

[19] Intra-European trade in textiles rose by 50 to 60 per cent from 1949 to 1950.

[20] In the Scandinavian countries, continued high imports of textiles in the second half of 1950 were also for inventory accumulation.

[21] Among the large exporters, only the United States showed an increase in exports of textiles from 1950/51 to 1951/52. In France and the United Kingdom, the fall in the quantum of exports of manufactured textiles was 21 per cent and 27 per cent, respectively.

[22] With a few exceptions, there was a large increase in the prices of textiles from 1950/51 to 1951/52 in all countries. However, this does not seem to have led to any important shift towards other consumption goods because, as shown in table 10, prices of textiles tended in general to move closely with aggregate consumer prices.

Table 11. The United Kingdom: Changes in Income and Consumption from 1950/51 to 1951/52
(In 1950/51 prices)

Item	Change from 1950/51 to 1951/52: Millions of pounds sterling	Percentage
Personal disposable income[a]	−233	−2
Total consumption	−377	−4
Consumption of clothing, footwear and household goods	−313	−17
Clothing	−150	−17
Footwear	−37	−20
Household goods	−126	−17

Source: United Kingdom, Central Statistical Office, *Monthly Digest of Statistics* and *National Income and Expenditure, 1946-1951*.

[a] Estimated on the basis of disposable income in calendar years.

Textile production in the third quarter of 1952

Not only did textile production fall sharply in 1951/52 from the level of the previous year in most countries, but all countries, without exception, registered declining trends in output during the year.[23] However, developments in various countries during the third quarter of 1952 were rather divergent. In France, Norway, Sweden and the United Kingdom, production continued to decline or remained roughly stable during the third quarter of 1952, while in the rest of the countries under review, there was a distinct recovery in production (table 12). In the latter group, except the Netherlands, textile production in the third quarter of 1952 roughly regained or exceeded the level of the same period of 1951, in contrast to the situation in the first half of 1952 when textile production was 15 to 30 per cent lower than in the corresponding period of 1951. As a result of the recovery, production in these countries by the end of the third quarter of 1952 already exceeded the level of the pre-boom period.

Table 12. Indices of Textile Production in Western European Countries, Canada and the United States, 1952

Country	Corresponding period of previous year = 100: 1952 First half	1952 Third quarter[a]	Corresponding period of 1949/50 = 100: 1952 First half	1952 Third quarter[a]
Belgium	70	95	87	103
Canada	78	99	86	102
Denmark	79	103	76	98
Germany, western	85	102	106	135
Italy	85	95	101	105
Netherlands	79	91	85	94
United States	81	100	87	111
France	93	82	100	95
Norway	92	90	104	109
Sweden	86	78	92	80
United Kingdom	80	81	84	86

Source: See table 9.

[a] Production figure for Sweden applies to July and August only; for Belgium, Canada, Denmark and western Germany, to the four months, July to October.

Although movements in textile production were divergent, a large rise in textile consumption, according to available data, occurred in all these countries during the third quarter of 1952 (table 13). The rise in textile consumption, which was in general much larger than the rise in total consumption during the same period, was caused by various factors in different countries. The common factor seems to have been the tendency of consumers to replenish their stocks of clothing at a time when prices had either stabilized or fallen sufficiently from their previous high level.

During the period of recovery, the rise in textile consumption did not always have direct and immediate impact upon textile production because in many instances higher demand was met by drawing on

[23] After eliminating seasonality in textile production.

Table 13. Textile Production and Consumption in Western European Countries, Canada and the United States, Third Quarter of 1952
(Third quarter of 1951=100)

Country	Textile production	Textile consumption[a]	Total consumption[b]
Canada	99	107	109
Denmark	103	120	103
France	82	106	...
Germany, western	102	120	107
Netherlands	91	116	105
Norway	90	121	106
Sweden	78	111	...
United Kingdom	81	111	102
United States	100	103	99

Source: United Nations Department of Economic Affairs, based on official publications.
[a] Based upon the volume of retail sales of clothing, except in the United Kingdom and the United States.
[b] Based upon the volume of total retail sales, except in the United Kingdom and the United States.

inventories. In a number of countries, namely, France, the Netherlands, Norway, Sweden and the United Kingdom, there was, during the slump of 1951/52, continuing accumulation of textile inventories, though the rate of accumulation was, in some cases, lower than in the previous year. In consequence, following the recovery in consumption during the third quarter of 1952, retailers and manufacturers in these countries generally resorted to liquidation of abnormally large stocks rather than to immediate expansion of orders or production.

In contrast, in the countries where there was liquidation of inventories during 1951/52, as in Denmark and western Germany and, on a even larger scale, as in Canada and the United States, recovery proceeded at a much faster rate than in the former group, and consequently production was restored to the level of the corresponding period of 1951.

Control of the Balance of Payments through General Fiscal and Credit Policies: Denmark and the Netherlands

The rapid changes which occurred in foreign trade after the outbreak of hostilities in Korea in mid-1950 gave rise to an acute balance of payments problem in a number of western European countries. The development of appropriate methods for meeting this problem has been a matter of widespread interest. Some of the countries, notably Denmark and the Netherlands in late 1950 and early 1951 and, to a lesser extent, the United Kingdom and Sweden in late 1951 and 1952, introduced generally restrictive fiscal and credit measures with the aim of reducing their foreign deficits. Since such policies were initiated earlier and applied in more clear-cut fashion in Denmark and the Netherlands than elsewhere, more material is available as to the results of the policies in these countries than in the case of countries where similar policies were subsequently adopted. Accordingly, the following analysis is confined to examining the course of events in Denmark and the Netherlands in the period from mid-1951 to mid-1952, the first year in which the policies in question can be considered to have been fully operative.

The balance of payments of Denmark and the Netherlands deteriorated substantially in 1950. This deterioration reflected roughly unchanged real balances in association with the decline in the terms of trade consequent upon devaluation in the autumn of 1949. Thus the import balance, which was already large in both countries in 1949, mounted in 1950 to 3 per cent of the value of gross national product in Denmark and to almost 5 per cent in the Netherlands. Confronted with this serious situation at the end of 1950, these countries were reluctant to introduce further devaluation, which would raise domestic prices, or to initiate new import restrictions, which would reverse the movement towards liberalization of trade and exchange regulations. The policy adopted was to implement generally restrictive fiscal and credit measures aimed at curtailing domestic demand and stimulating exports.

The aim of these restrictive fiscal and credit measures was not simply to reduce domestic consumption and investment and thereby achieve a cut in imports; the emphasis was rather on increasing exports through the transfer of resources from production for domestic use to production for foreign markets. The more nearly this goal could be approached, the less would be the reduction in imports. This aim was stated explicitly by the Danish Government at the time its new policy was introduced:[24]

> The Danish Government intends to solve Denmark's future balance of payments problems by pursuing a monetary and fiscal policy which will reduce domestic demands both for investment and consumption, thereby releasing factors of production which may be diverted to production for export . . . a switch-over to export production is likely to involve transitional difficul-

[24] Reply of Government of Denmark to United Nations questionnaire on full employment and related matters, covering the period 1950 to 1951.

ties, and the level of unemployment is therefore expected to show a moderate increase in the coming period.

The aim of the Netherlands Government was similar, as is shown by a comparison of its 1951 "prognosis" and "plan"—the prognosis being a forecast assuming no change in economic policy and the plan being a forecast taking into account the effect of the new measures. The reduction in private demand effected by the restrictive measures was to be largely offset by an expansion in exports and military expenditures. Since the size of the national product was to be only slightly reduced, the volume of imports would not be influenced by the measures in themselves, and the improvement in the balance of payments attributable to the new policy would be achieved entirely through an expansion of exports (see table 14).

Table 14. The Netherlands: Forecast of Increment in National Expenditures, 1951
(Millions of guilders at 1950 prices)

Item	*Prognosis (1)*	*Plan (2)*	*Expected influence of new policy (2) — (1)*
Private consumption	250	—150	—400
Net private investment	—100	—500	—400
Government expenditure	100	350	250
Exports[a]	1,350	1,800	450
Less imports	700	700	—
Net national product	900	800	—100

Source: Netherlands, Central Plan Bureau, *Central Economic Plan, 1951,* September 1951.

[a] Including change in net exports of invisibles.

In both Denmark and the Netherlands, the implementation of restrictive fiscal and credit policies was indeed accompanied by a notable improvement in the balance of payments (see table 15). In Denmark the large deficit in the balance of payments in 1950 was eliminated by 1952. The improvement in the real balance was even larger, the terms of trade having deteriorated. The Netherlands shifted from a substantial deficit in its balance of payments in 1950 to a substantial surplus in 1952 while terms of trade did not change significantly.

Since this improvement in the balance of payments accompanied the application of restrictive fiscal and credit policies, the easy presumption is that the policies produced the result. In a careful evaluation of the role of these measures, however, it is necessary to inquire: (*a*) to what extent the improvement in the foreign balance stemmed from the restrictive policies and to what extent from other factors; and (*b*) to what extent the policies exerted their influence on the foreign balance through a stimulation of exports and to what extent through a reduction of imports accompanying the curtailment of domestic demand. The following discussion is concerned with these questions.

Table 15. Denmark and the Netherlands: Foreign Balances, in Constant and Current Values, 1950 to 1952

Country and unit	*1950*	*1951*	*1952*[a]
Denmark (millions of kroner):			
Current values	—742	—273	100
Constant values (1949 prices)	—225	769	800
Netherlands (millions of guilders):			
Current values	—890	—30	1,800
Constant values (1948 prices)	—155	870	2,500

Source: Denmark: Department of Statistics, *Statistiske Efterretninger; Okonomisk Arsoversigt,* May 1952; Netherlands: Central Bureau of Statistics, *Statistische en econometrische onderzoekingen.*

[a] Preliminary figures.

Nature of the restrictive policies

The aim of the new government policies was, as noted above, to promote exports by making productive resources hitherto engaged in supplying the domestic market available to the export industries. To this end private consumption was to be restrained by increases in both direct and indirect taxes, and private investment was to be discouraged by fiscal measures and by increased interest rates and general credit restrictions.

In Denmark a defence tax, a supplementary income tax (accruing on incomes earned in 1949) and a compulsory savings scheme were introduced in November 1950. In addition, certain excise taxes, for example, on tobacco, liquor and motor vehicles, were increased, and new taxes were imposed on foreign exchange for travel purposes and on durable consumer goods, for example, carpets and radios. In March 1951 the compulsory savings scheme was reinforced, the liquor tax further increased, and railway and postal charges raised. These tax increases in 1951/52 were partially offset by an increase in food subsidies, especially on rye bread, but, as can be seen from table 16, government revenue as a proportion of national product increased substantially in the fiscal year 1951/52.[25]

[25] April to March.

These fiscal measures were accompanied by a restrictive credit policy, initiated in the second half of 1950 when the discount rate was raised from 3.5 to 5 per cent. The long-term rate of interest rose successively. The effective yield of government bonds (3.5 per cent irredeemables), which was 4.42 per cent in June 1950, rose to 4.84 per cent in December 1950, 5.13 per cent in June 1951, reached a peak of 5.45 per cent in September and then declined. In June 1952 the rate was 5.32 per cent. In addition, the Danish Government tightened its terms for building loans towards the end of 1950. Since the bulk of house building is based on government loans, the volume of new construction was substantially affected by this measure.

Table 16. Denmark and the Netherlands: Government Revenues, 1949/50 to 1951/52
(Millions of national currency)

Item	Denmark[a] 1949/50	Denmark[a] 1950/51 (Kroner)	Denmark[a] 1951/52	Netherlands[b] 1949/50	Netherlands[b] 1950/51 (Guilders)	Netherlands[b] 1951/52
Income taxes	1,805	1,947	2,675	1,830	2,300	2,850
Other taxes less subsidies	1,588	1,904	2,084	2,470	3,000	2,940
Total	3,393	3,851	4,759	4,300	5,300	5,790
Per cent of gross national product	15.9	15.5	18.2[c]	23.0	25.4	26.1

Source: Denmark: *Okonomisk Arsoversigt*, May 1952 and Department of Statistics, *Statistiske Efterretninger*; Netherlands: Central Bureau of Statistics, *Maandschrift*.

[a] Data for fiscal years ending in March.

[b] Data for years ending in June.

[c] Excluding forced savings, 17.3 per cent.

In the Netherlands, direct taxes on corporate earnings and on income derived from business profits were raised in March 1951. In addition, the granting of accelerated depreciation was curtailed. Indirect taxes on motor vehicles and certain luxuries, and capital and death duties, were raised, while at the same time subsidies were substantially reduced and the collection of back taxes speeded up. The amount of revenue collected as a proportion of the national product did not, however, increase as markedly in the Netherlands in 1951/52[26] as in Denmark (see table 16).

Credit restrictions were also applied in the Netherlands. The discount rate was raised in September 1950 by one-half of one per cent and in April 1951 by another one per cent. The effective yield of government bonds (2.5 per cent irredeemables), which was 3.16 per cent in July 1950, rose to 3.23 per cent in January 1951, 3.49 per cent in July 1951 and reached a peak of 3.64 per cent in September. In June 1952 the rate was 3.41 per cent. In addition to an increase in the rate of interest, certain restrictions were imposed on the extension of bank credits and on forward purchases of foreign exchange. The Netherlands Government towards the end of 1950 also imposed restrictions on the issue of building licences.

Internal economic developments

In both Denmark and the Netherlands, national product, after rising substantially in 1950/51 as compared with 1949/50, fell slightly in 1951/52[27] (see table 17). This was associated with an increase in unemployment. From 1950/51 to 1951/52, the unemployment ratio rose from 8.8 to 11.3 per cent in Denmark[28] and from 2.7 to 5.2 per cent in the Netherlands.

As to the components of gross national product, in both countries in 1950/51 there was virtually no change in government expenditure but a substantial rise in exports, a significant increase in private domestic demand and a consonant expansion in imports. The year 1951/52 witnessed a rise in government expenditure, some further increase in exports in the Netherlands and no change in Denmark, and, in contrast to 1950/51, a fall in private domestic demand and imports in both countries.

The most dynamic element in private demand during this period was inventory investment. In Denmark, inventory investment, which in 1950/51 was somewhat higher than in the previous year, fell off

[26] July to June.

[27] Years ending in June, both here and in the subsequent analysis.

[28] The relatively high level of unemployment in Denmark reflects exceptionally large seasonal variations in that country. In addition, the figures are based on unemployment insurance, which mainly covers industrial wage earners, and they therefore exaggerate to some extent the percentage of unemployed as compared with the figures for other countries (see footnote *b* to table 7).

Table 17. Denmark and the Netherlands: Indices of Gross National Product and its Components in Constant Prices, 1949/50 to 1951/52
(Gross national product in 1949/50=100)

Item	Denmark[a]			Netherlands[a]		
	1949/50	1950/51	1951/52	1949/50	1950/51	1951/52
Private consumption	67.6	68.8	66.8	64.1	64.2	60.9
Private fixed investment	17.3	18.5	18.1	17.7	19.0	17.5
Inventory investment	2.3	2.5	0.3	5.6	7.3	−1.9
Government expenditure	14.2	14.3	15.0	15.6	15.5	17.1
Exports[b]	20.7	25.8	25.8	36.6	45.9	51.5
Imports	−22.1	−24.3	−21.4	−39.6	−47.9	−42.4
GROSS NATIONAL PRODUCT	100.0	105.6	104.6	100.0	104.0	102.7

Source: Denmark: based on Department of Statistics, *Statistiske Efterretninger*; Netherlands: Central Bureau of Statistics, *Statistische en econometrische onderzoekingen*.
[a] Years ending in June.
[b] Including net exports of invisibles.

sharply in 1951/52. In the Netherlands, investment in inventories, which had already reached 5.6 per cent of gross national product in 1949/50, increased further in 1950/51. In contrast there was an actual liquidation of inventories in 1951/52.

The high level of investment in inventories in 1950/51, especially in the Netherlands, reflects to some extent the growing inventory requirements of expanding national production and rapidly rising foreign trade. However, it must in large part be attributed to the precautionary and speculative inventory accumulation initiated by the outbreak of hostilities in Korea. By the middle of 1951 anticipations had altered, and attempts were made to reduce the rate of accumulation or even to reduce total inventories.

Cuts in inventory investment in both countries exercised an adverse effect on domestic production and employment and indirectly contributed, together with some other factors, to the reduction of private fixed investment and consumption. Although government expenditure, and in the Netherlands exports as well, partly compensated for the decline in domestic private demand, the sum of all domestic expenditures and exports in 1951/52 fell significantly in both countries.

This decline in the demand for goods and services, though largely the effect of inherent economic tendencies, was undoubtedly intensified as a result of the new government policies. The impact of taxation contributed to the curtailment of consumption. The raising of interest rates and the extension of general credit restrictions tended to increase the burden of maintaining high inventories and thereby contributed to the sharp reduction in inventory investment in 1951/52. These measures also tended to discourage long-term fixed investment. The more direct measures adopted with respect to building, the restriction of building credits in Denmark and of building licences in the Netherlands, began to take effect as early as the fourth quarter of 1950 in Denmark and the second quarter of 1951 in the Netherlands (see table 18). "Construction started" fell to about one-half that of the previous year in both countries in the third quarter of 1951 but then began to recover. By the middle of 1952, with an easing of these restrictive measures in both countries, the amount of construction being started recovered to a high level. "Construction in process" naturally lagged behind starts, and for the year 1951/52 as a whole was 15 to 20 per cent lower than in 1950/51 in both countries.

RELATIONSHIP BETWEEN INTERNAL DEMAND AND THE BALANCE OF PAYMENTS

Imports

The volume of imports, of both Denmark and the Netherlands, fell substantially in 1951/52 compared with 1950/51. The decline in the quantum of imports, amounting to about 12 per cent in both countries, was relatively large in comparison with the reduction of 3 and 5 per cent in the sum of real domestic expenditures and exports. Part of this decline in the case of Denmark may be attributed to the substitution of domestic for imported fodder. In general, however, since both countries refrained from intensifying import restrictions, diversion of import demand to domestic demand was probably not very important. While the reduction in general demand would in itself ordinarily bring about a reduction in imports, the disproportion between the reduction in imports and that in over-all demand is largely attributable to the slump in inventory investment. Indeed, the import content of inventories is normally higher than that of expenditures as a whole, and the previous speculative increase in inventories was

Table 18. Denmark and the Netherlands: Indices of Residential Building, 1950/51 and 1951/52
(Corresponding quarters of 1949/50=100)

Period	Construction started		Construction in process	
	Denmark	Netherlands	Denmark	Netherlands
1950:				
Third quarter	110	158	106	126
Fourth quarter	77	110	105	133
1951:				
First quarter	58	133	106	139
Second quarter	81	45	94	117
Third quarter	57	79	93	109
Fourth quarter	97	95	86	97
1952:				
First quarter	90	163	83	103
Second quarter	115	112	86	110

Source: Denmark: Department of Statistics, *Statistiske Efterretninger;* Netherlands: Central Bureau of Statistics, *Maandschrift.*

particularly strong in raw materials and other commodities heavily involved in international trade.[29]

Exports

While questions of economic causation are inevitably a matter of conjecture, it appears doubtful whether, in the circumstances, the decline in domestic demand in Denmark contributed significantly towards increasing or maintaining its volume of exports. The quantum of Danish merchandise exports fell somewhat as a result of the decline in foreign demand which affected most western European countries during this period (see table 19).[30] In these circumstances productive resources made idle by the constriction of demand did not in general find alternative employment on export items, nor did products forced out of domestic markets by the same developments easily find alternative foreign buyers. In fact, as can be seen from table 20, employment in most export industries actually fell from 1950/51 to 1951/52.

The case of the Netherlands is more uncertain. Despite adverse conditions in foreign markets, the Netherlands succeeded in increasing its exports from 1950/51 to 1951/52 by some 9 per cent, and though this represented a considerably lower rate of expansion than the increase of almost 35 per cent which had occurred between 1949/50 and 1950/51, the share of Netherlands exports in those of western Europe as a whole rose rather faster in the latter period. Yet even in the Netherlands it is questionable whether the expansion of exports owed much to the diversion of production or resources from the home market.

Table 19. Quantum Indices of Merchandise Exports of Denmark, the Netherlands and all OEEC Countries, 1949 to 1952
(1949/50=100)

Period	Denmark	Netherlands	All OEEC countries
1949 Second half	96	99	94
1950 First half	104	101	106
1950 Second half	129	134	128
1951 First half	134	134	133
1951 Second half	132	147	135
1952 First half	124	146	128

Source: United Nations, *Monthly Bulletin of Statistics;* Organisation for European Economic Co-operation, *Foreign Trade, Statistical Bulletin,* series 1 (Paris).

As may be seen from table 21, in the Netherlands employment in 1951/52 increased little or actually declined, as compared with 1950/51, in most industries important to the export trade. The only exception to this was the 4 to 5 per cent increase in employment in the metal industries, for whose products there was still a fairly high demand both at home and abroad; even in these industries it is noteworthy that production did not increase, a fact which suggests that many of the workers were less than fully employed.

It is, of course, likely that the restriction of domestic demand enabled particular export firms to increase

[29] In the Netherlands, imported raw materials constituted an estimated 17 per cent of total investment in inventories in 1949, compared with 48 per cent in 1950 and 55 per cent in the first half of 1951.

[30] Real exports of goods and services remained unchanged in this period (see table 17), the discrepancy being accounted for mainly by the increase in shipping.

their labour force, or to divert production from home to export markets. However, the decline in production in the export industries from 1950/51 to 1951/52, shown in table 21, would indicate that there was not only a fair amount of unemployment in those industries in 1951/52 but also some excess productive capacity, and in such circumstances it does not seem likely that total exports would have been significantly smaller if domestic demand had not been reduced.

With regard to both Denmark and the Netherlands, it has to be borne in mind that by the time the measures to restrict domestic demand initiated in the latter part of 1950 and the first half of 1951 had begun to bear fruit in 1951/52, conditions in export markets had undergone a radical transformation. Had the demand for the exports of these countries continued to expand in 1951/52 as it had almost year by year since the war, or even at a somewhat slower rate, there would have been a better chance that a substantial proportion of the resources freed by internal deflation might have contributed to swell the volume of exports.

It may be argued that although deflationary policies in Denmark and the Netherlands did not succeed in greatly stimulating exports in 1951/52, they did cause money wages to settle at levels lower than would otherwise have obtained and thereby improved the position of exporters *vis-à-vis* their foreign competitors. In both countries, however, wages appear to have been determined chiefly by other factors. Wage rates in the Netherlands rose less from 1951 to 1952 than in most other industrialized countries, but that may be in part due to the policy whereby, through agreement with the trade unions, money wages were frozen so long as real wages did not fall 5 per cent below their level in September 1949. In Denmark, money wage rates were adjusted to changes in the cost of living index in accordance with agreements made in 1950 and 1952, and the increase from 1951 to 1952 was not particularly small.

Table 20. Denmark: Employment and Unemployment in Selected Industries, 1949/50 to 1951/52[a]

Item and year	*Agricultural products*	*Processed foods*	*Metal products*	*Textile products*	*All industries*
Employment (1949/50=100):					
1950/51		99	114	103	105[b]
1951/52		94	111	87	100[b]
Unemployment (per cent of insured workers)[c]					
Twelve months:					
1949/50	15.1	8.5	4.7	3.8	9.3
1950/51	16.0	9.2	3.5	5.2	8.8
1951/52	18.6	11.4	5.7	11.7	11.3
Six seasonally low months:[d]					
1949/50	6.2	6.1	3.6	2.4	5.4
1950/51	5.8	6.3	2.4	4.4	4.8
1951/52	9.9	9.1	4.2	10.3	7.2

Source: Department of Statistics, *Statistiske Efterretninger*.

[a] Years ending in June.

[b] Industrial employment only.

[c] Unemployed as percentage of membership in trade union unemployment insurance funds.

[d] July to September and April to June.

It should be noted that when unemployment increased significantly, both of these countries took steps to modify their restrictive policies. In Denmark compulsory saving was abolished for the fiscal year 1952/53 and exemptions for income tax purposes were increased considerably. In the Netherlands, the discount rate was restored to the lower level of April 1951, certain credit controls were abolished, and turnover taxes on numerous articles considerably reduced. In both countries the housing policy was revised in such a way as to raise the volume of construction.[31]

[31] In Denmark a factor influencing government policy in this direction was its ability to place a larger amount of bonds at the prevailing long-term rate of interest. This was an indirect outcome of the improvement in the balance of payments and the consequent accumulation of foreign exchange in the National Bank, which was not offset by the movement of other assets. The money injected into the economy as a result increased liquidity and broadened the market for new bond issues.

Table 21. The Netherlands: Exports, Production, Employment and Unemployment in Selected Industries, 1949/50 to 1951/52[a]

Industry and year	Merchandise exports[b] Volume (1949/50 = 100)	Per cent of total exports	Per cent of total change from previous year	Production (1949/50 = 100)	Number employed[c] (thousands)	Number unemployed[d] (thousands)
Processed foods:						
1949/50	100	34		100	133	2.7
1950/51	134	34	33	104	135	2.6
1951/52	137	32	8	102	131	3.4
Metal products:						
1949/50	100	21		100	250	4.4
1950/51	152	24	31	116	266	5.0
1951/52	175	25	42	114	278	8.6
Chemical products:						
1949/50	100	14			43	
1950/51	164	17	26		47	
1951/52	170	16	7		48	
Textile products:						
1949/50	100	12		100	176	0.8
1950/51	130	11	10	108	184	1.1
1951/52	146	12	16	92	166	4.8
Agricultural products:						
1949/50	100	12				10.5
1950/51	90	8	−3			11.3
1951/52	107	9	16			16.3
TOTAL, ABOVE INDUSTRIES:						
1949/50	100	93				
1950/51	136	94	97			
1951/52	148	93	89			

Source: Central Bureau of Statistics, *Maandschrift* and *Statistische en econometrische onderzoekingen*.

[a] Years ending in June.

[b] Calculations based on data in 1948 prices.

[c] Based on end-of-quarter figures. Since coverage has varied during the period, actual reported employment is given only for 1950/51; for the other years, an employment index has been used to calculate comparable figures.

[d] Based on end-of-month figures of unemployed registered at employment exchanges.

Conclusion

It would appear that the governmental policies pursued in Denmark and the Netherlands in 1950/51 for the purpose of reducing the pressure of internal demand were reinforced by "inherent" economic forces operating in the same direction. The combination of these deflationary forces contributed in 1951/52 to the improvement of the balance of payments. But in the circumstances of 1951/52 their effect was exercised, particularly in Denmark, mainly by the cutting down of imports rather than by promoting exports, and this at some considerable cost in unemployment and reduced national product.

It should not be inferred from the analysis of these special cases that restriction of internal demand has not an essential part to play in the rectification of trade and payments deficits. On the contrary, even if a foreign trade deficit is being eliminated by such means as import restrictions or diversion of specific commodities from domestic consumption to exports, the very elimination of the import surplus will tend to increase the pressure of demand. If at the starting point the economy is in a state of full utilization of resources or close to it, an offsetting contraction of internal demand will be necessary in order to prevent inflationary pressures. It does not follow, however, that a cut in internal demand will always automatically reduce *pro tanto* the import surplus, leaving the level of economic activity unaffected. If exports are limited mainly by foreign demand rather than by domestic supply, such a cut may merely lead to a slowing down of economic activity; and the balance of payments will then improve only to the extent of the consequent decline in imports.

Chapter 2

CENTRALLY PLANNED ECONOMIES[1]

Major Changes in Economic Activity in Eastern European Countries, 1951 and 1952

Production and national income

Industrial production increased substantially from 1950 to 1951 and from 1951 to 1952 in all countries of this group except Yugoslavia, where the gain was relatively small. In 1951 the rate of increase over the previous year was lower than in 1950; and in 1952 a further decline in the annual rate of increase occurred, except in Bulgaria and Czechoslovakia.

The rise in industrial production in both 1951 and 1952 was, in most of the countries of the area, over 15 per cent annually, the largest proportionate increases being achieved in Hungary and Romania. In the Union of Soviet Socialist Republics, industrial production increased by 16 per cent in 1951 and by 11 per cent in 1952. In Yugoslavia, which had considerably reduced its planned targets because of insufficient supplies of raw materials and equipment, the increase was only 4 per cent in 1951 and the level was barely maintained in 1952.[2] The expansion of industrial production was associated with a considerable increase in the stock of fixed capital and the introduction of improved methods of production. These, together with the extension of incentive pay schemes, resulted in a substantial rise in productivity. In fact, in most countries of the area in this period, improvement in productivity contributed more than the increase in employment to the expansion of output. The rise in output per man in industry was generally 10 per cent or more in both years, except in the Union of Soviet Socialist Republics, where the increase was only 7 per cent in 1952.

Industrial employment rose less rapidly in 1952 than in 1951. In some countries this was associated with shortages of labour. Reserves of labour for non-agricultural employment, consisting of women not already in the labour force and agricultural manpower, dwindled in most of the countries as a result of the rapid expansion of industrial production during the post-war period. In some countries, among the factors affecting the supply of manpower for industry were food shortages and poor housing conditions in newly developed areas, which discouraged the influx of labour from the country. Special measures were taken in a number of countries to induce a higher proportion of the population to enter the non-agricultural labour force; these included the establishment of special training centres and centralized direction and distribution of manpower among various areas and industries. In Yugoslavia the scaling down of the targets of the plan, and the pressure to economize in the use of labour following the introduction of strict economic accounting in nationalized enterprises, resulted in an increase in unemployment. Registered unemployment rose from less than one per cent of the hired labour force at the end of 1951 to about 4 per cent at the end of 1952. This increase, however, partly reflected a fuller coverage of unemployment by registration offices.

Although the annual plans for industrial production were generally fulfilled in both 1951 and 1952, in many countries of this area the output of various essential industries failed to meet the planned quotas. This applies especially to iron and steel production and certain products in the output of the engineering industries in Czechoslovakia, Poland and Hungary, in both 1951 and 1952. In Czechoslovakia, actual output lagged behind the plan in both years in most heavy industries, especially in fuel and power and in engineering. The non-fulfilment of plans in fuel and power and a considerable increase in demand for both industrial and household use resulted in shortages of fuel and power in Czechoslovakia, eastern Germany, Poland and Bulgaria in 1952. In Czechoslovakia and Bulgaria, stringent restrictions were imposed on the use of power by industry and private consumers.

Developments in agriculture in the countries considered were heterogeneous, mainly as a result of varying weather conditions. However, in most of the countries of this area, output in 1951 was in fact higher than in 1950. In Czechoslovakia, Hungary and

[1] Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania, the Union of Soviet Socialist Republics and Yugoslavia, in eastern Europe; and mainland China.

[2] See footnote *d* to table 22.

Table 22. Indices of Industrial Production, Employment and Output per Man in Eastern European Countries, 1951 and 1952
(Corresponding period of preceding year=100)

Country	Industrial production		Industrial employment		Output per man in industry	
	1951	1952	1951	1952	1951	1952
Bulgaria	119	118	104[a]	106[a]	114	111
Czechoslovakia	115	118	104	105	110	115
Germany, eastern	122	116	112	105	113[b]	113[b]
Hungary	130	124	114[a]	112[a]	114	111
Poland	124	120	109[a]	106	114[c]	113
Romania	129	123	117[a]	109	110	113
USSR	116	111	106[a]	104[a]	110	107
Yugoslavia[d]	104	99	97			

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

[a] Derived from indices of industrial production and of output per man.

[b] In nationalized industries.

[c] In large and medium-sized industries.

[d] Not including armament industries, ship-building, printing and motion pictures.

Yugoslavia, this was partly or wholly the result of recovery from the 1950 drought. In Czechoslovakia agricultural output rose by 6 per cent as compared with 1950; in Hungary both crops and livestock products showed an increase; and in Yugoslavia, which suffered most from the 1950 drought, total output of agriculture increased by about 40 per cent and output of grain by 55 per cent. In 1952 the harvest in Yugoslavia and Hungary was again severely affected by drought.

Agricultural production in 1951 showed improvement over the previous year in Bulgaria and eastern Germany. In the Union of Soviet Socialist Republics, grain output declined in 1951 by about 4 per cent because of drought, but total agricultural output probably did not fall and may even have increased slightly because of the rise in output of industrial crops and in livestock. In 1952 grain output rose by about 8 per cent; increases were also reported in the output of industrial crops, potatoes and livestock. In Poland, total agricultural production declined in 1951 by 5 per cent, chiefly because of the decrease in fodder and root crops and the consequent decline in livestock numbers.

Mainly owing to the much smaller increase or to the decrease in agricultural production, national income rose less than industrial production in both 1951 and 1952 in most of the countries of this group. This discrepancy was most pronounced in 1952 in Hungary, where the sharp decline in the rate of increase of national income reflected the reduced agricultural output. Yugoslavia was the only country of the group where the increase in agricultural output in 1951 was the main factor in the rise in national income.

Investment in fixed capital increased considerably in all countries except Yugoslavia (see table 23). In most countries the proportionate increase was greater than that in national income. In the Union of Soviet Socialist Republics, however, both in 1951 and in 1952 the rate of increase in investment appeared to be similar to that in national income. There were also

Table 23. Indices of National Income and Investment in Eastern European Countries, 1951 and 1952
(Preceding year=100)

Country	National income[a]		Investment in fixed capital	
	1951	1952	1951	1952
Czechoslovakia	110	115	...	...
Hungary	123	105	145	125
Poland	112	110	138	122
USSR	112	111	112	111
Yugoslavia	111		95	

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

[a] Net value of output of industry, agriculture, construction, transport, communications and trade.

significant increases in expenditure for military purposes, including stockpiling, in both years in all countries. In Yugoslavia, investment in fixed capital declined in 1951, but this decline was less than the increase in military expenditure.

Consumption increased in 1951 in the Union of Soviet Socialist Republics, eastern Germany and Bulgaria.[3] While total consumption may have increased in Czechoslovakia, Hungary, Poland and Romania, per capita food consumption in the urban areas declined because of the deterioration in the food supply. In Yugoslavia total consumption fell as a result of the sharp drop in the food supply in 1951. In 1952 consumption increased in Bulgaria, eastern Germany, Hungary, the Union of Soviet Socialist Republics and, especially, in Yugoslavia, where there was a recovery from the marked decline during the preceding year. In Czechoslovakia, however, per capita food consumption of the urban population did not increase, and in Poland it declined further.

Demand and supply position

The demand-supply position varied considerably from country to country. In some countries the rise in investment and military expenditure was accompanied by an increase in the supply of consumer goods adequate to match growing consumer demand, while in others the supply of consumer goods, especially food, lagged behind considerably.

In Bulgaria, eastern Germany and the Union of Soviet Socialist Republics, the supply position improved in both 1951 and 1952. In the Union of Soviet Socialist Republics, the substantial increase in the supply of consumer goods permitted further reductions in retail prices in 1951 and in 1952, although the reductions were much less important than those of 1950. These price reductions were estimated to have aggregated 110,000 million roubles in 1950, 34,500 million in 1951 and about 28,000 million roubles in 1952. Reductions of 12 to 30 per cent applied in 1952 to all essential food products but, like those in 1951, did not apply to clothing, shoes and other manufactured goods. Prices in collective farm markets also fell.

In eastern Germany prices were reduced in 1951 and 1952, a number of commodities were derationed and free sales of other goods increased.

In Bulgaria, industrial consumer goods were derationed in 1951. As in the Soviet Union in 1947, derationing was accompanied by a monetary reform intended to eliminate the possibility of substantial spending in excess of current income out of the cash reserves accumulated by part of the population during the period of rationing and multiple prices. To this end the rate of exchange for cash was set at one new leva to 100 old levas (savings deposits were exchanged at more favourable rates) while wages, salaries, pensions and prices paid for compulsory deliveries were converted at the rate of one to twenty-five levas. At this conversion rate, the uniform food prices introduced after derationing were substantially higher than the previous ration prices but below free sale prices, while prices of industrial goods were reduced. On balance, the cost of living increased, and an upward adjustment of wages took place. Later in the year prices both of foods and of some industrial consumer goods were lowered. As to the agricultural population, it was chiefly affected by the drastic reduction in the value of its cash holdings. The current income of the farm population was influenced adversely by a fall in prices received by peasants in the free market. On the other hand, prices paid by peasants for industrial goods declined, while prices received for compulsory deliveries remained unchanged.

In other countries of this area, considerable demand pressure developed in the course of 1951. In Hungary and Yugoslavia, the situation improved substantially late in 1951 and during 1952, while in Czechoslovakia, Poland and Romania, the pressure of demand remained intense in both years. At the end of 1952 the situation again deteriorated in Hungary and Yugoslavia as a result of a disastrous fall in agricultural output.

The apparent cause of these developments in the countries concerned was the decline in output of certain essential foodstuffs due to unfavourable weather in the course of the period considered. In fact, however, the difficulties encountered in food supply also reflected factors of a more permanent nature.

Except in Yugoslavia, which is discussed at the end of this section, the period under review was characterized by a considerable increase in demand for food by the urban population. This increase in demand was the result of a substantial rise in investment and military expenditure, accompanied by an expansion of non-agricultural employment. The rapid rate of industrialization in eastern European countries during the past few years has in fact been the main cause of the pressure of demand upon food supply, although this pressure was aggravated considerably by poor crops. Even apart from weather conditions, the expansion in agricultural production did not keep pace with large increases in non-agricultural employment. These increases in employment were, at least in part, effected by means of shifts of population from the countryside to urban areas. However, the outflow of labour from agriculture to industry tended

[3] In the Union of Soviet Socialist Republics, the volume of retail sales in government and co-operative trade increased by 15 per cent in 1951 and by 10 per cent in 1952.

to increase the per capita food consumption of the remaining agricultural population; in other words, the shift in population from rural to urban areas was not accompanied by a commensurate shift in food supplies. As stated above, in 1951 and 1952 the balance between demand for, and supply of, food was further disturbed by a fall in output of certain crops and a consequent decline in livestock numbers. The ensuing difficulties in supply of food, especially to the cities, were aggravated by speculation and withholding of deliveries by peasants in anticipation of price increases and, in Czechoslovakia and Hungary in 1951, and in Poland in 1952, by diversion of grain from human to animal consumption. The pressure of demand resulted in a considerable increase in prices on the free and black markets and was followed by the introduction or extension of rationing and by a rise in prices in government and co-operative stores. As a result of these developments, a significant redistribution of income between urban and rural population took place. Per capita food consumption of the urban population, and probably real wages, declined in 1951 and, except in Hungary, did not improve during 1952. At the same time the income of peasants selling a significant proportion of their output tended to increase.

In Hungary, the situation improved considerably in the first half of 1952 as a result of the favourable 1951 harvest. Rationing of food, introduced at the beginning of 1951 at the same time as an increase in prices of non-rationed food and industrial goods, was partly abolished at the end of 1951. New uniform prices were set above ration prices but below free sale prices, and the effect of this measure on wages was largely compensated by wage increases. In 1952 the rationing of meat and fats was abolished, without any increase over previous ration prices, thereby completing derationing. In the third quarter of the year prices of bakery products were reduced, and thereafter there was a decline in prices on free markets. The situation deteriorated again at the end of the year as a result of a poor 1952 harvest. However, in contrast to the situation in 1950/51, considerable stocks of food, accumulated during the preceding year, were available. These stocks, together with a cut in exports and an increase in imports of certain crops, significantly reduced the impact of the decline in output.

In contrast to the situation in Hungary, demand pressures in Czechoslovakia, Poland and Romania continued through the second half of 1951 and in 1952. In Romania, plans for the purchase of agricultural goods were not fulfilled and in many instances peasants failed to meet their delivery quotas. Consequently, there was a significant decline in rations and an increase in the proportion of labour income spent in free and black markets, where prices rose considerably. This led to a substantial accumulation of cash in the hands of peasants, which enabled them to purchase industrial goods, fulfil their financial obligations and simultaneously reduce their current sales. In this situation a monetary reform was introduced in January 1952 for the purpose of eliminating accumulated liquid assets. The exchange rate for cash varied from one new lei for 100 old lei to one to 400, with much more favourable rates for savings accounts and bank deposits. Wages, salaries, and prices paid for compulsory deliveries were converted at the rate of one to twenty lei. At this rate of conversion, prices of consumer goods on free sale in government trade were fixed at a level 5 to 20 per cent lower than that prevailing before the reform. However, rationing was not abolished, and during 1952 the plans for the purchase of agricultural goods, especially meat and fats, were not fulfilled.

In Czechoslovakia, rationing of most consumer goods was retained throughout 1951. In order to restrain demand, Czechoslovakia introduced rationing of bread and flour, increased prices of consumer goods on non-restricted sales in government stores and enforced measures tending to prevent wage increases unwarranted by the rise in productivity. At a later stage the meat ration was reduced, and rice and sugar substituted. Although the harvest was better in 1951 than in 1950, plans for agricultural production and for purchases of agricultural goods were not fulfilled, and the situation did not improve significantly in 1952.

In Poland, which in 1950 suffered from recurring specific shortages, the pressure of demand upon supply mounted towards the middle of 1951 and the situation deteriorated further in 1952. In order to check the effect of the sharp rise in prices in local and black markets which took place both in 1951 and in 1952, rationing of meat and fats was introduced in 1951, followed in 1952 by rationing of some other consumer goods. The prices of these goods on non-restricted sale in government trade were considerably increased. Simultaneously, in the course of 1951 and 1952 compulsory delivery of most agricultural goods was introduced, and prices for delivery quotas and for contractual purchases of agricultural goods were considerably increased. Free markets for the sale of agricultural goods were maintained in respect of the surpluses left in the hands of the peasants after fulfilment of delivery quotas.

The preceding discussion does not apply to Yugoslavia because, in contrast to other centrally planned economies of eastern Europe, Yugoslavia was the only country where the sharp increase in demand pressures during the second half of 1950 and the first half of 1951 was almost entirely due to a disastrous fall in agricultural output. The 1950 drought reduced output of grain by about 35 per cent and led to a considerable decline in livestock numbers. The pressure of demand on reduced supply was only slightly intensified by the rise in military expenditure since this was offset to a considerable extent by a fall in investment.

The decline in food supply, more severe in Yugoslavia than in any other country affected by the 1950 drought, caused a considerable increase in prices received by the peasants in the free market. As a result, the government procurement and rationing system became virtually inoperative and was eliminated by stages. Wage and salary earners were partly compensated for the resulting price increases by coupons which entitled them to large discounts on purchases of industrial goods and food, or, at a later stage, by wage increases. Nevertheless, real wages declined substantially. Relaxation of direct controls was accompanied by various measures tending to reduce the pressure of demand upon supply. Prices of services, except rents, were doubled, a measure which tended to reduce the proportion of incomes available for purchases of food. Compulsory deliveries of agricultural goods were virtually abolished. However, a substantial increase in farm taxes and in prices of industrial goods increased the money outlays of peasants and induced them to increase their sales of agricultural goods. These measures, together with the very good harvest of 1951, led to a considerable increase in the supply of agricultural goods to the cities and a considerable fall in retail prices during the latter part of the year. The situation continued to improve throughout most of 1952. During the first three quarters of 1952 the cost of living was about 30 per cent below, and real wages 15 per cent above, the corresponding period of 1951. Towards the end of 1952 the situation deteriorated again as a result of a disastrous fall in agricultural output, similar to that of 1950. The measures adopted to reduce the effects of the drought were similar to those taken by Hungary —liquidation of stocks accumulated in the previous year, reduction of exports and an increase in imports.

The Five-Year Plan of Development of the Union of Soviet Socialist Republics, 1951 to 1955

The fifth five-year plan of development of the Union of Soviet Socialist Republics, approved in October 1952, covers the five-year period 1951 to 1955, immediately following the end of the fourth five-year plan (table 24). Since the new plan was announced after a considerable delay, the targets cover actual output in the preceding twenty months during which the new plan was in operation.

The average annual rate of increase in industrial production, although substantially lower than during the reconstruction period 1946 to 1950,[4] is maintained approximately at the level attained during the last pre-war plan. Total industrial production is scheduled to increase 12 per cent annually as compared with a 14 per cent increase planned for 1938 to 1942.

The targets for output of basic industries, such as coal, electricity and steel, are well in line with the goals for 1960 announced in 1946.[5] However, the output of oil by 1955 is to exceed the 1960 target, and total industrial production in 1955 is to attain the level originally contemplated for 1960.

The pattern of changes in industrial production in the new five-year plan is in many respects similar to that of the third five-year plan for 1938 to 1942 (which had to be set aside on account of the war) but different from actual developments during the past decade, a period of war and reconstruction. Like the

Table 24. Union of Soviet Socialist Republics: Selected Indices of Planned Output under Fifth Five-Year Plan, 1951 to 1955
(1950=100)

Item	*Planned output 1955*
National income	160
Industrial production	170
Producers' goods	180
Consumer goods	165
Light industry and food industries	170
Crude steel	162
Coal	143
Crude oil	185
Electric power	180

Source: Directives of the XIX Congress of the Party on the Fifth Five-Year Plan of Development of the USSR for 1951 to 1955 (Moscow, 1952).

[4] With the exception of 1946, when industrial production declined as a result of reconversion, the average rate of increase was above 20 per cent annually.

[5] The goals for 1960, set in 1946 in a speech by Premier Stalin, were as follows: industrial production, three times that of 1940; pig-iron, 50 million tons; steel, 60 million tons; coal, 500 million tons; and oil, 60 million tons. Targets of the fifth five-year plan for 1955 are as follows: industrial production, three times that of 1940; pig-iron, 34.1 million tons; steel, 44.2 million tons; coal, 372 million tons; and oil, 70 million tons.

third five-year plan, the new plan tends to increase the output of producers' goods at a rate higher than that of consumer goods, the planned rates being 80 and 65 per cent, respectively (table 25). In the preceding five-year period ending in 1950, the output of producers' goods actually increased by 83 per cent, whereas that of consumer goods increased by 108 per cent. Despite the relatively rapid expansion of output of consumer goods during this period of reconstruction, the output in 1950 was only 23 per cent above pre-war while output of producers' goods was more than twice as high, a disparity much greater than in the current plan or in the pre-war plan, which reflects the expansion of producers' goods industries and the drastic contraction of consumer goods industries during the war.[6]

Table 25. Union of Soviet Socialist Republics: Planned Increases in Industrial Production under Third and Fifth Five-Year Plans, and Actual Increases from 1940 to 1950

Item	*Planned*		*Actual*[a]	
	Third five-year plan (1938 to 1942) 1942 (1937 = 100)	*Fifth five-year plan (1951 to 1955) 1955 (1950 = 100)*	*1950 (1940 = 100)*	*1950 (1945 = 100)*
Industrial production	192	170	173	188
Producers' goods	207	180	205	183
Consumer goods	172	165	123	208

Source: XVIII Congress of the All-Union Communist Party, *The Third Five-Year Plan for the Development of the National Economy of the USSR, 1938 to 1942* (Moscow, 1939); *Directives of the XIX Congress of the Party on the Fifth Five-Year Plan of Development of the USSR for 1951 to 1955;* State Planning Committee of the USSR and Central Statistical Administration of the USSR, *On the Fulfilment of the Fourth (First Post-War) Five-Year Plan of the USSR* (Moscow, 1951); Speech of G. M. Malenkov at the XIX Congress of the Communist Party of the USSR, *Pravda* (Moscow), 6 October 1952.

[a] For the problems involved in the calculation of the index of industrial production prior to 1952, see United Nations, *World Economic Report, 1950-51*, page 31, footnote 4.

The fulfilment of the plan for industrial production is to a much larger degree dependent on an increase in productivity than on a rise in employment. Since total industrial production is scheduled to increase by 70 per cent during the five-year period, and output per man in industry by 50 per cent, it appears that industrial employment will increase by only 13 per cent.[7]

The increase in productivity is to be achieved by further mechanization of industries whose output has a high labour content; it will involve a 70 per cent increase in the amount of electric power per employed worker. The increase in industrial production will require a considerable expansion of existing industrial capacity, and will involve a large increase in investment in fixed capital. The planned investment in industry during the five years of the plan is scheduled to be twice as high as during the preceding five years. However, a considerable part of the increase in industrial production is expected to be achieved through a more intensive utilization of existing capacity, especially in the output of such basic materials as coal, iron and cement.

The long-run tendency towards geographic dispersal of industry is to be continued during the fifth five-year plan by bringing industrial plants closer to sources of raw materials and fuel and by accelerated development of the eastern territories as well as the Baltic republics.

The large increase in the output of consumer goods industries is closely associated with the unusually high targets set for agriculture (see table 26), which in the past had failed to match the progress achieved in industry. Although no over-all data on increases in agricultural production are available, it would appear that total agricultural production is scheduled to increase by about 40 to 50 per cent during the five years. It may be noted that the actual output of agriculture in 1950 was probably only about 10 per cent above the pre-war level.[8] The increase in agriculture in that period, like the relatively slow increase in output of industrial consumer goods, reflected the losses suffered as a result of war devastation. However, the rates of increase of agricultural output in the new plan are of about the same order of magnitude as in the last pre-war plan, for 1938 to 1942, according

[6] In 1944, output of consumer goods fell to 54 per cent of pre-war while output of producers' goods rose to 136 per cent of 1940 levels. In 1945, the last pre-plan year, the respective indices were 59 and 112.

[7] The total number of wage and salary earners is scheduled to increase by 15 per cent.

[8] The first post-war plan, covering 1946 to 1950, attempted to achieve a 27 per cent increase in agricultural output over 1940.

Table 26. Union of Soviet Socialist Republics: Agricultural Targets of the Fifth Five-Year Plan, 1951 to 1955
(1950=100)

Item	*Planned output 1955*
Agricultural products:	
All grains	140 to 150
Wheat	155 to 165
Sugar-beets	165 to 170
Potatoes	140 to 145
Meats and fats	180 to 190
Milk	145 to 150
Fodder crops	200 to 300
Cotton	155 to 165
Flax fibre	140 to 150
Wool	200 to 250
Livestock population:	
Cattle	118 to 120
Pigs	145 to 150
Sheep	160 to 162
Horses	110 to 112

Source: Directives of the XIX Congress of the Party on the Fifth Five-Year Plan of Development of the USSR for 1951 to 1955.

to which total agricultural output was to increase by 52 per cent.

The substantial expansion in agricultural production is to be achieved to a large extent by increases in yields per hectare of crops and by improvement in selective breeding and in methods of feeding livestock. The plan envisages that better yields will account for about 90 per cent of the increased output of grain, 50 per cent of the increased output of cotton and 60 per cent of the increased output of sugar-beets. It is planned to increase output per man in agriculture by 40 per cent.

The high goals set for agricultural production in the fifth five-year plan entail more intensive use of fertilizers and the introduction of new varieties of seeds as well as a considerable volume of new investment. However, these goals are based to a large extent on past post-war investment, which is expected to start giving increasing results during the coming years. This investment consisted of afforestation and irrigation works as well as a considerable increase in the number of tractors and combines (which were by no means fully utilized).

The new plan foresees a further extension of projects intended to improve the yield of land already under cultivation as well as to enlarge the area of cultivation. During the five-year period encompassed by the new plan, 6 million hectares of land are to be irrigated and 22 million hectares of pasture are to be supplied with water in connexion with the construction of the Volga-Don canal and the electric stations and irrigation systems on the Volga, Don, Dnieper and Amu Darya rivers.

The present five-year plan also foresees both a 50 per cent increase in the daily utilization of tractors and a 50 per cent increase in total tractor power between 1950 and 1955. This, together with a considerable expansion in the number of other agricultural implements, is scheduled to raise the proportion of mechanically harvested grain to about 80 to 90 per cent of the total, compared with 50 per cent in 1950. Substantial progress in mechanization is planned for other crops. The planned increase in the mechanization of agriculture is intended not only to release a substantial amount of manpower and extend the area under cultivation but also to reduce losses in harvesting and improve methods of ploughing, thus directly affecting yields per hectare.

The considerable increases in planned aggregate output, and in output per man, in agriculture are to be also partly the result of the reorganization of collective farms, started in 1950. The amalgamation of collective farms into larger units, which resulted in a reduction of the total from 247,000 in 1950 to 97,000 in 1951, was intended to increase productivity through such factors as more efficient use of modern machinery, more rational crop rotation and more even distribution of capital equipment per worker. The administrative, social and economic problems involved in this reorganization were such that no immediate effects on productivity and yield could be expected. The full effect of these changes is expected to appear during the period of fulfilment of the fifth five-year plan.

The increases in the output of industrial consumer goods and of agriculture are associated in the five-year plan with a similar rise in consumption. The order of magnitude of the planned increase in consumption may be ascertained from data relative to changes in the real income of the population. Real wages of wage and salary earners are planned to increase by 35 per cent, the number of workers by 15 per cent during the five-year period, and the total wage bill by 55 per cent. The income of collective farmers is to increase by 40 per cent per farmer. No data on farm employment are given in the plan. On the assumption that employment on collective farms will increase less than the number of wage and salary earners by, say, 5 per cent,[9] the total income of collective farmers will rise by 47 per cent. This would lead to the conclusion that the total real income of the population is planned to increase by about 50 per cent between 1950 and 1955. Assuming that no changes occur in direct taxation, deductions from incomes for government loans and private savings,

[9] This agrees with the estimated increase in agricultural output and with the rise in output per man in agriculture indicated in the plan.

the increase in consumption roughly corresponds to the planned rise in incomes. This estimate of the rate of increase in consumption appears to be consistent with the data relating to changes in the output of industrial consumer goods and of agriculture, discussed above (65 per cent and 40 to 50 per cent, respectively). This rate of increase in consumption is identical with that stated in the last pre-war plan for the period 1938 to 1942.

Table 27. Union of Soviet Socialist Republics: Planned Increases in National Income, Output of Producers' Goods and Consumption, 1951 to 1955

Item	*1955 (1950 = 100)*	*Annual rate of increase*
National income	160	10.0
Industrial production of producers' goods	180	12.5[a]
Consumption[b]	150	8.5

Source: Directives of the XIX Congress of the Party on the Fifth Five-Year Plan of Development of the USSR for 1951 to 1955.

[a] See footnote *a* to table 28.

[b] Estimated as on page 50.

It is planned that retail turnover in government and co-operative trade will increase by 70 per cent, a substantially higher rate of increase than that in output of consumer goods. This difference may be accounted for by a shift of population from rural to urban areas and a decline in the relative share of collective farms in retail trade. The shift of population would result in a decline in the proportion of agricultural output consumed directly by collective farmers, and in consequence there would be an increase in the relative share of total output made available to the consumer through government and co-operative trade. Moreover, there is a tendency for government agencies to purchase under contract from the collective farms an increasing proportion of surpluses over and above delivery quotas, thereby reducing correspondingly the proportion of these surpluses sold directly to consumers in collective farm markets.

According to the directives of the five-year plan, total investment in industry in the period 1951 to 1955 is to double, and investment in agriculture more than double, that of the preceding five years, 1946 to 1950. In transport and communications the increase is to be 65 per cent; in housing, 50 per cent. Since no data are available on planned changes in investment between 1950 and 1955, the only indication with respect to the rate of increase may be derived from the planned increase of output of producers' goods.

It will be noted that the index of output of producers' goods includes armaments and excludes construction; it therefore measures changes in the sum of armaments and investment in machinery and equipment rather than changes in total investment. Nevertheless, the index may be considered as fairly representative of changes in that part of national income which is not devoted to consumption. This index is shown in table 27, together with data on consumption and national income.

The targets set by the five-year plan for agricultural and industrial production may be compared with actual changes in the first two years during which the plan was in operation. At an annual rate, output in agriculture thus far falls short of the increase of 40 to 50 per cent scheduled over the five-year period. Although no over-all data on agricultural production were published, it may be assumed on the basis of available information that 1951 output, affected by the drought in certain areas, was little if any higher than in the previous year. In 1952 total output increased significantly as compared with 1951, but the average rate of increase in the period 1950 to 1952 lagged considerably behind the average rate of increase anticipated in the plan. Grain output, which was also scheduled to increase by 40 to 50 per cent over the five-year period, actually fell in 1951 by 3 per cent, and in 1952 was only about 5 per cent above 1950. This implies that if the plan is to be fulfilled, the average increase in output of grain during the remaining three years must be more than 10 per cent per annum, that is, twice as much as the increase in 1952 over 1950, both years of favourable growing conditions. On the other hand, the data on industrial production in 1951 and 1952 compare favourably with the plan (see table 28). Although the increases were lower in 1952 than in 1951, the

Table 28. Union of Soviet Socialist Republics: Increases in Industrial Production, Productivity in Industry and Employment, 1951 and 1952, and Planned Average Annual Increases, 1951 to 1955

(Percentages)

Item	*Actual increase over previous year: 1951*	*Actual increase over previous year: 1952*	*Planned average annual increase 1951 to 1955*
Industrial production	16	11	11.2[a]
Productivity in industry	10	7	8.5
Industrial employment[b]	6	4	2.5
Total employment	4	2	2.8

Source: Reports on the fulfilment of the plan for 1951 and for 1952; Directives of the XIX Congress of the Party on the Fifth Five-Year Plan of Development of the USSR for 1951 to 1955 (Moscow, 1952).

[a] Since data given in the plan on the total increase over the five-year period and on the annual rates of increase are both approximations, they differ somewhat from the figures shown in the table. The latter are computed from the indices of total increase over the five-year period. The relevant annual rates of increase in industrial production indicated in the plan are 13 per cent for output of producers' goods, 11 per cent for consumer goods and 12 per cent for total industrial production.

[b] Derived from indices of industrial production and productivity.

average rates of increase for the first two years of the plan exceeded the planned average rates for industrial production and employment, while the increase in productivity approximated the planned average rate. This indicates that the plan could be fulfilled even if there should be a further slowing down in the rate of industrial expansion during the remaining years of the plan.

Major Changes in Economic Activity in Centrally Planned China, 1951 and 1952[10]

From 1950 to 1952, the index of industrial production of the Central Financial and Economic Committee, calculated on the basis of the output of thirty-five major industrial products, increased at an average rate of about 30 per cent annually. In 1952 the index was 126 per cent of the previously recorded peak of production (table 29). The high rate of increase in industrial production in this period reflected recovery from war dislocation as well as rapid development during the early stages of industrialization.

Table 29. Centrally Planned China: Indices of Industrial Production, 1949 and 1952
(Previously recorded peak year=100)[a]

Year	*Total*[b]	*Consumer goods*	*Investment goods*
1949	56	70	30
1952	126	132[c]	116[c]

Source: Central Financial and Economic Committee, as quoted in *People's China* (Peking), *People's Daily* (Peking) and *Ta Kung Pao* (Shanghai).

[a] Previously recorded peak year represents the sum of production in the north-east region for 1943 and in the rest of China for 1936.

[b] Covering the production of the 35 major industrial commodities.

[c] The figures for the production of consumer goods and investment goods in 1952 are calculated on the basis of changes in their respective shares in total production between 1949 and 1952. According to official data, the shares of consumer goods and investment goods in total production were 67.5 per cent and 32.5 per cent, respectively, in 1949, and 56.2 per cent and 43.8 per cent in 1952.

The expansion of production in different branches of industry was not uniform. From 1950 to 1952, the index of production of investment goods increased at a higher rate than that of consumer goods. However, because of heavier war devastation, the level of production of investment goods in 1952, in relation to its previously recorded peak, was lower than that of production of consumer goods, the respective increases being 16 and 32 per cent. Selected indices of industrial production in 1952 are shown in table 30.

Table 30. Centrally Planned China: Selected Indices of Industrial Production, 1952

Commodity	*1951 = 100*	*Previously recorded peak year = 100*
Pig-iron	131	105
Steel ingots and castings	141	170
Structural steel	128	167
Cement	111	153
Electricity	130	114
Coal	118	95
Petroleum	125	136
Cotton yarn	130	150
Cotton cloth	137	165
Paper	151	212
Sugar	128	100

Source: See table 29.

The recovery of industrial production to a level well in excess of the previously recorded peak was accounted for by fuller utilization of existing capacity, and new investment in some important industries, such as textiles and iron and steel. Since labour productivity rose considerably from 1950 to 1952, the increase in industrial employment was moderate.

The Government extended its control over industry during the period. Between 1950 and 1952, by virtue of progressive nationalization of industry[11] and the building up of new government enterprises, the Government increased its share in industrial production from 44 per cent to 67 per cent. At the same time its control over private production was strengthened, mainly by means of increasing government orders, which in 1952 amounted to about three-fourths of the value of private production in the large industrial centres.

The increase in industrial activity was accompanied by an expansion of agricultural output. From 1950 to 1952, the index of total agricultural production showed an annual increase of about 15 per cent, reaching in 1952 a level exceeding by 13 per cent the previously recorded peak. Production of food grains in 1952 was 9 per cent above the 1936 peak. Industrial crops and livestock, in general, increased more than food grains. In 1952, the output of the most important industrial crop, raw cotton, was 56 per cent higher

[10] This section deals with the economic situation in the area under the administration of the Central People's Government of the People's Republic of China. The economic situation in Taiwan, which is administered by the Government of the Republic of China, is discussed in chapter 3.

[11] In 1952 nationalization was already complete in railways and almost complete in banking.

than in 1936 (see table 31). The increase in agricultural production was the result of an expansion in the acreage cultivated and of improvements in irrigation and methods of cultivation.

Table 31. Centrally Planned China: Indices of Agricultural Production, 1950 to 1952
(Previously recorded peak year[a]=100)

Item	1950	1951	1952
Total agricultural production[b]	86	93	113
Food grains	87	96	109
Rice	97	99	110
Wheat	80	89	101
Raw cotton	83	131	156

Source: See table 29.

[a] Previously recorded peak year is 1936.

[b] Including food grains, industrial crops, sericulture and livestock.

By the spring of 1952, the agrarian reform was complete for more than 90 per cent of the total rural population, with the remaining part scheduled to be completed before the spring of 1953. In the period under review there was also a considerable extension of mutual aid teams and productive co-operatives in agriculture.[12] In 1952, two out of every five peasant households were so organized, an increase of 40 per cent over 1951.[13]

Both government revenue and government expenditure rose rapidly from 1950 to 1952. Revenue rose by about 170 per cent and expenditure by about 140 per cent. The rise in revenue was due to the expansion of industrial production and the inclusion in the budget of the profits of government enterprises that were being nationalized. Rural taxes having been reduced in the meantime, the share of their yield in total revenue fell drastically. On the expenditure side, military expenditure, constituting about two-fifths of the total in 1950, increased by 50 per cent between 1950 and 1952; and public investment, constituting about one-fourth of the total in 1950, increased by 320 per cent. The large increase in the latter was the result of an expansion in the volume of investment and the incorporation into the budget of investment expenditure of newly nationalized enterprises.

Whereas in 1950 the budget was roughly in balance, in 1951 and 1952 substantial surpluses were realized.

Recovery in industry and agriculture brought about a large increase in the supplies of consumer goods and thereby permitted an increase in personal consumption. Between 1950 and 1952, the output of food grains (including rice, wheat and soy-beans) increased by about 12 per cent a year and the output of industrial consumer goods from 1949 to 1952 by about 24 per cent a year (see tables 29 and 31). During the period 1950 to 1952, consumption in urban and rural areas was estimated to have increased on the average at an annual rate of about 20 per cent.

The increase in the supply of consumer goods was the basis for the increase in the real wage bill and in the real income of peasants. The redistribution of income resulting from nationalization of industry and land reform was a contributing factor. Between 1950 and 1952, the considerable increase in the real wage bill was mainly due to the rise in average earnings, since employment rose only moderately. The rise in real incomes of peasants reflected the gradual completion of the agrarian reform, which abolished rents formerly paid to landlords, as well as the reductions in rural taxes.

[12] The mutual aid teams involve co-operation only in the use of manpower and draught animals during the busy periods; productive co-operatives, which are more permanent in character, require a year-round organized pooling of implements and land.

[13] The percentage varied greatly in different regions. It was over 80 per cent in the north-east region and over 60 per cent in the northern region.

Table 32. Centrally Planned China: Indices of Retail Prices[a] in Four Cities, 1951 and 1952
(1950=100)

Period	Shanghai	Tientsin	Peking	Wuhan	Average[b]
1951:					
First half	99	108	106	103	102
Second half	104	115	112	103	107
1952:					
First half	105	118	112	101	108
Second half[c]	104	117	113	98	107

Source: People's Daily; Ta Kung Pao.

[a] Retail price indices refer here to price indices based upon "parity savings units" or "parity wage units". The latter cover commodities which vary in the different cities to reflect local consumption habits; for instance, in Shanghai: rice, coal briquettes, vegetable oil and cotton fabrics; in Peking: millet, wheat flour and cotton fabrics. Data for 1952 are not available for the north-eastern, western and southern provinces.

[b] Weighted average; weights as follows: Shanghai 45; Tientsin 15; Peking 15 and Wuhan 10

[c] Preliminary.

Exploration

Exploration activities from 1950 to 1952 resulted in important discoveries, especially in Saudi Arabia and Kuwait. During April 1951, the Uthmaniya field was discovered in Saudi Arabia, 65 kilometres south of the Ain Dar field, and in the following month the Safaniya field was found, located in the Persian Gulf approximately 3,500 metres off the mainland at a point where the sea is 6.5 metres deep; this was the first offshore discovery in the region. As a result of these discoveries and further exploration, the acreage of proven oilfields in Saudi Arabia increased from about 53,000 hectares at the end of 1949 to nearly 125,000 hectares at the end of 1951.[1] During 1952, exploration activities were extended to additional areas in Saudi Arabia.

A discovery at Magwa, about 11 kilometres north of the Burghan field, substantially increased the proven reserves of Kuwait, which thus kept their relative position as the second largest in the world. In Iran, the exploration activities of the Anglo-Iranian Oil Company in the first half of 1951 added over 7,000 hectares to the proven acreage; in addition, during 1951/52 the activities of the Iranian Oil Company, directed by the Seven Year Plan Organization, resulted in the discovery of an oilfield in the Qum area, south of Tehran. In Turkey, exploration by the Mining Research Institute (Maden Tetkik ve Arama Enstitusu), a government-owned organization, led during 1950/51 to the discovery of Garzan field, north of Ramandag.[2] On the other hand, exploration from 1950 to 1952 in the Kuwait-Saudi Arabian neutral zone was unsuccessful. This was also true of explorations in the Adana region, near the Gulf of Iskenderun in Turkey. In Egypt, oil companies discontinued their exploration activities early in 1952 because of failure to discover further economic locations in their current lease areas.[3]

Drilling

Drilling activities in the Middle East continued at a low level as compared with activities in the main producing areas of the world. Wells completed during 1951 numbered 105, totalling 195,000 metres drilled; of these seventeen were failures, eight of them in Egypt. The figures for 1951 may be compared with those for 1950 and 1949: 94 completed wells totalling 164,000 metres, and 106 wells totalling 166,000 metres, respectively. Over three-fourths of all Middle East drilling activities in the period 1949 to 1951 were undertaken in Egypt, Iraq, Kuwait and Saudi Arabia.[4]

Development of oilfields as well as expansion of oil handling facilities continued in the region. Between 1949 and 1952, new fields placed in production included Dukhan late in 1949 in Qatar, Zubair late in 1950 and Ain Zalah late in 1952 in Iraq, and Ain Dar early in 1951 in Saudi Arabia. During this period the producing capacity of many oilfields was stepped up by drilling new wells and by expanding facilities for handling oil. Several oilfields were discovered which had not been placed in production by the end of 1952 owing to lack of pipeline outlets; these included Abu Hadriya, Fadhili, Haradh, Safaniya and Uthmaniya in Saudi Arabia; Qaiyarah in Iraq; Qum in Iran; and Magwa in Kuwait.

Pipelines and other facilities

The most striking development in the region with respect to expansion of oil handling facilities was the construction of two large-diameter pipelines from Saudi Arabia and Iraq to the Mediterranean. The pipeline from Saudi Arabia, completed late in 1950, stretches from the oilfields of Saudi Arabia, through Jordan and Syria, to Sidon in Lebanon. This thirty- to thirty-one-inch pipeline, with a length of 1,720 kilometres and a present throughput capacity of 15.5 million tons a year, required an investment of $230 million. The Iraqi pipeline, with diameters of twenty-six, thirty and thirty-two inches, and a length of 895 kilometres, has a normal throughput capacity of 13.5 million tons a year. The line was completed in 1952 from Kirkuk field in Iraq to Baniyas in Syria; it required a total investment of about $115 million.

In addition to these lines, the pipeline systems of several oil producing countries were expanded during the past three years. In Iraq, a pipeline of twelve to sixteen inches, with a length of 120 kilometres, was laid between the Zubair field and Fao on the Persian Gulf; it has a crude charging capacity of 2.6 million tons annually. This line was finished late in 1951; in 1952 plans were laid to construct a parallel line with a diameter of twenty-four inches. There was another plan, also, to construct a pipeline of twelve and three-quarter inches, with a length of about 220 kilometres, capable of carrying 1.3 million tons of crude a year from Ain Zalah to the main Iraqi pipelines near Shuraimiya. The construction of a sixteen-inch pipeline from Kirkuk to Haifa, which was interrupted in 1948, was not completed. Another parallel twelve-inch pipeline from Kirkuk to Haifa, which was shut down in 1948, remains closed. In Saudi Arabia, the pipeline system was expanded in 1951 by 76 kilometres of new pipelines with a capacity of nearly 14 million tons of crude petroleum a year. During the past three years additional pipelines were laid in Iran, Kuwait and Qatar. Expansion of oil handling facilities also included construction of storage and harbour facilities in the new oil ports of Sidon,

[1] Gulf Publishing Company, *World Oil* (Houston, Texas), 15 July 1951 and 15 July 1952.

[2] *Ibid.*, 15 July 1952.

[3] United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 16 June 1952.

[4] Gulf Publishing Company, *World Oil*, 15 July 1951 and 15 July 1952. Wells drilled in 1951 in the United States numbered 43,300 and totalled 51 million metres; over 17,000 were dry holes. Wells drilled in Venezuela in the same period totalled over 1,200, of which 140 were dry holes.

Baniyas and Fao, as well as expansion of existing facilities in Iran, Kuwait, Qatar and Saudi Arabia.

Production of crude petroleum

The sharp increase in total crude petroleum production experienced in the post-war period continued in the Middle East in 1951 and 1952, in spite of the cessation of Iranian exports. The increase in output of crude in 1951 was 10 per cent and in 1952 about 8 per cent. The rise in production accompanied the expansion of oil handling facilities and the increasing world demand for crude petroleum. Despite this increase, the volume of output remained relatively low compared with the great potentialities of the region as represented by its large proven reserves. By the end of 1951, the cumulative total output of Middle East oilfields since the beginning of large-scale commercial production — which started relatively late — had reached about 654 million tons, of which over one-half had come from Iranian oilfields (see table 32). This output represented only some 7 per cent of the total cumulative crude oil production of the entire world. Total production of crude oil in the Middle East increased almost six and a half times in the period between 1938 and 1952; the figure for the latter year was about 105 million tons compared with 97.2 million tons in 1951 and 35.6 million in 1946 (table 33). But in 1951 the Middle East, with over half of the world's proved oil reserves, contributed only 16.4 per cent of the crude oil supply of the world, as compared with 16.8 per cent in 1950 and 5.7 per cent in 1938. The decline between 1950 and 1951 in the relative position of the Middle East was due to the sharp decrease in production in Iran, following nationalization, as well as a rise in crude petroleum output elsewhere in the world.

Table 33. Crude Petroleum Production by Countries, 1938, 1946, 1948 and 1950 to 1952

(Thousands of metric tons)

Country	*1938*	*1946*	*1948*	*1950*	*1951*	*1952*[a]
Bahrein	1,138	1,099	1,496	1,511	1,508	1,510
Egypt	226	1,282	1,886	2,434	2,332	2,320
Iran	10,359	19,497	25,270	32,259	16,844	1,350
Iraq	4,298	4,680	3,427	6,479	8,351	18,000
Kuwait	—	800	6,400	17,291	28,327	37,900
Qatar	—	—	—	1,636	2,370	3,300
Saudi Arabia	67	8,200	19,260	26,904	37,476	40,700
Turkey	—	—	2	17	19	20
Total Middle East	16,088	35,558	57,741	88,440	97,227	105,100
World total	282,000	378,000	470,000	525,000	592,000	622,000
Middle East output as percentage of world total	5.7	9.4	12.3	16.8	16.4	16.9

Source: United Nations, *Statistical Yearbook* and *Monthly Bulletin of Statistics*; *Economic Survey of Europe, 1951* (Geneva, 1952).

[a] Preliminary figures.

While production in Iran declined sharply, from 32.3 million tons in 1950 to about 1.3 million tons in 1952, there were spectacular increases in Iraq, Saudi Arabia and Kuwait. The output of Saudi Arabia rose from 26.9 million tons to 40.7 million tons, and that of Iraq from 6.5 million to approximately 18 million tons in the corresponding period. These expansions in output were facilitated by the construction of large-diameter pipelines, as already mentioned, from the Iraqi and Saudi Arabian fields to the eastern Mediterranean coast. In Kuwait, also, production of crude petroleum increased by about 120 per cent in 1952 over the 1950 output of 17.3 million tons; Qatar's output of crude rose from 1.6 million tons to nearly 3.3 million in the corresponding period. There were no important changes in production in Bahrein, Egypt or Turkey.

Middle Eastern crude petroleum came from 597 wells in 1951, of which 145 were located in Egypt. The output per well is in some cases as high as 20,000 barrels a day. Daily average production per well at the end of 1951 was about 4,600 barrels in the Middle East (excluding Egypt), as compared with only 12.7 barrels per well in the United States, and 225 barrels in Venezuela.[5]

Refining

The refinery capacity of the Middle East petroleum industry has increased in recent years at a much slower rate than that of crude oil production, from a total yearly capacity of about 47 million tons in 1948 to about 52.5 million tons in 1951—a rise of 12 per cent as compared with the 68 per cent increase in output of crude. This slow rate of development was largely a

[5] The high productivity of oil wells in the Middle East is due partly to geological conditions and partly to the fact that in almost every country oilfields are operated by a single company, which can drill and operate the most promising wells to drain the oil reservoirs.

Prices rose in all countries during the period under review. The rise in 1951 reflected to some extent the increases in import prices, but in most countries it was associated with an increase in inflationary pressures and led to a fall in real wages. Price increases in 1952 were mostly in the nature of price-wage spirals.

As was mentioned earlier, the situation in Argentina during the period under review was in a category apart. Developments in that country were affected mainly by such factors as the fluctuations in agricultural output, the foreign exchange position and the economic policies of the Government.

In 1951 the real gross national product of Argentina rose slightly. In spite of a decline in the production of meat, total output in agriculture, as a result of more favourable crops, was higher than in the preceding year, when agriculture had been hit by the almost total loss of the 1949/50 maize crop. There was also a slight increase in industrial production. With respect to demand, the decline in real balances of exports and imports and the increase in investment paralleled to some extent developments in other countries. However, with regard to the former, the drop in exports, particularly of meat and wool, was a much more important factor than the relatively small rise in imports. With regard to investment, the increase in stocks of export goods was the main factor in the movement of inventories. Developments in consumption were also less favourable than in the other countries. Food consumption remained roughly unchanged, but there was a significant decline in the consumption of manufactured consumer goods.

Developments in Argentina in 1952 were of a rather deflationary nature. Agricultural output dropped substantially as a result of a major failure in 1951/52 crops of cereals and oil-seeds. The resulting sharp fall in the exportable surplus led to a further decline in real trade balances, in spite of a cut in imports motivated by the deterioration in the foreign exchange position during the year. Investment activities were adversely affected by a decline in the private sector and the government policy of budgetary retrenchment. As a result of the consequent fall in rural and urban incomes, total consumption of both food and manufactured consumer goods declined. The decline in industrial output resulting from the fall in investment and consumption was associated with the appearance of substantial unemployment in urban areas.

Prices rose steeply in 1951 and continued to rise in 1952 in spite of the deflationary developments of that year. In both years, the price-wage spiral of the previous year was accentuated by the continued fall in real wages.

Developments in 1951

A preliminary survey of the situation in the countries under review, covering the first half of 1951, was given in the preceding *World Economic Report*. The following section describes the changes which took place during the entire year.

Production

Total crop output in 1950/51 was higher than in the previous year in all the countries under review. There was a general rise in food grain crops. In Argentina, the rise in agricultural output was a result of the recovery of the maize crop from the record low of the previous year; the increase failed, however, to recoup entirely the steep decline of the preceding crop year. The same applied to Chile, which experienced a very sharp decline in production of food grains in the previous crop year. In the output of animal products, a notable development was a drop in the production of meat in Argentina, while in Brazil, Chile and Mexico, the output of animal products showed a slight rise. With regard to the main export products, in Argentina, in addition to the developments in grain and meat noted above, there was a slight rise in the production of wool. In Brazil, production of coffee and cotton was roughly unchanged, while in Mexico, under the stimulus of high profits and good export demand, the cotton crop showed a further steep rise. Production of sugar in Cuba rose slightly. An estimate of aggregate agricultural production in the two principal sectors is given in table 33.[3]

[3] Some of the figures in the table revise the preliminary estimates for 1950/51 published in the previous report.

Table 33. Indices of Agricultural Production in Selected Latin American Countries, 1950 to 1952

Country	Crops (1948/49 = 100)			Livestock products (1949 = 100)	
	1949/50	1950/51	1951/52	1950	1951
Argentina	90	108	74[a]	96	86
Brazil	106	112	116	101	
Chile	81	85	91[a]	...	...
Mexico	114	126	132	110	108

Source: United Nations Department of Economic Affairs, computed from national statistics.

[a] Preliminary figures.

As will be seen from table 34, industrial production rose in all countries under review, the increases ranging from 3 to 8 per cent in Argentina, Chile and Mexico, to 11 per cent in Brazil. The increases were concentrated mostly in the investment goods industries; except for Brazil, output in the consumer goods industries (textiles, clothing) was either unchanged or below the level of 1950. Mining production followed an upward trend, with the notable exception of Mexico, where mining of both non-ferrous metals (lead and zinc) and precious metals showed a substantial drop.

Table 34. Indices of Industrial Production in Selected Latin American Countries, 1951 and 1952

(Corresponding period of previous year=100)

Country and item	1951 Full year	1952 First half
Argentina:		
Total industrial production[a]	103	98[b]
Manufacturing	102	98[b]
Extractive industries	105	100[b]
Brazil:		
Manufacturing[c]	111	103
Chile:		
Total industrial production[d]	115[e]	116[e]
Manufacturing[f]	118[e]	114[e]
Extractive industries[g]	106	96
Mexico		
Total industrial production[h]	107	108
Manufacturing[i]	108	109
Mining, exclusive of oil[j]	94	

Source: Argentina: Ministry of Technical Affairs, *Síntesis Estadística Mensual de la República Argentina* (Buenos Aires), October 1951, April and September 1952; Brazil: Getulio Vargas Foundation, *Conjuntura Econômica* (Rio de Janeiro), December 1952; Chile: Dirección General de Estadística, *Estadística Chilena, Sinopsis* (Santiago) 1950, 1951 and June 1952; Mexico: Bank of Mexico, *Trigésima Asamblea General Ordinaria de Accionistas* (Mexico, D.F.), 1952.

[a] Including mining, gas and electricity.

[b] Seven months.

[c] Including coal, pig-iron, steel, cement, electric power, woven cotton fabrics, sugar and derivatives.

[d] Including construction and energy, excluding mining.

[e] These indices appear to be overstated because of the high weights given to the iron and steel industry, whose output increased sharply in the period in question.

[f] Same coverage as the index of total industrial production, but excluding construction.

[g] Copper, gold and silver, nitrates, iodine and coal.

[h] Including energy output, mining and oil.

[i] Excluding processing and refining of oil.

[j] Production of metallic ores and metals, including precious metals.

The national product rose in all countries, the increases ranging from 2 to 6 per cent (see table 36, below).

Changes in components of gross national product

Except in Cuba, there was a general decline in the real balance of exports and imports. In Brazil and Mexico, this decline was particularly pronounced; it was primarily the result of a steep rise in imports while exports rose only slightly. In Argentina and Chile, where the increase in the volume of imports was much smaller, the fall in the real balance was due as much to the decline in exports as to the rise in imports. In Cuba, the increase in the real balance resulted from an upward movement in the volume of exports and imports. The increase in imports in all the countries under review reflected to a large extent the apprehension, generally prevalent after the middle of 1950, of impending shortages of raw materials and manufactured goods in international trade.

In Brazil, Mexico and Cuba, the rise in imports in 1951 represented the continuation of a trend which became apparent in the second half of the previous year. Anticipatory buying of goods for stockpiling, which was sometimes of a speculative nature, accounted for a large part of the rise in imports of these countries; this was particularly the case in Brazil and Mexico. There was also a substantial increase in imports of non-essential consumer goods in these three countries. The terms of trade of the countries of this group fluctuated within relatively narrow limits compared with 1950. There was a slight improvement in Mexico and some decline in Brazil and Cuba (see table 35), so that the decline in the real balances of Brazil and Mexico was accompanied by a substantial deterioration in their balances in money terms. The exceptionally high level of imports in both countries was made possible by a favourable exchange position, achieved as a result of a substantial improvement in the terms of trade in 1950, particularly in Brazil; a contributing factor in Mexico was an increase in receipts in its invisible trade, namely, in receipts from tourist expenditures and from remittances of migrant labour.

In Argentina and Chile, the larger imports of 1951 were made possible by an easing of the foreign exchange position in these countries as a result of a significant improvement in their terms of trade.[4] Thus, even though their exports fell in physical terms, they were able to relax somewhat the stringent import restrictions of the previous years.

[4] In Chile, the terms of trade improved as a result of the increase in copper prices which had been negotiated in 1951; the improvement in Argentina was due primarily to the short-lived boom in wool in the early part of the year.

Table 35. Indices of Unit Values and Terms of Trade of Selected Latin American Countries, 1950 to 1952
(1950=100)

Country and item	1951 First half	1951 Second half	1951 Full year	1952 First half
Argentina:				
Exports[a]	156	144	150	136
Imports[a]	116	133	125	123
Terms of trade	134	108	120	111
Brazil:				
Exports	121	...	123	121
Imports	121	135	129	142
Terms of trade	100		96	85
Chile:				
Exports[a]	125	155	141	158
Imports[a]	110	122	117	130
Terms of trade	114	127	120	122
Cuba:				
Exports	108	114	111	105
Imports	119	121	120	119
Terms of trade	91	94	93	88
Mexico:				
Exports	123	121	122	128
Imports	114	112	113	112
Terms of trade	108	108	108	114

Source: Computed by the United Nations Department of Economic Affairs from the following sources: Argentina: International Monetary Fund, *International Financial Statistics* (Washington, D.C.); Ministry of Technical Affairs, *Síntesis Estadística Mensual de la República Argentina*. Brazil: United Nations, *Monthly Bulletin of Statistics* and Ministry of Finance, *Mensario Estatistico* (Rio de Janeiro). Chile: United Nations, *Monthly Bulletin of Statistics* and Statistical Office of the United Nations. Cuba: United Nations *Monthly Bulletin of Statistics*. Mexico: National Bank for Foreign Trade, *Comercio Exterior* (Mexico, D.F.).

[a] Valued in United States dollars

The changes in either direction in public expenditures on goods and services on current account[5] were generally confined within narrow limits (see table 36). In all countries except Cuba the increases in gross national product noted above resulted from the fact that the rise in investment and consumption more than offset the decline in the real balance of exports and imports. In Cuba a rise in the real balance, as well as in investment and consumption, contributed to the increase in gross national product.

Investment increased significantly in all the countries under review. There was a general increase in investment in fixed capital, particularly in Brazil and Mexico, where large imports of capital goods and equipment had taken place during the year.[6] In these two countries, an important element in the increase was the investment of export profits, particularly in residential building. In Chile, the rise in domestic production of steel products made possible an increase in domestic investment in fixed capital in spite of a lower level of imports of capital goods. Aside from investment in fixed capital, a key factor in the changes in gross investment in 1951 was the accumulation of inventories. The nature of this accumulation varied from country to country. In a general way, it is possible to state that in Brazil and Mexico the accumulation was mainly in the form of stockpiled imports of industrial supplies and raw materials, while in Argentina and Chile there was a substantial increase in inventories of export products, grain, livestock and

[5] In the breakdown of national accounts for this group of countries, public and private investment are combined for statistical reasons under the item "gross investment", while the item "government expenditure" relates to expenditure on current account only. In the latter, expenditures of semi-governmental bodies or so-called "autonomous agencies" were included only in so far as the agencies concerned were not engaged in production of goods and services for the market. The same procedure was followed in the previous *World Economic Report*.

[6] In Brazil, in line with an economy plan introduced early in 1951, public investment, particularly that connected with the SALTE plan, was slowed down, so that the increase was primarily in the field of private investment. It will be recalled that the designation "SALTE plan" covered a group of government-financed development projects in the fields of public health, food, transportation and energy.

Table 36. Components of Gross National Product of Selected Latin American Countries, 1950 and 1951

(In 1950 prices, as percentage of total 1950 gross national product)

Country and year	Gross national product[a]	Sum of personal consumption and changes in inventories[b]	Government expenditure on current account	Gross investment in fixed capital, public and private	Balance of exports and imports of goods and services[a]
Argentina:					
1950	100.0	68.7	10.4	19.7	1.2
1951	102.0	73.6	11.1	20.7	−3.4
Brazil:					
1950	100.0	72.2	12.0	13.6	2.2
1951	105.7	77.9	11.2	18.1	−1.5
Chile:					
1950	100.0	77.8	13.7	11.8	−3.3
1951	102.0	80.5	13.7	13.0	−5.2
Cuba:					
1950	100.0	72.7	12.8	10.2	4.3
1951	104.5	74.6	12.8	10.7	6.4
Mexico:					
1950	100.0	75.6	7.3	15.0	2.1
1951	105.5	80.6	8.3	18.9	−2.3

Source: United Nations Department of Economic Affairs, computed from official national statistics.

[a] No adjustment has been made for net payments of interest and dividends abroad, which are thus included in the gross national product.

[b] This component is obtained as a residual.

wool in Argentina[7] and copper in Chile. In addition, in most countries, there appears to have been an increase in inventories of manufactured consumer goods (see below).

Consumption increased slightly in Brazil, Cuba and Mexico, was roughly unchanged in Chile and declined somewhat in Argentina.[8] In all these countries, consumption failed to keep pace with the increase in national product. One of the factors responsible for this development was a general increase in government net receipts in relation to national income, which correspondingly limited the increase in private incomes available for consumption. In Argentina and Chile, where foreign trade operates under a system of differential exchange rates, private incomes were also affected by changes in these rates.[9] The increase in payments from the private to the public sector more than offset the effect of the improvement in the terms of trade of Argentina, Chile and Mexico, while in Brazil and Cuba the deterioration in the terms of trade contributed towards a further reduction in private incomes in relation to real national product. However, real private income was above the 1950 level in all countries except Argentina, where it remained unchanged.

Another factor which determined developments in real consumption in 1951 was the supply of food. The pressure of effective demand upon inadequate food supplies contributed in most countries to an increase in inflationary pressures. In Argentina, normally a food surplus country, shortages developed in meat, which is a staple item of the national diet. The decline in meat production, noted above, was only partly offset by a fall in exports.[10] As a result, domestic meat prices rose steeply; there was, in addition, a further rise in prices of other food products, following a further increase in controlled agricultural prices. The larger share of urban incomes spent on food affected adversely urban demand for manufactured consumer goods. This was only partly offset by the correspondingly larger incomes of the rural sector, in view of the fact that part of this increase accrued to

[7] In Argentina, grain inventories, which had been depleted in 1950, were replenished. The drop in hog slaughtering, in order to reconstitute the pig population, which had been depleted through the failure of the 1950 corn crop, amounted to a *pro tanto* increase in investment in livestock. Finally, wool inventories accumulated, as exports had been virtually suspended in the second half of 1951 following the collapse of wool prices.

[8] For purposes of this discussion, consumption was estimated net of changes in inventories.

[9] In Argentina, the increase in receipts from taxation proper, in real terms, was relatively small. Most of the reduction in real private incomes arose from the fact that the peso rate for imports was depreciated more than the rate for exports, which amounted to a higher increase in import duties than in export bounties.

[10] In spite of the pressure of domestic demand, some meat shipments continued under outstanding contracts.

large cattle producers and traders, who tend to consume less out of additional income. As a result, inventories of manufactured consumer goods rose in the second half of the year. Total consumption declined in relation to private incomes, and inflationary pressures increased during the year. There was a further deterioration of the real wages of the urban population, the rate of decline being significantly above the over-all fall in real consumption.[11]

In Brazil, Chile and Mexico, where there was an expansion of private incomes as a result of the rise in output and employment, the inadequacies in the supply of food in relation to demand were of a more general kind, even though meat shortages in urban centres appear to have been particularly acute. Owing to the relatively small increases in the food crops of 1950/51, the supply of many basic food items failed to keep pace with the rise in effective demand, in spite of larger imports, with the result that inflationary pressures developed in the food sector. In Chile and Mexico, this was reflected in the fact that real consumption lagged behind private incomes. In Brazil, where total real consumption appears to have kept pace with real incomes, there are reasons to assume a rise in the proportion spent on consumption by higher income groups; the more liberal import policy made possible the diversion of some of the large export profits into purchases of high-priced non-essential imports. To the extent to which this took place, real consumption of the lower income groups declined in relation to incomes. In Chile and Mexico, by a process similar to that described in the case of Argentina, the pressure on prices of food caused a fall in demand for manufactured consumer goods, since the decline in effective demand of the urban population was not offset by a corresponding increase in farm demand.[12] Output in the affected industries remained stagnant or even declined, and in some cases inventories accumulated. In all of these countries, real wages of urban workers fell during the year.

In Cuba, imports were adequate to maintain consumption in line with the slight increase in real private income, so that no inflationary pressures appear to have developed.

Prices rose in all countries of the group. The cost of living rose between 9 and 13 per cent in Brazil, Cuba and Mexico, 22 per cent in Chile and 36 per cent in Argentina (see table 37). The steep rise in Chile is accounted for by the inflationary pressure on food prices and the higher domestic prices of imported goods resulting from the depreciation of the exchange rate for imports. The same was true of Argentina, where in addition to the inflationary pressures on prices of meat, prices of other food products were affected by substantial increases in controlled prices granted during the year, referred to above. In both countries, the spiral of wages and prices continued. The rise in prices in Cuba was due to the rise in the prices of imports of food and other consumer goods, which account for a substantial part of total consumption.

Developments in 1952

In Brazil, Chile, Cuba and Mexico, gross national product in real terms rose in 1952, though the increases generally appear to have been small. There was an over-all increase in the 1951/52 crops, and the output of food grains was moderately higher. A notable development in the output of export products was a bumper sugar crop in Cuba, some 25 per cent higher than in the preceding year. There were no major changes in the output of the other key export products (cotton, coffee, cocoa, wool). As far as can be judged from available incomplete data, over-all industrial production was somewhat above the level of 1951, with some slackening in the second half of the year. In Chile and Mexico, the easing of demand for textiles and other manufactured consumer goods, which had been noted in the preceding year, continued into 1952; the accumulation of inventories led to curtailment of production in the course of the year, so that the average level of output in these industries fell below that of the preceding year.

In contrast with the other countries, Argentina showed a fall in national product in 1952. In agriculture there was a serious failure in the 1951/52 crop of cereals and oil-seeds; the wheat crop was particularly affected and, for the first time in Argentina's recent history, fell below domestic consumption needs. There seems to have been an increase in the output of animal products. The over-all decline in agricultural output was not offset by increases in activity in the non-agricultural sectors. On the contrary, largely as a result of crop failure and the consequent fall in export proceeds, but also owing to other adverse factors, there was a general contraction in economic activity. Industrial production, which was at a level slightly above that of 1951 in the early part of the year, fell off significantly later, not only in consumer goods industries but in other industrial

[11] This was in contrast to the stability of the parity prices of the principal cash crops, that is, of the ratio between prices paid to farmers and prices of manufactured consumer goods. This situation reflects the reorientation in government economic policies in recent years with regard to farm incomes and urban consumption for the purpose of stimulating output in agriculture.

[12] In both countries, higher prices of farm products were largely reflected in greater profit margins of traders and other middlemen or, as in Chile, where a substantial part of the domestic output of food grain is grown by large-scale producers, in increased incomes of such producers. In both cases, the effect of the increase in incomes on total consumption was correspondingly reduced.

branches as well. There was also a drop in construction activities.[13]

In the countries where real gross national product rose in 1952, the movement of individual components was of a diverse nature.[14] There was no definite trend in changes in the real balances of trade. The weakening of raw material markets affected somewhat the volume of exports of all the countries of the group but, except for Brazil, the fluctuations were relatively small.[15] In Brazil, exports of coffee were roughly maintained but there was a drastic drop in other key exports (cotton and other fibres, cocoa, hides, vegetable oils, etc.) so that, on balance, the over-all volume of exports showed a substantial decline. Imports were generally maintained in the first half of 1952 at about the levels of the previous year but there was a marked slowdown in the rate of imports later in the year. An important factor in the decline was the slackening in demand for speculative purposes and the accumulation of substantial inventories of imported goods in 1951 and early 1952. Another factor was the development of balance of payment difficulties, particularly with regard to the dollar area, which by mid-1952 led in some countries (Brazil and Chile) to a tightening of restrictions on imports.[16] As a result of these movements of exports and imports, the real balance of trade declined significantly in Brazil, was roughly unchanged in Cuba and Chile, and rose somewhat in Mexico.

Investment in fixed capital, inclusive of residential construction and public works, rose in all countries, except in Cuba, where both private and public construction declined. As in the preceding year, changes in inventories played an important role in total investment. In contrast, however, to the pattern of the preceding year, when the key factor was accumulation of stocks of imported goods, the changes in inventories were mainly in the form of involuntary accumulation of export commodities. In Brazil, the fall in export demand, referred to above, resulted in heavy accumulation of stocks of various export commodities, particularly cotton, which involved extensive government purchasing under a price support programme. In Cuba, there was an accumulation of sugar stocks,

[13] At the time of the writing of this report, there were favourable reports in the Argentine press as to the 1952/53 crops. The improvement in crops was expected to have favourable repercussions on the general economic situation in 1953.

[14] In view of the delay in the availability of data, statistical information is, of necessity, incomplete. The following discussion is therefore a tentative and preliminary estimate of developments during the year as a whole.

[15] In the metal exporting countries, such as Chile and, to some extent, Mexico, exports were sustained by the relative strength of the demand for non-ferrous metals (copper, lead, zinc).

[16] A contributing element in the development of balance of payments difficulties in the case of Brazil was a substantial fall in the terms of trade. A further factor particularly responsible for payments difficulties with the dollar area in 1952 was the necessity of importing wheat payable in dollars, as supplies normally obtainable from Argentina were not available in that year.

Table 37. Indices of Cost of Living in Selected Latin American Countries, 1951 and 1952
(1950=100)

Country and item	1951			1952		
	First half	*Second half*	*Full year*	*First half*	*Second half*	*Full year*
Argentina:[a]						
General	121	151	136	184	191[b]	
Food	118	154	136	191	201[b]	
Brazil:[c]						
General	106	111	109	123	133	128
Food	102	108	105	120	135	127
Chile:[d]						
General	113	131	122	141	157	149
Food	113	139	126	152	171	161
Cuba:						
Food	110	112	111	113	112	113
Mexico:[e]						
General[f]	107	118	113	127	130	128
Food	108	122	115	132	135	133

Source: United Nations, *Monthly Bulletin of Statistics*, except 1952 food indices for Cuba, which are based on *Cuba Económica y Financiera* (Havana).

[a] Buenos Aires

[b] Four months

[c] São Paulo

[d] Santiago

[e] Mexico City

[f] Cost of food, clothing, soap and coal

which also necessitated the introduction of a government support programme, under which approximately 25 per cent of the sugar output was withdrawn from the market and set aside as a stabilization reserve; the resulting increase in investment in sugar inventories more than offset the decline in fixed capital.[17]

As to consumption, in Chile and Mexico the pattern of consumption described previously in connexion with the developments in 1951 was also apparent in 1952. As a result of the pressure of effective demand on food supplies, the increases in urban incomes were largely absorbed in higher consumption of food. On the other hand, there was no increase in real rural demand for manufactured consumer goods, which, together with the slackening in inventory accumulation, accounted for the fall in output in the affected industries. In Brazil and Cuba, there was apparently a rise in consumption of both food and manufactured goods.

The developments in this group of countries with regard to the various components of their gross national product[18] may be summarized as follows. A lower real trade balance in Brazil and an unchanged real trade balance in Cuba were accompanied by a rise in gross investment and in consumption; in the increase in gross investment, accumulation of inventories of export goods played a leading role. In Chile and Mexico, the increase in gross national product was reflected in a rise in real balances and in investment, while total consumption does not appear to have increased to any significant extent.

Developments in Argentina, where gross national product fell, were in a category apart because of the repercussions of the failure of the 1951/52 crops and the resulting drop in export proceeds. All the components contributed to the decline in the gross national product. Exports fell steeply, as the exportable surplus in cereals and oil-seeds was sharply reduced as a result of the crop failure.[19] Although ensuing foreign exchange difficulties led to drastic contraction of imports,[20] this was not sufficient to offset the loss of exports, with the result that the real trade balance was further reduced. Investment in fixed capital also declined. The fall in private investment, including residential building, reflected the general deterioration in business conditions and the restrictions on imports of investment goods; the decline in construction activities was further accentuated by the curtailment of investment by the public authorities. As to the movement of inventories, there was, on the one hand, a slowdown in the accumulation of inventories of manufactured consumer goods and, on the other hand, a depletion of the stocks of food grains, as these were drawn upon for domestic consumption. While an offsetting factor was an increase in inventories of some export products, on balance total investment, inclusive of inventories, fell. Finally, there was a decline in consumption, both of food and of manufactured consumer goods. With regard to food, consumption of meat was checked by measures intended to raise the export surplus.[21] As to industrial consumer goods, effective demand declined as a direct result of the fall in agricultural real incomes through the crop failure[22] and the contraction of activities in non-agricultural sectors. In addition, the effect of higher food prices, particularly for meat, on urban demand for manufactured consumer goods, which had been noted in the previous year, continued in 1952.

As the decline in gross national product was not confined to agriculture but also affected industrial output and construction activities, it was associated with the appearance of substantial unemployment and cutbacks in the working hours of employed labour. The decline thus had a distinctly deflationary aspect.

Prices rose in varying degrees in all countries. The increases in the cost of living were particularly large in Argentina and Chile. The rise in prices in both countries reflected the continuation of the familiar pattern of price-wage spiral. In the case of Argentina one element in this spiral was a further increase in the controlled farm prices. Thus, the rise in prices in that country accompanied the deflationary

[17] The decline in both private and public investment of this type was related to problems created by the bumper sugar crop of the year. Private investment activities were adversely affected by uncertainty in business outlook resulting from the accumulation of inventories and the drop in sugar prices, and the announced restriction of the next crop. The contraction in public investment was also probably related to heavy claims on public financial resources arising from the sugar support programme.

[18] Changes in public expenditures on current account in real terms are disregarded for the purpose of this preliminary analysis. Changes in this component in either direction do not appear to have been significant in magnitude. It is possible that such expenditures declined somewhat in Argentina and Cuba.

[19] There was also a fall in other exports (e.g., wool, hides) as a result of a decline in foreign demand. Measures were taken by the Government to stimulate meat exports, such as restricting domestic consumption, raising the export exchange rate, and paying direct subsidies.

[20] The payment difficulties developed with the dollar area in particular. By the middle of the year, all outstanding dollar import licences were cancelled, except for imports of essentials.

[21] In addition to introducing "meatless days", there was a further increase in the official prices of, and partial lifting of price controls on, meat for domestic consumption.

[22] Price increases which had been granted to farmers for the 1952 crops of grains and oil-seeds were roughly offset by the rise in prices of industrial goods. Thus the effect of the price increases was to maintain the parity of agricultural prices. The improvement in real incomes in the pastoral sector of agriculture did not contribute greatly to the demand for industrial consumer goods for reasons stated earlier.

developments described above.[23] A price-wage spiral seems to have developed in Brazil and Mexico in the first half of 1952, following the decline in real wages in 1951. In Cuba, the price rise was rather slight, since there were adequate supplies of food and other consumer goods.

Major Changes in Economic Activity in Far Eastern Countries

Countries of Asia and the Far East, varied as their economies are, may nevertheless be classified into three broad groups. The first group includes Ceylon, Indonesia, Malaya, Pakistan and the Philippines, whose exports consist mainly of raw materials. The second group consists of Burma and Thailand, which are food exporting countries.[24] In contrast, the third group of countries, including China, India and Japan, are either not mainly exporters of primary products or not so dependent upon foreign trade. Major economic changes common to the first two groups from 1950 to 1952 are dealt with in the following section. India and Japan are discussed individually in subsequent sections, as is China: Taiwan. Major economic trends in continental China have been discussed in chapter 2.

Countries exporting raw materials and food

In all the countries of this group, foreign trade constitutes the most important factor in determining the level of domestic economic activities. During the period 1950 to 1952, developments in these countries therefore centred around the raw material boom—which started in the second half of 1950 and reached its peak in the first quarter of 1951—and its subsequent collapse. The impact of the boom upon internal economic activities in the individual countries during 1950/51[25] followed a more or less uniform pattern. Externally, they all experienced improvements in real trade balances, except Ceylon, and in their terms of trade and, internally, there were steady increases in production and consumption. The subsequent collapse during 1951/52 did not affect the individual countries simultaneously, nor with equal intensity. However, the terms of trade deteriorated sharply in all the raw material exporting countries, and, in 1951/52 as a whole, all these countries experienced a decline in their real balance of trade, reflecting in many instances a fall in exports. Such changes in foreign trade naturally led to adverse changes in production and accumulation of inventories during 1951/52. In the food exporting countries, although the terms of trade tended to improve, the real balance of trade also declined. This resulted from government restrictions on the export of rice, imposed despite an increase in production, for the purpose of replenishing stocks.

During 1950/51, the raw material boom gave strong impetus to expansion in the output of exportable products; consequently the level of production rose significantly in all these countries. Total agricultural production generally rose 3 to 8 per cent, but the increase in food production was much smaller. In Indonesia, however, total agricultural production, as well as food crops, remained unchanged (see table 38). The size of the industrial sector in these countries is, in general, small as compared with that of agriculture; but available information indicates that there were substantial increases in mining and manufacturing output in 1950/51.

On the demand side, the increase in economic activity in 1950/51 was due primarily to expansion in exports. The real balance of trade increased in all countries except Ceylon, where it declined slightly owing to a larger increase in imports (see table 39). The changes in inventories, though varying from country to country, were quantitatively less important as a result of two counterbalancing movements. On the one hand, there were reductions in the inventories of exportable goods owing to larger increases in exports than in current production. On the other, there were increases in the accumulation of imported goods for speculative purposes. However, on balance, it seems that in most countries there was some addition to inventories.

Proceeds and profits from exports rose sharply as a result of the boom. To siphon off export profits, the raw material exporting countries generally increased their export duties. For example, duties were raised on rubber in Ceylon, Indonesia and Malaya, on tin in Indonesia and Malaya, and on cotton and jute in Pakistan. In the food exporting countries, Burma and Thailand, the Governments, having a virtual monopoly of rice exports, paid the rice miller a price substantially lower than the world market price,

[23] In the latter part of the year, prices of manufactured consumer goods, for example, textiles, showed a tendency to decline under the pressure of reduced demand, the accumulation of inventories and a policy of drastic restriction of bank credit enforced by the Government.

[24] Thailand occupies an intermediate position between countries exporting raw materials and those exporting food, since it exports rubber and tin in addition to rice. However, since rice constitutes the main export (amounting to about two-thirds of total exports in 1949), Thailand is treated here as a food exporter.

[25] References to years in this section indicate years beginning in July.

Table 38. Indices of Agricultural Production in Countries Exporting Raw Materials and Food, 1950/51 and 1951/52

(1949/50=100)

Group and country	Total agricultural production 1950/51	Total agricultural production 1951/52	Food 1950/51	Food 1951/52
Countries exporting raw materials:				
Ceylon	108	110	103	108
Indonesia[a]	100	106	100	106
Malaya	104	92	107	98
Pakistan	103	101	101	96
Philippines	106	107	103	108
Countries exporting food:				
Burma	103	106	101	105
Thailand	104	106	101	104

Source: Food and Agriculture Organization of the United Nations.

[a] Java and Madura.

Table 39. Foreign Trade[a] of Countries Exporting Raw Materials and Food, 1949/50 to 1951/52

Group, country and year	Quantum indices (1949/50 = 100) Imports	Quantum indices (1949/50 = 100) Exports	Balance of merchandise trade[b] (Millions of national currency) Current value	Balance of merchandise trade[b] (Millions of national currency) At 1949/50 prices
Countries exporting raw materials:				
Ceylon:				
1949/50	100	100	183	183
1950/51	120	113	575	142
1951/52	117	113	27	159
Indonesia:				
1949/50	100	100	257	257
1950/51	116	119	2,331	339
1951/52	162	125	423	−246
Malaya:				
1949/50	100	100	113	113
1950/51	154	131	1,995	326
1951/52	155	116	323	−611
Pakistan:				
1949/50	100	100	−107	−107
1950/51	112	124	778	36
1951/52	117	112	−122	−181
Philippines:				
1949/50	100	100	−375	−375
1950/51	82	143	149	2
1951/52	122	134	−512	−396
Countries exporting food:				
Burma:				
1949/50	100	100	194	194
1950/51	131	155	314	396
1951/52	126	117	89	195
Thailand:				
1949/50	100	100	538	538
1950/51	123	124	817	691
1951/52	157	114	−310	−438

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

[a] All figures in constant prices were obtained by deflating the values of imports and exports by their respective price indices as given in table 40. In the case of Thailand, the figures for the volume of exports were directly estimated from the quantity of exports of rice, tin and rubber.

[b] In all countries except the Philippines, imports are on c.i.f. basis and exports f.o.b.; in the Philippines, both are on f.o.b. basis.

which had the same effect as a variable export duty. Although these measures proved effective in reducing profits in the hands of exporters,[26] profits after tax did increase significantly during the boom period. However, in most instances, increases in export profits did not generate demand for mass consumption goods because large plantation production is typical of export products. This, however, is not the case in Indonesia, where large-scale plantation production is typical only of sugar, palm oil and palm kernels, whereas small farms predominate in rubber, copra and aromatic crops.

In the early part of 1950/51, the supply of consumer goods did not keep pace with the increase in economic activity and income, and there was some increase in inflationary pressures in all the countries considered. However, as a result of import liberalization and reduction in import duties in late 1950 or early 1951, the domestic supply situation in all the countries was much improved by increased imports of a wide range of essential and semi-essential manufactured consumer goods. In addition, production of staple food in 1950/51 was generally higher than in the previous year, and imports of foods into deficit countries also increased.

In the countries considered, price controls for basic commodities, sometimes accompanied by consumer rationing and subsidies, were already in force. In 1950/51, the price control mechanism was substantially extended in Indonesia, the Philippines and Thailand. In Ceylon, subsidy payments on rice were increased. In order to check the speculation which was common in these countries during the boom, bank credits were tightened.

As a result of the improvement in supply conditions, accompanied by anti-inflationary measures, domestic prices did not show any great change in most countries (see table 40). In Ceylon, Pakistan, the Philippines and Thailand, the cost of living indices either remained stable or increased only slightly from 1949/50 to 1950/51. In Burma, prices actually declined, the main reason being the rapid recovery in production following the reduction of the scope of civil war in that country.

Prices showed large increases only in Malaya and Indonesia. In Malaya, the marked rise in the cost of living index from 1949/50 to 1950/51 was mainly the result of the sharp increase in import prices, but food prices rose only moderately. In Indonesia, food prices during 1950/51 showed a sharp increase of 39 per cent. This was the result of increased pressure resulting from the higher income of agricultural producers, not accompanied by a corresponding increase in the food supply.[27]

In contrast to 1950/51, when the impact of the raw material boom upon the internal economies of these countries followed a broadly similar pattern, their experiences in connexion with the collapse of the boom during 1951/52 were quite divergent. The principal factors responsible for such divergencies were the differences in the composition of exports and in the timing and extent of the fall in world prices of primary products. The collapse of the boom affected prices of agricultural raw materials first; they declined rapidly during the first or second quarter of 1951. Except tin, prices of most minerals continued to rise until the end of 1951 or early 1952, and there were a few non-ferrous products whose prices also continued to rise during 1952. On the other hand, prices of foodstuffs showed a steadily rising trend during the entire period.

The changes in agricultural production after the collapse of the raw material boom were different in the various raw material exporting countries. Significant changes in total agricultural production took place only in Malaya and Indonesia, but in Ceylon, Pakistan and the Philippines the level of agricultural output remained about the same. In Malaya there was a sharp fall in output of both exportable products and food crops. On the other hand, Indonesia showed a significant increase of production in both sectors. In countries where total production was stable, this was the result of offsetting changes in export products and food crops. In Ceylon and the Philippines, the increase in food output was accompanied by a decline in the production of exportable products and in Pakistan the reverse change occurred. Industrial production in general showed a tendency to slacken in all countries except Indonesia and Pakistan. In the food exporting countries, Burma and Thailand, agricultural production continued to increase from 1950/51 to 1951/52.

The real balance of trade declined from 1950/51 to 1951/52 in all countries except Ceylon, where it increased slightly. In most countries this was mainly due to a sharp decline in the volume of exports, resulting either from falling world demand for raw materials[28] or from government restrictions on exports

[26] As a result of the large rise in tax revenue and the absence of substantial increase in expenditure, the Governments of Burma, Malaya and the Philippines increased their budget surplus in 1950/51.

[27] Rice production in Indonesia had in fact returned to its pre-war level by 1950/51. However, food remained in short supply as a result of the increase in population. Hence, about 10 per cent of the total requirement of the staple food, rice, had to be imported. This situation was aggravated during the boom by increase in demand and by hoarding.

[28] In Indonesia, the volume of exports actually increased slightly, largely as a result of the devaluation of the rupiah early in 1952.

Table 40. Indices of Import Prices, Export Prices and Cost of Living in Countries Exporting Raw Materials and Food, 1950/51 and 1951/52
(1949/50=100)

Group, country and year	Import prices	Export prices	Terms of trade	Cost of living[a] All items	Cost of living[a] Food
Countries exporting raw materials					
Ceylon:					
1950/51	111	142	127	106	105
1951/52	139	125	90	107	100
Indonesia:					
1950/51	114[b]	208	182[c]		139
1951/52	258[b]	306	119[c]		189
Malaya					
1950/51	137	224	164	125	105[d]
1951/52	137	187	136	128	110
Pakistan:					
1950/51	112[b]	163[e]	145	100[f]	100[f]
1951/52	141[b]	151[e]	107	104	107
Philippines:					
1950/51	98	118	120	105	103
1951/52	113	103	91	105	103
Countries exporting food:					
Burma:					
1950/51	120[b]	102[g]	85	89	90
1951/52	152[b]	122[g]	80	88	90
Thailand:					
1950/51	110[h]	111[i]	101	109	
1951/52	119[h]	125[i]	105	118	

Source: United Nations, *Monthly Bulletin of Statistics*; and foreign trade accounts of the various countries.

[a] The cost of living indices are not nation-wide in coverage. In Ceylon, the index refers to Colombo; in Indonesia, to Djakarta; in Malaya, to Kuala Lumpur; in Pakistan, to Karachi; in the Philippines, to Manila; in Burma, to Rangoon; and in Thailand, to Bangkok.

[b] Weighted average of export prices (with a three-month lead) in countries which are main sources of supply of imports.

[c] Figures refer to the terms of trade expressed in rupiahs, which are slightly different from those expressed in United States dollars because of the existence of multiple exchange rates and of changes in these rates during this period. On the basis of 1949/50 as 100, the terms of trade in terms of United States dollars were 170 in 1950/51 and 125 in 1951/52.

[d] September 1949 to June 1950 = 100.

[e] Weighted average of prices of jute and raw cotton.

[f] First half of 1950 = 100.

[g] Export price of rice.

[h] Wholesale prices of chemicals, fuels, metals and metal products, and textiles in Bangkok, weighted by the respective shares of these products in 1949 imports.

[i] Weighted average of export prices of rice, rubber and tin.

of rice. In some countries, especially Indonesia and Thailand, the large increase in the volume of imports was also a factor. In the face of stable or rising domestic production, the decline in exports led in almost all countries to an accumulation of inventories. (In Burma and Thailand this accumulation was the result of government policy.) The only exception was Malaya, where the decline in the volume of exports resulted directly in a fall in production.

There was a sharp decline in export profits consequent upon the collapse of the raw material boom during 1951/52. Because of a decline in exports, several governments during the first half of 1952 reversed their policies of siphoning off export profits. Export duties were substantially reduced in several countries, notably duties on cotton, jute and wool in Pakistan, and on rubber, copra and coconut oil and tea in Indonesia. In cases where export duties were levied on a sliding scale, as, for example, on rubber in Ceylon and Malaya, the burden was automatically lowered when prices fell. Moreover, price support schemes for cotton and jute adopted in Pakistan in

March 1952 offered compensation to exporters for the disparity between the support price and the world market price of these two commodities. In Indonesia, the exchange rate for exports was lowered in early 1952, and proved effective in increasing exports. Nevertheless, export profits after taxes declined in most countries during 1951/52. The decline in export profits, however, did not result in a substantial reduction in the demand for mass consumption goods, just as during the previous boom the increase in export profits had played a minor part in shaping domestic demand. Of all the countries, only Malaya experienced a decline in effective demand. This was the result of an increase in unemployment and a fall in the wages of plantation workers, consequent upon a large decline in production.

In other countries, inflationary pressures subsided in 1951/52, chiefly because of the further improvement in the supply of consumer goods. Food production in 1951/52 was, in general, significantly higher than in 1950/51, except in Malaya and Pakistan. In these two countries, as well as in Ceylon, which is normally dependent on imports of staple foods, there were large increases in food imports. In the food exporting countries, Burma and Thailand, rice exports were curtailed by the Government, in spite of increases in production, in order to build up domestic stocks. Moreover, supplies of imported manufactured consumer goods were plentiful, since large stocks of imports had accumulated in the previous year, and the import restrictions imposed by many countries during the first half of 1952 had not yet taken effect. Cost of living indices remained practically stable in almost all the countries. In the food deficit countries, food subsidies were retained or even increased, because of the continuing increase in import prices of rice.

Indonesia was the only country in which inflationary pressures increased in 1951/52. On the demand side, there were increases in the budget deficit, owing to government capital expenditures, and in incomes derived from exports. At the same time food remained in short supply. There was a further increase of 36 per cent in the price of food in Djakarta, in spite of higher domestic production of rice. Speculative hoarding of rice by farmers contributed to this rise in prices. Domestic prices in general were also affected by the considerable increase in import prices, resulting, in large part, from the reduction in the exchange rate for imports.

India

The dominant factor in the economic situation in India in 1951 and 1952 was the shortfall in food grain production. Production of food grains fell drastically in 1950/51—by more than 4 million tons or about 9 per cent—and was slightly below this level in 1951/52 (see table 41). Output of other food products rose, but the major increases in farm output were in the non-food sector. Total agricultural production in both

Table 41. India: Selected Indicators of Economic Activity, 1950 to 1952

Period	*Index or value*			
	AGRICULTURAL PRODUCTION (1949/50=100)			
Crop year:		*Food grains*[a]		
1950/51		91		
1951/52		90		
	INDUSTRIAL PRODUCTION (1950=100)			
Year or half-year:	*Total*	*Cotton cloth*		*Jute manufactures*
1951 Full year	112	116		105
1952 First half	120	122		119
	FOREIGN TRADE[b] (MILLIONS OF 1950 RUPEES)			
Year or half-year:	*Quantum of exports*	*Quantum of imports*	*Real balance*	*Terms of trade (1950 = 100)*
1950 Full year	5,869	5,483	386	100
1951 Full year	5,580	6,852	−1,272	118
1952 First half	2,721	3,829	−1,108	92

Source: Ministry of Agriculture, Directorate of Economics and Statistics, *Agricultural Situation in India*; Government of India, *Monthly Abstract of Statistics* (New Delhi). Index of food grain production computed by United Nations Department of Economic Affairs from official national statistics

[a] Rice, wheat, *jowar*, *bajra*, *ragi*, maize, barley.

[b] Exports and export unit values adjusted to include export duties. Quantum of exports and imports obtained by deflating current values by appropriate unit value indices. Exports and imports include both seaborne and landborne trade. Unit value indices are based on air and seaborne trade only, which represents over 85 per cent of total trade

years was somewhat below the level of 1949/50.[29] However, industrial production rose in 1951 by about 12 per cent as compared with 1950, reflecting recovery in cotton and jute textiles and continued expansion in the output of cement, steel and a number of other commodities. Industrial production continued to rise at about the same rate in the first half of 1952. Nevertheless, in this period, gross national product did not show a large increase over 1950 because of the fall in farm output.

Changes in the components of the gross national product in 1951 and the first half of 1952, which are discussed in greater detail below, may be summarized as follows. Investment in inventories appears to have risen considerably and government expenditure on goods and services only moderately, whereas fixed investment and consumption declined somewhat and the real balance of exports and imports fell sharply. The decline in consumption and also, to a significant extent, the decline in the real balance of exports and imports, were a consequence of the poor crop of food grains. The shortfall in domestic production of grain necessitated a steep rise in imports while it directly reduced the real income of subsistence farmers and agricultural workers and, through the medium of higher prices, tended to restrain consumption of the urban population.

Whereas there had been a positive movement in the real balance of merchandise trade in 1950, the trend was strongly reversed in 1951 and early 1952. Exports of cotton textiles declined abruptly during 1951 but recovered somewhat in the first half of 1952, reflecting export restrictions imposed early in 1951 and not significantly eased until more than a year later. In addition to the restrictions affecting cotton textiles, there was a decline in foreign demand for jute textiles late in 1951, which continued into 1952. On the other hand, imports rose sharply both in 1951 and in the first half of 1952, largely on account of considerably increased food imports.[30] As a consequence of these divergent movements in exports and imports, the import surplus in 1951 rose slightly above the high level of 1949 and rose still higher in the first half of 1952. The terms of trade showed a decided improvement in 1951 and distinct deterioration thereafter, largely as a result of a rapid rise and a subsequent slump in the export prices of raw materials.

In 1951 investment in inventories was much higher than in 1950; the accumulation of stocks was mainly speculative in character. Initially it reflected the hoarding of grain and such raw materials as jute and cotton, and later an increase in stocks of cotton cloth. Towards the end of 1951 an element of involuntary accumulation entered into the situation, in part the result of rising production and restrictions on the export of cotton textiles without a sufficient expansion of domestic demand, and in part the result of a decline in foreign demand for some other commodities, notably jute manufactures. In March 1952 there was a general slump in commodity markets as a result of the tendency to dump stocks. Inventory accumulation in 1952 therefore assumed a largely involuntary character. The Government subsequently acted to reduce or eliminate export duties on a number of commodities and to relax export controls considerably in an effort to clear stocks. In the first half of 1952 there was also a considerable increase in government-held stocks of grain.

While changes in investment in 1951 and 1952 continued to be accounted for in large part by shifts in investment in inventories, investment in plant and equipment fell slightly, continuing a trend apparent in 1950. Nevertheless, activity in domestic capital goods industries continued to rise, the impact of reduced demand falling on imports.

The declining trend of consumption in 1951 and the first half of 1952 was largely a result of the shortfall in the production of food grains. During this period, food rations were reduced, at least for a time, and there was a deterioration in quality. Prices in the free market and black market increased, and rationed prices were raised several times as a result of higher prices of imports. Subsidies on imported food grains were virtually eliminated early in 1952. Probably as a result of the withdrawal of subsidies, a number of the provinces decontrolled food grain prices in mid-1952, and in some provinces rationing was eliminated. Meanwhile, two poor harvests in succession directly reduced the real incomes of subsistence farmers and caused unemployment among agricultural labourers. As a result of these developments, which reduced demand, apparent consumption of food grains[31] declined by nearly 6 per cent in 1951 (see table 42). It appears to have continued at this low level in 1952, even though supply was bolstered by high imports. As a result there was an increase in government-held inventories.

While total consumption fell as a result of the drop in food consumption, the consumption of textiles increased in the period considered. This increase, which took place in spite of the decline in real income of subsistence farmers and a loss in mass purchasing power in urban areas as a result of mounting food

[29] Output of fibres rose only moderately in 1950/51 but increased sharply in 1951/52.

[30] Imports of food grains in 1951 were more than twice those of 1950, and in the first half of 1952 were at a higher annual rate than in 1951.

[31] Not accounting for changes in private stocks.

Table 42. India: Apparent Consumption of Food Grains, 1949 to 1951

(Thousands of metric tons)

Item	1949	1950	1951
Opening stocks[a]	1,044	1,581	746
Production[b]	43,314	45,520	41,723
Net imports[c]	3,706	2,104	4,596
Available supply	48,064	49,205	47,065
Closing stocks	1,581	746	1,333
Apparent consumption[d]	46,483	48,459	45,732

Source: Ministry of Agriculture, Directorate of Economics and Statistics, *Bulletin on Food Statistics* (New Delhi), January 1952.

[a] Government stocks only; domestic procurement plus net imports.

[b] Including all grains. Production in the crop year 1949/50 is assumed to be available for consumption in the calendar year 1950, etc.

[c] All grains and wheat equivalent of wheat flour.

[d] Including changes in private stocks.

prices, was due to the improvement in domestic supply.[32] An acute scarcity of cotton textiles prevailed in the domestic market in 1950 but was relieved following the imposition of drastic restrictions on exports of coarse and medium-count cotton cloth early in 1951.

Reference should be made to the role of export profits during this period. In 1951 when export prices of various commodities, particularly of jute textiles, were rising, profits increased considerably. Towards the end of 1951 and in 1952, when prices were falling, export profits declined. The changes in net profits were less (although they were still considerable), since in the first instance the Government siphoned off a part of profits by raising export duties and in the second instance to some extent maintained net profits by reducing these duties. Since profits accrued mainly to large-scale exporters and traders, the fluctuations in net profits remaining after taxation apparently had little effect on demand for mass consumption goods.

Some reference should also be made to the role of fiscal policy. The reduction in subsidies on food grains, with its adverse effect on consumption, was continuous during the period and sharply accelerated in the first half of 1952. Although export duties were reduced in 1952, after having been raised in 1951, this change in taxation, as indicated above, simply narrowed fluctuations in export profits and did not tend to sustain consumption. Thus fiscal policy was deflationary in its impact on consumption throughout the period and especially so in the first half of 1952.

[32] Higher incomes from the sale of domestically produced food grains in the free market accrued mainly to landlords and traders, and therefore would not generate much additional demand for mass consumption goods.

JAPAN

From 1950 to 1951 the index of industrial production rose 36 per cent and was thus restored roughly to the level of 1937 (table 43). This expansion in the industrial output of Japan was largely the outcome of improved productivity rather than increased employment. The rate of increase slackened in the course of 1951, largely as a consequence of a decided

Table 43. Japan: Selected Indicators of Economic Activity, 1951 and 1952

Item	Period	
INDICES (1950=100)	1951	1952
Total agricultural production[a]	99	
Crops[b]	97	...
Rice	94	103
Total industrial production	136	145
Mining	113	118
Manufacturing	138	147
Total construction[c]	89	93
Residential	84	92
Non-residential	95	95
Prices and wages:		
Export prices	143	117
Import prices	127	114
Terms of trade	113	103
Urban consumer prices:		
Total	116	122
Food	115	120
Monthly earnings:[d]		
Money	126	149
Real	108	122
GROSS NATIONAL PRODUCT[e] (*at 1950 prices, as percentage of total 1950 gross national product*[f])	1950	1951
Gross national product	100.0	107.2
Private consumption	66.8	72.4
Private investment	11.1	16.7
Fixed capital[g]	7.4	9.3
Changes in inventories	3.7	7.4
Government expenditure[h]	20.5	18.5
Balance of exports and imports of goods and services	1.6	−0.4

Source: Economic Counsel Board, *Japanese Economic Statistics* (Tokyo); Bank of Japan, *Economic Statistics of Japan* (Tokyo); Economic Stabilization Board, *National Income Statistics, 1951* and *Economic Survey of Japan, 1951-52* (Tokyo).

[a] Including sericulture and livestock products.

[b] Including rice, other cereals, peas and beans, fruits, vegetables and industrial crops.

[c] Floor area of buildings started.

[d] Earnings in mining, manufacturing, trade and finance.

[e] Excluding inventory appreciation.

[f] Components have been deflated by their respective price indices.

[g] Including residential construction.

[h] Including government investment.

reduction in the rate of inventory accumulation. In 1952 Japanese industrial production was only about 7 per cent above the level of 1951.

In 1951 output in construction and agriculture was lower than in the preceding year, while in 1952 there was some improvement. Construction declined in 1951 but showed some recovery in 1952. Agricultural output was somewhat lower in 1951 than in 1950, reflecting a decline in staple food crops not fully offset by a rise in industrial crops. In 1952 agricultural output as a whole was significantly higher, mainly as a result of increased rice production. The rise in industrial production in 1951 was so large as to raise the national product significantly above the level of 1950 despite some declines in other sectors of the economy. In 1952 the national product showed a further increase, which was, however, smaller than in the preceding year.

The increase in gross national product in 1951 was accounted for on the demand side by a rise in investment in both fixed capital and inventories and in consumption. While the rise in consumption continued in 1952, the drastic decline in investment in inventories caused a slackening in the rate of increase in the national product. Changes in the components of gross national product during the period are discussed in more detail below.

Private investment rose in 1951 and receded in 1952. Fixed investment rose in 1951 and was maintained at this higher level in 1952. However, the major influence determining the trend was the sharp rise in the rate of inventory accumulation in 1951, and the sharp fall in 1952. Heavy accumulation, facilitated by easy credit, occurred in 1951, partly in line with rising foreign and domestic demand but partly speculative in motivation. In 1952 the disappearance of speculative influences, a slowing down in the rate of increase in demand, and credit restrictions imposed early in the year, combined to bring about a decided reduction in the rate of investment in inventories.

The large increase in imports, associated with a rise in domestic stocks of raw materials, transformed the real balance of trade from a small surplus in 1950 to a small deficit in 1951, in spite of heavy receipts from special procurement and other invisible items. In 1952, when exports declined more than imports, there was a further increase in the deficit.

Government expenditure fell in 1951 as a result of curtailment in public investment and the decline in "war termination costs". The trend was reversed in 1952 because of an increase in public investment and in national security expenditure.

Real consumption rose significantly in 1951 and again in 1952, the main factor being the increase in the national product and the consequent increase in incomes. At the same time, other conflicting influences were affecting consumption—changes in the terms of trade, in taxation and in the distribution of income. In 1951 the terms of trade improved, but the favourable influence of this factor was largely offset by a shift in the distribution of income towards profits.[33] This shift, which was accentuated by fiscal policy, was the outcome of high export profits and the tendency to charge higher mark-ups over costs of production in the domestic market. In 1952 there was a deterioration in the terms of trade and a rise in taxation but, at the same time, a shift in the distribution of income in favour of labour. Profits in the export trades receded sharply and profit margins in the home market narrowed as entrepreneurs in some industries, notably textiles, attempted to reduce heavy inventories.

The rise in consumer prices in 1951 reflected the removal of subsidies and the rising trend of import prices during most of the year. The rate of increase slackened perceptibly in 1952 when some prices, notably of textiles, receded as a result of the weakening of foreign and domestic demand. Real earnings of workers employed in large firms rose throughout the period and in 1952 were more than 20 per cent above 1950.

China: Taiwan[34]

Inflationary pressures in China: Taiwan tended to subside in 1952. The inflationary trend present in the period 1950 to 1952 was closely associated with the large budget deficit resulting from high military expenditures, which amounted to about 80 per cent of total government expenditure during this period. In 1950, the deficit was the largest for any of the three years under review, but the Government was able to finance the major part by large-scale liquidation of gold stocks and by using, in addition, the proceeds from the sale of imports provided by the United States Economic Cooperation Administration. The sale of gold had the effect of discouraging the hoarding of goods arising from the reinvestment of liquid funds created by the budget deficit. However, having suspended the sale of gold in December 1950, the Government had to finance the deficit in 1951 and 1952 chiefly by issuing notes and by borrowing from the banks.[35] In this situation, hoarding of commodi-

[33] The share of corporate profits, before taxes, in net national income rose from 6 per cent in 1950 to 12 per cent in 1951. The relative share of profits after taxes rose even more because of reductions in corporate tax rates in 1950.

[34] See chapter 2, footnote 10.

[35] A new bilateral agreement with the United States in July 1951 provided that proceeds from the sale of Mutual Security Agency (formerly Economic Cooperation Administration) imports would be deposited in a special account, the funds to be released to finance specific investment projects instead of being used to finance government expenditure. To the extent that the release of the funds induced any additional investment, the deflationary influence of such imports would thus be reduced.

ties reappeared. Inventory accumulation, supported by bank credit, was further stimulated by speculative influences originating in the raw material boom in world markets. The appreciable subsiding of inflation early in 1952 was due in part to improvement in the supply situation resulting from a large increase in imports of essential commodities. Moreover, accumulation of inventories was lower in the first half of 1952 than in 1951, as a result both of the reversal of the raw material boom and of the restriction of bank credit. The increase in retail prices, which in 1951 averaged 57 per cent above the 1950 level, slackened noticeably in 1952, levelling off during the second half of the year (see table 44).

Total production in 1951 showed little change from 1950, since sharp expansion in industrial output was accompanied by a marked decline in agricultural production as a result of a drastic reduction in the sugar crop. Total production increased significantly in 1952, as a result of continued expansion in industrial production and recovery in the output of sugar.

Table 44. China: Taiwan: Selected Indicators of Economic Activity, 1951 and 1952

Item	*Index or value*		
AGRICULTURAL PRODUCTION (1950=100)			
	1951	*1952*	
Rice	104	110	
Sugar[a]	57	85	
INDUSTRIAL PRODUCTION (1950=100)			
	1951	*1952*	
Electricity	124	133	
Coal	117	163	
Cement	117	134	
Chemical fertilizers	180	242	
Salt	157	178	
Cotton yarn	211	397	
Cotton cloth	143	213	
Paper and pulp	162	151	

PRICES (1950=100)	*1951*			*1952*		
	First half	*Second half*	*Full year*	*First half*	*Second half*	*Full year*
Retail prices (Taipeh)	144	169	157	185	180	183

FOREIGN TRADE (MILLIONS OF NEW TAIWAN DOLLARS)	*1950*	*1951*			*1952[b]*
	Full year	*First half*	*Second half*	*Full year*	*First half*
Exports	599	671	412	1,084	905
Imports	974	742	945	1,688	1,323
MSA imports	*181*	*198*	*302*	*500*	*549[c]*
Balance	−375	−71	−533	−604	−418

Source: Ministry of Economic Affairs, *Economic Reference Data, March 1953* (Taipeh); Provincial Government of Taiwan, *Statistical Abstract of Taiwan* and *Taiwan Monthly of Commodity—Price Statistics* (Taipeh); Bank of China, *Monthly Economic Review* (Taipeh); Inspectorate-General of Customs, *Trade of China* (Taipeh); *China Economist* (Taipeh); *China Handbook, 1952-53* (Taipeh).

[a] Crop year ending 30 April of the year stated.

[b] Data for the second half are not available.

[c] Estimated.

Part II

INTERNATIONAL TRADE AND PAYMENTS

from agricultural production received prime consideration in most countries of the Middle East, especially in Egypt, Iran and Lebanon. In general, the countries of the region have attempted to increase the yield from direct taxes and to avoid increased consumption levies, which had constituted the mainstay of government revenue. Such reorganization was also considered desirable in the interest of social equity in the distribution of the tax burden, a matter which acquired a higher degree of urgency after the experiences of the war-time inflationary period. A number of countries of the Middle East, one after another, replaced their existing income taxes, mostly fees on occupations, by a system of progressive taxation, some on a schedular and some on a global basis, with inclusion of minimum exemptions and dependency allowances. In Israel, the inflationary trend had somewhat impaired the equity features of the income tax. For this reason a start has been made towards a complete revision of the tax structure, which also involves strengthening indirect taxation. In conjunction with the recent currency devaluation, a number of corollary measures have been introduced.

However, despite the legislative measures taken in these countries, the tax revenues have not come up to expectation and, except in Israel and Turkey, direct taxes have not yielded more than a small fraction of tax revenues. Increasing consideration is being given to reform of tax administration and collection, which has been partly hampered by the scarcity of trained tax officials.

Another weakness which has impeded the smooth functioning of fiscal systems has been their lack of flexibility in the face of price fluctuations. Most tax levies have been in the form of fixed sums of money, and *ad valorem* taxes have been very limited. In times of rising prices, government revenues have remained at the same level, while higher expenditure was necessary, and when prices were declining the tax burden increased. As a corollary to the rise in prices of imported and domestic consumer goods, the level of *per quantum* tariffs and consumption taxes has declined in real terms. Consequently, fixed duties had to be increased at short intervals, rendering revenue administration and budgetary planning extremely complicated.

During the post-war period, the flexibility of the tax structure has been increased by expansion of coverage and by steepening rates in income and corporation taxes and in death duties. In some countries a shift has been made to *ad valorem* taxes in excises, turnover taxes and tariff duties. In new land tax laws introduced in Egypt, Iran and Lebanon, special consideration has been given to fluctuations in the prices of agricultural products. The cadastral revision of the land tax is to be made more frequently and, in addition, special revision is allowed by the tax department on its own discretion or upon the request of taxpayers, when values fluctuate beyond a limited range. Lack of proper machinery and of methods for valuation still remains a handicap in the collection of *ad valorem* taxes.

Fiscal policy affecting development

Among the fiscal measures taken by governments to influence the course of economic activities, the oldest and most important is the tariff protection given to domestic industries, protection which has in many cases been strengthened in recent years. On the other hand, importation of capital goods such as machinery, and of fertilizer and seed, was made wholly or partially tax exempt, particularly in Egypt, Israel and Turkey. Simultaneously, exports were encouraged by a series of foreign exchange and tax incentives. Post-war quota systems and foreign exchange regulations in effect in many countries, especially Iran, Israel and Syria, were aimed *inter alia* at subsidizing exports and essential imports and penalizing non-essential imports. In Israel, legislative measures have been introduced in recent years to allow tax reductions in a variety of forms to foreign and domestic investors. In Iran the reorganization of the tariff system in 1950 led to complete abolition of all export duties, exemption from import duties for agricultural machinery and essential drugs, tariff reductions on various imported capital goods and increases in import duties on competitive foreign products. These measures were combined with administrative steps to improve the classification of goods, to unify overlapping duties collected by the customs administration on different accounts and to revise the valuation system for the increased number of *ad valorem* duties.[2]

Most of the Middle East countries have lowered the prices of certain essential items through subsidies. Governments, for example, have established a system for the compulsory delivery of a part of the wheat crop at a fixed purchase price. This part in turn has been sold, usually at a loss, to mills, bakers and retailers, exclusively for making and distributing bread to consumers. Such a policy has reduced average prices for essential food items. However, it has been contended that the policy has greatly benefited city dwellers, while certain classes of farmers, particularly share-croppers, have sustained losses as a result of the price differential between the government monopoly purchase price and the going market price for that part of the food output which was delivered to the government. Since most of the government outlay of funds for financing the price scheme has been covered by regressive taxation, it is difficult to gauge the ultimate impact and the redistributive effect of the policy.

[2] Restrictive measures to reduce imports taken in Iran at the end of 1951 did not alter the structure of the tariff system; such measures are briefly described in chapter 6 on foreign trade.

Budgetary Operations

Net budgetary position

Egypt, which had budgetary surpluses during the war and immediate post-war period, has encountered difficulties in balancing its budget in recent years owing to an over-all increase in expenditure. Apart from transfer from reserve funds, the budget resulted in a deficit of about £E 15 million in 1948/49 (table 42). Deficits in 1949/50 were reduced to about £E 5 million and were about the same in 1950/51. Outlays for public works allocated to the different ministries were kept below the level of the original appropriations and, as a result of this policy, budget deficits were reduced substantially. However, the proportion of expenditure for new works in the budgets of 1949/50 and 1950/51 was close to 20 per cent and 17 per cent, respectively, of total expenditure, compared with 15 per cent in 1948/49. The budget estimates for 1951/52 showed a deficit of £E 16.25 million, but the preliminary budget estimates for 1952/53 indicated that the budget was expected to balance.

During the Second World War, the Government of Iran experienced deficits which in some years were substantial, but in the immediate post-war years deficits were lower. As a result of nationalization in March 1951, oil royalties were completely cut off. Consideration has since been given to increasing receipts by raising rates on progressive taxes and by introducing new levies on capital and land. At the same time, expenditure has been reduced through economies in various ministries and through scaling down development appropriations. Recent deficits have been covered in part by utilizing a fraction of the currency cover and by the issuance of bonds. The Government enforced further economy measures and increases in taxes in the 1952/53 fiscal year. One factor which added to the financial burden of the Government was the financing of that part of the outlays incurred in connexion with the nationalized oil industry which could not be met by the sale of oil in the domestic market. Statements of closed accounts are not available; actual revenues usually fluctuate widely from the original estimates, while actual expenditure is kept very close to the original appropriation.

Continued budgetary surpluses in Iraq during the war years were replaced by deficits in the immediate post-war period. However, these deficits were to some extent compensated by advances received from the oil companies. In recent years increased revenues from oil have offset low tax yield and have enabled the Government to meet the financial requirements of its extensive development projects. The prospect of further increase has influenced the current government policy in reducing the taxes called "istihlak" on land, land produce and animals.

Since the establishment of the State of Israel, its Government has been confronted with continuing deficits, which have been met by financial assistance from abroad and by floatation of bonds. Excluding such borrowing, heavy deficits occurred in the actual accounts for 1949/50 and 1950/51. The estimates for 1951/52 and 1952/53 also registered large deficits.

Until the end of 1948/49, the last year for which actual closed accounts were available, Jordan's budget, including expenditures of the Arab Legion, showed sizable deficits, but expenditure for the upkeep of the Arab Legion was fully compensated by grants-in-aid received from the United Kingdom. Complete data on United Kingdom grants for recent years are not available, and it therefore cannot be determined to what extent the budgetary deficits which occurred have been met from this source.

Not taking into consideration any transfers from reserve funds, the Lebanese budgets in 1950 and later years have resulted in small deficits. The budget estimates for 1951 and 1952, according to traditional budgetary procedure, show a balance between receipts and expenditures.

In the case of Syria, budgetary data available since 1946 consist of estimates only; no actual accounts have been published. These budget estimates, according to normal practice, are shown as balanced. However, available incomplete information leads to the conclusion that deficits occurred in the post-war years, especially in 1949. In that year additional appropriations were made for defence, to be met by special taxes introduced on imports and on some consumer goods. However, these special taxes were abolished before they yielded any sizable revenue. The deficits which occurred were covered by borrowing from the Banque de Syrie et du Liban. There are indications that in subsequent years the Syrian Government encountered difficulties in meeting rising expenditures, particularly for defence and development. Data are not available to determine the budgetary deficits for these years.

In Turkey budget deficits continued throughout the war and, to a lesser extent, into the post-war years. The budget estimates for 1951/52 and 1952/53 showed sizable deficits which would largely be covered, as before, by borrowing from the Central Bank and other banking institutions and by financial assistance from abroad. The general budget of Turkey does not reflect all government financial transactions; there are a number of separate subsidiary budgets for government enterprises operating in the fields of mining, industry and commerce. There has not been a consolidated account of aggregate financial transactions, and the net result cannot be assessed on the basis of available data.

increased imports of items required for expanding defence production, and, in some cases, of grain, owing to relatively poor 1951 harvests.

On the other hand, the approach to external balance in the case of many deficit countries was greatly facilitated by a recovery in their terms of trade with primary producing countries as a result of declines in raw material prices, by the cessation of speculative outflows of private capital which had occurred in the latter part of 1951 and early in 1952, and by the fact that the considerable accumulation of inventories in 1951 made retrenchment easier in 1952. The deficit countries were also able to offset, in part, declines in their exports of consumer goods—the items chiefly affected by inventory liquidation and import restrictions abroad—by increasing exports of capital goods, the demand for which remained relatively strong in 1952. There were, however, indications in the latter part of 1952 of a moderate increase in the demand for consumer goods, combined with a lessening of the abnormal pressure upon supplies of primary metals and engineering products which had prevailed in 1951.

The Levelling Off in Trade in 1952

The quantum of imports and the quantum of exports of western Europe both fell by some 4 to 5 per cent from the first nine months of 1951 to the corresponding period of 1952. In the United States the quantum of imports in 1952 as a whole rose some 5 per cent in relation to 1951, while the quantum of exports (excluding military shipments) fell approximately 5 per cent.

The course of trade in these countries in 1952 may be viewed as part of a broad pattern of development since the beginning of 1950, deriving essentially from a rise in the rate of inventory accumulation in 1950, followed by a decline in that rate or by actual inventory liquidation in 1951 and 1952. The basic factor underlying the development of the inventory cycle from mid-1950[3] to mid-1952 was the changing character of expectations by governments, private business and consumers regarding the economic outlook during the rearmament period. The initial phase of inventory accumulation reflected expectations of rising output and income, and of serious scarcities of goods throughout the world, while the subsequent slowing down of inventory accumulation was the consequence of the over-buying of the earlier period and of the fact that the rearmament programmes were stretched out over a longer period than originally contemplated. The significance of these developments for international trade was accentuated by the fact that inventories normally have a high content of imported goods.

Changes in import volume

The inventory cycle was not phased simultaneously in all countries. Countries may broadly be divided into two groups according to the timing of the rise and fall in their rate of inventory accumulation, and hence of their imports. Among those countries in which imports for stocks—including governmental stockpiling—rose sharply as early as the first or second half of 1950 were Belgium-Luxembourg, Denmark, western Germany, the Netherlands, Sweden, Switzerland and the United States. On the other hand, in France, Italy, Japan, Norway and the United Kingdom, imports actually declined from the first to the second half of 1950. In the latter group of countries, therefore, imports did not begin to reflect inventory accumulation until 1951, by which time import prices had risen very considerably owing to the pressure of demand already exercised by the first group.

In most of the industrialized countries in the first group, imports reached a peak early in 1951 and then began to decline, indicating a saturation of stocks and an easing of expectations regarding future scarcities, as well as, in the United States, a reduction in the rate of strategic stockpiling, and, in western Germany, the imposition of import restrictions for balance of payments reasons. Countries in the second group, on the other hand, did not reach the peak of their imports until later.

Changes in the quantum of imports in 1952, as indicated in table 45, in some countries reflected increases in economic activity or a liberalization of administrative restrictions on imports, and in others a levelling off or decline in national production or a tightening of import restrictions. Among the most notable instances of further expansion in the quantum of imports in 1952 were Austria, France, western Germany, Italy and the United States[4] where industrial production or gross national product increased. The imports of western Germany and Italy also re-

[3] In some countries, notably the United States, the rise in imports for stocks began prior to the outbreak of hostilities in Korea.

[4] Although table 45 shows an unchanged quantum of imports by the United States from the first three quarters of 1951 to the corresponding period of 1952, a comparison of the years 1951 and 1952 as a whole indicates a rise in import quantum of 5 per cent.

Table 45. Quantum of Exports and of Imports, and Terms of Trade, of Western Europe, Japan and the United States, 1951 and 1952
(1950=100)

Country	Imports			Exports			Terms of trade[a]		
	1951 Full year	1951 First nine months	1952 First nine months	1951 Full year	1951 First nine months	1952 First nine months	1951 Full year	1951 First nine months	1952 First nine months
Austria[b]	112	108	117	109	110	100	94	90	107
Belgium-Luxembourg	109	. .	94[c]	121	. .	91[c]	110	. .	103[c]
Denmark	94	95	87	113	111	106	89	86	92
France	117	113	120	118	118	101	91	89	101
Germany, western	102	101	109	143	142	149	96	94	106
Ireland	104	104	85	99	89	121	93	89	84
Italy	114	. . .	108[d]	106	. . .	87[d]	95	.	98[d]
Netherlands	102	107	88	119	114	125	97	96	98
Norway	116	113	105	117	112	98	106	108	109
Sweden	119	120	109	104	99	85	122	119	120
Switzerland	118	119	104	120	117	112	91	90	92
Turkey	119	110	160	103	88	104	100	102	101
United Kingdom	113	112	103	101	101	95	88	87	94
TOTAL, OEEC	112	111	106	113	112	106	97	95	100
Japan	144	149	152	101	98	105	112	109	117
United States	99	101	101	128	125	128	92	91	96

Source: Statistical Office of the United Nations; and Organisation for European Economic Co-operation, *General Statistics* (Paris), November 1952. For description of indices, see 1950 Supplement to United Nations, *Monthly Bulletin of Statistics* and OEEC, *Statistical Bulletins: Definitions and Methods* (Paris).

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

[b] Imports exclude foreign aid.

[c] 1951 = 100.

[d] Based on new series (first nine months of 1951 = 100).

ceived some impetus from the liberalization of trade with other western European countries undertaken at the end of 1951 and in 1952. In France the high level of imports in the first quarter of 1952 probably reflected some anticipation of the import restrictions imposed in February and March to support the balance of payments. The very large increase in Turkish imports was due to the effect on incomes of favourable harvests, to a considerable expansion in the demand for machinery and transport equipment associated with a rise in domestic investment, and to anticipation by importers of a tightening of import restrictions owing to the deterioration in the balance of payments.[5]

In most other countries, the quantum of imports fell between the first nine months of 1951 and of 1952. This was the case equally in such countries as Belgium-Luxembourg, Ireland, the Netherlands, Norway, Sweden and Switzerland, where private imports from OEEC countries had been liberalized to the extent of at least 75 per cent by September 1952, and the United Kingdom, where import restrictions imposed late in 1951 and early in 1952 had reduced the proportion of liberalized private trade from over 90 per cent to less than 50 per cent. In most cases industrial production and the gross national product failed to increase appreciably or actually declined, and the rate of inventory accumulation fell.

Import prices generally reached a peak at mid-1951 and subsequently declined, owing mainly to the subsiding of the raw material boom. Since average export prices did not begin to fall until early in 1952, most of the countries listed in table 45 experienced improved terms of trade between 1951 and 1952. By the third quarter of 1952, the terms of trade of western Europe as a whole had been restored to the mid-1950 level, but the terms of trade of the United States were still rather less favourable than before the outbreak of hostilities in Korea.

COMMODITY COMPOSITION OF IMPORTS

Table 46 provides, for the countries for which data are available, an indication of changes in the relationship between the quantum of raw material imports and manufacturing production from 1948 to the first nine months of 1952.

In Belgium-Luxembourg, western Germany, the Netherlands and the United States, the quantum of raw material imports was much higher in 1950 in

[5] According to the Organisation for European Economic Co-operation, *Europe—the Way Ahead* (Paris), December 1952, new controls on imports were introduced by Turkey in the latter part of 1952.

Table 43 *(cont'd)*

Country and year	Taxes on income and wealth	Taxes on land, land produce and livestock	Customs receipts	Other taxes	Total tax receipts	Oil revenue	Other revenue
Syria:							
1939	10	30	1	36	77	—	23
1947 E	12	17	25	38	92	—	8
1948 E	12	15	22	43	92	—	8
1949 E	9	13	28	36	86	—	14
1950 E	11	14	20	38	83	—	17
1951 E	8	10	26	39	83	—	17
1952 E	12	18	22	34	86	—	14
Turkey:							
1939	25	9	18	30	82	—	18
1947	30	2	13	42	87	—	13
1948	31	2	9	46	88	—	12
1950[b]	31	2	9	50	92	—	8
1951	30	2	8	49	89	—	11
1952 E	24	2	10	55	91	—	9
1953 E	22	2	11	58	93	—	7

Source: Government budgets and official statistical yearbooks. Figures represent closed accounts unless otherwise noted, as follows: E, estimates; DE, draft estimates.

[a] Figures for ten months.

[b] Figures for fourteen months.

Country notes:

Egypt. Financial year ending in April in 1939 and 1947, February in 1948 to 1951 and June in 1952 and 1953. Taxes on income and wealth: schedular income tax, taxes on general income, excess profits, succession, property transfers, etc. Taxes on land, land produce and livestock: mostly taxes on land. Customs receipts: duties on imports and exports, additional and special customs receipts; in 1951, 1952 and 1953 shown jointly with "other taxes". Other taxes: excises, general consumption taxes, registration and stamp duties, etc.; for 1951, 1952 and 1953, including customs receipts. Total tax receipts: excluding transfers from reserve fund. Other revenue: gross receipts of public undertakings and administrative fees, etc.

Iran. Financial year ending 20 March. Taxes on income and wealth: taxes on income, inheritances, etc. Taxes on land, land produce and livestock: taxes on farm produce until 1944, land tax since 1946. Customs receipts: receipts from regular tariff duties on imports and exports, other special and additional customs duties and fees. Other taxes: excise taxes and receipts from tobacco monopoly, registration, stamp duties, etc. Oil revenue: only the part of oil receipts included in the general budget. Other revenue: including net results of public industries; gross accounts of the railways; administrative receipts; gross receipts from public domain; investment income.

Iraq. Financial year ending 30 April. Taxes on income and wealth: taxes on income, excess profits, property, etc. Taxes on land, land produce and livestock: taxes on land, agricultural products and livestock. Customs receipts: taxes on imports and exports, transit duties, etc. Other taxes: excise taxes, gross receipts of tobacco monopoly, stamp duties, etc. Total tax receipts: excluding advances and credits. Oil revenue: only the part included in the general budget, not including advances.

Israel. Financial year ending 31 March. Taxes on income and wealth: income and inheritance taxes. Taxes on land, land produce and livestock: including tax on rural property, which yields only slight revenue. Other taxes: excises, stamp duties, licences and land registry, etc. Total tax receipts: receipts of development and ordinary budgets combined, excluding loans. Other revenue: net results of public undertakings and special and miscellaneous revenues.

Jordan. Financial year ending 31 March. Customs receipts: customs and excises. Other taxes: excise taxes and licence fees, etc. Total receipts: not including United Kingdom grants. Other revenue: judicial and administrative fees, gross receipts of public undertakings and public domain, etc.

Lebanon. Financial year ending 31 December. Taxes on income and wealth: taxes on income, buildings, etc. The pre-war classification for this heading is not comparable with the post-war items Taxes on land, land produce and livestock: taxes on land and on animals. Customs receipts: custom duties; until the end of 1943 receipts from Lebanese-Syrian customs union were transferred to the "Intérêts communs" budget, administered by the Mandate authorities. Beginning in 1944 and until early 1950, net customs receipts were divided between the two countries (56 per cent for Syria and 44 per cent for Lebanon). These receipts were first transferred to the reserve funds, from which withdrawals were made. In March 1950 the customs union was dissolved. Other taxes: general consumption taxes, tobacco monopoly and miscellaneous taxes, registration fees, stamp duties, judicial and notary fees. Total tax receipts: excluding transfers from reserve funds. Other revenue: including profits of state industrial enterprises, public domain.

Syria. Financial year ending 31 December except in fiscal 1951 (six months ending 30 June). Taxes on income and wealth: taxes on industrial, commercial and non-commercial income, and on salaries and wages, property transfer and registration tax, etc. Taxes on land, land produce and livestock: taxes on land, animals and agricultural produce. Customs receipts: see note on customs receipts under "Lebanon". Other taxes: general consumption taxes, stamp duties and taxes on property transfers, etc. Other revenue: including receipts from public domain and industrial enterprises

Turkey. Financial year ending 31 May in 1939, 31 December in 1947 and 1948, and in February in 1950 to 1953. Taxes on income and wealth: taxes on income, on corporations, on artisans, succession duties and various taxes on income for special purposes. Taxes on land, land produce and livestock: taxes on animals and, in 1939, wheat. Customs receipts: export and import duties and additional charges Other taxes: taxes on general consumption, turnover, property transfer, monopoly duties, stamp and registration taxes, etc. Turnover taxes in Turkey yield substantial revenue, about one-tenth of the total revenue in pre-war years, and approximately one-fifth in post-war years. Total tax receipts: in 1947, excluding £T 279.9 million, proceeds from currency devaluation. Other revenue: including revenue from public domain, government enterprises and miscellaneous receipts.

While in Israel and Turkey customs receipts yield only about 10 per cent of total revenues, in other countries of the Middle East income derived from this source has usually yielded from one-fifth to one-third of the total. In most countries of the region, the tax load is on mass consumer goods; it takes the form of consumption duties, excises, fiscal monopolies and, in Turkey, turnover taxes. In almost all of them, non-tax receipts, such as surpluses from public undertakings, sale or use of government land and various administrative fees, have yielded between 10 and 25 per cent of total revenues. In Iran (until 1951) and in Iraq, between 10 per cent and 20 per cent of the receipts recorded in the general budget were derived from oil revenue, while in other oil-producing countries oil revenue constituted the bulk of government receipts.

Expenditures

In the post-war years, expenditure in connexion with public debt service has not constituted a sizable part of the total, except in Turkey, where it has remained about 15 per cent of all expenditure (table 44). In Egypt, Israel and Iran, such expenditure has ranged from one to 3 per cent of the total in recent years. While expenditure for education has not constituted more than 5 per cent of the total in Israel and Jordan, it has been between 10 and 15 per cent in other countries, and its relative importance has increased in recent years. Expenditure for health services has accounted for 3 to 5 per cent of the total in most countries, and close to 10 per cent in the budget appropriations of Iraq for the past two fiscal years. Other expenditures for social purposes during the past two years consisted largely of appropriations for social security in the case of Egypt, while in Israel financial assistance was given to immigrants by the Government. Expenditure for defence in the budget estimates of recent years accounted for about 20 per cent of the total in Egypt, Iran and Lebanon, between 25 and 30 per cent in Iraq and Turkey and over one-third in Syria. In Israel, defence expenditure shown in the general budget constitutes about 20 per cent of the total; to this should be added extra appropriations not recorded in the general budget, the amount of which cannot be ascertained on the basis of published data.

Table 44. Major Components of Government Expenditure in Selected Countries, 1939 and 1947 to 1953

(As percentage of total expenditure)

Country and year	*Public debt service*	*Education*	*Health*	*Social welfare*	*Defence*	*Other current expenditure*	*Capital expenditure*
Egypt:							
1939	11	11	6	—	12	60	23
1947	5	11	6	2	8	68	11
1948[a]	4	13	6	1	9	67	14
1949	3	10	5	2	21	59	15
1950	4	12	5	1	21	57	20
1951	3	11	4	1	22	59	17
1952 E	3	12	4	3	21	57	24
1953 E	3	13	4	2	18	60	16
Iran:							
1939 E	—	6	3	—	26	44	21
1947 DE	2	8	3	—	26	54	7
1948 DE	1	7	3	—	19	58	12
1949 E	1	9	3	—	24	45	18
1950 DE	1	9	2	—	23	50	15
Iraq:							
1939	—	8	4	—	18	27	43
1947	—	7	4	—	21	56	12
1948	—	8	2	—	16	61	13
1949 E	—	8	6	—	21	54	11
1950 E	—	7	6	—	21	57	9
1951 E	—	16	8	—	29	47	—
1952 E	—	15	9	—	26	50	—
Israel:							
1949	—	2	4	9	56	27	2
1950	2	2	4	9	27	16	40
1951	4	4	3	7	12	18	52
1952 E	3	4	3	8	21	16	45
1953 E	2	5	3	4	18	22	46

resulting from their expanded sales of industrial raw materials enabled them, in turn, to enlarge their purchases of manufactures from the industrialized countries both for current consumption and for stocks. In contrast, the tendency of the exports of industrialized countries to fall in 1952 was due to a levelling off or contraction in real income and a decline in the rate of accumulation of inventories of imported goods, both in industrialized and in primary producing countries, and to the balance of payments difficulties experienced in a considerable number of countries in the franc and sterling areas and in South America.

United States exports declined more slowly in 1952 than those of western Europe (table 47). Among the factors responsible for this were that United States exports of grain, of raw materials, notably coal and raw cotton, and of steel mill products, were higher in the first half of 1952 than of 1951 in response to enlarged foreign demand, while military shipments continued to expand. In addition, manufactured consumer goods, which were the category of goods most severely affected by the slackening in demand, formed a larger share of the exports of western Europe than of the United States.[10]

Two factors of major importance determined how far any particular country was able to expand its exports in 1951 in response to the increase in international demand which followed the outbreak of Korean hostilities. The first of these was the amount of unutilized production capacity available for satisfying external demand. The second was the degree to which the production of individual countries was adapted to the requirements for capital goods generated by the growth in defence production abroad, as well as by the increased demand of under-developed countries resulting from the rise in their incomes.

As table 45 shows, western Germany, the United States and Belgium-Luxembourg, in that order, showed the largest increases in export quantum from 1950 to 1951. These countries have it in common that a relatively high proportion of their exports consists of products of heavy goods industries such as steel, machinery and chemicals. Moreover, western Germany and Belgium-Luxembourg, particularly, had significant unemployment and excess capacity in 1950. Part of the increase in United States exports, on the other hand, simply reflected the relatively low level to which exports had fallen in 1950 as a result of import restrictions by other countries. In addition, however, United States exports of grain increased considerably owing to higher real income abroad and poor crops in a number of key importing and exporting countries.

The United Kingdom, by contrast, increased its exports by only one per cent in 1951. There had been relatively little unutilized capacity in that country in 1950, so that increased domestic demands for the expansion of defence and related private investment in 1951 competed for resources with exports in precisely those categories of commodities which were most in demand abroad. Additional difficulties resulted from a shortfall in the supply of scrap iron from western Germany, causing a decline in United Kingdom steel production in the second half of 1951, and from the fact that the foreign demand for consumer goods, which continued to form a relatively large proportion of United Kingdom exports, began to slacken after the first quarter of 1951. Although the demand for wood and wood products was extremely heavy in 1951, the exports of Norway (excluding ships)[11] and of Sweden likewise expanded much less than those of other countries, owing to the fact that, as in the United Kingdom, there was little surplus capacity at the beginning of 1951.

The relatively small expansion in Italian exports in 1951 requires explanation in view of the high level of unemployment in that country in 1950. As in other countries, in 1951 there was a marked rise in Italian exports of such items as chemicals, machinery and transport equipment. These groups, however, comprised only 20 per cent of Italy's exports in 1951. About 36 per cent consisted of textile fibres, yarns and fabrics—a higher percentage than for any other western European country—and this group was affected by the textile recession which began after the first quarter of 1951. Exports of foodstuffs, constituting the remaining major component of Italian exports, declined owing to the imposition of export restrictions by Italy on certain items, so as to limit the rise in domestic food prices, and to import restrictions imposed by western Germany early in 1951.

The declines which occurred in the exports of most of the leading industrialized countries in 1952 were the outcome of developments in 1951. In the first place, part of the increase in the exports of these countries in 1951 had been associated with a high rate of inventory accumulation in importing countries, and it was inevitable that, once inventories reached saturation levels, demand would subside to some extent. In particular, the recession in textile

[10] In 1951 exports of textile manufactures, for example, comprised 13 per cent of western European exports, and little more than 4 per cent of United States exports. United States exports of raw cotton, forming another 8 per cent of the total, actually increased between the first half of 1951 and of 1952 owing to the fact that exports in 1951 had been subject to restrictions as a result of the relatively poor crop of 1950.

[11] According to the Norwegian Department of Commerce, *Nasjonalbudsjettet 1952*, page 18, the increase in the quantum of Norwegian exports, excluding ships, from 1950 to 1951 amounted to some 7 to 8 per cent.

Table 47. Quantum of Exports by OEEC Countries, Japan and the United States, 1951 and 1952

Period	1950 = 100			Corresponding quarter of previous year = 100		
	OEEC countries	Japan	United States	OEEC countries	Japan	United States
1951:						
First quarter	109	99	116	123	140	123
Second quarter	115	114	134	127	125	133
Third quarter	111	86	126	114	83	133
Fourth quarter	117	112	137	99	92	126
1952:						
First quarter	112	112	136	103	113	118
Second quarter	104	104	135	91	91	101
Third quarter	101	100	113	86	117	90

Source: Statistical Office of the United Nations and Organisation for European Economic Co-operation, *General Statistics*, December 1952.

markets which had already begun in 1951 continued during the first half of 1952. Although exports of capital goods increased still further in 1952 over the already high level reached in 1951, the rise was generally insufficient to offset the setbacks experienced in textile and other consumer goods markets.

The second most important reason for the fall in exports in 1952 arose from foreign exchange difficulties experienced by a number of countries in the latter part of 1951. As already noted, France and the United Kingdom introduced restrictions on imports at the end of 1951 or early in 1952. In addition, several countries in the oversea sterling area and in Latin America were likewise compelled to restrict imports in order to support their balances of payments. These restrictions affected the imports of the countries concerned not only from the rest of the world but from one another as well. French exports, for example, were affected by the import restrictions of the United Kingdom, while the United Kingdom itself suffered losses of export markets in the oversea sterling area.

The only leading exporters of manufactures recording a significantly higher quantum of exports in the first nine months of 1952 than in the corresponding period of 1951 were western Germany and the Netherlands, which thus continued the process of recovery of their position in world markets which had been under way for several years.[12] There were also substantial increases in exports of agricultural products by Ireland and Turkey as a result of favourable harvests.

In general, the experience of individual countries in 1952 continued to depend, as in 1951, upon the significance of consumer goods in total exports and upon the extent to which supplies of products of heavy industry could be made available for export after satisfying the needs of defence production and related private investment. In the United Kingdom, where the severest pressure on the heavy industries had developed in 1951, higher imports of steel, together with measures of fiscal retrenchment and administrative limitations placed on non-defence investment,[13] made it possible for exports of capital goods to be increased in 1952. There was also a rise in coal exports, owing to an improvement in the stock position resulting from a small increase in coal output and from the slackening in industrial activity and the mild winter of 1951/52. These increases, however, were offset by declines in exports of consumer goods, especially of textiles and passenger cars.

The largest declines in aggregate exports occurred in France, Italy, Norway and Sweden. In the latter two countries, the fall in exports reflected reduced demand for wood products in importing countries and restrictions applied by the United Kingdom on certain items.[14] In Italy, the magnitude of the fall in exports reflected the relatively large share of textiles in the total—a factor which, as noted above, had already affected the development of exports in 1951—and the impact of import restrictions by the franc and sterling areas, as well as by South American countries, which together had accounted for nearly one-half of Italy's exports in 1951. In France, part of the fall in exports resulted from a relatively poor grain harvest in 1951,

[12] For a more extended discussion of trends in Netherlands exports, see chapter 1.

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

[14] In Norway there was also a substantial decline in exports of ships.

Table 48. Exports of Cotton Piece-Goods from Major Exporting Countries, by Destination, 1950 to 1952

(Thousands of metric tons; annual rates)

Source and year	Destination: Sterling area						Other areas						Total[d]
	Australia, New Zealand	Union of South Africa	Pakistan	Malaya	Gold Coast, Nigeria	Other sterling area[a]	Indonesia	Thailand	Middle East[b]	Latin America[c]	Canada, United States	Europe	
United Kingdom:													
1950	18.0	9.1	7.4	4.0	13.6	6.8	0.4	. .	1.8	1.2	3.6	11.4	90.7
1951	24.2	13.0	4.5	5.5	12.9	6.5	0.8	. .	1.6	0.8	2.9	11.5	98.2
1952[e]	13.7	6.5	6.2	3.0	17.3	5.7	0.2	. .	2.1	0.2	2.4	6.2	80.9
Germany, western:													
1950	0.1	0.2	—	0.1	0.9	0.1	0.2	—	0.2	0.2	0.2	10.1	13.5
1951	0.8	0.4	0.1	0.2	1.5	0.1	0.2	—	0.5	0.3	0.3	18.4	25.0
1952[e]	0.7	0.2	0.6	0.1	1.6	0.3	0.1	0.1	0.6	0.3	0.3	20.6	30.0
Italy:													
1950	1.0	0.4	0.5	0.1	0.1	. .	0.2	. .	4.2	0.4	0.2	19.9	33.9
1951	3.1	0.6	0.5	0.1	0.1	. .	0.1	. .	2.1	—	0.6	19.4	37.1
1952[e]	0.6	0.3	0.2	0.1	0.7	. .	0.1	. .	1.2	0.1	0.5	8.3	17.0
Netherlands:													
1950	0.2	0.3	0.1	0.1	—	0.1	5.9	0.1	0.1	0.2	0.2	4.5	14.7
1951	1.0	0.9	0.1	0.2	—	0.3	5.2	0.1	0.1	0.1	0.3	5.3	17.0
1952[e]	0.3	0.4	0.3	0.2	0.3	—	3.2	0.2	0.1	—	0.1	4.9	13.3
India:													
1950	5.3	—	5.0	23.4	2.7	24.8	6.2[f]	0.8	15.4	. .	1.0	7.2	107.8
1951	4.5	—	9.0	18.4	1.4	7.8	5.4[f]	1.0	7.6	. .	8.3	8.9	73.2
1952[e]	1.2	—	7.0	7.9	0.8	14.7	—	0.2	8.1	. .	0.1	0.7	54.6
Japan:													
1950	0.9	4.0	22.5	0.2	5.0[f]	8.0	19.8	8.2	0.9	0.1	2.2	17.0	108.8
1951	4.8	2.0	25.4	0.5	3.4[f]	6.0	23.4	4.8	2.4	—	0.2	13.1	108.1
1952[g]	1.3	0.6	27.2	0.3	. .	5.4	10.0	1.1	2.0	—	—	12.7	92.6
United States:[h]													
1950	0.1	1.3	—	0.3	—	—	8.0	1.0	. .	19.2	15.5	0.6	56.4[i]
1951[e]	1.1	7.9	—	1.3	—	0.8	12.7	1.6	3.1	16.2	16.6	3.0	81.4[i]
1952[e]	0.3	3.1	—	0.4	—	1.3	6.1	2.1	1.7	21.8	18.9	0.1	75.1[i]
TOTAL, ABOVE COUNTRIES:													
1950	25.6	15.3	35.5	28.2	22.3	39.8	40.7	10.1	. .	21.3	22.9	70.7	425.8
1951	39.5	24.8	39.6	26.2	19.3	21.5	47.8	7.5	17.4	17.4	29.2	79.6	440.0
1952[e]	18.1	11.1	41.5	12.0	20.7	27.4	19.7	3.7	15.8	22.6	22.5	53.5	363.5

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

[a] British East Africa, Burma, Ceylon and Southern Rhodesia. Iraq is included with Middle East countries.

[b] Egypt, Iran, Iraq, Lebanon and Syria; for exports of India to Middle East: Arabia, Aden Colony and dependencies, Bahrein, Iran and Iraq.

[c] For exports of the United Kingdom, only Argentina, Uruguay and Venezuela.

[d] Including areas not specified.

[e] Annual rates based on first nine months.

[f] Estimate based on data of importing country.

[g] Annual rates based on first six months.

[h] United States data for 1950 derived from United Kingdom, *Cotton Board Quarterly Statistical Review* (Manchester); for 1951 and 1952, from data supplied by the Textile Export Association of the United States.

[i] Including the Philippines: 1950: 3,500 metric tons; 1951: 10,300; 1952: 8,800.

so that grain exports in 1952 were reduced. In addition, exports of finished consumer goods fell sharply, as in other countries, while exports of investment goods rose in the first half of 1952, declining markedly, however, in the third quarter. Export restrictions imposed early in 1951, with a view to limiting increases in domestic prices and conserving key items for increased defence production, were somewhat relaxed in 1952, though not in respect of certain metal products. Although available evidence on prices is not fully conclusive, it is possible that part of the greater fall in the exports of France than of certain other western European countries is attributable to greater increases in French export prices. The share of French exports going to protected markets in the franc area rose from 34 per cent in the first half of 1951 to 40 per cent in the second half, and still further, to 44 per cent in the first half of 1952;[15] exports to other markets were therefore even more severely curtailed than total exports.

There was a similar increase in the share of sterling area countries in the exports of domestic produce by the United Kingdom—from 48 per cent in the first quarter to 55 per cent in the last quarter of 1951—owing to the utilization by these countries of sterling balances accumulated by them during the raw material boom in 1950 and early 1951. As the balances were drawn down, however, it became necessary for several countries, notably Australia, New Zealand and the Union of South Africa, to impose restrictions even on imports from the United Kingdom, so that by the second quarter of 1952 the sterling area share in United Kingdom exports had fallen back to 48 per cent.

The textile situation

The nature of the various factors causing a recession in textile production in a considerable number of countries in 1951/52 is comprehensively discussed in chapter 1. It remains only to indicate certain special features of the recession as it affected foreign trade. There was a sharp fall in world exports of cotton piece-goods from the first to the second half of 1951, and a further slight fall in the first half of 1952, the totals for 1949 to 1952 being estimated as follows (in thousands of metric tons):[16]

1949	465	1951 First half	303
1950	535	1951 Second half	249
1951	552	1952 First half	241

There were wide divergencies in the response of exports of individual countries to the decline in the international textile trade. In Italy, exports of cotton piece-goods for the first three quarters of 1952 (at an annual rate) were more than 50 per cent below the total for 1951, as shown in table 48, while the exports of western Germany actually rose by 20 per cent between these periods. Particularly significant is the fact that United States exports declined by less than 8 per cent, despite prevailing dollar difficulties in a large number of countries, while the exports of India[17] and Japan [18] fell by 25 per cent[19] and those of the United Kingdom by 18 per cent.

Available information[20] on cotton cloth prices does not appear to account fully for these differences. Export unit values of leading types of cotton cloth appear to have fallen somewhat less in India and the United Kingdom from the first three quarters of 1951 to the corresponding period of 1952 than in other major exporting countries. The price factor, however, cannot have accounted for more than a part of the changes in exports in particular countries. Italian prices, for example, fell considerably more during this period than those of western Germany, and appear, in most cases, to have been below western Germany's prices in 1952. Nevertheless, exports of cotton cloth by Italy to France and the United Kingdom during the first nine months of 1952 fell more than 65 per cent from the total in 1951—a decline accounting for nearly half of the total fall in Italian exports—while the exports of western Germany to these countries increased by 45 per cent, a rise which was responsible

[15] It should, however, be noted that the total value of exports to the oversea franc area from the United States and OEEC countries (excluding France) increased by over 60 per cent between the first half of 1951 and of 1952, while the corresponding exports of metropolitan France rose 28 per cent.

[16] Based on data contained in the Cotton Board, *International Cotton Textile Industry Conference* (Manchester, England), 17 to 25 September 1952. While the discussion in the text is concerned essentially with trade in cotton piece-goods, similar developments occurred in other textile manufactures. United Kingdom exports of woollen and worsted fabrics declined 25 per cent in volume from the first to the second half of 1951 and 37 per cent between the first halves of 1951 and of 1952. Still larger declines in woollen and worsted exports occurred in Belgium-Luxembourg, France, western Germany, Ireland and Italy. Similarly, the quantum of United Kingdom exports of fabrics of synthetic fibres fell 26 per cent between the first half of 1951 and of 1952; larger declines were reported by Belgium-Luxembourg and Italy, but the exports of western Germany and the Netherlands increased. The value of United States exports of all textile fabrics other than cotton fabrics fell 18 per cent between the first half of 1951 and of 1952.

[17] Indian exports of cotton piece-goods were heavily restricted early in 1951, so as to increase supplies to the home market. These restrictions were, however, lifted early in 1952.

[18] Owing to the decline in demand for textiles, the Japanese Ministry of International Trade and Industry recommended on 25 February 1952 that cotton and mixed yarn spinning production should be restricted to about 60 per cent of the capacity at the end of 1951.

[19] Based on total exports of cotton piece-goods for nine months of 1952. The area distribution of Japanese exports indicated in table 48 is based on figures for the first six months of 1952.

[20] The price data on which the following discussion is based consist of unit values (that is, values divided by quantities) of the respective countries, computed from official trade returns, for exports of the following types of cotton cloth: grey unbleached, white bleached, printed, dyed in the piece, and coloured.

for over one-third of the aggregate expansion in its exports.[21]

A major factor in determining the extent of declines in the exports of particular countries was the geographical distribution of their exports. Thus, for example, the most important markets for Japan and the United Kingdom are, as indicated in table 48, in countries in the oversea sterling area and, for Japan, certain non-sterling Asian countries, notably Indonesia. Many of these countries were in balance of payments difficulties in 1952 and imposed restrictions on imports of consumer goods. The greater fall in Japanese than in United Kingdom exports resulted from the fact that while imports from both countries were restricted by Australia and the Union of South Africa, the United Kingdom was able to increase exports to certain of its dependencies. French exports likewise fell only moderately owing to a continuing high level of demand in the oversea franc area. Japanese exports were, moreover, considerably affected by a fall in the imports of Indonesia, resulting from the failure of the two countries to conclude a trade and payments agreement for 1952.

Well over half of the exports of the United States, on the other hand, go to dollar countries in the Western Hemisphere whose balance of payments position in 1952 was relatively strong, and whose imports from the United States in that year in several cases rose very substantially, partially offsetting declines in United States exports to other areas. Differences in the geographical distribution of exports cannot, however, account fully for developments in 1952. It is noteworthy—not merely for the textile trade but also in relation to the general dollar problem—that United States exports of cotton piece-goods to such countries as Canada increased considerably in 1952, while United Kingdom exports fell. This may have been due at least in part to a greater fall in United States than in United Kingdom export prices.[22]

Data for the third quarter of 1952 appear to suggest some recovery in textile production and trade in a number of countries. It is not yet clear whether these developments indicate a significant revival in the international textile trade, or whether they are simply the result of a cessation of inventory liquidation which was bound to occur sooner or later.

[21] It is possible that special defence contracts accounted for much of the increase in the exports of western Germany. The unit value of United Kingdom imports of grey cloth from western Germany, Italy and Japan nearly doubled between the first nine months of 1951 and 1952, notwithstanding the general fall in textile prices. With respect to the rise in price of imports from Japan, it was stated in the United Kingdom *Board of Trade Journal* (London), 1 November 1952, that these imports included the bulk of deliveries against defence contracts for canvas placed in 1951.

[22] United States export prices appear to have fallen less than those of western Germany, Italy and the Netherlands, but Canada is not a significant market for the textile exports of these countries.

Expansion in exports of producer goods

Throughout the period under review, the international demand for capital goods was sustained by the requirements of defence production in North America and western Europe, as well as by the imports of primary producing countries. Exports of machinery and transport equipment by Japan, the United States and OEEC countries, which had increased from $7,400 million in 1950 to $9,300 million in 1951, rose still further to an annual rate of $10,800 million in the first half of 1952. The continued expansion of these exports in 1952 was facilitated by the fact that restrictions imposed on imports by countries in balance of payments difficulties bore much more heavily upon consumer goods than upon capital goods.

It must be borne in mind, however, that exports of capital goods in the first half of 1952 represented, for the most part, shipments against orders placed much earlier, during 1951, when world demand had reached peak levels, and when average delivery periods had been considerably above normal. Since part of the demand at that time had reflected inventory accumulation,[23] while part also had represented special requirements by countries, such as the United States, which are not generally significant importers of products of the heavy goods industries, it was possible that countries exporting producer goods would, in due course, experience some relaxation in the pressure of demand from abroad.

Exports of chemicals by the United States and OEEC countries, in fact, which had increased from $2,000 million in 1950 to $3,000 million in 1951, declined to an annual rate of $2,800 million in the first half of 1952. There was also evidence of some relaxation of the pressure of demand for metal products. Thus Belgian export prices for steel, which reflect rather sensitively changes in the marginal requirements of other countries, and which, in 1951, had reached levels two to three times higher than those prevailing at mid-1950, fell sharply by June 1952 below the prices of all other leading competitors except the United States. Lesser declines occurred in the steel export prices of other countries, and in all cases the premium charged on exports, as compared with domestic prices, was reduced.[24]

[23] In the case of capital goods which cannot easily be stored, "inventory accumulation" may in practice take the form of accelerated replacement or expansion, thereby anticipating investment which in the normal course of events might have occurred in a later period.

[24] United States purchases of steel in western Europe, which had fallen considerably in the first half of 1952, were resumed after the steel strike in June and July 1952, and caused some hardening of western European steel export prices in the third quarter of 1952. This, however, was likely to prove temporary once steel inventories in the United States were restored.

The continuing expansion in exports of machinery and transport equipment in 1951 and 1952 was accompanied by significant changes in the shares of exporting countries in leading markets. These changes, in the prevailing sellers' market, appear to have been the result at least as much of differences in delivery periods as of price factors. An analysis of changes in the exports of machinery and transport equipment by several western European countries from 1950 to 1951 indicates that exports increased most from those countries which were able to offer the shortest periods of delivery.[25] In general, as noted previously, countries which had available capacity in capital goods production improved their position in export markets as against those countries in which domestic investment and defence production created pressure upon supplies. Thus the share of western Germany in the total exports of machinery and transport equipment by the countries listed in table 49 rose from 6.4 per cent in 1950 to 12.2 per cent in the first half of 1952. Most of the corresponding decline occurred in the shares of the United Kingdom and the United States. France, which, like the United Kingdom, experienced considerable pressure on its engineering capacity as a result of its defence programme and related investment, nevertheless increased its share in exports of machinery and transport equipment from 6 per cent in 1950 to 7 per cent in the first half of 1952. However, the rise in the value of French exports from 1951 to the first half of 1952 was due almost entirely to higher export prices.

It should be emphasized that these changes did not come about through a fall in exports from the United Kingdom and from the United States, but through a lesser increase in their exports than in those of other countries. In the case of Japan, however, commercial exports of machinery and equipment decreased from the first to the second half of 1951 and declined still further in the first half of 1952.[26]

New forms of export competition in 1952

The slackening of world demand in 1952 gave rise to some decline in the prices of exports of industrialized countries, especially textiles. The growth of competition for declining export markets was, however, not confined to normal forms of price cutting. A number of governments adopted various measures

[25] The analysis, covering Belgium-Luxembourg, France, western Germany, the Netherlands, Sweden, Switzerland and the United Kingdom, was based upon the delivery periods as reported by these countries in Organisation for European Economic Co-operation, *Export Availabilities and Delivery Dates, Machinery and Equipment* (Paris), 15 January 1951.

[26] The quantum of United Kingdom exports of machinery also fell sharply in the third quarter of 1952. This, and the declines in Japanese exports, appeared to be due at least in part to the imposition of import restrictions by oversea sterling countries. In the case of Japan, an additional factor may have been high export prices. According to the Economic Stabilization Board, *Economic Survey of Japan, 1951-52* (Tokyo), July 1952, page 52, Japanese prices for metals, machinery and chemical products in April 1952 were 20 per cent to 30 per cent higher than those of its main competitors. This situation was attributed to the high prices of imports of iron ore, coking coal and salt, which had to be transported to Japan over long distances, and also to backwardness in technique and lack of efficient equipment.

Table 49. Exports of Machinery and Transport Equipment, and of Chemicals, from Selected Countries, 1950 to 1952
(Millions of United States dollars)

Country[a]	Machinery and transport equipment			Chemicals		
	1950 Full year	1951 Full year	1952 First half	1950 Full year	1951 Full year	1952 First half
United States[b]	3,178	3,724	2,083	708	981	438
United Kingdom	2,174	2,488	1,427	404	556	291
Germany, western	472	950	659	221	425	171
France	442	627	378	221	352	156
Sweden	251	308	180	23	34	15
Switzerland	245	272	137	133	180	73
Italy	201	273	146	41	88	51
Netherlands	167	240	130	108	159	89
Belgium-Luxembourg	154	228	146	138	204	100
Japan[c]	71	106	59	16	37	21
Denmark	66	108	54	16	27	10
Total, above countries	7,421	9,324	5,399	2,029	3,043	1,415

Source: Statistical Office of the United Nations; and Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series II (Paris).

[a] In descending order of the value of exports of machinery and transport equipment in 1950.
[b] Excluding special category exports.
[c] Excluding exports against special procurement by United States armed forces.

in 1952 which were designed to aid exporters in securing foreign markets. These measures, which were intended primarily to increase sales to the dollar area,[27] may broadly be classified into three categories: those enabling exporters to dispose of some proportion of the foreign exchange proceeds of their exports;[28] those providing some other form of open or concealed subsidy to exporters; and, finally, those involving the extension of especially favourable credit facilities to foreign importers.

With respect to the first of these categories, exporters[29] in some countries,[30] upon surrender of the dollar proceeds of exports, are permitted to use some proportion of these funds for the import of hard currency goods or other scarce commodities, the supply of which in the domestic market is limited by import restrictions. In addition, this procedure is in a number of cases facilitated through the sale of the actual right to use foreign exchange for the purposes authorized. The imported commodities frequently command premium prices in domestic markets. Wide margins, therefore, exist between the actual net receipts of home currency by exporters, after completion of all elements of their transactions, and the home currency receipts which they would otherwise acquire if the proceeds of their exports were converted by the monetary authorities at the official rate of exchange. Consequently, exporters have been able to reduce their prices in terms of dollars, so as to attract a larger volume of trade, while still earning higher receipts in terms of domestic currency than they had before the introduction of the incentive schemes. These arrangements have effects similar to a partial devaluation of the currencies of the countries concerned in terms mainly of dollars, without a corresponding alteration in the rate of exchange with non-dollar currencies.

A second method of promoting dollar exports used on an increasing scale by western European countries in 1951 and 1952 consisted of the remission of various kinds of taxation on exports, thus amounting in effect to governmental export subsidies.

As early as March 1951, France had adopted procedures whereby 80 per cent of social security taxes on goods shipped to Canada and the United States was refunded to the exporters. In February 1952, the refund was reduced to 50 per cent, but in view of the general decline in French exports to countries outside the franc area the procedure was no longer restricted to Canada and the United States but was applied to exports of certain selected commodities to all foreign countries except Argentina, which was in arrears in its payments to France, and with the exception also of certain countries in eastern Europe and mainland China. The list of eligible commodities was expanded in March 1952, and still further in July 1952, when the percentage refund was again increased. It has been reported that "on the total value of French exports the cost of these measures to the Government (and the possible average decrease in export prices) is expected to be about 3 per cent".[31] On particular commodities eligible for refund, the possible decreases in export prices would, of course, be much larger. Certain tax rebates on exports were also introduced in Austria, western Germany and Italy. Belgium-Luxembourg and Sweden exempted exports to the dollar area from special taxes imposed on certain of their exports.[32]

Finally, several countries have taken steps to expand the credit facilities available for financing exports. The United Kingdom, which had no dollar retention or tax rebate scheme in force,[33] was also in the position of losing trade to continental countries, which were extending more favourable credit facilities in respect of exports. The United Kingdom Chancellor of the Exchequer announced on 29 July 1952 that the credit facilities already available to exporters would be considerably increased. These facilities, however, have not been granted in cases where foreign countries, notably certain South American countries, are in arrears on payments to the United Kingdom.[34]

It should be noted that in some countries special incentives have been provided to transit dealers, to encourage re-exports to the dollar area, as well as to exporters of domestic produce. The effect of the premiums deriving from such schemes has been to enable the transit dealers to purchase goods in other

[27] In France, the Netherlands and Norway, however, such measures had been introduced in 1949.

[28] In accordance with a decision of the Board of Governors of the International Monetary Fund in September 1952, this matter is currently the subject of comprehensive study by the Fund.

[29] In some countries, such schemes apply to service transactions as well as to commodity exports.

[30] Countries having export incentive schemes of the above type in force in 1952 included Austria, Denmark, France, western Germany, Greece, Iceland, Netherlands, Norway and Sweden. The Swedish and Norwegian schemes were ended in September and November 1952, respectively.

[31] Department of Trade and Commerce of Canada, *Foreign Trade* (Ottawa), 23 August 1952.

[32] The Belgian export taxes were originally imposed in November 1951 as a result of increases in wages and benefits which the Government agreed to finance if employers should not agree to shoulder the additional burden. On 24 March 1952 exports to the dollar area were exempted from these taxes, which were imposed on certain commodities for which external demand is strong. In January 1952 Sweden exempted exports of cellulose to the dollar area from the general export levy on this product. This levy was abolished, effective 1 November 1952.

[33] It should be noted, however, that purchase tax is not levied on exports.

[34] It was reported in October 1952 that the United Kingdom Export Credits Guarantee Department would henceforth extend to exporters to dollar account countries in Latin America the special facilities already available to exporters to Canada and the United States.

non-dollar countries and to re-export them to the dollar area competitively and at a substantial profit.[35] From the point of view of the original exporter, the advantage of selling his products to transit dealers in another non-dollar country rather than directly to the dollar area might in some cases depend upon whether the incentives, if any, supplied by his own government to stimulate the earning of dollars sufficed to outweigh any premium which he might be able to secure from foreign transit dealers. In general, schemes of this type, when adopted by any one country, may involve losses of dollar earnings for other countries, thus bringing pressure upon them to adopt similar or still more far-reaching schemes themselves.

The Changing Character of the Dollar Problem

From 1946 to 1949, as is indicated in table 50, the rest of the world imported from the United States far more goods and services than it could finance from the proceeds of exports of goods and services to the United States and of private borrowing and donations from that country. The deficits were financed mainly by special grants and loans by the United States Government, and by the liquidation of gold and dollar assets by other countries.

In 1949, the level of industrial production in the world (excluding the Soviet Union and the United States) was nearly 8 per cent above that of 1937. The stage of economic recovery reached at the end of 1949 by the war-devastated countries made it possible for economic aid by the United States to be reduced—and with it a substantial part of the world's dollar deficit—without adverse effects on production in the deficit countries.

From the beginning of 1950, there began a period characterized by sharp fluctuations in the balance of the rest of the world with the United States.[36] As will be seen from table 50, in the first half of 1950 the average quarterly deficit with the United States fell to 40 per cent or less of the corresponding rates in 1948 and 1949, while in the second half of the year, the rest of the world was actually in surplus with the United States even without taking into account governmental grants and loans. In 1951 the dollar deficit reappeared, and in the second half of the year was equivalent to about three-quarters of the 1949 rate. In 1952, finally, the deficit again dropped sharply.

These fluctuations were the result, primarily, of the difference in the phasing of inventory changes in the United States and other countries, to which reference was made earlier in this chapter. At the same time,

Table 50. Deficits of the World with the United States,[a] 1946 to 1952
(Millions of United States dollars at quarterly rates)

Period	Excluding military aid transactions	Military aid transactions	Total deficit
1946	1,664	—	1,664
1947	2,435	18	2,454
1948	1,184	105	1,289
1949	1,260	50	1,310
1950:			
First half	481	56	536
Second half	−518	232	−287
1951:			
First half	166	357	523
Second half	946	374	1,320
1952:			
First half	487	494	980
Third quarter	49	603	652

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D. C.), December 1952 and *Balance of Payments of the United States, 1949-1951* (Washington, D. C.).

[a] On account of goods and services, private donations and United States private long-term and short-term lending. Minus sign indicates surplus of rest of world with the United States.

there were inevitable time lags in the response of import licensing authorities in the deficit countries to the rather rapid changes which occurred in the supply of dollars available to them; and still further unavoidable delays occurred before action taken by these authorities to relax or tighten dollar import restrictions could be reflected in current trade and payments. All these factors, together with movements of speculative capital, contributed to the large swings in dollar surpluses and deficits typical of the period. In general, the fluctuations reached their greatest amplitude in respect of United States transactions with the sterling area.

In the first half of 1950, a rise in economic activity in the United States was associated with an expansion in United States imports and in the world supply of dollars. At the same time United States exports of goods and services fell, owing to the recovery of agri-

[35] With respect to switch transactions, the OEEC Council, in a resolution of 14 November 1951, recommended *inter alia* that debtor countries should control re-export operations so that the net result should not increase their debtor positions in the European Payments Union (EPU) and that member countries should refrain from granting special facilities for the re-export of commodities originating in countries which had extreme creditor positions in the union.

[36] Unless otherwise indicated, the discussion of transactions of the United States excludes military aid exports.

Table 51. Supply of Dollars by the United States and their Use by Other Countries, 1951 and 1952
(Millions of United States dollars at quarterly rates)

Item and period	*Total*	*Canada*	*Latin America*	*United Kingdom*	*Rest of sterling area*	*Continental OEEC countries*[a]	*Continental OEEC dependencies*[a]	*Other European countries*[a]	*All other countries*	*International organizations*
SUPPLY OF DOLLARS BY THE UNITED STATES										
United States imports of goods and services:										
1951 First half	3,924	656	1,142	257	546	614	86	65	548	10
1951 Second half	3,602	733	918	265	388	606	89	55	530	18
1952 First half	3,861	688	1,044	310	420	624	140	48	582	6
1952 Third quarter	3,860	800	1,043	300	316	725	91	12	550	23
United States government grants and loans (net):[b]										
1951 First half	856	2	48	60	14	523	2	28	161	18
1951 Second half	745	4	6	7	63	369	2	32	154	108
1952 First half	708	4	15	104	47	324	—	26	168	20
1952 Third quarter	770	4	43	140	33	382	1	−2	165	4
Private capital and donations (net):										
1951 First half	378	138	84	11	19	34	2	9	54	27
1951 Second half	360	86	84	−19	18	45	5	14	77	50
1952 First half	472	136	187	2	17	40	—	10	52	28
1952 Third quarter	101	−6	10	—	−5	72	−2	3	28	1
Total supply of dollars:										
1951 First half	5,158	796	1,274	328	579	1,171	90	102	763	55
1951 Second half	4,707	823	1,008	253	469	1,020	96	101	761	176
1952 First half	5,041	828	1,246	416	484	986	141	83	803	54
1952 Third quarter	4,731	798	1,096	440	344	1,179	90	13	743	28
USE OF DOLLARS BY OTHER COUNTRIES										
United States exports of goods and services:[b c]										
1951 First half	4,469	886	1,205	282	342	973	75	86	602	16
1951 Second half	4,909	852	1,340	426	476	990	101	87	622	16
1952 First half	4,820	948	1,271	305	461	982	109	60	668	16
1952 Third quarter	4,010	957	1,099	226	286	696	78	7	639	21
Increase in gold and dollar assets:[d]										
1951 First half	520	−18	144	236	4	100	—	−4	71	−11
1951 Second half	−300	5	−126	−445	11	54	12	—	182	8
1952 First half	11	96	−19	−192	−10	52	7	−4	82	−1
1952 Third quarter	723	62	70	116	4	394	24	4	−46	95
Multilateral settlements and errors and omissions:[e]										
1951 First half	168	−74	−74	−190	232	98	16	20	90	51
1951 Second half	100	−33	−205	272	−18	−23	−17	14	−42	152
1952 First half	210	−218	−5	302	34	−48	25	28	53	40
1952 Third quarter	−2	−221	−73	98	54	88	−12	2	150	−88

Source: United States Department of Commerce, *Balance of Payments of the United States, 1949-1951* and *Survey of Current Business*, December 1952.

[a] In the third quarter of 1952, Finland, Spain and Yugoslavia are included with continental OEEC countries, instead of with other European countries, as previously. Moreover, continental OEEC dependencies include Spanish dependencies in that quarter.

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

[c] United Kingdom purchases of "special category" commodities for cash are included in the total for continental OEEC countries.

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

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

cultural and industrial production in western Europe and to restrictions imposed in 1949 on imports payable in dollars, by a number of countries in the sterling area and elsewhere, reinforced by the rise in the prices of dollar goods in terms of currencies which had been devalued in 1949.

The immediate effect of the outbreak of hostilities in Korea in mid-1950 was to sustain the process of voluntary private inventory accumulation of imported goods in the United States, which had already begun in the first half of 1950, while the rate of additions to the government stockpile of imported commodities was also augmented. Simultaneously there was an abnormal increase in the outflow of private capital, connected in part with speculation on the possible appreciation of the Canadian dollar and of sterling. Exports rose much less than imports since shipments to several of the western European countries, and to the sterling area, did not begin to reflect accelerated inventory accumulation in those countries until late in 1950 or early in 1951. Moreover, the restrictions on imports of dollar goods by sterling area countries were not relaxed until the latter months of 1950.

In 1951 the factors tending to reduce the deficit of the rest of the world with the United States in 1950 were reversed. A fall in United States consumption in relation to disposable income after the first quarter of the year was accompanied by an involuntary accumulation of inventories as a result of which private imports for consumption declined. At the same time there was a fall in new governmental commitments for strategic stockpiling owing to the abnormally high prices for some of the stockpiled commodities in the previous period. Exports, however, rose sharply from the second half of 1950 to the first half of 1951, and still further in the second half of 1951, reflecting the rise in dollar earnings by the rest of the world during earlier periods, and notwithstanding the marked fall in the supply of dollars by the United States between the first and second halves of 1951. The gap resulting from these opposite movements in exports and imports was magnified by speculative capital movements. In 1950, when imports had risen and exports had declined, there had been, as noted above, a significant outflow of private capital, including a large element of speculative capital. In addition, unrecorded capital inflow into the United States, reflected in the errors and omissions item in the balance of payments, had fallen significantly from the 1949 level. In 1951 the increase in the dollar gap was accompanied by a reduction in sterling balances held in the United States, which had been unusually high since the speculation on the appreciation of sterling in the latter months of 1950; and by an increase in unrecorded capital inflow.

Owing to the fact that foreign economic aid from the United States declined much more slowly after 1949 than the surplus on goods, services and private capital accounts, the rest of the world as a whole was not required to draw upon its gold and dollar reserves for the financing of dollar deficits until the second half of 1951. Indeed, between September 1949 and June 1951 the United States drew upon its own gold reserves to the extent of over $2,800 million to finance the excess of its foreign aid over its surplus on other accounts with the rest of the world. Even during the second half of 1951, when the franc and sterling areas as well as certain Latin American countries suffered substantial losses from reserves as a result of sharp increases in their dollar deficits, other countries, as will be seen from table 51, were still adding to reserves as a result of their transactions with the United States.

By the early months of 1952, the trend in the rest of the world's dollar deficit was again downwards. There was a partial recovery in United States imports of goods and services. In addition, the net outflow of United States private capital for direct investment abroad, which had fallen from $702 million in 1950 to $603 million in 1951, owing primarily to the completion of American-owned petroleum installations in Latin America and the Middle East, rose sharply in the first half of 1952, amounting in that period alone to $552 million. Over two-fifths of the increase was directed to the expansion of operations of American-controlled companies in Canada; but there was also a marked rise in the outflow to Latin America, and, particularly, to certain countries in Africa and Asia, though in some cases this may have reflected temporary factors such as tax payments, or the accumulation of funds representing the yield of foreign investments that could not be transferred under existing exchange regulations.

The partial recovery of imports, together with the increased outflow of private capital, more than offset the continuing decline in economic aid to foreign countries, so that the total supply of dollars by the United States in the first half of 1952 considerably exceeded the level to which it had fallen in the previous half-year and nearly regained the high level of the first half of 1951. Exports, on the other hand, began to decline, reflecting a fall in the rate of inventory accumulation in other countries and the reimposition of more severe restrictions on purchases of dollar goods by countries which had encountered difficulties in their dollar balances during 1951.

The net liquidation of gold and dollar assets by the rest of the world, which had begun in mid-1951, came to an end in the first quarter of 1952. During that quarter, other countries were, on balance, still liquidating gold and dollar assets to the extent of $382 million, compared with the quarterly rate of $300 million in the last six months of 1951. In the second quarter of 1952, on the other hand, the rest of the world added $404 million to its gold and dollar assets as a result of transactions with the United States; and the sterling area, by virtue of a sharp reduction in imports from the United States, restored a balance in its dollar accounts with the United States. Only a few countries in Latin America and Asia were still drawing upon gold or dollar assets in the second quarter of 1952 to finance continuing deficits with the United States. Prominent among the latter was Brazil, which had also been accumulating large arrears of dollar payments, reflected in an involuntary increase in United States private short-term credits to that country.[37]

In the third quarter of 1952, the United States balance with the rest of the world on current transactions in goods and services, excluding military aid, fell to the lowest point since the third quarter of 1950, when there had been a United States deficit. This occurred notwithstanding a decline in the total supply of dollars resulting from a sharp fall in private capital outflow.[38] The major factor in the improvement of the balance of the rest of the world with the United States was a decline in United States exports of goods and services of some 17 per cent from the first half of 1952 to the third quarter. The decline in exports of merchandise to western Europe, Latin America and the oversea sterling area averaged as much as 33 per cent. Of the total fall in United States exports of non-military goods from the second to the third quarter of 1952, amounting to some $700 million, exports of agricultural products accounted for $270 million, reflecting a more than seasonal drop, especially in deliveries of raw cotton and wheat. In addition, part of the decline in exports was attributable to the steel strike.[39] Apart from short-term or seasonal factors, the contraction in exports appears to have been due to the full impact of import restrictions imposed earlier by countries in balance of payments difficulties in the sterling area and Latin America, and, in continental western Europe, to reduced demand for coal and grain—the former owing to the levelling off in industrial activity and the mild winter of 1951/52 and the latter on account of better harvest prospects in 1952. The fall in exports of merchandise was accompanied by a corresponding decline in gross receipts on transport account.

As a result of the reduction or elimination by most areas of their deficits with the United States in the third quarter of 1952, the high level of United States foreign aid was reflected in almost equivalent additions to the dollar balances held by other countries, especially by countries in western Europe. While deficits rose again to some extent in the fourth quarter of 1952, owing partly to a seasonal increase in United States exports, and to a resumption of shipments previously interrupted by the steel strike, other countries continued to add to their gold and dollar reserves, though at a lower rate than in the previous quarter.

Developments from the first half of 1950 to the first half of 1952

Although the deficit of the rest of the world with the United States on goods, services and private capital accounts was at approximately the same level in the first half of 1950 and of 1952, there were a number of significant changes in the composition of the balance, as indicated by the following figures showing the net balance[40] of the rest of the world with the United States (in millions of United States dollars):

	1950 First half	1952 First half
On merchandise trade[a]	−976	−1,462
On services	−457	−456
On private donations and capital	471	944
Total, above items	−962	−974

[a] Excluding military aid exports.

From the first half of 1950 to the first half of 1952 the physical volume of United States trade with the rest of the world increased—imports by 10 per cent and exports (excluding exports under military aid) by about 25 per cent. The expansion of the trade surplus resulting from the larger increase in the quantum of merchandise exports than of imports was supplemented by the rise in the general price level from the first half of 1950 to the first half of 1952. The increase in the trade surplus would therefore have been very large but for the deterioration in United States terms of trade by 10 per cent. The effect of these factors may be indicated as follows (in millions of United States dollars).[41]

[37] During the twelve months ending 30 June 1952, Brazil's short-term assets in the United States fell by $131 million, while United States banking claims against Brazil rose by $264 million; in the second quarter of 1952 alone, these claims rose $124 million.

[38] Private capital outflow receded in the third quarter of 1952 from the unusually high rate of the preceding quarter, which resulted from large security issues by companies in Canada controlled by Americans. There was also some net repatriation of portfolio capital from Canada. Finally, reduced merchandise exports to Latin America, especially Brazil, were associated with a decline in short-term outflow and in direct investment.

[39] The steel strike also gave rise to a small increase in imports of iron and steel mill products, reversing an earlier declining trend.

[40] Minus sign indicates deficit.

[41] The attribution of components in the change in the trade balance indicated in these figures is to some extent arbitrary, but it suffices to indicate the nature and order of magnitude of the factors involved.

United States merchandise export surplus in first half of 1950[a]	976
Effect on the surplus of changes from the first half of 1950 to the first half of 1952:	
(*a*) Larger increase in the quantum of exports than of imports	779
(*b*) Rise in the general level of prices	309
(*c*) Deterioration in terms of trade	−602
Equals United States merchandise export surplus in first half of 1952[a]	1,462

[a] Excluding military aid exports.

The United States surplus on service transactions was the same in the first half of 1950 as in the first half of 1952, but there were a number of significant changes in the composition of the service account, as indicated in table 52. The most important single change in the service account was a rise of $387 million in net disbursements on account of government miscellaneous services, reflecting increased expenditures abroad by government personnel and armed forces, notably in western Europe and Japan. This increase was largely offset, however, by higher net income on investment account, together with a sharp rise in the surplus on shipping services, resulting from the resumption or expansion of exports to western Europe of items such as coal and grain on which freight charges are heavy. The decline in net disbursements for travel was the combined result of greatly increased travel in the United States by Canadian residents, offset only in part by higher United States travel expenditures in Latin America and in western European countries and their dependencies.

The net effect of the above factors was to increase the deficit of the rest of the world with the United States on all goods and services, other than those provided for military aid, from $1,433 million in the first half of 1950 to $1,918 million in the first half of 1952. On the other hand, the full impact of dollar import restrictions on the balance had not yet been realized in the first half of 1952.

Net private long-term capital outflow from the United States totalled $410 million in the first half of 1950 and $699 million in the first half of 1952, almost one-half of the increase going to Canada. As already pointed out, part of the high rate of long-term lending to areas other than Canada during the latter period may have been the result of temporary factors. On United States private short-term capital account, there was a net repatriation of $186 million in the first half of 1950, reflecting repayments of short-term advances by several countries, especially in Latin America. In the first half of 1952, on the other hand, a small net outflow of short-term capital was the combined result of increases in arrears of payment by Latin American countries, particularly Brazil, and repayments by other countries.

The differences between the two periods in the financing of the deficit on account of goods, services, and private donations and capital—amounting to $962 million and $974 million in the first half of 1950 and of 1952, respectively—result essentially from the decline in economic aid. In the first half of 1950, United States government grants and loans for economic purposes amounted to $2,155 million, so that the rest of the world was able to add $1,122 million to its gold and dollar assets. During the first half of 1952, however, non-military aid fell to $1,417 million and the rest of the world's gold and dollar reserves changed little over the six-month period as a whole.[42]

Table 52. United States: Net Service Account, 1950 and 1952

(Millions of United States dollars)

Item	*1950 First half*	*1952 First half*
Transportation	60	246
Travel	−126	−92
Miscellaneous services:		
Private	156	191
Government	−180	−567
Income on investments:		
Private	510	659
Government	37	19
Total	457	456

Source: United States Department of Commerce, *Survey of Current Business*, December 1952, and *Balance of Payments of the United States, 1949-1951*.

It is important to note that the effect on the world supply of dollars of the decline in economic aid by the United States between the first half of 1950 and of 1952 was almost offset by other governmental operations. Certain elements of the external transactions of the United States Government are brought together for the first half of 1950 and of 1952 in table 53 in such a way as to show their net effect on the world dollar deficit. The comparison indicates that, while United States economic grants fell by nearly $1,000 million from the first half of 1950 to the first half of 1952, this decline was almost offset by a higher level of loans to other countries, and especially by increased net dollar disbursements by the United States Government for goods and services.

[42] There was, however, a considerable increase in unrecorded capital inflow to the United States—from $71 million in the first half of 1950 to $421 million in the first half of 1952.

It appears, moreover, that the aggregate of United States governmental disbursements of dollars may tend to increase. For example, Congressional appropriations for economic aid to western Europe provided a maximum of $1,912 million for allocation during the year ending 30 June 1953, compared with $1,527 million made available during the preceding year.[43]

An additional source of dollars, of growing significance for a number of countries, consists of procurement abroad of military goods and services by the United States—the "offshore procurement" programme. Such purchases have been of major importance in the balance of payments of Japan since the outbreak of hostilities in Korea. While actual disbursements to western Europe under this heading had been limited until mid-1952,[44] table 54 indicates the potential significance of these transactions.

[43] Both figures include balances unallocated from previous appropriations at the beginning of the respective fiscal years In addition, the figure for fiscal 1953 includes a possible transfer of $342 million from military aid to economic aid.

[44] In the third quarter of 1952, France received an advance of $154 million from the United States Export-Import Bank of Washington against orders for offshore military purchases.

Table 53. United States: Selected Government Operations, 1950 and 1952
(Millions of United States dollars)

Operations of the United States Government	1950 First half	1952 First half	Net effect on deficit of world with United States[a]
Net dollar disbursements:			
For merchandise	80	361	−281
For services[b]	146	588	−442
Net grants to other countries aside from military aid	2,035	1,067	+968
Net loans to other countries	121	350	−229
TOTAL	2,382	2,366	+16

Source: United States Department of Commerce, *Survey of Current Business*, March 1953 and *Balance of Payments of the United States, 1949-1951*. Data on net dollar disbursements supplied by United States Department of Commerce.

[a] Plus sign indicates tendency for deficit of rest of world with the United States to increase; minus sign indicates tendency to decrease.

[b] Including interest received on United States government loans; excluding interest paid by the United States Government.

Table 54. Value of United States Military Contracts in Western Europe, 30 June 1952
(Millions of United States dollars)

Country	Amount
Belgium	46.0
Denmark	6.0
France	335.5
Greece	11.0
Italy	129.0
Luxembourg	0.3
Netherlands	38.0
Norway	6.0
United Kingdom	69.0
Other countries	43.0
TOTAL	683.8

Source: Report to the President by the United States Special Representative in Europe (Paris, August 1952).

About $600 million of the total indicated in table 54 was for military goods to be allocated to the various European countries which are members of the North Atlantic Treaty Organization. The balance of the programme was designed to provide military goods for the United States forces.

To summarize, the world's deficit with the United States on private current transactions in goods and services was substantially larger in the first half of 1952 than in the corresponding period of 1950. In addition, economic aid by the United States was considerably smaller. However, increases in private capital outflow and in United States governmental purchases of goods and services sufficed to prevent any net recourse by other countries, as a whole, to their gold and dollar reserves for the financing of dollar deficits.

The situation described was transitory in two important respects. In the first place, the deficit on goods and services was, in the second half of 1952, reduced below the level of the first half of 1950 by virtue of a fall in United States exports resulting particularly from import restrictions imposed abroad. In addition, private capital outflow, which was abnormally high in the first half of 1952, declined sharply in the second half of the year. United States economic aid and government purchases of goods and services continued, however, to be major factors in the world's dollar balance, sufficing in the second half of 1952 to permit a rise of over $1,100 million in the rest of the world's gold and dollar reserves.

Balance of Payments of Western Europe and Japan

Divergent trends in 1951

In 1951 the over-all deficit of OEEC countries on current transactions in goods and services, excluding military aid imports, increased $1,400 million over the deficit incurred in 1950, as indicated in table 55. The entire improvement recorded from 1949 to 1950 was thereby more than eliminated.

The increase in the deficit was about equally divided between visible and invisible accounts. With respect to the former, though exports to the United States were considerably higher in 1951 than in 1950, imports expanded still more, owing to the rise in income in western Europe, the replenishment of inventories of dollar goods which had been depleted in 1950, additional imports of grain necessitated by poor harvests in some countries in 1951 and a resumption of imports of coal to relieve the shortage created by the lag in western European coal production in relation to industrial activity.

The deterioration on trade account with other oversea countries in 1951 was attributable primarily to the unfavourable movement in terms of trade resulting from the raw material boom, since the increase in the quantum of exports to these countries was substantially greater than the increase in the quantum of imports.

The fall in net invisible earnings in 1951 primarily affected the United Kingdom, for reasons which will be indicated below, but a number of countries made heavier payments on transport account to the United States in connexion with their increased imports of coal, grain and petroleum. These factors more than offset increases in western Europe's gross earnings from shipping and income on foreign investments, resulting, respectively, from the larger volume of trade carried in western European shipping at higher freight rates in 1951, and from the rise in profits on investments in the production of raw materials overseas.

Table 55. Balance of Payments[a] of OEEC Countries, 1949 to 1951
(Thousand millions of United States dollars)

Item	*1949*			*1950*			*1951*[b]		
	United States	*Other non-OEEC countries*	*Total*	*United States*	*Other non-OEEC countries*	*Total*	*United States*	*Other non-OEEC countries*	*Total*
Goods and services:									
Exports, f.o.b.	1.0	9.2	10.2	1.3	8.6	9.9	2.0	12.0	14.0
Imports, f.o.b.	−4.2	−9.1	−13.3	−2.9	−9.4	−12.3	−3.9	−13.2	−17.1
Trade balance	−3.2	0.1	−3.1	−1.6	−0.8	−2.4	−1.9	−1.2	−3.1
Services	0.1	0.4	0.5	0.4	0.5	0.9	0.1	0.1	0.2
Total, goods and services	−3.1	0.5	−2.6	−1.2	−0.3	−1.5	−1.8	−1.1	−2.9
Private donations	0.3	−0.1	0.2	0.3	−0.1	0.2	0.2	—	0.2
Private capital movements	−0.1	−0.4	−0.5	—	−0.2	−0.2	—	−0.6	−0.6
Special official financing	0.2	−0.4	−0.2	−0.2	−0.2	−0.4	−0.2	−0.2	−0.4
Net errors and omissions	—	−0.6	−0.6	0.1	−0.2	−0.1	—	0.3	0.3
Total deficit (−), above items	−2.7	−1.0	−3.7	−1.0	−1.0	−2.0	−1.8	−1.6	−3.4
Compensatory official financing:[c]									
Multilateral settlements	−2.0	2.0	—	−0.3	0.3	—	−0.6	0.6	—
Other:									
Grants and credits received	4.6	−0.1	4.5	3.0	—	3.0	2.2	—	2.2
Sterling balances	—	−0.5	−0.5	—	0.9	0.9	—	0.3	0.3
Dollar balances (increase −)	0.1	—	−0.1	−0.3	—	−0.3	−0.1	—	−0.1
Other short-term capital	—	−0.1	−0.1	—	—	—	—	0.5	0.5
Monetary gold (increase −)	0.2	−0.3	−0.1	−1.4	−0.2	−1.6	0.3	0.2	0.5
Total	2.7	1.0	3.7	1.0	1.0	2.0	1.8	1.6	3.4

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 4 (Washington, D. C.).

[a] Minus sign indicates debit. Excluding transactions under the Mutual Defence Assistance Programme. Imports of military equipment by OEEC countries under this programme amounted to $500 million in 1950 and $1,200 million in 1951.

[b] Preliminary.

[c] The concept of compensatory official financing is discussed in International Monetary Fund, *Balance of Payments Yearbook, 1938, 1946, 1947.*

The increased over-all deficit of western Europe[45] was accompanied by a decline of some $800 million in grants and credits received from the United States. Moreover, there was an increase in net dollar payments to other oversea areas owing to higher imports from dollar countries other than the United States, and to the decline in multilateral transfers of dollars to the United Kingdom from other sterling area countries. Consequently, whereas OEEC countries had added $1,900 million to their gold and dollar balances in 1950, their balances were reduced in the amount of $400 million in 1951.

The over-all situation set forth above represents the composite result of sharp divergencies in the developments in individual countries. In several cases, notably Belgium-Luxembourg, Denmark, western Germany, the Netherlands, Norway and Sweden, there were substantial improvements in balance of payments positions from 1950 to 1951. These improvements were, however, overshadowed by—and, indeed, were partly conditional upon—large increases in the deficits of France and the United Kingdom and, to a lesser extent, of Italy. The quantum of exports of all countries in the first group except Sweden increased more than their imports. In Denmark and the Netherlands, this was partly the result of disinflationary domestic policies having the effect of limiting the demand for imports.[46] In western Germany, imports were held down by restrictions imposed for balance of payments reasons early in 1951. In Denmark, western Germany and the Netherlands, the resulting improvement in the real balance of trade more than offset the effect of deterioration in their terms of trade. In Belgium-Luxembourg, Norway and Sweden, on the other hand, the terms of trade improved, owing to sharp increases in export prices of steel (Belgium-Luxembourg) and wood products (Norway and Sweden). For Sweden the improvement in terms of trade was more than sufficient to permit a considerable increase in the quantum of imports, relative to exports.

The deterioration of current trade balances in Austria, France and Switzerland in 1951 was due entirely to adverse developments in terms of trade, since the real balances of trade improved in all cases. In Italy, Turkey and the United Kingdom, however, real balances of trade deteriorated as well, owing to large increases in the volume of imports. As noted previously, the imports of France, Italy and the United Kingdom had fallen between the first and second halves of 1950, so that these countries were compelled to replenish their stocks of imported goods in 1951 at a time when import prices, especially for raw materials, had risen greatly above the levels which had prevailed up to mid-1950.

Belgium-Luxembourg, France, western Germany and the United Kingdom were the countries most affected by adverse changes in the balance of invisible transactions. All four countries made substantially higher payments abroad on transport account, especially to the United States and, in the case of France and the United Kingdom, to other western European countries as well. France and the United Kingdom also became liable for additional service on dollar loans, and undertook larger military expenditures overseas. In the case of the United Kingdom, where the invisible surplus was reduced by $315 million from 1950 to 1951, an additional major factor in the decline was loss of revenues by the Anglo-Iranian Oil Company owing to nationalization of the petroleum industry in Iran. In western Germany, part of the increased deficit on transport account was offset by higher receipts from United States forces stationed in the country.

Both France and the United Kingdom were also affected by substantial speculative outflows of private capital, taking the form, particularly, of advance payments for imports and of delays in the repatriation of the foreign exchange proceeds of exports.

Entirely opposite developments on service and private capital accounts occurred in a number of other western European countries. There were significant improvements in the net balance of service payments in Denmark, the Netherlands, Norway and Sweden, largely resulting from the increased shipping services performed for other countries and the rise in freight rates. In the Netherlands there was also a considerable increase in investment income. The speculative capital outflows from France and the United Kingdom had

[45] The increase between 1950 and 1951 in private capital outflow to "other non-OEEC countries" recorded in table 55 appears to be mainly the result of a statistical discrepancy between United Kingdom and United States balance of payments data. As indicated in the International Monetary Fund, *Balance of Payments Yearbook*, volume 4, the entries in the United States column were based on United States balance of payments statistics, and those in the column for "other non-OEEC countries" were residuals. The United Kingdom balance of payments data contained in Cmd 8505 show a change in private capital transactions with the dollar area, from an inflow of $521 million in 1950, to an outflow of $64 million in 1951. United States balance of payments data, on the other hand, show a net outflow to the United Kingdom of only $49 million in 1950, and an inflow of $145 million in 1951. While a significant portion of the differences in the data can be explained by transactions between the United Kingdom and dollar area countries other than the United States, a considerable discrepancy undoubtedly remains after allowing for this factor. Owing to the method of compilation of table 55, by far the major part of the change in the balance on private capital account with the dollar area reported by the United Kingdom is included under "other non-OEEC countries". According to Cmd 8505, private capital outflow from the United Kingdom to non-dollar non-OEEC countries actually declined between 1950 and 1951.

[46] As indicated in chapter 1, the disinflationary policies tended to supplement other factors in causing a reduction in import quantum in 1951/52 but their effect on the quantum of exports is less clear.

a counterpart in corresponding inflows into other countries, particularly Italy and Sweden. In the case of Italy the large speculative inflow temporarily cushioned the pressure on the balance of payments resulting from the deterioration in current transactions in goods and services.

While the OEEC countries as a whole liquidated gold and dollar assets in 1951 in the net amount of approximately $400 million, most countries added to their reserves, while the United Kingdom official reserves were reduced by $965 million. These opposite movements were in part interrelated. Even such countries as Belgium-Luxembourg, Denmark, western Germany, the Netherlands and Sweden, whose over-all balance of payments improved in 1951, generally incurred larger deficits with the dollar area than during the previous year. In Denmark and western Germany, additions to gold and dollar reserves in 1951 were made possible by a relatively high level of United States economic aid, while in the Netherlands there was some reduction in reserves. In several countries, however, notably Belgium-Luxembourg, Italy and Sweden, increases in gold and dollar reserves in 1951 were contingent upon their ability to earn dollars through the machinery of the European Payments Union (EPU) in respect of surpluses with the franc or sterling areas. In these cases, therefore, the rise in reserves did not reflect an improvement in the dollar balance of payments of the countries concerned, but was the counterpart of the reductions in gold and dollar holdings in France and the United Kingdom.

The balance of payments surplus of Japan in 1950 was further increased in 1951. Although there was a large expansion in the trade deficit resulting from a much greater rise in imports than in exports, this was more than offset by a higher surplus on invisible transactions. The latter, in the main, reflected expenditures by United States armed forces and personnel stationed in Japan. A large part of the increase in Japanese foreign exchange earnings from both merchandise exports and invisible items was associated with special purchases by the United States in connexion with hostilities in Korea. Japan, like several of the western European countries, developed a large surplus with the sterling area in 1951. Under a payments agreement with the United Kingdom, however, Japan, from September 1951, lost its previous right to convert sterling holdings in excess of £17 million into dollars, and its surplus was largely financed by means of an increase in such holdings in the amount of £56 million.

The movement towards balance in 1952

The main trends in the balance of payments of western Europe in 1952 were, on the one hand, a decline in the over-all deficit of the area as a whole and, on the other hand, a tendency towards a narrowing of the range between the more extreme surplus and deficit positions of individual countries.

The principal difficulty in the way of these adjustments was that they had to take place in a context of slackening demand throughout a large part of the world. As a result, the brunt of the burden of adjustment was borne by deficit countries, the reduction in whose imports had to be all the larger to compensate for the tendency of exports to level off or to fall.[47]

However, several countries adopted measures to reduce their surpluses with the deficit countries. For example, Belgium-Luxembourg, Italy and Portugal raised the proportion of liberalized imports on private account from other EPU countries to 90 per cent, 99 per cent and 100 per cent, respectively.[48] Italy reduced customs duties on imports by an average of 10 per cent. Belgium-Luxembourg and Portugal restricted imports from the dollar area so as to facilitate the substitution of imports from western Europe, and also took steps to block part of the proceeds of exports to EPU countries, while Italy and Switzerland instituted stricter control over the observance of export quotas, prohibiting exports to EPU countries of goods intended for re-export to non-member countries. Exchange controls were tightened by several of the EPU surplus countries in order to prevent the inflow of speculative capital, and Belgium-Luxembourg took measures to encourage capital exports. In the case of Japan, attempts were made to substitute imports from the sterling area for imports from the dollar area, while exports to the sterling area were temporarily restricted early in 1952. United States action to ease the process of adjustment in deficit countries included a speeding-up of economic aid allocations and of military procurements in western Europe, noted earlier.

The aggregate current deficit of OEEC countries in the first half of 1952 (table 56) was very markedly

[47] In December 1952, the Council of the Organisation for European Economic Co-operation, while recognizing that creditor countries in the European Payments Union had fulfilled their obligations under the Code of Liberalization of Trade, recommended that these countries, especially western Germany and the Netherlands, increase their efforts to liberalize trade. In addition, the Council recommended "that Germany should take all necessary steps to speed up the liberalization of invisible transactions; and that the Netherlands, in order to keep down its surplus within the union, should encourage stockpiling, especially in the case of raw materials exported from member countries and associated monetary areas, and ensure that the greatest possible use should be made of the productive resources of the country". See Press Release No. PRESS/A(52)87 of the Organisation for European Economic Co-operation, dated 9 December 1952.

[48] Portugal subsequently lowered the percentage of liberalized imports to 85.

reduced, compared with both the first and the second half of 1951, and was approximately equal to the relatively small deficit recorded in the second half of 1950. There were, however, two important differences in the character of the situation as between the second half of 1950 and the first half of 1952. In the earlier period total trade was expanding rapidly, under the influence of higher economic activity and of accelerated inventory accumulation in a number of countries in western Europe and elsewhere, and exports were rising faster than imports owing to delays in inventory accumulation in certain countries, notably France and the United Kingdom. In the first half of 1952, on the other hand, the level of trade was tending to decline, for reasons previously indicated, but the value of imports was falling more rapidly than the value of exports.

The second chief difference between these two periods concerns the positions of individual countries in the total balance of western Europe. Belgium-Luxembourg, western Germany and the Netherlands, which had been in deficit in the second half of 1950 as a result of substantial increases in imports for stocks, recorded substantial surpluses in the first half of 1952. France and the United Kingdom, by contrast, had achieved substantial surpluses in the second half of 1950 since the rise in their imports followed the expansion in their exports only after some delay. In the first half of 1952 both of these countries were still in process of recovering from the large deficits incurred in 1951, when the peak of their inventory accumulation had been reached. The situation in Italy was in several respects similar to that in France and the United Kingdom, but the deterioration in the balance of payments in the first half of 1952 was largely the result of the fact that while Italian imports from OEEC countries were almost completely freed from restrictions at the end of 1951, exports were sharply reduced as a result of import restrictions imposed in the franc and sterling areas.[49]

The greater degree of balance in the transactions of western European countries in the first half of 1952, compared with the preceding half-year, is reflected in the fact that the deficits of the extreme debtor

[49] In December 1952 the Council of the Organisation for European Economic Co-operation recommended that "the United Kingdom Government should consider how its import regulations could be adapted to mitigate the damage caused to economic and commercial interests in France and Italy; and that the French Government should take the same steps as regards Italian interests". See Press Release No. PRESS/A(52)88 of the Organisation for European Economic Co-operation, dated 9 December 1952.

Table 56. Balances on Current Account of OEEC Countries, 1950 to 1952
(Millions of United States dollars)

Country	1950 First half	1950 Second half	1951 First half	1951 Second half	1952 First half
Austria	−116	−12	−103	−71	−63
Belgium-Luxembourg	−55	−187	30	196	151
Denmark	−55	−45	−38	25	−5
France[a]	−101	111	−185	−548	−290
Germany, western	−296	−322	−25	186	238
Greece	−214	−107	−167	−102	−96
Iceland	−4	−2	−10	−1	−11
Ireland	−53	−32	−120	−52	−50
Italy	−69	59	−112	−48	−162[b]
Netherlands	−192	−86	−190	158	125
Norway	−96	−25	−14	31	35
Portugal	−51	15	−4	−3	−35
Sweden	12	22	−35	211	15
Turkey	−29	−33	−33	−81	−12
United Kingdom	151	571	−199	−1,103	67
TOTAL, OEEC COUNTRIES[c]	−1,168	−73	−1,205	−1,202	−93

Source: Organisation for European Economic Co-operation, *Europe—the Way Ahead* (Paris), December 1952, table 2.

[a] Current balance of France with foreign countries plus the current balance with its oversea territories as calculated on the basis of Ministry of Finance data.

[b] Provisional; based on foreign exchange control figures not strictly comparable with totals for earlier periods.

[c] Excluding Switzerland.

countries—France and the United Kingdom—were reduced, while the active balances of three of the major surplus countries in the previous period—Belgium-Luxembourg, the Netherlands and Sweden—were likewise lower. However, the reduction in the French deficit was the result of a rise in its surplus with the franc area, rather than of any diminution in deficits with other areas.[50] Thus the data in table 56 do not necessarily indicate any improvement in the French balance of payments in the first half of 1952.

In the third quarter of 1952 there was probably a further improvement in the aggregate current balance of western Europe, since imports declined 15 per cent while the value of exports fell only 9 per cent below the level of the corresponding quarter of 1951.

The major factor in the improvement in western Europe's current account in 1952 was a favourable movement in the terms of trade of countries whose exports consist largely of manufactures.[51] This was due mainly to a decline in raw material import prices while export prices for manufactures continued to rise until the early months of 1952 and then fell. As noted previously, the terms of trade of western Europe as a whole had recovered by the third quarter of 1952 to the level reached at mid-1950. In OEEC countries as a whole, the entire improvement in the balance of trade from the first nine months of 1951 to the corresponding period of 1952 was attributable to developments in prices, since the quantum of exports fell slightly more than the quantum of imports, as indicated in table 57.[52]

In western Germany the favourable development of the terms of trade was large enough to cause a sizable improvement in the current trade balance, notwithstanding an adverse movement in the real balance resulting from the liberalization of imports from the beginning of 1952. In Denmark and the Netherlands the continued effects of disinflationary domestic policies were to be seen in a further improvement in the balance of trade in real terms. In the United Kingdom the main factors in an improved real balance were the cessation of large-scale inventory accumulation, due in part to a tightening of credit facilities, and the import restrictions imposed late in 1951 and early in 1952. Although the terms of trade were more favourable to Japan in the first nine months of 1952 than in the corresponding period of 1951, the trend was adverse from the end of 1951 to the middle of 1952, owing to the fact that textile export prices receded from previous abnormally high levels more rapidly than import prices.

Significant deteriorations in real balances of trade occurred in Belgium-Luxembourg, France, Italy, Sweden and Turkey—sufficient, in the first two cases, to outweigh the improvement in terms of trade. In the case of Sweden it should be noted that there was a marked deterioration in terms of trade in the course of 1952, owing to the falling prices of wood products. The same factor accounted for the negative

Table 57. Changes in Merchandise Trade Balances of OEEC Countries, Japan and the United States, from 1951 to 1952

(Millions of United States dollars)

Country and category	*Change in trade balance from 1951 to 1952 (first nine months)*[a]	*Of which due to*	
		Changes in quantum of exports and of imports[b]	*Changes in export and import unit values*[c]
Countries with improving current trade balances:			
Austria	1	−51	52
Denmark	77	33	44
Germany, western	250	−82	332
Japan[d]	122	−18	140
Netherlands	514	472	42
Switzerland	118	92	26
United Kingdom	758	392	366
United States[e]	199	−211	410
All OEEC countries	1,058	−83	1,141
Countries with deteriorating current trade balances:			
Belgium-Luxembourg	−26	−120	94
France	−298	−672	374
Italy	−318	−304	−14
Norway	−7	5	−12
Sweden	−49	−52	3
Turkey	−93	−90	−3

Source: United Nations Department of Economic Affairs.

[a] Current merchandise trade balance of each country in the first nine months of 1952 less the balance for the corresponding period of 1951. Exports valued f.o.b. and imports c.i.f., except f.o.b. for the United States.

[b] Merchandise trade balance for the first nine months of 1952 revalued at prices in the corresponding period of 1951, less current trade balance for the first nine months of 1951.

[c] Figures show the net effect on trade balances of changes in the terms of trade and in the general level of prices; obtained as a residual of the first and second columns.

[d] Excluding special procurement by the United States armed forces and Mutual Security Administration (formerly Economic Cooperation Administration), not included in the foreign trade statistics.

[e] Excluding exports under the Mutual Security Program.

[50] There was a substantial repatriation of capital, following the capital flight of the end of 1951. Some of the capital inflow was due to the reduction by the French Government of balances held by French banks in countries in the European Payments Union.

[51] See table 45.

[52] The attribution of components in the changes in trade balances indicated in table 57 is to some extent arbitrary, but suffices to indicate the nature and order of magnitude of the factors involved.

effect of changes in prices in Norway. In France the significant deterioration in the real balance of trade was due in part to the fact that income and production were continuing to rise, in part to heavy imports early in 1952 in anticipation of the restrictions imposed in February and March, and to the effect on exports of sterling area import restrictions and the rise in export prices.

The situation in the United Kingdom and the sterling area

The improvement in the United Kingdom balance of payments from 1951 to the first half of 1952 was almost as great as the deterioration had been from 1950 to 1951. A decline in imports together with a rise in exports brought the trade balance back to the level of 1950, as shown in table 58, notwithstand-

Table 58. United Kingdom: Balance of Payments, 1950 to 1952
(Millions of pounds sterling)

Item	*1950 Full year*	*1951 Full year*	*1951 First half*	*1951 Second half*	*1952 First half*
Imports, f.o.b.	−2,372	−3,494	−1,646	−1,848	−1,600
Exports and re-exports, f.o.b.	2,226	2,715	1,310	1,405	1,516
TRADE BALANCE	−146	−779	−336	−443	−84
Shipping (net)	120	120	80	40	49
Interest, profits and dividends (net)[a]	126	98	80	18	45
Other services[b]	190	106	115	−19	31
BALANCE ON GOODS, SERVICES AND PRIVATE DONATIONS	290	−455	−61	−394	41
Sales and redemption of non-sterling investments	64	36	17	19	16
Other private capital movements[c]	−57	−285	−155	−130	−24
Repayment of United States and Canadian loans	−37	−51	−14	−37	−3
Other special official financing[d]	−5	−1	−3	2	−13
TOTAL, SURPLUS, OR DEFICIT (−)	255	−756	−216	−540	17
Compensatory official financing:[e]					
Changes in sterling balances:					
Sterling area countries	384	63	371	−308	−231
Non-sterling area countries[f]	−104	36	53	−17	−154
European Recovery Program and defence aid grants, less United States share of counterpart[g]	239	72	44	28	60
United States and Canadian loans	20	5	5	—	17
Drawing rights and EPU credit, or debit (−)	−176	246	−34	280	61
Other loans (net)	−14	−37	−32	−5	−4
Use of International Monetary Fund resources (net)	—	−10	−10	—	—
Changes in reserves:					
Gold and dollars	−576	344	−203	547	232
Other currencies	−28	37	22	15	2

Source: International Monetary Fund, *International Financial Statistics*, November 1952, page iii; United Kingdom, *Balance of Payments, 1949 to 1952*, Cmd 8666 (London).

[a] Excluding overseas earnings of United Kingdom insurance, shipping and oil companies.

[b] Including overseas transactions of British oil companies (other than capital expenditure), insurance and civil aviation earnings, private donations and non-monetary gold movement. Excluding relief and rehabilitation and colonial grants.

[c] Including errors and omissions; these indicated in 1950 an inflow of about £100 million from the dollar area and a small outward movement to other areas; in 1951 an outflow to OEEC countries with a small inward movement from the dollar area; and in the first half of 1952 an inflow approaching £100 million.

[d] Including relief and rehabilitation and colonial grants.

[e] The concept of compensatory official financing is discussed in International Monetary Fund, *Balance of Payments Yearbook, 1938, 1946, 1947*.

[f] Excluding liabilities to the dollar area and movements due to the revaluation of United Kingdom liabilities to certain countries since 18 September 1949.

[g] Including net receipts of £14 million in the second half of 1951 and £3 million in the first half of 1952 under the "Katz-Gaitskell agreement", for the reimbursement of United Kingdom gold and dollar payments to the European Payments Union arising from the use of sterling balances by net debtors to EPU (see Cmd 8020).

ing the rise in prices since that year.[53] In addition, the cessation, or even reversal, of speculative outflows of private capital brought considerable relief to the capital account.[54]

Notwithstanding the over-all surplus of the United Kingdom in the first half of 1952 and the receipt of substantial defence aid from the United States, it continued to be necessary to draw upon gold and dollar reserves as well as upon the line of credit from the European Payments Union. For although the United Kingdom export balances with the rest of the sterling area and with South America in the first half of 1952 more than offset the deficits incurred with other areas, the former surpluses were financed mainly through reductions in sterling liabilities rather than by receipts of convertible exchange, since many countries in the oversea sterling area and in South America were themselves in deficit with the dollar area or with the EPU area, or both.

The difficulty of adjustment in the United Kingdom was enhanced by the fact that exports, as well as imports, tended to fall after the beginning of 1952. In addition, though there was some improvement in the service account, compared with the second half of 1951,[55] the balance of services was still much less favourable than in the first half of 1951, owing not only to loss of revenues from the sale of Iranian oil but also to the decline in returns on oversea investments on account of the drop in sterling area raw material prices. The shipping account, moreover, continued to reflect relatively high imports of such commodities as grain and timber, a considerable part of which was carried in foreign vessels.

The improvement in the dollar balance of the United Kingdom in the first half of 1952 was much less than in the over-all balance, as shown in table 59. Although imports from the dollar area were lower than in the latter half of 1951, they were still considerably higher than in the first half of that year. Exports, including special sales of rubber, tin and lead to the United States early in 1952, valued at \$35 million, rose less than imports between the first half of 1951 and of 1952. On capital account, private owners of sterling in North America continued to convert their holdings into dollars. On the other hand, the sharp decline in the net outflow of private capital from the second half of 1951 to the first half of 1952 may reflect the fact that delays in repatriating dollar proceeds and the acceleration of payments for dollar imports which had occurred in the second half of 1951 were coming to an end.

The improvement in the dollar balance of the oversea sterling area was relatively small. Imports remained at the relatively high level of the second half of 1951, while the recovery in the value of exports was limited, owing in part to a fall in the prices of sterling area raw materials. An increase in gold sales to the United Kingdom, particularly by the Union of South Africa, which made a special sale of \$28 million in March 1952, contributed some two-fifths of the total improvement in the dollar balance of the oversea sterling area from the second half of 1951 to the first half of 1952. The restrictions on imports of dollar goods imposed by independent members of the sterling area early in 1952 had taken only partial effect by the middle of the year, so that the dollar deficit of these countries taken together was slightly higher in the first half of 1952 than in the previous half-year.

Although the sterling area deficit with the European Payments Union in the first half of 1952 was much less than one-half of the corresponding deficit in the second half of 1951, the gold payments falling due increased. This was a result of the fact that as the sterling area progressively used up its quota in the European Payments Union, increasing proportions of gold payments and decreasing proportions of credit were required to finance additional deficits. By May 1952 the sterling area had passed the limit of its quota and was paying fully in gold in respect of all additional deficits with EPU countries. This deterioration was offset only in part by an improvement in the balance of gold and dollar transactions with other non-dollar, non-sterling countries.

While the net gold and dollar deficit of the sterling area was still at an annual rate of over \$1,700 mil-

[53] The reduction in the deficit on merchandise trade between the first half of 1951 and of 1952, according to the balance of payments data contained in table 58, amounted to £252 million. On the other hand, the reduction in the merchandise deficit as recorded in United Kingdom, *Trade and Navigation Accounts* (London), was only £76 million. Part of this difference is probably accounted for by the fact that imports are recorded c.i.f. in the trade returns and f.o.b. in the balance of payments. Thus while, according to the balance of payments, imports declined slightly, from £1,646 million in the first half of 1951 to £1,600 million in the first half of 1952, outpayments on shipping account increased from £130 million to £182 million. Most of the remaining discrepancy is probably accounted for by differences in timing. United Kingdom balance of payments transactions are recorded at the time of a change in ownership of goods. For a large proportion of imports this occurs in the country of origin, either before or at shipment. For United Kingdom exports, on the other hand, the transfer of ownership is assumed to take place on or after arrival in foreign ports. In the trade returns, however, exports and imports are recorded approximately at the time of departure or arrival, respectively, of the goods concerned. These differences in timing are of considerable importance in a period of rising or falling trade. For example, in the first half of 1952, when exports and imports were tending to fall, exports were substantially higher in the balance of payments data than in the trade returns, and imports lower.

[54] See footnote c to table 58.

[55] Part of this improvement reflected the fact that the service of the Canadian and United States loans of 1946 fell due at the end of the year.

Table 59. United Kingdom: Balance of Payments with the Dollar Area, 1950 to 1952
(Millions of United States dollars)

Item	1950 Full year	1951 Full year	1951 First half	1951 Second half	1952 First half
Imports, f.o.b.	−1,203	−2,046	−851	−1,195	−998
Exports and re-exports, f.o.b.	865	1,068	526	542	541
TRADE BALANCE	−338	−978	−325	−653	−457
Shipping (net)	28	−7	13	−20	1
Interest, profits and dividends (net)	37	−71	30	−101	20
Other (including private donations, net)	−22	−236	−33	−203	−146
BALANCE ON GOODS, SERVICES AND PRIVATE DONATIONS	−295	−1,292	−315	−977	−582
Sales and redemption of investments	67	47	30	17	33
Other private capital movements	458	−137	57	−194	−5
Repayment of United States and Canadian loans	−103	−143	−41	−102	−8
TOTAL, SURPLUS, OR DEFICIT (−)	127	−1,525	−269	−1,256	−562
Compensatory official financing:[a]					
Multilateral settlements in gold and dollars:[b]					
With sterling area countries	763	501	566	−65	32
With other non-dollar countries	−3	−158	135	−293	−336
Other:					
ERP and defence aid grants, less United States share of counterpart	670	203	122	81	168
United States credits	10	14	14	—	48
Canadian credit	45	—	—	—	—
Change in gold and dollar reserves	−1,612	965	−568	1,533	650

Source: International Monetary Fund, *International Financial Statistics*, November 1952, page iii; United Kingdom, *Balance of Payments, 1949 to 1952*, Cmd 8666.

[a] The concept of compensatory official financing is discussed in International Monetary Fund, *Balance of Payments Yearbook, 1938, 1946, 1947*.

[b] Figures for gold transactions are not available separately. The movement in reserves has been attributed to the dollar area, and other transactions have been included with multilateral settlements in dollars.

lion[56] in the first half of 1952 as a whole, there was an improvement in the situation from the first to the second quarter of 1952. In the first quarter there had not yet been time for the import restrictions imposed at the end of 1951 and the beginning of 1952 to take effect. In the second quarter, however, imports fell sharply. United States exports of non-military goods and services to the sterling area as a whole (including the Union of South Africa) declined from $938 million in the first quarter to $669 million in the second quarter, the decreases affecting particularly the United Kingdom and the independent members of the sterling area. Thus in the second quarter the United Kingdom, as well as the dependent territories, was actually in surplus with the United States on current transactions in goods and services, excluding military aid, while the deficit of other sterling area countries had been very substantially reduced. Even without taking into account defence aid received in the second quarter, the sterling area as a whole was in surplus with the United States. The residual dollar deficit remained, not with the dollar area, but with the European Payments Union area. It was in these circumstances that, in August 1952, the United Kingdom instituted, for a brief period, a system whereby raw materials might be imported for dollars from the dollar area and resold to western Europe for sterling. The scheme was of short duration, since there could be a net dollar gain to the United Kingdom only so long as monthly deficits and surpluses with the European Payments Union had to be settled fully in gold. It was evident, however, in view of the import restrictions against western European goods previously imposed by the United Kingdom and oversea members of the sterling area, that the cumulative deficit with the European Payments Union would be reduced below the point

[56] Excluding United Kingdom net receipts from the United States in connexion with defence aid (grants and loans).

at which a hundred per cent settlement in gold was required. By September 1952 the United Kingdom gained its first surpluses in the European Payments Union since May 1951; and in the second half of 1952, the dollar accounts of the sterling area as a whole showed a deficit of only $53 million, taking into account the service of $181 million on the Canadian and United States loans of 1946, but not including as a receipt United States net economic aid, which amounted to $214 million[57] in that period.

Geographical distribution of the external balance of continental western Europe and Japan

The aggregate current deficit of continental western Europe[58] with the rest of the world was reduced from nearly $900 million in the first half of 1951 to only $50 million in the second half of that year and to $100 million in the first half of 1952. In the second half of 1951 an increase in the deficit with the dollar area was accompanied by a movement from deficit to surplus in transactions with the sterling area. In the first half of 1952, these trends were reversed—both the deficit with the dollar area and the surplus with the sterling area were reduced. In addition, surpluses with the oversea franc area and with South America increased considerably.

[57] Including net receipts of $38 million under the Katz-Gaitskell agreement. See footnote *g* to table 58.

[58] Continental OEEC countries, excluding Switzerland.

While the balance of trade of continental OEEC countries and their dependencies with the United States and the United Kingdom deteriorated from the first half of 1951 to the first half of 1952, as shown in table 60, there were offsetting improvements in the service accounts. With respect to the United States there were significant increases in net receipts on travel account and from expenditures by United States armed forces in western Europe, more than

Table 60. Balance of Payments[a] of Continental Western Europe[b] with the United States and the United Kingdom, 1951 and 1952

(Millions of United States dollars)

Item	1951 First half		1951 Second half		1952 First half	
	United States	United Kingdom	United States	United Kingdom	United States	United Kingdom
Imports, f.o.b.	−1,625	−1,022	−1,631	−946	−1,662	−1,025
Exports, f.o.b.	983	1,218	865	1,372	939	1,173
TRADE BALANCE	−642	196	−766	426	−723	148
Transport (net)	−104	—	−199	87	−124	87
Income on investments (net)	−7	22	−5	25	−1	34
Travel (net)	41	42	79	67	65	17
Other services (net)[c]	17	−193	100	−154	130	−98
Private donations (net)	71	6	74	3	66	3
BALANCE ON GOODS, SERVICES AND PRIVATE DONATIONS	−624	73	−717	454	−587	191
Private capital movements (net)[d]	2	90	26	98	10	−56
Government loans and repayment (net)	20	−17	−74	−48	110	−14
TOTAL, SURPLUS, OR DEFICIT (−)	−602	146	−765	504	−467	121
Compensatory official financing:[e]						
United States grants and EPU debits, or credits (−)	1,030	95	816	−784	540	−171
Other loans (net)	—	62	—	—	—	—
Change in gold and dollar assets, increase (−)	−200	104	−132	−199	−118	−350
Change in sterling assets, etc., increase (−)[f]	—	−140	—	−6	—	157
Multilateral settlements[d]	−228	−266	81	484	45	244

Source: United States Department of Commerce, *Balance of Payments of the United States, 1949-1951* and *Survey of Current Business*, December 1952; United Kingdom, *Balance of Payments, 1949 to 1952*, Cmd 8666.

[a] Excluding imports of military goods and services under the Mutual Defence Assistance Programme.

[b] Including dependencies of continental western European countries.

[c] Including, in the balance with the United Kingdom, transactions with oil companies.

[d] Errors and omissions are included with "multilateral settlements" in the balance with the United States and with "private capital movements (net)" in the balance with the United Kingdom.

[e] See footnote *e*, table 58.

[f] Including changes in United Kingdom official holdings of OEEC currencies.

offsetting the adverse movements both on merchandise trade and on account of transport—the latter resulting largely from the higher imports of coal in the first half of 1952. In relation to the United Kingdom, the main factors in the changes in service transactions were the higher receipts from shipping and the reduced payments to British oil companies.

On capital account, there was an increase in government loans from the United States, partly offsetting the reduction in grants-in-aid, and a reversal of the inflow of speculative capital from the United Kingdom which had occurred in 1951, as noted earlier.

Notwithstanding a considerable reduction in United States economic grants, the amount of that aid was more than sufficient, in the first half of 1952 as in 1951, to finance the deficit of continental western Europe with the United States—as well as to permit some additions to gold and dollar reserves. Moreover, as already noted, substantial additions to gold reserves resulted from EPU settlements with the sterling area in the first half of 1952, compared with the net outflow of gold which had occurred in the first half of 1951 when continental western Europe had been in deficit with the sterling area as a whole.

There were wide fluctuations in the balance with the oversea sterling area. In the first half of 1951 continental OEEC countries and their dependencies were in deficit with the oversea sterling area in the amount of $336 million, reflecting a relatively high level of imports of sterling area primary commodities at the peak prices of the raw material boom. In the second half of 1951 there was a decline in the rate of inventory accumulation in most continental western European countries other than France, while the prices of imported raw materials from the sterling area fell. At the same time western Europe increased its exports to oversea sterling area countries whose income and foreign exchange resources had risen during the raw material boom. As a result, the deficit of the first half of 1951 was replaced by a surplus of $246 million in the second half. By the first half of 1952, however, the peak of demand for imports in the oversea sterling area was likewise passed, and in addition several countries in that area imposed import restrictions. The surplus with the oversea sterling area was thus reduced to $50 million in the first half of 1952.

In the third quarter of 1952, a reduction in imports from the United States, including particularly a more than seasonal drop in imports of agricultural products, enabled continental western Europe to eliminate its deficit with the United States on current transactions in goods and services, excluding military aid. Consequently, continental western Europe was able to add the entire amount of economic aid from the United States to its gold and dollar reserves, which increased, as a result of transactions with the United States, by $390 million in the third quarter of 1952 alone.[59] Continental western Europe continued, in that quarter, to receive gold settlements from the sterling area in respect of its EPU deficits, while substantial dollar payments were accruing to the Netherlands in settlement of surpluses with Indonesia.

By the last quarter of 1952, however, continental western Europe was beginning to repay to the sterling area part of the gold and dollars previously earned from surpluses with that area. The re-emergence of a deficit with the sterling area was the result not only of the sterling area import restrictions but also of purchases of dollar commodities from the United Kingdom under the scheme referred to earlier in connexion with the analysis of the United Kingdom balance of payments.

There were two further developments of some significance in the oversea balance of payments of western Europe in 1952. In the first place, there was a continued increase in the surplus of France with its oversea territories simultaneously with a deterioration in the French balance with other areas. A sharp increase in the trade surplus with the oversea territories, resulting from large-scale French investment in the French Union, was partly offset by a rise in the deficit on invisible transactions owing to increased expenditure under the metropolitan budget for salaries, purchase of equipment and military aid to Indochina in 1952. Thus the current surplus of metropolitan France with the oversea territories rose from $125 million in 1950 to $237 million in 1951 and was expected to reach over $400 million in 1952.[60]

There was, secondly, a substantial accumulation of commercial arrears to western Europe in 1952 by certain South American countries, especially Argentina and Brazil, owing to a larger decline in imports into western Europe than in western Europe's exports. The fall in imports resulted partly from supply difficulties, notably in Argentina, and partly from the relatively high prices of certain South American products. Several countries reacted to this situation by restricting exports, or export credits, to certain South American countries.

In Sweden, where substantial non-liquid claims had accumulated against Argentina, it was decided to institute, as from October 1951, a system whereby licences for exports of goods to Argentina were granted by the Swedish Trade Commission only on

[59] Excluding the increase of about $100 million in dollar assets of the Bank for International Settlements and the European Payments Union.

[60] Organisation for European Economic Co-operation, *Europe —the Way Ahead*, December 1952, page 252.

condition that 10 per cent of the f.o.b. export value should be paid to the Commission. These receipts were used to subsidize purchases of high-priced goods from Argentina. In addition, it was reported in 1952 that certain triangular arrangements had been completed on the basis of private contracts, providing for the re-export by Swedish exporters of Argentine commodities. In the case of western Germany, where the rise in claims against Brazil was particularly sharp, a system was introduced whereby exporters were allowed to sell cruzeiros at a discount on the free market[61] to importers who were thereby enabled to purchase goods in Brazil at a lower price in German marks than had obtained previously. As a result of difficulties of this type, the value of western Europe's trade with South America was reduced by the third quarter of 1952 to only three-fifths of the level of a year earlier.

The external balance of Japan appears to have improved in the first nine months of 1952, as a whole, owing to a fall in the value of imports. However, there was a considerable deterioration in its position in the third quarter, largely as a result of restrictions on Japanese exports to the sterling area, designed to limit the rise in non-convertible holdings of sterling, and of import restrictions applied by the sterling area and other countries.

Thus the surplus with the sterling area, which had been a leading feature of the Japanese balance in 1951, disappeared, and Japanese sterling balances began to decline. In October 1952, Japanese restrictions on shipments to the sterling area were removed. Special purchases by the United States in connexion with Korean hostilities continued, however, to maintain the dollar surplus of Japan, and dollar reserves rose substantially during the first three quarters of 1952.

It has been noted above that improvements in the over-all balance of payments on current account in 1951 or the first half of 1952 were associated in a number of countries with disinflationary policies adopted by certain governments. This was not the case, however, with respect to the dollar balance of trade, which deteriorated significantly in the first half of 1952 in most western European countries. On the whole, the increased imbalance in western Europe's trade with the United States in the first half of 1952, compared with the corresponding period of 1951, cannot be ascribed to changes in over-all demand pressures in western Europe, since these pressures were, in general, reduced in 1952 compared with 1951, while economic activity in the United States rose, and unemployment in that country was reduced to unusually small proportions.

Thus, for example, as indicated in table 61, the United Kingdom was among the countries[62] reporting the largest increases in the value of exports to the United States in the first half of 1952 while the exports of Belgium-Luxembourg—where unemployment was much higher than in the United Kingdom—declined sharply.[63] In general, the countries whose exports to the United States either did not increase or actually declined between the first half of 1951 and of 1952 were those affected by a slackening in United States demand for particular commodities—such as wood-pulp (Norway and Sweden), steel (Belgium-Luxembourg, France and western Germany) and alcohol (France)—rather than those experiencing the greatest pressure of domestic demand upon available resources.

[61] The Bank Deutscher Länder decided to convert only 20 per cent of the amount payable to German exporters at the official rate of exchange in the case of new contracts concluded with Brazil after 4 September 1952, and 50 per cent in the case of earlier contracts, the remainder being credited to a special account, convertible only at free market rates.

[62] The very large percentage increase in Danish exports corresponds to a rise in value of less than $4 million, consisting largely of meat and fish products. Denmark was the only country listed in table 61 showing a higher ratio of exports to imports in trade with the United States in the first half of 1952 than in the first half of 1951. It should be noted, however, that even in the first half of 1952 this ratio was 27.9 per cent for Denmark compared with 35.6 per cent for all OEEC countries taken together.

[63] The contrast between developments in the exports of Belgium-Luxembourg and of the United Kingdom to the United States is accounted for only in part by special sales of rubber and tin by the United Kingdom. Excluding these sales, United Kingdom exports to the United States rose approximately 4 per cent from the first half of 1951 to the first half of 1952.

Table 61. Changes in Trade of Western Europe with the United States, 1951 to 1952

(Percentage change from 1951)[a]

Country[b]	*Exports to the United States*	*Imports from the United States*
	(Percentage increase, or decrease (-) in value)	
Denmark	44	1
Netherlands	19	22
United Kingdom	17	29
Italy	16	47
Austria	7	6
Switzerland	3	−3
Germany, western	—	16
Norway	−12	10
Sweden	−26	15
Belgium-Luxembourg	−28	11
France	−38	26

Source: United Nations, *Direction of International Trade*, Statistical Papers series T, vol. III, No. 5/6, October 1952.

[a] From the first half of 1951 to the first half of 1952.

[b] In descending order of the percentage increase in the value of exports.

With respect to imports from the United States, likewise, it will be seen that some of the countries which had the largest increases were countries whose exports to the United States rose most. Here again the rise in the dollar imports of individual countries reflected not so much the extent of over-all domestic demand pressures but rather certain special factors affecting the demand for particular commodities. Thus certain of the important textile producing countries (Belgium-Luxembourg, Italy and the United Kingdom) increased their imports of raw cotton compared with the first half of 1951 when there had been export restrictions in force for raw cotton in the United States. France increased its imports of grain from the United States as a result of the relatively poor harvest in 1951. Coal shipments by the United States to several countries, notably Denmark, France, western Germany and Sweden, were also higher in the first half of 1952 than in the corresponding period of 1951, owing to shortages in western Europe created by the greater rise in industrial activity than in coal production in 1951.[64] Finally, part of the rise in United Kingdom imports reflected special deliveries of steel from the United States, designed to relieve the steel shortage referred to earlier. These developments serve to emphasize the specialized character of trade between the United States and western Europe, and also appear to suggest that the dollar balance of trade of western Europe may not be as sensitive as the over-all balance to changes in the level of aggregate internal demand.

[64] United States coal shipments to western Europe fell significantly in the second half of 1952.

Chapter 5

INTERNATIONAL TRADE AND PAYMENTS OF PRIMARY PRODUCING COUNTRIES

Primary producing countries[1] experienced a number of difficulties after mid-1951 resulting from the fact that their export earnings levelled off at a time when they were importing increased quantities of goods at rising prices. The reduction in their average level of export earnings in 1951/52[2] as compared with the previous twelve months was due to the slackening of inventory accumulation and of certain branches of manufacturing activity in industrialized countries. Initially, the decline in the quantum of exports was even larger than that in unit values. Since the fourth quarter of 1951, however, the quantum has moved steadily upwards, and decreases in earnings have been attributable to the downward movement in unit export values which has been in progress in most countries of the group. Not all primary commodities suffered from the drop in demand in 1951/52; whereas export earnings derived from commodities such as cotton, wool and rubber fell, receipts from the export of other raw materials and most food products were maintained or increased during the year. The declining trend in export receipts of primary producers continued into the latter part of 1952.

Although total export earnings of primary producing countries in 1950/51 were in money value only 3 per cent less than in the preceding year, in terms of purchasing power over imports they were some 14 per cent lower. In spite of this, the value and quantum of these countries' imports, which had begun to rise in the second half of 1950, continued to increase throughout 1951 and the first quarter of 1952. The expansion was halted in the second quarter of the year, and in the third quarter a substantial contraction occurred. For the twelve months from mid-1951 the value of imports was 24 per cent larger than in the preceding year; higher import prices and an expansion in the quantum contributed in nearly equal measure to this increase.

Imports of non-food consumer goods, especially of textiles, rising sharply in 1950/51, levelled off late in 1951 and declined in 1952. Capital goods imports, on the other hand, rose continuously from mid-1950 and attained a record level in 1951/52.

Rising payments for imports in the face of declining export earnings resulted in a shift in the over-all trade balance of primary producing countries, from a surplus of \$2,900 million in 1950/51 to a deficit of \$4,800 million in 1951/52. This deterioration in the trade balance was greatest for a number of countries in the oversea sterling area and in Latin America. In contrast, the trade balance of Canada improved significantly.

The change in the trade balance of the group of primary producing countries, excluding Canada, was accompanied by only a slight increase in inflow of foreign capital. There was accordingly a shift from an accumulation of gold and foreign exchange assets in 1950/51 to a decrease in such assets in 1951/52. The increase in import prices which occurred in the meantime reduced the purchasing power of such holdings as of mid-1952 to well below the level of June 1950.

Fluctuations in Export Earnings

In 1951/52, total export earnings of primary producing countries were 3 per cent below the high level of the preceding year, when the dollar value had been 42 per cent above the annual rate of the first half of 1950. The purchasing power of these earnings, however, was substantially reduced by the upward trend in import prices. More significant than the slight decline in average level was the change in the trend of export earnings. In 1950/51, as shown in table 62, the trend of export earnings had been upward; earnings reached a peak in the second quarter of 1951. In 1951/52, after an initial decline from this peak level of about 13 per cent, the trend in earnings, although somewhat irregular, was moderately downward.

[1] Including countries of Asia (except Japan and mainland China), Africa, Latin America and Oceania; and Canada, Finland, Spain and Yugoslavia.

[2] Throughout this chapter, unless otherwise stated, 1950/51 and 1951/52 refer to the twelve-month periods beginning in July.

Table 62. Indices of Current Value, Quantum and Unit Value of Exports of Primary Producing Countries,[a] 1950 to 1952

(First half of 1950=100)

Period	Current value[b]	Quantum	Unit value[b]
1950 Third quarter	118	106	111
1950 Fourth quarter	139	115	120
1951 First quarter	154	113	136
1951 Second quarter	158	114	139
1951 Third quarter	137	102	134
1951 Fourth quarter	142	104	137
1952 First quarter	139	107	130
1952 Second quarter	132	109	121
1952 Third quarter	129		
Index, 1951/52 (1950/51=100)	97	94	103

Source: United Nations Department of Economic Affairs; estimates based on national trade statistics.

[a] Including countries of Asia (except Japan and mainland China), Africa, Latin America and Oceania; and Canada, Finland, Spain and Yugoslavia.

[b] Valued in United States dollars.

Immediately following the outbreak of hostilities in Korea there had been a widespread increase in the demand of industrialized countries for primary commodities. Expectations of impending shortages led manufacturers to attempt to lay in stocks of key raw materials and stimulated consumers to purchase durable goods in excess of current requirements. There was speculation on the part of those expecting eventual price rises while at the same time requirements for strategic stockpiles were increased. These factors, together with an increase in demand for food associated with the higher world level of income, accounted for a 40 per cent rise in the total value of exports of primary producers compared to a rise of 30 per cent in exports of industrialized countries. In 1951/52, while exports of industrialized countries increased by another 20 per cent, as shown in table 63, exports from primary producers declined slightly. The import demand for raw materials, which form the major part of the exports of primary producers, fell despite the fact that the world level of industrial production was above that of the preceding year. This reduced demand probably represented a reaction to some of the overbuying of raw materials during the preceding year, and also reflected the decline in textile production in industrialized countries. However, in view of the high levels of income in industrialized countries, imports of food products from primary producers were maintained and in some cases increased.

The changing character of world demand affected individual exporting countries differently. In 1950/51 almost all primary producers experienced an upward trend in their export earnings, but the rate of increase varied widely from country to country. This was due principally to the uneven rise in the prices of individual commodities during the boom period subsequent to mid-1950. In 1951/52, while a large number of countries continued to record higher export earnings, another large group had reduced earnings from exports. The countries most adversely affected included those which had experienced the largest increase in export earnings in the previous year. In contrast, countries with higher earnings in 1951/52 included those with the most modest increases in 1950/51. These movements reflected in part the above-mentioned differing trends in food exports and non-food exports.

The 3 per cent decline in the dollar value of exports of primary producers resulted from a rise in average

Table 63. Direction of Exports of Primary Producing Countries and Industrialized Countries,[a] 1950 to 1952

(Thousand millions of United States dollars)

Exports to	Exports from: Primary producing countries	Exports from: Industrialized countries	Total
Primary producing countries:			
1950 First half	2.64	6.95	9.59
1950 Second half	3.56	7.96	11.52
1951 First half	4.03	9.97	14.00
1951 Second half	4.13	11.45	15.58
1952 First half	3.65	11.20	14.85
Index, 1951/52 (1950/51=100)	102	126	119
Industrialized countries:			
1950 First half	7.44	6.68	14.12
1950 Second half	9.21	7.78	16.99
1951 First half	11.66	9.64	21.30
1951 Second half	10.07	10.13	20.20
1952 First half	10.25	9.82	20.07
Index, 1951/52 (1950/51=100)	97	115	105
TOTAL:			
1950 First half	10.08	13.63	23.71
1950 Second half	12.77	15.74	28.51
1951 First half	15.69	19.61	35.30
1951 Second half	14.20	21.58	35.78
1952 First half	13.90	21.02	34.92
Index, 1951/52 (1950/51=100)	99	121	111

Source: United Nations Department of Economic Affairs; estimates based on national trade statistics. The data in this table do not correspond exactly with those in tables 62 and 65 since the values in this table exclude trade with eastern Europe and mainland China as well as the trade of a number of countries the geographic destination of whose exports is not known. They do not correspond with data in table 73 because of differences in country coverage.

[a] For primary producing countries included see footnote *a* to table 62. Industrialized countries include the United States, OEEC countries and Japan.

unit values of 3 per cent and a drop in the quantum of exports of 6 per cent. The movements during the year which gave rise to these changes in price and quantum were quite dissimilar. The initial decline in the value of exports in 1951/52 had resulted more from a drop in quantum than in unit values. Thereafter, there was a steady recovery in the quantum of exports towards the peak levels attained in the second quarter of 1951. The trend in unit values during the greater part of 1951/52 was, on the other hand, downward, unit values in the second quarter of 1952 being 13 per cent below the peak levels which had prevailed twelve months earlier.

This movement in unit values reflected, with a time lag, the pronounced changes in the prices of a number of primary commodities in international markets. In the second and third quarters of 1951 there was a sharp fall, from a level about twice that prevailing immediately before the outbreak of hostilities in Korea, in price quotations for a number of industrial materials including, as shown in table 64, textile fibres, rubber, tin and copra. These commodities showed the greatest amplitude of fluctuation, both in the upturn of prices following mid-1950, and in the subsequent downturn. The decline in the prices of these commodities as well as in those of lead, zinc and sisal, which began somewhat later, was continuous into the third quarter of 1952, except for a brief rally at the end of 1951. The prices of copper, aluminium and petroleum, which had risen more moderately after mid-1950, remained stable or increased only slightly during 1951/52. Food prices moved more steadily than those of most indus-

Table 64. Indices of Prices of Selected Foods and Raw Materials in Principal Markets, 1950 to 1952

(Based on prices in national currencies)

Commodity and country	1950 Second half	1951 First half	1951 Second half	1952 First half	1952 Third quarter	1952 First half (First half of 1951 = 100)
	(First half of 1950 = 100)					
Food items.						
Butter (New Zealand)	106	108	114	116	121	108
Cocoa (United States)	143	144	125	140	135	97
Coffee (United States)	113	114	113	113	114	99
Copra (Philippines)	105	121	85	63	62	52
Rice (Burma)	100	100	111	127	134	127
Sugar (United States)	105	106	108	108	112	101
Tea (Ceylon)	112	115	93	85	94	74
Wheat (Australia)	98	100	105	114	114	114
Wheat (United States)	99	107	108	109	102	102
Non-food items:						
Fibres:						
Cotton (Brazil)	166	212	167	155	157	73
Cotton (Egypt)	112	141	113	89	78	63
Jute (India)	100	192	157	112	71	58
Sisal (British East Africa)	121	185	175	151	87	82
Wool (Australia)	171	212	106	91		43
Other commodities.						
Aluminium (United States)	107	111	111	111	115	100
Copper (United Kingdom)	121	131	141	146	175	111
Copper (United States)	122	126	126	126	126	100
Lead (United Kingdom)	130	160	192	167	142	105
Lead (United States)	131	148	156	154	139	104
Linseed oil (United Kingdom)	104	123	139	144	141	117
Newsprint (United States)	102	106	114	117	121	110
Rubber (Malaya)	237	299	230	171	130	57
Tin (Malaya)	149	206	152	164	164	79
Zinc (United Kingdom)	147	161	196	185	129	115
Zinc (United States)	145	153	162	166	129	108

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

trial materials, rising by about 10 per cent both in 1950/51 and in 1951/52. As can be seen from chart 1 in the Introduction, by mid-1952 the relationship of food prices to raw material prices was approaching that which had prevailed in the first half of 1950.

The extent to which exports remained steady or fluctuated was affected not only by the degree of change in production and demand but also by the operation of a number of institutional factors, sometimes affecting particular countries, at other times specific commodities. In some cases prices were kept low through controls imposed by importing countries, and in other cases prices remained above the levels of comparable products because of price support programmes maintained by exporting countries. In still other instances, prices failed to reflect changed market conditions because of the operation of various commodity agreements or trade agreements.

By the first quarter of 1952, the loss in export incomes led a number of governments of primary producing countries to take measures to promote exports and to stabilize incomes of exporters. These measures included reduction of export duties, some relaxation of quantitative controls, negotiation of barter agreements, and currency devaluation. Argentina, Brazil, Ceylon, Egypt, Finland, India, Indonesia, Mexico, Pakistan and Uruguay reduced or abolished export duties on specific commodities, such as oils and oil-seeds, rubber, cotton, wool and jute. Most of the duties reduced had been imposed a year earlier as a counter-inflationary measure; in some cases the proceeds had been channelled to development projects. Reduction in export duties was more common than relaxation of quantitative controls; in some cases, quantitative restrictions were imposed on exports in order to conserve domestic supplies of specific goods, often food products, or to serve strategic interests. Other means of stimulating exports included negotiation by Brazil and Egypt of barter agreements with European countries and use of differential rates of exchange by Argentina and other countries. Also, some Latin American countries permitted the export against payment in "soft" currency of commodities which had previously been regarded as "dollar" commodities.

The effect of the above developments on the exports of various groups of countries is shown in table 65. A résumé of major commodity changes within each region follows.

Regional commodity trends[3]

In the more developed primary producing countries (table 66), export earnings in 1951/52 were affected in large measure by the markets for three commodities; demand for bread grains and for meat continued strong, while demand for wool was reduced in relation to the preceding year. The increased demand for wheat by importing countries stemmed from smaller harvests in 1951 in parts of India and of western Europe; the gross imports of the latter area rose from 12.5 million metric tons in 1950/51 to 14.2 million in 1951/52. Importers bought a larger proportion of their requirements from Canada since crops in the Southern Hemisphere were severely reduced; thus, whereas the quantum of Canadian wheat exports in 1951/52 was 53 per cent higher than

[3] For further discussion of trends in individual commodities, see *Review of International Commodity Problems, 1952* (United Nations publication: 1953.II.D.1).

Table 65. Indices of Current Value, Quantum and Unit Value of Exports of Primary Producing Countries, 1950 to 1952
(First half of 1950=100)

Area	*Current value*[a]				*Quantum*				*Unit value*[a]			
	1950 Second half	*1951 First half*	*1951 Second half*	*1952 First half*	*1950 Second half*	*1951 First half*	*1951 Second half*	*1952 First half*	*1950 Second half*	*1951 First half*	*1951 Second half*	*1952 First half*
Developed primary producing countries[b]	113	142	134	129	99	100	99	103	115	142	135	126
Less developed primary producing areas	136	163	142	139	118	120	105	111	115	135	135	126
Asia[c]	154	193	149	139	126	132	107	114	122	146	140	122
Latin America	132	142	145	140	117	115	116	114	113	123	125	123
Other	111	143	127	139	105	108	93	103	105	132	137	135
All primary producing countries	129	156	139	136	111	113	103	108	115	138	135	126

Source: United Nations Department of Economic Affairs; estimates based on national trade statistics.

[a] Based on United States dollar values.
[b] For list of countries included in this group see table 66.
[c] Including Middle Eastern countries of Asia.

Table 66. Indices of Current Value of Exports of Developed Primary Producing Countries, 1950 to 1952
(Values in United States dollars)

Country	Value[a] 1950 First half	Indices (first half of 1950 = 100) 1950 Second half	1951 First half	1951 Second half	1952 First half	1952 Third quarter[b]
Argentina[c]	600	83	113	84	58	53
Australia	797	109	167	89	99	84
Canada	1,316	121	127	159	162	168
Finland	141	152	200	377	235	250
New Zealand	302	69	122	107	127	96
Union of South Africa	260	172	193	176	181	161
Uruguay	102	149	158	73	68	118[d]

Source: Statistical Office of the United Nations.
[a] In millions of United States dollars.
[b] At semi-annual rate.
[c] International Monetary Fund, *International Financial Statistics*.
[d] Estimated from two-month figures.

in 1950/51, the quantum of Australian and Argentine exports was reduced to 77 per cent and 29 per cent, respectively, of the level of the preceding year. In the two latter countries, wheat production continued to be strongly affected by the reduced acreage sown to wheat, which was apparently associated with the relatively low cash prices received by farmers under the wheat price policies in effect in those two countries. Argentine production in 1951 was further hindered by poor weather. Illustrating the severity of the declines in output was the fact that Argentina, in 1952, arranged to import United States bread grains and that Australia had to reduce its quota of wheat to be exported under the International Wheat Agreement.

Exports of meat by Argentina and Australia were affected by unfavourable weather conditions, which reduced output in 1951. To increase its export surplus, Argentina imposed restrictions on domestic consumption, including the institution of a "meatless day" each week. Exports of Canadian livestock to the United States were cut as a result of the outbreak of foot and mouth disease early in 1952; increased shipments of beef to the United Kingdom were insufficient to offset this decline. Exports from the other major meat supplier—New Zealand—continued to increase. Two new agreements negotiated by the United Kingdom regarding future supplies permit price increases for Australian and New Zealand meat above the limits previously fixed in long-term contracts, and assure a market for New Zealand exports of meat for a number of years.

World demand for wool was sharply contracted in 1951/52. Consumption of raw wool in the major importing countries was well below the levels of 1950/51, especially so in the United States, the main wool importing country. Demand by Japan increased but did not significantly affect the general level of consumption. Production in 1951/52 was, however, approximately at the same level as in the preceding year; there was accordingly an accumulation of producers' stocks and a fall in world market prices of wool. The average price for the Australian clip in 1951/52 was one-half of the price in 1950/51. While the total quantum of wool exported by the developed primary producers was lower than in 1950/51, South Africa and New Zealand increased their exports—the latter reflecting, in part, shipments which had been delayed by labour difficulties in the preceding period. In contrast, exports by Argentina and Uruguay were severely reduced. In an endeavour to overcome the slump in the wool market, Uruguay first permitted clean wool to be exported against non-convertible currencies, and later greasy wool also. Previously, during the 1950/51 season, wool sales had been permitted only against dollar payments. These measures were followed by others, including the suspension of certain duties and taxes on wool exports. In Argentina, the prohibition of exports at prices below the peak levels of April 1951 constituted a hindrance to exports during most of the season. In the middle of 1952, Argentina decided to stimulate exports by what was in effect a devaluation of the rate of exchange for wool exports by some 20 per cent and by the withdrawal of an 8 per cent export tax. In the latter part of 1952 the quantum of wool exports by Argentina and Uruguay increased. At the same time there were indications of increased activity in major wool textile producing countries.

The reduction in the demand for wool and in supplies of grains and meat for export depressed export earnings of Australia and Argentina in 1951/52. The fall in the price of wool also reduced export earnings of Uruguay, but its effect on the Union of South Africa and New Zealand was overcome by increases in total exports of wool and of other commodities—diamonds in the former and meat and dairy products in the latter. The value of Canada's export earnings in 1951/52 was increased by 29 per cent, reflecting both larger grain exports and a substantial expansion in non-food exports. Its exports to the United Kingdom were significantly increased above the low levels of 1950, which had been affected by the 1949 devaluation of sterling and by United Kingdom import restrictions. In 1951/52, the United Kingdom increased its imports of Canadian timber and wood-pulp. The large increase in Canada's exports to Latin America was partly due to heavy sales of automobiles to that region during a period when Canadian demand for such products was limited by credit restrictions. There was little change in the total value of exports to the United States in 1951/52.

Asia accounted for the major part of the decline in total export earnings of primary producing countries in 1951/52. The dollar value of the region's exports in 1951/52 was 17 per cent lower than in the preceding year; this decline was primarily the result of a reduction in the quantum of exports, since the average unit values for the twelve months from mid-1951, when prices were falling sharply, were approximately the same as the average unit values for the preceding twelve months, when prices were soaring. Such increases in the dollar value of exports as did occur in 1951/52 were due principally to the rise in the value of food exports. However, for the region as a whole, the exports of non-food products such as fibres (cotton, jute and hard fibres) and their manufactures and other industrial raw materials (tin and rubber) predominated as compared with exports of foodstuffs (rice, oils and oil-seeds, and tea).

Rice was one of the few major Asian crops the demand for which increased in the twelve months ending June 1952. Most of the demand emanated from countries in Asia. While production in both exporting and importing areas in 1951 was little above the level of 1950, demand increased throughout the region. Larger import requirements by India stemmed in part from harvest failure; in the same period Japan entered as a buyer in the south-east Asian rice market on its largest scale in post-war years. The failure of the quantum of exports to increase reflected increasing consumption and stock accumulation in the exporting countries. The export price of rice rose during the year both for the major part of international trade, which is carried on at government fixed prices, and for the trade conducted on a private basis; the price rise of the latter was higher.

The dollar value of earnings from tea exports from Asia also increased in 1951/52. This increase reflected the higher unit values of tea exports for the year as a whole compared to 1950/51. The trend in unit values, which was upward until the early months of 1951 in Ceylon, and until late in the year in India, has since turned downward, mainly because of the increase in production in these countries and in Indonesia. The quantum of tea exports remained relatively stable in 1951/52; a reduction in United States imports, associated with a change from accumulation to liquidation of stocks, was largely offset by a rise in United Kingdom imports, partly in order to rebuild commercial stocks.

The acute world shortage of fats and oils was relieved in 1951/52 primarily by increased production levels both in Asian and in non-Asian countries. All the main Asian producers—the Philippines, Indonesia, Ceylon and Malaya—recorded increases in output of copra, the export of which provides the bulk of the area's export income from fats and oils, and there were substantial increases also in output of cotton-seed and rape-seed in India. The 1951 quantum of exports of copra and coconut oil, which was more than 20 per cent above the level of 1950, reflected both this increased production and the strong European demand for coconut oil for margarine manufacture. However, between the early part of 1951 and mid-1952, prices declined severely in international markets from 60 per cent above the June 1950 level, to 20 to 25 per cent below that level. In the first half of 1952 the quantum of copra exports also declined, especially from the Philippines—the main exporter. As a consequence, the quantum of exports in the twelve months to June 1952 was only some 6 per cent above the level of the preceding year. The export of "hard" oils such as coconut oil and palm oil was increasingly hampered by the development—especially in the United States—of synthetic detergents produced mainly from petroleum, and during 1951/52 demand for fats and oils generally was further affected by the heavy inventories in North America and Europe. Reflecting this changed market condition, India abolished various export duties on oils and seeds in March 1952, and, in August 1952, Indonesia reduced its export duties on palm oil and copra. In mid-1952, stocks of oils and oil-seeds in the major producing countries were higher than a year earlier.

The major part of sugar exports from Asian countries came from the Philippines and China: Taiwan. Whereas the quantum of exports from the former increased in 1951/52, the quantum of sugar exported from the latter in the first ten months of 1951/52 was about 30 per cent below the level of the corresponding period in the preceding year.[4]

The value of exports of industrial raw materials fell sharply in 1951/52. The reduction in export earnings from rubber was caused by a decline in both

[4] However, the recovery in output noted in chapter 3 resulted in an expansion in sugar exports in the calendar year 1952 in relation to exports in the preceding calendar year.

the quantum and the price of such exports. After the sharp break in rubber prices early in 1951, a more moderate downward trend continued until the end of the year. A further drop early in 1952 brought prices for this commodity back to the level of June 1950. Simultaneously with this price movement, production and the volume of exports declined. The decline in the export quantum in 1951/52 was broadly similar for each of the major exporters—Indonesia, Malaya, Ceylon and Thailand. However, there was a change in the geographical distribution of such exports in the course of the year. In the first half of 1952 the volume of United States imports from Indonesia increased substantially while those from Malaya rose only moderately. This change was due in part to steps taken by Indonesia to stimulate exports of all commodities to the dollar area. In February 1952 the Indonesian rupiah was depreciated and a lower exchange value was applied in the case of exports to the dollar zone than to other areas. During 1951/52, Indonesia made sizable cuts in its export duties on rubber, and reductions continued to be made in the latter part of 1952.

Malaya and Indonesia suffered further from the weakening of the demand for tin. Asian as well as non-Asian production of concentrates in 1951/52 remained at approximately the same level as in the previous year. The volume of exports of concentrates underwent little change, but that of tin metal from Malaya was substantially reduced. The lower quantum and unit value of exports reflected the fall in demand for tin in 1951/52 by the United States, whose imports in the second half of 1951 were extremely low; they increased substantially in the first half of 1952. In mid-1952 United States controls over imports were relaxed, and imports on private account were permitted. During 1952 the United States Government negotiated a series of bilateral agreements with its principal suppliers.

The main influence on trade in jute and jute manufactures in 1951/52 was the increase in raw jute production of about 18 per cent, which resulted primarily from increased acreage. The transition from a period of shortage to sufficiency was reflected in prices, which reached a high level in June 1951 and then fell in subsequent months, to such an extent that by the third quarter of 1952 the price of jute fibre was only one-quarter of the peak level. The decline in the export quantum of raw jute from Pakistan in 1951/52 stemmed both from reduced demand for jute from overseas, especially from the United States, and from a drop in India's purchases. The latter occurred, despite increased consumption by Calcutta mills, because of the substantial expansion by India of its own raw jute production in 1951/52. By the end of the season large stocks had accumulated in Pakistan, where a price support scheme had kept domestic prices above world levels. In July 1952, the Government of Pakistan lowered its minimum prices and then reduced its export duties. However, a special licence fee was imposed on jute exports to India and a higher duty was charged on kutcha bales, which are exported to India, than on pucka bales, which are mostly exported overseas. India's export earnings from jute products (bags and cloth) were 50 per cent higher in 1951/52 than in the previous year. The quantum and unit value of these exports continued to rise throughout the greater part of 1951, but in the first half of 1952 there was a marked downward trend in earnings, primarily due to reduced unit values. Previous high price levels and duties probably gave added stimulus to the use of substitutes such as paper and cotton packaging materials in the United States, and in addition, India was having to meet increased competition from some European countries. With the change in the market trend, India reduced export duties on hessian, and in addition, abolished quotas on exports of some jute products to soft currency markets.

The trend in exports of cotton from Pakistan in 1951/52 was similar to that in other less developed countries exporting cotton. In response to the high prices of the previous year, world production increased by 27 per cent in 1951/52.[5] At the same time there was a reduction in cotton consumption resulting from the textile recession. Western Europe and Japan both derived a larger proportion of their imports from the United States and reduced substantially their imports from Pakistan. This reduction in the latter's exports was only partly offset by increased shipments to eastern Europe and China. In an endeavour to move more cotton, Pakistan reduced its export duty in September 1951. In March 1952 the Government began to purchase surplus cotton, but in July 1952, in an attempt to reduce the large stocks it thereby accumulated, announced its intention to sell this cotton at a 10 per cent discount. In India, mill consumption of cotton increased in 1951/52, but the volume of cotton cloth exports continued to fall off with increased domestic consumption. Early in 1952, in order to foster larger exports, however, export duties were reduced and quantitative restrictions were removed. There was some improvement in the export position of India's low price cotton piece-goods by mid-1952.

These trends in the major export commodities of South East Asia reduced the export earnings of all countries in the region except the rice exporting countries, Burma, Indochina and Thailand, whose increased export earnings from rice more than offset the decline in earnings from other exports. In Malaya, Indonesia and Ceylon the fall in earnings from rubber

[5] This included an increase of about 50 per cent in the United States, where output was restored to the average level of 1948/49 and 1949/50.

Table 67. Indices of Current Value of Exports of Selected Countries in Asia, 1950 to 1952
(Values in United States dollars)

Country	Value[a] 1950 First half	Indices (first half of 1950 = 100) 1950 Second half	1951 First half	1951 Second half	1952 First half	1952 Third quarter[b]
Burma	75	111	154	121	174	. . .
Ceylon	135	143	160	137	129	110
India	530	123	168	143	127	124
Indochina	30	162	204	244	230	
Indonesia	250	211	268	234	183	170
Malaya	401	227	284	210	167	155
Pakistan[c]	172	129	277	166	186	88
Philippines	141	136	169	117	137	101
Thailand[d]	119		140	133	130	

Source: Statistical Office of the United Nations.
[a] In millions of United States dollars.
[b] At semi-annual rate.
[c] Excluding land trade of Pakistan in 1950.
[d] See United Nations, *Economic Survey of Asia and the Far East, 1952* (Bangkok, 1953).

from 1950/51 to 1951/52 was the major factor in the decline in the dollar value of export proceeds, which, as shown in table 67, amounted to 26 per cent, 13 per cent and 12 per cent, respectively. In Malaya there was, in addition to the drop in rubber, an 18 per cent decline in the value of tin exports; in Indonesia, export earnings from copra also fell; in Ceylon reduced receipts from coconut oil and, to a lesser extent, from tea contributed to the fall in earnings. Declines in the value of copra and coconut oil exports primarily, and also sugar and abaca, reduced export proceeds of the Philippines by 17 per cent. In China: Taiwan, the increased quantum of rice exports and higher export unit values resulted in an increase in the value of export earnings in 1951/52, despite a reduction in the quantum of sugar exports. In India and Pakistan, the fall in earnings from cotton and cotton manufactures were primarily responsible for the over-all decline. The value of Pakistan's exports of jute, although falling, averaged substantially the same as in 1950/51, while India in 1951/52 earned 50 per cent more from jute manufactures than in the preceding year.

As a whole, exports of staple commodities from the less developed countries of Latin America increased slightly in 1951/52. Although world sugar production and consumption have increased steadily in recent years, the quantum of Cuban sugar exports in 1951/52 declined by 5 per cent. Export unit values generally remained stable and there was only a slight decline in the dollar value of Cuban exports as compared with 1950/51. The bumper Cuban crop of 1952 resulted in a continuously declining trend in market quotations to areas outside the United States, but since the greater part of its sugar export is covered by various trade agreements, both with the United States and with other countries, average unit values did not fall to the same extent. Agreements with the United Kingdom and Germany specified the quantity or value of purchases to be made, and an agreement with France facilitated payment for sugar by permitting export against payment 30 per cent in dollars and 70 per cent in French francs. A further measure to check the weakening of sugar prices included the withdrawal of a portion of the crop from the market.

In contrast, the world coffee market remained remarkably stable, and this fact was reflected in the earnings of Brazil, which accounts for one-half of world trade in coffee. There was little change in the quantum of its coffee exports, the major part of which went to the United States, and there were only minor fluctuations in the price of coffee both in 1951/52 and in the previous year. Nevertheless, Brazil's export earnings declined in 1951/52 because of a sharp reduction in the quantity of cotton exports. In an attempt to overcome the difficulty in exporting cotton and other commodities, Brazil entered into barter agreements with European countries.

Venezuela's exports are almost wholly accounted for by petroleum. The steady increase in its export earnings in 1951/52 resulted both from increased production and from the continuing rise in the world's consumption of petroleum, particularly in the United States and western Europe, as well as the reorientation of demand following the suspension of shipments from Iran in mid-1951.

The substantial rise in Chilean export earnings in 1951/52 was due, to a large extent, to the continuing strong world demand for copper, particularly in the United States, which absorbs over 80 per cent of Chile's copper exports. The rise in the unit value of copper exports resulted from an agreement concluded in the middle of 1951 under which the bulk of Chilean copper was sold to the United States at the increased price of 27.5 cents per pound; in addition, "free" copper was sold at premium prices. Exports were at peak levels in the latter part of 1951; at that time the requirements for copper listed by the International Materials Conference were in excess of current production. A slight weakening of demand appears to have occurred in the first half of 1952.[6] In the middle of 1952, after the United States lifted its price controls on foreign copper, Chilean exports were being sold at 35 cents per pound.

Although exports of Mexican and Brazilian cotton in 1951/52 were affected by the weakness in the international cotton market, there was, as indicated in table 68, a small upward movement in 1951/52 in the export earnings of the group of less developed countries of Latin America. This reflected the relative strength of non-ferrous metals, which affected Chilean proceeds and to some extent Mexico's; the increased demand for Venezuelan petroleum; and the steady demand for Brazilian coffee. All countries experienced higher average unit values, but the effect of these was offset in some countries by reductions in quantum. However, changes in quantum in these countries were not large either in 1950/51 or in 1951/52.

In the Middle East, exports of petroleum were affected by the cessation of petroleum operations in Iran in mid-1951. Nevertheless, by the first half of 1952 the region's output of crude petroleum was above the level of the first half of 1951 as a result of stepped-up operations in Iraq, Kuwait and Saudi Arabia. However, total export value did not increase correspondingly, since the cessation of Iranian production reduced the ratio of refined to crude petroleum output in the area.

Exports of textile fibres have responded to the world market trends referred to earlier. Following a year of high earnings from cotton, Egypt in 1951/52 found itself with mounting stocks which were unsaleable at the government-controlled price levels. In an endeavour to dispose of the cotton, the Egyptian Government in the early part of 1952 abolished minimum prices and the export tax and sought to negotiate various barter deals (such as exchanging cotton for wheat). The fall in its exports, as shown in table 69, was pronounced throughout 1951/52. In other countries of the Middle East, a decline in prices of raw materials, particularly of wool, cotton, tobacco, gum arabic, and hides and skins, occurred in most cases in the latter part of 1951 and in 1952.

Table 68. Indices of Current Value of Exports of Selected Countries in Latin America, 1950 to 1952

(Values in United States dollars)

Country	Value[a] 1950 First half	Indices (first half of 1950 = 100) 1950 Second half	1951 First half	1951 Second half	1952 First half	1952 Third quarter[b]
Brazil	492	174	168	189	142	142
Chile	123	131	132	171	155	171
Colombia	154	154	131	167	139	157
Cuba	290	121	143	121	135	120[c]
Mexico	169	175	156	182	164[d]	173
Venezuela	584	113	122	126	131	128

Source: Statistical Office of the United Nations.

[a] In millions of United States dollars.

[b] At semi-annual rate.

[c] Estimated from two-month figures.

[d] Estimated from five-month figures.

Among the countries of Mediterranean and tropical Africa, Algerian and French Moroccan exports continued to increase in value, mainly as a result of higher prices for their agricultural and mineral exports. The value of exports from Northern Rhodesia and the Belgian Congo also increased in 1951/52. In the first half of 1952 the value of copper exports from these two countries exceeded the high figure for the corresponding period of 1951. While in the tropical area of Africa the production and export of various oils and oil-seeds increased in 1951/52, prices declined. In Africa—as in Brazil—the production of cocoa beans fell, but the crop was marketed at increased prices during this period.

[6] United States consumption fell about 4 per cent below 1951 levels. Its imports of copper also were slightly lower.

Table 69. Indices of Current Value of Exports of Selected Less Developed Primary Producers, 1950 to 1952
(Values in United States dollars)

Country	Value[a] 1950 First half	Indices (first half of 1950 = 100) 1950 Second half	1951 First half	1951 Second half	1952 First half	1952 Third quarter[b]
Algeria	144	122	127	113	144	124[c]
Belgian Congo	111	134	158	191	169	184
Egypt	237	113	150	96	81	103
French Morocco	89	112	138	142	170	129
Gold Coast	107	79	152	65	132	58
Iran	230	205	197	61	27	34
Nigeria	99	119	208	156	194	141
Northern Rhodesia	61	125	148	161	186	200
Yugoslavia	74	115	97	153	205	108

Source: Statistical Office of the United Nations.
[a] In millions of United States dollars.
[b] At semi-annual rate.
[c] Estimated from two-month figures.

The Continued Rise in Imports

Imports of all primary producing countries amounted in 1951/52 to $34,900 million, an increase of 24 per cent over the preceding twelve-month period. This rise occurred in spite of the previously noted fact that the countries experienced a 3 per cent decline in exports in money value and a considerably greater drop in terms of purchasing power over imports. In a representative group of thirty-two countries, which accounted for nearly four-fifths of the imports of all primary producers, the purchasing power of 1951/52 exports was 14 per cent below that of 1950/51 and 18 per cent below the annual rate in the first half of 1951; this is shown in table 70.

Changes in total quantum

In spite of the decline in the value of exports and the increase in import prices, the quantum of imports of primary producing countries in 1951/52 was about 12 per cent higher than in the preceding year. The quantum of imports, which had begun to rise in mid-1950, continued to expand in the second half of 1951 after the collapse of the raw material boom; in many countries it did not reach a peak until the first quarter of 1952, followed in the second quarter by only a moderate decline. It was not until the third quarter of 1952 that imports of primary producing

Table 70. Indices of Exports and Imports of Selected Primary Producing Countries,[a] 1950 to 1952
(First half of 1950=100)

Item	1950 Second half	1951 First half	1951 Second half	1952 First half
Developed primary producing countries:				
Current value of exports in United States dollars	113	142	134	129
Import equivalent of exports[b]	106	118	105	102
Quantum of imports	108	122	131	127
Less developed primary producing countries:				
Current value of exports in United States dollars	144	170	150	138
Import equivalent of exports[b]	138	148	122	110
Quantum of imports	118	127	136	136
Total, selected primary producing countries:				
Current value of exports in United States dollars	131	158	144	134
Import equivalent of exports[b]	124	134	115	106
Quantum of imports	113	124	134	132

Source: United Nations Department of Economic Affairs.
[a] Selected countries are those listed in table 71.
[b] Indices of current value of exports divided by indices of import unit values, as shown in table 72.

countries contracted seriously. The lag in the adjustment of imports to export earnings which had been observed in 1950/51[7] was thus again in evidence in 1951/52.

Various factors contributed to produce these lags. Among them was the fact that trade and exchange restrictions were relaxed only after some delay in 1950/51, and most countries were reluctant to reimpose them until after their balance of payments position had seriously deteriorated late in 1951. The distance of most primary producing countries from their chief sources of supply normally causes substantial delays between the placing of orders and the receipt of goods. In the case of engineering products, which constitute on the average over one-third of the imports of primary producing countries from industrial countries, this interval was further extended by the length of delivery periods for such equipment in the supplying countries. An illustration of this latter point is provided in the following indices relating to the selected primary producing countries shown in table 71:

	1950 Second half (First half of 1950 = 100)	1951 First half (First half of 1950 = 100)	1952 First half (First half of 1951 = 100)[a]
Import equivalent of exports	124	134	79
Quantum of exports from industrial countries to primary producing countries:			
Machinery and transport equipment[b]	104	125	107
All other manufactures	112	124	97

[a] Indices based on first half of 1951 are not strictly comparable with those based on first half of 1950.

[b] Passenger cars included in transport equipment.

These figures show clearly the slow start which imports of capital goods made on the upturn of export earnings in 1950, and how they tended to stay up after the downturn of earnings in 1951,[8] while other imports followed the movement of exports more closely. It is reasonable to assume that the length of delivery periods for capital goods was largely responsible for this. In a number of primary producing countries, the limiting factor with respect to imports of capital goods since 1949 has been the supply of foreign exchange rather than the level of domestic demand for the goods; any increase in foreign exchange availabilities could therefore be expected to have been quickly translated into orders.

Various factors apart from these time lags contributed to the higher level of imports in 1951/52 after the raw material boom had subsided. There is no doubt that fear of future shortages and of rising import prices caused by rearmament in the western industrial countries continued to give an incentive to imports, at any rate in the early part of 1951. In many instances governments encouraged the building up of inventories of imported raw materials and other essential commodities. There was also in 1951 a tendency to place orders for imported machinery, equipment and spare parts in advance of what would have been normal requirements. Hoarding of imported consumer goods by individuals and merchants, which began in the second half of 1950, continued during 1951, and was stimulated again in the latter part of the year by anticipation in a number of countries of a tightening of import restrictions.

Some of the circumstances which contributed to the high level of imports in particular primary producing countries in 1951/52 are indicated below.

In Australia the authorities had expected that the deflationary effect of the fall in wool growers' incomes early in 1951 in conjunction with the Government's disinflationary policies would be sufficient to cut down the demand for imports. In fact, however, the continuation of a high rate of investment sustained import demand, especially for capital goods. Since goods ordered in 1951 continued to arrive in large amounts after exchange reserves had already been seriously depleted, the Government was forced in March 1952 to introduce drastic import restrictions.

Canadian imports had risen very substantially in 1950/51, partly as a result of the rising rate of investment, especially in inventories, and were further increased, though only moderately, in 1951/52. There was a substantial rise in income and in investment in plant and equipment in 1952, but inventory accumulation declined sharply, and checked the expansion in imports to some extent.

Argentina's export earnings from wool fell sharply after the brief boom at the end of 1950, and the serious crop failure of 1951 cut wheat exports drastically. In the first half of 1951 the settlement of old commercial debts by means of a large credit from the United States Export-Import Bank of Washington eased the persistent pressure on the country's balance of payments to some extent. The introduction of a system of imports "without use of foreign exchange" (that is, payable out of private funds held abroad) helped to increase imports despite the bleak outlook for the country's exports in 1951. Early in 1952, however, import restrictions were tightened, and imports fell rapidly.

Among the less developed primary producing countries, Brazil and Mexico maintained income from exports at a high level throughout 1951; Mexico, in addition, had a record income from tourist trade. Both

[7] United Nations, *World Economic Report, 1950-51*, page 96.

[8] The same tendency is noticeable in each of the groups of primary producing countries shown in table 71.

Table 71. Indices of Current Value of Imports of Selected Primary Producing Countries, 1950 to 1952
(Values in United States dollars)

Country	Value[a] 1950 First half	Indices (first half of 1950 = 100) 1950 Second half	1951 First half	1951 Second half	1952 First half	1952 Third quarter[b]
Developed primary producing countries:						
Argentina	454	83	132	167	115	83
Australia	729	113	138	180	175	89
Canada	1,453	121	150	143	149	156
Finland	175	121	155	231	254	203
New Zealand	207	114	109	170	198	177[c]
Union of South Africa	396	139	178	187	179	146
Uruguay	90	123	168	186	147	142[c]
Less developed primary producing countries:						
Latin America:						
Brazil	430	155	200	267	282	205
Chile	119	108	116	160	140	155
Colombia	147	127	134	149	137	135
Cuba	262	116	138	130	134	...
Mexico	237	136	174	179	180	164
Venezuela	280	111	132	121	142	142
Asia (excluding Middle East):						
Ceylon	119	106	137	139	157	138
India	517	121	159	184	199	135
Indonesia	168	174	157	323	246	...
Malaya	366	160	222	202	183	158
Pakistan	157	150	160	180	230	182
Philippines	209	88	106	144	126	112
European dependencies in Africa:						
Algeria	207	110	128	150	157	...
Belgian Congo	92	109	153	185	216	220
French Morocco	158	108	126	162	177	159
Gold Coast	56	123	134	171	164	161
Nigeria	80	106	128	168	205	190
Northern Rhodesia	39	113	133	146	144	195
Other countries:						
Egypt	240	135	138	140	129	110
Iran	157	66	80	74	54	53
Iraq	57	95	110	138	146	156[c]
Israel	147	96	100	133	127	132[c]
Lebanon	67	112	106	112	106	93
Spain	198	97	94	100	118	133
Yugoslavia	116	103	107	102	97	119

Source: Statistical Office of the United Nations.
[a] In millions of United States dollars.
[b] Semi-annual rate.
[c] Based on two months only

countries were engaged in a process of industrial expansion when the commodity boom of 1950/51 occurred. The rate of investment in fixed capital in 1951 in both was higher than for the previous year, and "emergency" stockpiling of raw materials and even of some types of machinery and spare parts was encouraged in anticipation of shortages. In the case of Brazil, the high level of imports in 1951/52 caused a severe drain on reserves and an accumulation of commercial debts both in the United States and Europe, which eventually, but not until the second quarter of 1952, led the Government to decide on drastic cuts in imports. Mexico's imports remained at a high level until mid-1952. A moderate decline in the third quarter of the year reflected in part a decline in inventory accumulation.

In Asia and the Far East, India's imports were exceptionally large in 1951/52 compared with the preceding year's. The increase was largely due to heavy imports of grain, rendered necessary by crop failure.

Table 72. Indices of Current Value, Quantum and Unit Value of Imports of Selected Primary Producing Countries,[a] 1950 to 1952
(First half of 1950=100)

Area	Current value[b]				Quantum				Unit value[b]			
	1950 Second half	1951 First half	1951 Second half	1952 First half	1950 Second half	1951 First half	1951 Second half	1952 First half	1950 Second half	1951 First half	1951 Second half	1952 First half
Developed primary producing countries	116	147	166	161	108	122	131	127	107	120	127	127
Less developed primary producing areas[c]	123	146	168	170	118	127	136	136	104	116	123	125
Asia (excluding Middle East)	133	165	194	190	121	131	145	146	110	126	134	130
Latin America	130	159	181	187	126	137	150	153	103	116	121	122
European dependencies in Africa	110	132	162	177	107	118	133	137	103	112	122	129
TOTAL, SELECTED PRIMARY PRODUCING COUNTRIES	120	146	167	166	113	124	134	132	106	118	125	126

Source: United Nations Department of Economic Affairs; estimates based on national trade statistics.

[a] Those listed in table 71.

[b] Based on United States dollar values.

[c] Total for less developed countries includes, in addition to areas shown, certain Middle East and European countries as listed in table 71.

Although a loan was obtained from the United States Government to finance grain imports from that country, the precarious food supply position and the need to assure adequate supplies of raw materials for Indian industry forced the Government to maintain fairly stringent controls on imports of other commodities. In Pakistan, which had liberalized imports on private account to a considerable extent in 1951, the arrival of capital goods ordered during the boom (substantial orders, for textile machinery in particular, had been placed in the United Kingdom, Japan and western Europe), and of large quantities of Japanese textiles, raised imports in the first half of 1952 to a new high level. Imports of other consumer goods also rose, to some extent as a result of misjudgment by merchants of the probable course of domestic demand. The Government raised the tariff on textile piece-goods substantially in June 1952, and finally in August quantitative restrictions were extended, to include a wide range of commodities previously admitted without restriction. In both India and Pakistan, the high level of imports in 1951 and 1952 also reflected the resumption and expansion of trade between the two countries, which had been at a low level until the signing of the trade agreement of February 1951.

Indonesian imports, which in 1950 had not recovered in volume to their pre-war level, failed to increase in the first half of 1951 in spite of exceptionally large gains from exports. A major factor accounting for this was the currency reform of March 1950, which had severely reduced money balances held by individuals and firms, and the introduction of an exchange certificate system which had the effect of making imports dearer. Early in 1951 the Government adopted various measures to increase imports, which led to a sharp rise in the second half of the year. Failure to conclude a new trade agreement with Japan in November 1951 was followed by a sharp drop in Japanese exports to Indonesia. The devaluation of February 1952, the tightening of restrictions on imports of luxuries and non-essentials, and increased taxes on imports contributed to reduce imports in the first half of 1952; the level of Indonesian imports remained, however, well above that of 1950/51.

The Philippines made severe import cuts early in 1950 after United States grants, credits and government service payments had decreased. Rigid exchange and trade controls were maintained throughout 1951 and 1952 and, though the level of imports was permitted to rise, the increase was arrested as soon as an adverse balance developed in the second half of 1951.

In China: Taiwan, there was little change in the value of commercial merchandise imports as a result of rigid controls. United States Mutual Security Agency shipments, which are recorded separately, increased substantially, however. The major items among these shipments were raw materials, such as cotton and fertilizers, and foodstuffs (particularly bread grain and fats and oils).

African dependent territories were not greatly affected by the 1951 collapse of commodity prices. Moreover, various colonial development programmes and private investment of metropolitan capital continued, and appear to have been accelerated in 1951 and 1952. Consequently, the level of imports continued to rise throughout 1951 and remained high in the first half of 1952.

Table 73. Commodity Composition and Destination of Exports from the United States and Western Europe to Selected Primary Producing Countries, 1950 to 1952

(Millions of United States dollars)

Commodity groups and period	Destination						All selected countries
	Developed primary producing countries[a]	Less developed primary producing areas					
		Latin America[b]	Middle East[c]	Far East[d]	Oversea dependencies[e]	Total	
Foodstuffs:							
1950 Full year	259	362	66	90	275	793	1,052
1951 Full year	298	444	108	304	364	1,220	1,518
1952 First half[f]	295	521	105	389	368	1,383	1,678
Raw materials:							
1950 Full year	613	162	28	113	106	409	1,022
1951 Full year	853	248	54	220	132	654	1,507
1952 First half[f]	732	210	48	294	160	712	1,444
All consumer goods:							
1950 Full year	1,449	737	193	288	805	2,023	3,472
1951 Full year	2,050	1,050	212	427	1,145	2,834	4,884
1952 First half[f]	1,831	1,063	193	437	1,269	2,962	4,793
Textiles:							
1950 Full year	568	206	88	150	421	865	1,433
1951 Full year	878	240	98	195	528	1,061	1,939
1952 First half[f]	605	236	79	174	534	1,023	1,628
Motorcars:							
1950 Full year	383	175	20	27	81	303	686
1951 Full year	482	318	34	48	151	551	1,033
1952 First half[f]	490	330	26	70	195	621	1,111
All producers' goods:							
1950 Full year	2,323	1,449	318	588	922	3,277	5,600
1951 Full year	3,082	2,106	317	761	1,115	4,299	7,381
1952 First half[f]	3,221	2,242	319	863	1,328	4,752	7,973
Machinery and equipment:							
1950 Full year	924	603	120	261	335	1,319	2,243
1951 Full year	1,457	979	134	325	432	1,870	3,327
1952 First half[f]	1,645	1,135	142	395	527	2,199	3,844
Transport equipment:							
1950 Full year	416	274	54	95	183	606	1,022
1951 Full year	314	335	31	125	165	656	970
1952 First half[f]	274	298	37	121	167	623	897
Metals and metal manufactures:							
1950 Full year	626	317	100	135	264	816	1,442
1951 Full year	834	436	98	176	331	1,041	1,875
1952 First half[f]	874	483	83	194	427	1,187	2,061
Chemicals:							
1950 Full year	203	181	30	79	81	371	574
1951 Full year	321	272	39	113	108	532	853
1952 First half[f]	281	233	42	216	105	506	787
TOTAL, ALL COMMODITIES:							
1950 Full year	4,644	2,710	605	1,079	2,108	6,502	11,146
1951 Full year	6,284	3,848	692	1,713	2,756	9,009	15,293
1952 First half[f]	6,079	4,036	664	1,982	3,124	9,806	15,885

Source: Statistical Office of the United Nations.

[a] Argentina, Australia, Canada, New Zealand, Union of South Africa, Uruguay.

[b] Brazil, Chile, Colombia, Cuba, Mexico, Peru, Venezuela.

[c] Egypt, Iran, Iraq, Israel, Lebanon, Syria.

[d] Burma, Ceylon, India, Indonesia, Pakistan, Thailand.

[e] Belgian Congo, French Africa, Indochina, British African dependencies, Northern and Southern Rhodesia; British West Indies, Malaya, Hong Kong, Eritrea and Italian Somaliland.

[f] At annual rate.

In Iran the cessation of oil exports reduced earnings sharply and by the first half of 1952 the country's imports were only half those of the corresponding period of 1950. The oil companies in Iraq, on the other hand, expanded their operations and thus affected both the exports and imports of that country.

In Egypt, which experienced a sharp decline in export earnings after mid-1951, imports declined from a peak reached in the second half of 1951, though large quantities of wheat and flour had to be imported.

Composition of imports[9]

The relaxation of import restrictions during the raw material boom made possible a substantial expansion in imports of consumer goods by primary producing countries in 1951. Increased demand resulted not only from higher incomes of consumers, but also from a fairly general tendency to build up stocks, as noted earlier. In 1952, while the value of imports of producer goods continued to rise, the value of imports of consumer goods fell (see table 73). This decline was largely concentrated in textiles, where not only quantum but also unit values fell. The large drop reflected in part a decline in inventory accumulation and a reaction to consumer over-buying in the preceding year and, in the countries where balance of payments difficulties developed, the reimposition of more stringent import controls. These factors have certainly been important, as, for example, in the case of Australia, Indonesia and the Union of South Africa, where the value of textile imports in the first half of 1952 was 40 to 50 per cent below that of 1951. In Indonesia, as has already been noted, the suspension in November 1951 of negotiations for a new trade and payments agreement with Japan, Indonesia's largest textile supplier, and the devaluation of the rupiah in February 1952 were major contributing factors.

The fall in textile imports, though large for all primary producing countries taken together, was not universal. Canada, several of the major textile importers in Latin America, many of the African dependencies of European countries, and even some of the Asian countries, notably Pakistan and Thailand, maintained or even raised the rate of such imports in the first half of 1952. In the latter two countries inventory accumulation appears to have continued into the early months of 1952. Canada, and Latin American countries which are important textile importers, like Cuba and Venezuela, were little affected by the 1950/51 boom and its collapse, and have maintained a more stable level of demand for textiles.

[9] The analysis in this section is based on statistics of exports from industrial to primary producing countries. In view of the time lags between shipment and receipt of goods, these data tend to anticipate actual changes in the trade pattern of the importing countries.

The value of passenger car imports by primary producing countries in the first half of 1952 was slightly higher than in 1951 owing to higher prices. There was some decline in the quantum of such imports, but the effect of increased restrictions was not reflected in imports until the third quarter of the year. Among the countries where a sharp decline was noted in the first half of 1952 were Argentina and Uruguay and, to a lesser extent, Mexico, Peru and Colombia. Egypt, whose imports of passenger cars had doubled by value in 1951, reduced the rate of imports in the first half of 1952 by nearly 30 per cent. A sharp fall in motorcar imports by Iran reflected the drop in foreign exchange receipts since the oil dispute. India, whose import policy in 1950 and 1951 had been dictated by the need for exceptionally large food imports, liberalized imports of less essential consumer goods only to a limited extent. Larger quantities of passenger cars were none the less admitted in 1951 than in 1950, and the higher rate was maintained in the first quarter of 1952, but imports fell off sharply in the second quarter. The full effect of the import reductions decided upon in Australia did not appear until the second half of 1952, though passenger car imports from the United Kingdom and continental western Europe began to decline in the first half of 1952.

The value of imports of producer goods in 1951 was about one-third higher than in 1950, a somewhat smaller increase than in consumer goods. The expansion in quantum was greatest for machinery, but metals, chemicals and other commodities also participated in the rise. Expenditure on imports of capital goods was at a still higher rate in the first half of 1952, but only machinery imports increased notably in quantum. Even within this category the spectacular increase that had occurred in 1951 was not repeated in 1952. In both 1951 and 1952, Canada has accounted for a substantial part of the total increase. Such imports into Canada in 1951 were nearly twice as high in value as in 1950 and in the first half of 1952 they were at a rate 20 per cent above that of the preceding year. The rate of increase for the rest of the primary producing countries taken together was 40 per cent from 1950 to 1951 and 10 per cent in the first half of 1952, in terms of value. If allowance is made for the rise in prices from 1950 to 1951 and 1952, it is found that the quantum of machinery imports by primary producing countries other than Canada was about one-third larger in 1951 than in 1950, but there was little further increase in 1952.

Whereas in 1951 machinery imports rose in all primary producing countries, the development in 1952 was more uneven. A contraction in the volume of machinery imports began to appear here and there, as in Argentina, Uruguay, several of the smaller Latin American countries and, in the Middle East, in Israel and Lebanon, while some other countries maintained or even exceeded the rate of increase of the preceding year. Notable among these were Brazil and several oil and mineral producing countries, including Venezuela, Iraq and the Belgian Congo.[10]

A growing interest in the mechanization of agricultural production was reflected in the machinery imports of primary producing countries. Thus, 1951 was a record year for tractor imports. The United Kingdom, for instance, exported over 60,000 tractors to primary producing countries in 1951, compared with 47,000 in the previous year. A comparable increase occurred in exports from the United States. Exports from the United Kingdom, however, fell off to some extent early in 1952, while those from the United States continued to rise.

Imports of transport equipment fell steadily after 1950. This decline in 1951 and 1952 is explained by reduced supplies for export in the United States[11] and the United Kingdom, rather than by any lack of demand from primary producing countries. In the United Kingdom the steel shortage in 1951 reduced the output of commercial vehicles, and some of the reduction was borne by export markets; re-equipment of the British railways not only absorbed the increased output of certain types of railway rolling-stock, but also affected exports adversely. As a result of these difficulties some primary producing countries switched purchases to other sources of supply, not only to continental western Europe, which increased its exports of transport equipment substantially in 1951, but also to eastern Europe and Japan.[12]

Imports of metals and manufactures (chiefly of iron and steel), which had risen sharply in 1951, continued to increase in value in the first half of 1952. However, export unit values for these products in most exporting countries were substantially higher in the early months of 1952 than in 1951, reflecting the tight supply position in the latter part of 1951. It is probable that the quantum of metal imports in 1952 into primary producing countries was in fact no higher than in the preceding year. Not only tight supplies in some industrial countries, but also to some extent increased domestic production of steel in several primary producing countries, notably in Chile and Mexico, and in India and the Union of South Africa, may have caused a reduction in imports in 1952.

The Pressure on the Balance of Payments

BALANCE ON MERCHANDISE AND SERVICE ACCOUNT

In 1951/52 a deficit on trade account of $4,800 million replaced the preceding year's surplus of $2,900 million for all primary producing countries taken together (table 74). This adverse movement of $7,700 million was largely accounted for by an increase in payments for imports, the fall in export receipts amounting to less than $1,000 million. The elements contributing to the change in the over-all trade balance were the virtual cancellation in 1951/52 of the previous year's gain in terms of trade—due to an increase in import prices—and the increase in the volume of imports, at a time when the export quantum declined by about 6 per cent.

The following table gives the order of magnitude of the respective influences of the quantum and price changes (in thousand millions of United States dollars).

	Exports	*Imports (c. i. f.)*	*Balance*
Value of trade in 1950/51	31.0	28.1	2.9
Effect on trade of:[a]			
Quantum changes 1950/51 to 1951/52	—1.8	3.1	—4.9
Price changes, 1950/51 to 1951/52	0.9	3.7	—2.8
Value of trade in 1951/52	30.1	34.9	—4.8

[a] Since the value of trade is the product of quantum times unit value, the analysis of the change in trade as a sum of the effects of changes in quantum and unit value involves some element of arbitrariness.

The extent to which each of these influences operated varied from country to country. A deterioration in terms of trade and an increase in import quantum occurred in almost all countries, though in varying degree. Changes in export quantum, on the other hand, varied not only in degree but also in kind. While in the majority of countries exports declined or remained stable, in some instances, notably in Canada, Yugoslavia, Venezuela, Iraq and Northern Rhodesia, there was an increase in export quantum sufficiently large to outweigh the effect of the adverse factors, and thus render the trade balance more active (or less passive).

[10] The development of mineral resources has accounted for part of the increase in machinery imports in 1951 as well as in 1952. For instance, some of the increase in Canada's machinery imports in both periods was connected with large investments in mining and in oil production.

[11] In the United States, moreover, certain kinds of transport equipment which before July 1950 were registered as commercial exports have since mid-1950 been classified as "special category" exports and have ceased to be recorded by destination in trade statistics.

[12] Argentina, for instance, in 1951, imported Diesel trains from Hungary and locomotives from Czechoslovakia; Chile has recently concluded a barter agreement with Japan involving delivery of steam locomotives by the latter in exchange for nitrate.

Table 74. Trade Balances[a] of Primary Producing Countries, 1950 to 1952
(Thousand millions of United States dollars)

Area	1950 Second half	1951 First half	1950/51	1951 Second half	1952 First half	1951/52
Canada	−0.17	−0.52	−0.69	0.02	−0.03	−0.01
Latin America	0.80	0.39	1.19	−0.25	−0.45	−0.70
Dollar countries	0.41	0.35	0.76	0.26	0.32	0.57
Non-dollar countries	0.39	0.03	0.43	−0.51	−0.77	−1.27
Oversea sterling area	0.58	1.32	1.90	−1.07	−1.10	−2.18
Continental Europe's dependencies	−0.41	−0.35	−0.75	−0.72	−0.78	−1.50
Other primary producing countries	0.51	0.76	1.27	−0.14	−0.28	−0.42
TOTAL	1.32	1.60	2.93	−2.16	−2.64	−4.81

Source: United Nations Department of Economic Affairs.

[a] Exports f.o.b. less imports c.i.f.

The adverse movement in trade balances from 1950/51 to 1951/52 was especially large in the oversea sterling area (table 74), where Australia and India together accounted for $2,100 million of the shift from surplus to deficit, while Malaya's export surplus fell from $652 million in 1950/51 to $109 million in 1951/52, virtually disappearing in the first half of 1952. In the case of Australia and Malaya, this movement resulted from the sharp decline in export prices and, especially in the former, from a rise in imports which went unchecked until the early part of 1952. In India, the decline in exports was less marked, but there occurred an exceptional increase in imports in 1951/52, chiefly of food grains and, to a lesser extent, of cotton.

In Latin America, Argentina and Brazil experienced similar changes in their trade balances. In Argentina, the decline in wool prices together with crop failure cut exports in 1951/52 sharply, while imports rose, at least until the end of 1951, when measures were taken to check the movement; a surplus in 1950/51 of about $200 million thus turned into a deficit of over $400 million in 1951/52. In Brazil a shift from a surplus of $153 million to a deficit of $736 million resulted largely from exceptionally heavy imports, which the Government had to some extent encouraged in anticipation of possible world shortages.

In the Middle East and in the non-sterling primary producing countries of the Far East, there occurred either a sharp decline in surpluses, as in Indonesia and Thailand, or an increase in deficits, as in Egypt and Iran. In the latter case this was due to the cessation of oil sales, a loss which was only partially offset by import cuts.

The dependencies of continental European countries had larger deficits despite increased exports. This was partly a reflection of the acceleration of investment programmes financed by metropolitan governments, particularly by France.

As the trade balances of primary producing countries deteriorated, the difficulty of settling transactions with the United States, which accounted for a major part of the total shift from surplus to deficit, emerged again, especially in the oversea sterling area and in certain countries of Latin America. There was a decline in 1951/52 in the total surplus of primary producing countries with the United Kingdom. This was, broadly speaking, the net result of an increased surplus for Canada and for some of the oil producing countries of Asia, and of a shift from surplus to deficit in the trade balances of the oversea sterling area countries. In the latter case this represented a return to the earlier pattern of transactions, which had been temporarily reversed during the commodity boom of 1950/51.

Primary producing countries as a group had a surplus with continental western Europe in 1951/52, though a much smaller one than in 1950/51. In the case of Canada the surplus was larger, chiefly because of increased shipments to Europe of non-ferrous metals and wheat.[13]

The trade balances discussed above included payments, not only for merchandise imports, but also for freight and insurance. Net payments on transportation account by primary producing countries were higher in 1951/52 than the previous year (table 75), both as a result of the increased volume of their

[13] Canadian exports of military equipment to the European members of the North Atlantic Treaty Organization also increased substantially from 1950 to 1951/52. Such exports were financed by Canada under the Defence Appropriation Act, and were not recorded as Canadian commercial exports.

Table 75. Net Receipts[a] on Service Account by the United States and the United Kingdom from Primary Producing Countries, 1950/51 and 1951/52
(Millions of United States dollars)

Destination and source	Total 1950/51	Total 1951/52	Transportation only 1950/51	Transportation only 1951/52
Total receipts by United States	1,537	1,817	149	312
Receipts from.				
Canada	250	360	50	18
Latin America	783	785	43	76
Oversea sterling area	181	228	59	110
Other primary producers[b]	323	444	97	134
Total receipts by United Kingdom	1,400	1,361	347	440
Receipts from:				
Western Hemisphere non-dollar countries[c]	210	207	34	34
Oversea sterling area[d]	1,008	1,022	238	344
Other countries[e]	182	132	76	62

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D. C.), December 1952, and *Balance of Payments of the United States, 1949-1951* (Washington, D. C.); *United Kingdom Balance of Payments, 1948 to 1951*, Cmd 8379 (London) and *United Kingdom Balance of Payments, 1949 to 1952*, Cmd 8666 (London).

[a] Excluding government services, settlements, war disposals, etc.

[b] Including Japan.

[c] Argentina, Brazil, Chile, Paraguay, Peru, Uruguay.

[d] Including Iceland and Ireland.

[e] Including Japan and eastern Europe.

imports, and also because freight charges in 1951/52 were on the average higher than the year before, in spite of a steady decline in freight rates during the first half of 1952. Net payments on transportation account by primary producing countries to the United Kingdom and United States increased 50 per cent, from $496 million in 1950/51 to $752 million in 1951/52. Compared with the year 1950 these earnings were some 110 per cent larger. If net payments by primary producing countries to the Danish, Netherlands, Norwegian and Swedish fleets, which exceeded $200 million in 1950, increased in a similar proportion—and there is evidence that this was the case—payments by primary producing countries to Europe and the United States on transportation account were about $400 million higher in 1951/52 than in the preceding twelve months.

Outward payments on account of other services, which had risen sharply from the first to the second half of 1950, were maintained in 1951/52 at or near the high level of the previous year, in spite of the fact that payments on account of interest, profits and dividends on investments in extractive industries tended to decline from a peak reached late in 1950 or early in 1951. After the nationalization of the oil industry in Iran, payments on account of investment income from that country declined, while outpayments of investment income of foreign owned oil companies elsewhere in the Middle East increased.

Net capital flow

Identifiable net capital movements to primary producing countries in 1951/52 were somewhat lower than in the preceding twelve months (see table 76). There was a sharp decline in the outflow of capital from the United Kingdom, which was only partly offset by a slight increase in the outflow from the United States and by increased disbursements by the International Bank for Reconstruction and Development. The change from 1950/51 to 1951/52 in capital flow from the United States was the net result of a sharp decline in the net outflow to Canada, the largest single recipient of United States capital, and a substantial increase in capital movements to other primary producing areas, especially in the first half of 1952. This rise, together with increased lending by the International Bank for Reconstruction and Development, more than offset the decline in United Kingdom capital exports to areas other than Canada.

United States private long-term investment[14] in all primary producing countries was about 16 per cent lower in 1951/52 than in 1950/51. The outflow of private long-term capital to Canada, which had been exceptionally large in the second half of 1950, declined

[14] Including reinvested profits of foreign branches but not of subsidiaries of United States firms. Reinvested earnings of subsidiaries in countries other than western Europe rose from $366 million in 1950 to $574 million in 1951. Data for 1952 were not available when this report was prepared.

Table 76. Net Capital Outflow[a] from the United States, the United Kingdom and the International Bank for Reconstruction and Development to Primary Producing Countries, 1950 to 1952

(Millions of United States dollars)

Source and period	Destination: Canada	Destination: Latin America[b]	Destination: Oversea sterling area[c]	Destination: Other primary producers[d]	Total: Including Canada	Total: Excluding Canada
Total, United States:						
1950 Second half	533	190	34	70	827	294
1951 First half	271	238	19	77	605	334
1951 Second half	168	145	127	141	581	413
1952 First half	272	370	98	158	898	626
Total, private:						
1950 Second half	531	190	39	77	837	306
1951 First half	270	152	19	43	484	214
1951 Second half	168	145	19	111	443	275
1952 First half	269	356	17	54	696	427
Private, long-term:						
1950 Second half	428	95	40	51	614	186
1951 First half	289	136	15	29	469	180
1951 Second half	202	22	30	41	295	93
1952 First half	300	161	42	111	614	314
Total, United Kingdom:						
1950 Second half		−56	179	67		190
1951 First half		20	252	126		398
1951 Second half		−92	176	−50		34
1952 First half		−8	98	17		107
Total, International Bank for Reconstruction and Development:						
1950 Second half	—	16	4	—	20	20
1951 First half	—	25	17	2	44	44
1951 Second half	—	32	38	5	75	75
1952 First half	—	33	42	20	95	95

Source: United States Department of Commerce, *Survey of Current Business*, December 1952, and *Balance of Payments of the United States, 1949-1951; United Kingdom Balance of Payments, 1948 to 1951*, Cmd 8379 and *United Kingdom Balance of Payments, 1949 to 1952*, Cmd 8666.

[a] Excluding unilateral transfers. United States grants to primary producers in 1950/51 amounted to approximately $400 million, in 1951/52 to approximately $590 million; most of these grants were to countries of the Middle East and Far East. United Kingdom colonial grants were £14 million ($39 million) in 1950/51 and £28 million ($78 million) in 1951/52. Minus sign (−) indicates net inflow of capital from primary producing area.

[b] Excluding United Kingdom receipts and payments on capital account with Latin American dollar countries.

[c] Including United Kingdom receipts and payments on capital account with Ireland and Iceland.

[d] Including United States and United Kingdom receipts and payments on capital account with Japan and China; and United Kingdom receipts and payments on capital account with eastern Europe.

sharply in 1951. Capital outflow for direct investment in other areas, which had slowed down since 1949 as a result of the progressive completion of installations connected with the petroleum industry in Latin America[15] and the Middle East, reached its lowest point in the second half of 1951. However, the downward movement in direct investment in all areas was reversed in the first half of 1952. Part of the increase may have reflected special factors, such as tax payments and the blocking of remittances on United States investments in Brazil. Even after account is taken of the special factors, however, there may have been a shift in 1952 from the earlier downward trend in United States oversea investments. The principal causes were the resumption of petroleum investment in Latin America and the Middle East and the increasing tempo of investment in the production of ores and metals, such as iron ore in Canada and Venezuela, and

[15] Ship sales to Panamanian operators controlled by United States firms, amounting in 1949 and 1950 to over $60 million, are recorded in the United States balance of payments as capital outflow. Part of the recorded decline in United States investment in Latin America is attributed to the virtual stoppage of such sales in 1951.

aluminium in Canada, and in numerous other projects in Latin America, Africa, Canada and elsewhere.

Lending by the United States Government to primary producing countries in 1951/52 was substantial, largely because of disbursements under the $190 million wheat loan to India. Loans by the Export-Import Bank of Washington fell off in 1951/52, compared with 1950/51 when Argentina had received a credit of $125 million for the funding of commercial debts; they reached a low point of only $35.1 million in the second half of 1951, but rose to nearly twice that amount in the first half of 1952.

The movement of short-term funds between the United States and individual primary producing countries was of sizable proportions in 1951/52, but the net flow to the group as a whole was substantially the same as in 1950/51. There was a reverse flow of such funds to the United States from Canada, owing partly to the fact that United States speculative investors in Canadian securities tended to sell out as the Canadian dollar appreciated in late 1951 and early 1952. On the other hand, there was an increased outflow—partly involuntary—of United States short-term capital to other areas, chiefly Latin America, where several countries accumulated substantial commercial arrears. It was reported that United States banking claims against Brazil alone increased by $264 million during the twelve months ending 30 June 1952.

The capital outflow from the United Kingdom to primary producing countries fell by the equivalent of about $450 million from 1950/51 to 1951/52. A major part of this reduction probably reflected short-term factors. Short-term outflow to Australia was affected during 1950 and the first half of 1951 by speculation on the possible appreciation of the Australian pound. There was also a considerable speculative outflow to the Union of South Africa. It is likely that these speculative movements were substantially reduced or even reversed as these countries began to encounter balance of payments difficulties towards the end of 1951 and early in 1952. The reduction in the net outflow of United Kingdom capital to primary producing countries in 1951/52 was in part also accounted for by further sales of British investments in Latin America. Brazil, for example, acquired $29 million of such investments in the latter part of 1951.

Lending by the International Bank for Reconstruction and Development increased gradually throughout the period under consideration, reflecting the rising number of operations undertaken over a wide range of fields of investment. Some new loans were granted to primary producing countries for broad projects of general development; these included $40 million to the Belgian Congo, $28 million to Yugoslavia and $20 million to Finland. A similar loan granted in 1950/51 to Australia began to be utilized on a large scale in 1951/52. Loans to Latin America were predominantly for power projects and the development of transportation. Flood control and irrigation loans made to Iraq and Thailand in 1950/51 began to be disbursed in the following year.

Gross French investments in oversea dependencies in 1951/52 were planned[16] to exceed those of the preceding year. The contribution of the French Government to the financing of investments in French North Africa (Tunisia, Algiers and Morocco) was to be $150 million in 1952, compared with $140 million in 1950 and $137 million in 1951. Public investment plans for 1952 in other French oversea territories called for an expenditure of $229 million as against $94 million in 1950 and $177 million in 1951.[17]

Gold and foreign exchange assets

Changes in the holdings of gold and in net foreign exchange assets of the primary producing countries are set out in table 77. The reserves of gold and of dollar and sterling balances, taken together, reached their highest point for the period under consideration at the end of June 1951. Between mid-1950 and mid-1951, the period of the raw material boom, the gold, dollar and sterling assets of primary producing countries had risen by $3,200 million. Of this total, somewhat less than $1,900 million was liquidated from mid-1951 to mid-1952 as the raw material boom subsided. However, in terms of the purchasing power over imports from the United States and western Europe, the value of reserves in June 1952 was substantially less than in June 1950. In the latter part of 1952 the fall in reserves, both in money and real terms, was arrested as the external assets of the majority of primary producing countries showed slight increases, and import prices began to decline.

It may be noted that the main reduction in reserves from mid-1951 to mid-1952 was in sterling balances. The gold and dollar holdings of all primary producing countries taken together actually increased by $270 million, while sterling balances declined by $2,100 million. This is a reflection of the fact that the primary producing countries experiencing the greatest balance of payments difficulties in the second half of 1951 and the first half of 1952 were in the

[16] General Commission for the Plan of Modernization and Equipment, *Cinq ans d'exécution du plan de modernisation et d'équipment de l'Union Française—Réalisations 1947-51 et Programme 1952* (Paris).

[17] Net capital outflow from France to its oversea dependencies was given by the Organisation for European Economic Co-operation as $125 million in 1950 and $237 million in 1951. See *Europe—the Way Ahead* (Paris), December 1952, page 255.

Table 77. Gold Reserves and Foreign Exchange Assets[a] of Primary Producing Countries, 1950 to 1952
(Thousand millions of United States dollars)

Date or period	At end of period	Change during period: Gold	Dollars	Sterling	Total
30 June 1950	14.8				
1 July 1950 to 30 June 1951:					
Total, all countries[b]	18.0	0.7	1.1	1.4	3.2
Canada	2.0	0.1	0.3[c]	—	0.5
Latin America	4.0	0.3	0.3	0.1[d]	0.6
Oversea sterling area[e]	8.9	—	—	1.5	1.5
Countries	6.4	—	—	0.7	0.8
Dependencies	2.5	—	—	0.7	0.7
1 July 1951 to 30 June 1952:					
Total, all countries[b]	16.1	0.2	0.1	−2.1	−1.9
Canada	2.4	0.2	0.2[c]	—	0.4
Latin America	3.5	−0.1	−0.1	−0.2[d]	−0.5
Oversea sterling area[e]	7.3	−0.1	—	−1.5	−1.6
Countries	4.4	−0.1	—	−1.9	−2.0
Dependencies	2.9	—	—	0.4	0.4

Source: United Nations Department of Economic Affairs.
[a] Including short-term dollar holdings and sterling balances, public and private.
[b] Including certain primary producing countries not included in sub-totals.
[c] Official balances only.
[d] Sterling balances of dollar area and "other Western Hemisphere" as reported by the United Kingdom, less sterling balances held in the United States, as reported by the United States in Federal Reserve Board, *Federal Reserve Bulletin* (Washington, D. C.).
[e] Excluding Ireland.

first place countries in the oversea sterling area, whose deficits with other areas were reflected in changes in sterling balances. Large deficits were also incurred by certain other countries such as Argentina, Brazil and Egypt, which employ sterling on a considerable scale for settlements, not only with the sterling area, but also with transferable account countries in western Europe.[18] Thus, the sterling balances of six South American countries[19] fell from £57 million at the end of 1951 to £8 million on 30 June 1952, the latter figure probably being below the working balances which these countries would wish to hold in normal circumstances. Egypt likewise ran down its currently disposable sterling balances to a very low level, as a result of which a special advance of sterling from the British Government became necessary.

Similarly, the sterling balances of the independent oversea sterling countries fell by over £300 million in the second half of 1951 and by a somewhat larger amount in the first half of 1952, the bulk of the decline being accounted for by a reduction in Australian holdings.[20] As indicated previously, Australia's position was vulnerable, not only in respect of the heavy adverse movement in its trade balance but also owing to the large influx of speculative capital which had occurred up to mid-1951.

The upward trend in the sterling balances of the United Kingdom dependencies, which had been in evidence throughout the earlier post-war years, continued in 1951 and 1952. The dependencies have had in recent years a trade surplus with the dollar area and continental Europe which was only partly offset by a deficit with the United Kingdom. In 1951 and 1952 a surplus occurred, not only with these other areas, but also with the United Kingdom itself. Furthermore, an increase in United Kingdom government expenditures in the dependencies and in grants to them since mid-1951 has added to their sterling resources.

[18] Thus, net sterling transfers to continental western Europe from other non-sterling countries increased from £25 million in the first half of 1951 to £81 million in the second half of the year and to £71 million in the first half of 1952.

[19] Argentina, Brazil, Chile, Paraguay, Peru and Uruguay.

[20] Australia's official foreign exchange holdings (which exclude holdings of banks and businesses but include some small amounts of other currencies in addition to sterling) fell from $1,588 million to $659 million.

Whereas foreign exchange reserves in many oversea sterling countries declined, a number of primary producing countries in the dollar area, especially Canada and some of the Central American countries, as well as certain non-sterling countries in Asia, added to their gold and dollar balances in the first half of 1952.[21] This was a result of the rise in United States imports in the first half of 1952, partly seasonal and partly for the restocking of certain raw materials, and of the increase in United States capital outflow.

[21] An increase since mid-1951 in Egypt's gold reserve and dollar holdings was due in part to a release by the United Kingdom from the Egyptian blocked sterling account of $40 million in United States currency.

Chapter 6

TRADE OF EASTERN EUROPE AND MAINLAND CHINA[1]

Changes in the Structure and Level of Trade

The trade of eastern European countries and of mainland China with one another continued to increase in 1951 and 1952 while their trade with the rest of the world fell. The long-term effects of this trend are revealed in table 78, where the ratio of trade among the members of this group of countries to total trade is indicated for 1937 and for a series of post-war years. Taking the group as a whole, while such trade was probably equivalent to 10 per cent or less of total trade in 1937, it accounted for two-thirds or more in 1951. Furthermore, while in 1937 trade with the Union of Soviet Socialist Republics accounted for less than one per cent of the trade of other countries in the group, it amounted to something approaching one-third of their trade, on an average, in 1951. One of the largest shifts in trade pattern occurred in the case of mainland China, whose trade with the other countries of the group accounted for less than 5 per cent of its total trade in 1937, and for 61 per cent in 1951. Moreover, the rapidity of the change in the geographical composition of mainland China's trade may be judged from the fact that in 1950 trade with eastern Europe had accounted for only 26 per cent of its total trade.[2]

In eastern Germany, Poland and Romania there was a fall in the share of eastern Europe and mainland China in total trade from 1950 to 1951, for reasons which are indicated below.

The drastic reorientation of the direction of trade referred to above was accompanied by a substantial rise in aggregate volume. On the basis of various recent official statements, it may be estimated that the general order of magnitude of the increase in quantum of trade of eastern Europe between 1937 and 1951 was 40 per cent. The quantum of exports of mainland China in 1951 was 60 per cent higher than in 1936, and trade was approximately balanced.

[1] Eastern Europe includes Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania, the Union of Soviet Socialist Republics; mainland China, the area controlled by the Central People's Government of the People's Republic of China.

[2] In 1952 the proportion of the trade of mainland China with eastern Europe increased further, to 72 per cent.

Table 78. Trade of Eastern European Countries[a] and Mainland China with One Another, as Percentage of their Total Trade, 1937 and 1948 to 1951

Country	Percentage ratio to total trade of trade with Eastern Europe[a] and mainland China					USSR	
	1937	1948	1949	1950	1951	1937	1951
Albania	5	38	100	100	100	—	57
Bulgaria	12	74	82	88	92	—	58
Czechoslovakia	11	30	45	52	60	1	28
Hungary	13	34	46	61	67	—	29
Poland	7	34	43	59	58	1	25
Romania	18	71	82	83	79	—	51
Average, above countries	12		51		65	—	31
China, mainland	...	..	..	26	61	—	..
Germany, eastern[b]	17[c]	75	77	86	79		
USSR	4[d]				80[e]		

Source: *Vneshniaya Torgovlya* (Moscow), October 1952; *Probleme Economice* (Bucharest), September 1952. Post-war data for China mainland from statement of Minister for Foreign Trade, *People's Daily* (Peking), and for eastern Germany from *Statistische Praxis* (Berlin), May 1952; 1937 data for China mainland and USSR from League of Nations, *International Trade Statistics, 1938* (Geneva, 1939).

[a] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland and the Soviet Union.

[b] Excluding trade with western Germany.

[c] 1936.

[d] Covering trade of the Soviet Union (1937 area) with China, Czechoslovakia, Hungary, Poland and Romania.

[e] 1952.

The largest increases in foreign trade appear to have occurred in the case of Poland and the Soviet Union, while the rise in Czechoslovakia's trade was relatively small owing to the fact that the impact of the decline in east-west trade upon the structure of production and trade was considerable in that country.[3]

The implication of the above data is that the trade of the countries of eastern Europe and mainland China with one another rose at least sevenfold in volume between 1937 and 1951, while eastern Europe's trade with the rest of the world in 1951 was equivalent to one half or less of the pre-war volume.

The quantum of trade of the five eastern European countries listed in table 79 increased by about one-quarter from 1949 to 1951. The corresponding rise in the volume of trade of the Soviet Union was perhaps roughly of the order of one-third.[4] In Hungary, Poland and Romania there were increases in trade both in 1950 and 1951. In Czechoslovakia, however, there was a significant drop in the volume of trade from 1949 to 1950, while in Bulgaria the level of trade both in 1950 and in 1951 was well below that of 1949.

Table 79. Quantum of Trade of Selected Eastern European Countries, 1950 and 1951
(1949=100)

Country and item	Imports 1950	Imports 1951	Exports 1950	Exports 1951	Total 1950	Total 1951
Bulgaria:						
Total trade	75	72	97	103	84	85
Trade with other countries of eastern Europe[a] and mainland China	...				90	95
Trade with rest of world					56	38
Czechoslovakia:						
Total trade	87	124	91	105	89	114
Trade with other countries of eastern Europe[a] and mainland China	108	167	107	138	107	152
Trade with rest of world	71	89	77	76	74	83
Hungary:						
Total trade	110	136	117	141	113	137
Trade with other countries of eastern Europe[a] and mainland China	141	204	157	198	149	200
Trade with rest of world	85	83	78	87	81	84
Poland:						
Total trade	105	146	102	123	104	135
Trade with other countries of eastern Europe[a] and mainland China	153	205	130	158	142	182
Trade with rest of world	70	104	79	95	75	99
Romania:						
Total trade	126	139	109	132	118	136
Trade with other countries of eastern Europe[a] and mainland China					119	131
Trade with rest of world					111	158

Source: Probleme Economice, September 1952.

[a] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Soviet Union.

The decline in the quantum of Czechoslovak trade from 1949 to 1950 reflected the decrease by some 25 per cent in trade with countries outside eastern Europe, and the fact that the commodity composition of Czechoslovak exports had not yet been fully oriented to demand in eastern European countries, which was primarily for raw materials and industrial equipment and only secondarily for products of light industry, which had constituted the major element in Czechoslovak exports to other countries.

[3] See explanation below of decline in Czechoslovak trade from 1949 to 1950. See also United Nations, *World Economic Report, 1950-51*, chapter 7.

[4] Based on the following indications: according to *Izvestia* (Moscow), 21 December 1949, the quantum of trade of the Soviet Union in 1949 was more than double that of pre-war; in a speech by Nesterov, reported in International Economic Conference, *Information Bulletin No. 3* (Moscow), 6 April 1952, it was stated that the quantum of trade of the Soviet Union "now" was roughly three times as great as before the war.

The fall in the trade of Bulgaria, on the other hand, is not fully attributable to the contraction of trade with countries outside eastern Europe but appears to have been due to a reduction in imports from eastern European countries as well. This, in turn, may have been due to the failure of Bulgarian exports to expand.

In Czechoslovakia, eastern Germany, Hungary, Poland and Romania, there were increases in trade from 1950 to 1951 both with eastern Europe and the mainland of China, and with the rest of the world. The latter increase offset partially or wholly the sharp declines which had occurred from 1949 to 1950. In eastern Germany, Poland and Romania substantial increases in trade in 1951 with countries other than those in eastern Europe and mainland China had the effect of reducing the shares of the latter countries in the total trade of these three countries, as mentioned above. The scope of these increases in trade was, however, limited. In the case of Poland, the rise in the value of trade with countries outside eastern Europe was largely confined to trade with Australia, Denmark, Finland, France, Italy, Malaya and Sweden. In Romania, where trade with other eastern European countries and with mainland China increased less between 1949 and 1951 than its trade with the rest of the world the most important trading partners outside eastern Europe in 1951 were Austria, Egypt, Finland, Italy, Switzerland and the United Kingdom.

The exports of the Chinese mainland rose 19 per cent in quantum from 1950 to 1951.[5] Taken together with the increase in the share of trade with eastern Europe from 26 per cent to 61 per cent between these years, this implies something approaching a threefold rise in exports to eastern Europe, and a fall of one-third in exports to the rest of the world. In table 80 details are given of some leading commodity exports of mainland China in 1936 and in 1951. The commodities listed accounted for approximately 40 per cent of the total value of exports from China, including the north-east region, to the rest of the world in 1936.

Available indications are that there were further increases in the total trade of the group of countries under consideration in 1952, mainly as a result of the continued development of their trade with one another. Particularly large percentage increases in trade with eastern Germany and with mainland China were reported.[6] In many cases the size of these increases reflected the relatively low level of trade between particular pairs of countries in the group during previous periods. On the other hand, the quantum of trade of Czechoslovakia rose only 3.4 per cent from the first half of 1951 to the first half of 1952, an increase in trade with eastern Europe and mainland China slightly more than offsetting a decline in trade with the rest of the world. Thus the share of eastern Europe and mainland China in Czechoslovak trade rose further, to 68 per cent in the first half of 1952. From 1948 to 1952 the total volume of trade of eastern Europe and mainland China is reported to have approximately doubled, while trade among the countries of the group increased threefold.[7]

A growing proportion of the trade among eastern European countries and mainland China consisted of industrial raw materials and heavy equipment. Among the Soviet Union's leading exports to other countries in this group were iron, manganese and chromium ores, raw cotton, petroleum products, agricultural and industrial equipment, and chemicals. The Soviet Union's imports from these countries included coal, petroleum, ferrous and non-ferrous metals, industrial machinery, railway equipment, dry goods and tobacco.[8] There was also a substantial two-way trade in foodstuffs. In order to relieve domestic shortages, Czechoslovakia imported over one million tons of grain from the Soviet Union late in 1950 and early in 1951; a similar quantity of shipments during 1952 was provided for under the agreement of 5 April 1952 between Czechoslovakia and the Soviet Union.[9]

Table 80. Mainland China: Selected Exports, 1936 and 1951

(Thousands of metric tons)

Commodity	*1936*	*1951*
Antimony	7[a]	20
Coal	4,862	7,430
Egg products	63	70
Ground-nuts	172	250
Salt	997[a]	100
Silk, raw	10	10
Soy-beans	1,909	2,480
Tea	34	100
Tung oil	87	100

Source: 1936: League of Nations, *International Trade Statistics, 1938* (Geneva, 1939), adjusted for inclusion of north-east region; 1951: *Ta Kung Pao* (Shanghai) 8 April 1952.

[a] 1938.

[5] *Vneshniaya Torgovlya*, March 1952.

[6] It was reported that between 1951 and 1952 eastern Germany doubled its trade with Hungary, trebled its trade with Romania and quadrupled its trade with mainland China.

[7] *Vneshniaya Torgovlya*, October 1952.

[8] *Vneshniaya Torgovlya*, October 1952, and *Probleme Economice*, September 1952.

[9] It was reported that in 1952 Czechoslovakia imported 48 per cent of its wheat requirements, as well as a considerable proportion of its needs in other foodstuffs See Czechoslovak Ministry of Foreign Trade. *Czechoslovak Economic Bulletin* (Prague), 1 January 1953.

East-West Trade

The current dollar value of trade of eastern European countries and mainland China with the rest of the world, as reported by their trading partners, increased by nearly 16 per cent from 1950 to 1951 and fell by 20 per cent from the first half of 1951 to the first half of 1952, as shown in table 81. It is probable that the quantum of east-west trade declined between both periods. Except in the case of mainland China, however, whose trade with countries other than those in eastern Europe fell drastically in the first half of 1952, it is possible that the decline in the total quantum of east-west trade in that period was fairly small.

In the first half of 1952, United States exports to the eastern European countries under consideration amounted to less than half a million dollars, and imports to $19.5 million compared with $35.8 million in the first half of 1951. Exports to China mainland were zero, but imports were valued at $22.6 million.[10]

Table 81. Trade[a] of Eastern Europe and Mainland China with Rest of World, 1950 to 1952
(Millions of United States dollars)

Period	Eastern Europe[b]		Mainland China		Total	
	Exports	Imports	Exports	Imports	Exports	Imports
1950 Full year	862.9	930.4	476.2	409.3	1,339.1	1,339.7
1951 Full year	1,097.8	1,104.0	472.7	439.6	1,570.5	1,543.6
1951 First half	544.4	563.7	250.3	314.4	794.7	878.1
1952 First half	587.3	541.9	150.6	51.6	737.9	593.5

Source: Statistical Office of the United Nations.

[a] Exports and imports, f.o.b.

[b] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Soviet Union.

[10] United States exports were restricted in accordance with the provisions of the Export Control Act of 1949 and an embargo on strategic exports to mainland China and North Korea adopted by the United Nations General Assembly in resolution 500 (V) of 18 May 1951. Similar controls were adopted in a large number of other countries: for details see Mutual Security Agency, *First Report to Congress*, covering operations under Mutual Defense Assistance Control Act of 1951 (Washington, D. C.), 15 October 1952, appendix E.

It is estimated that the quantum of western Europe's imports from eastern Europe fell by 13 per cent from 1950 to 1951 and exports by 6 per cent. From 1951 to the first half of 1952, the over-all quantum of trade probably declined somewhat further. As shown in table 82, western Europe's imports of grain from eastern Europe rose to some extent in the crop year 1951/52, the share of eastern Europe in the total grain imports of western Europe increasing slightly. However, the quantities of grain to be imported by

Table 82. Imports of Grain by Western Europe,[a] 1949/50 to 1951/52
(Millions of metric tons)

Exporting area	Wheat and rye			Maize, barley, oats			Total		
	1949/50	1950/51	1951/52	1949/50	1950/51	1951/52	1949/50	1950/51	1951/52
All sources[b]	13.1	12.5	14.2	7.5	6.6	8.4	20.6	19.1	22.6
USSR	0.4	0.5	0.8	1.0	0.7	1.0	1.4	1.2	1.8
Other eastern European countries[c]	0.7	0.3	0.2	0.1	0.1	0.1	0.8	0.4	0.3
Total, eastern Europe[c]	1.1	0.8	1.0	1.1	0.8	1.1	2.2	1.6	2.1
Share in total imports of western European countries supplied by eastern Europe[c] (percentage)	8	6	7	15	12	13	11	8	9

Source: United Nations, *Economic Bulletin for Europe*, vol. 4, No. 3 (Geneva), November 1952.

[a] Austria, Belgium-Luxembourg, Denmark, Finland, France, western Germany, Greece, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom.

[b] Including trade between western European countries.

[c] Excluding Czechoslovakia and eastern Germany.

the United Kingdom under its trade agreement with the Soviet Union concluded in October 1952 were much lower than provided for in previous agreements.[11]

[11] The new agreement for 1952/53 provided for United Kingdom grain imports of only 200,000 tons, compared with 900,000 in 1949/50, 800,000 in 1950/51 and 1,000,000 tons in 1951/52.

Table 83. Imports of Selected Commodities by OEEC Countries[a] from Eastern Europe,[b] 1950 to 1952

(Thousands of metric tons)

Commodity	*1950*	*1951*	*1952[c]*
Coal[d]	11,051 9	10,908.0	8,154.9
Major importers:			
Sweden	2,510.9	3,604.9	3,136.0
Austria	2,318.0	2,137.6	1,886.7
Denmark	1,804.0	1,835.0	100.1
Germany, western	1,376 3	511.4	359.4
Italy	1,280.0	1,261.1	899.2
France	755.7	1,090.5	1,495.4
Norway	515.0	165 5	57.7
Timber[e]	1,361.1	752.4	249.6
Major importers:			
United Kingdom	1,029.5	511.5	82.2
Belgium-Luxembourg	145.7	144.5	37.4
Netherlands	98.7	68 2	82.2
Steel	137.3	57.3	24.5
Major importers:			
Sweden	44.0	21.5	11.9
Italy	43.0	16.2	6.0
Switzerland	17.5	5.8	0.7
Belgium-Luxembourg	15.6	9.0	5.5
Sugar		179.7	186.4
Major importers:			
Sweden	32.7	45.5	25.6
Switzerland	25.8	12.2	12.8
Germany, western	21.0	65.7	72.0
Norway		21.3	48.8
Meat		64.0	43.2
Major importers:			
United Kingdom		29.9	40.6
Germany, western		14.6	0.3
Eggs	27.1	16.4	20.8
Major importers:			
United Kingdom	12.0	1 6	1.3
Germany, western	5.6	4.9	3.7
Italy	5.1	7.4	10.0
Switzerland	4.3	1.8	5 5

Source: Statistical Office of the United Nations.

[a] Belgium-Luxembourg, France, western Germany, Italy, Netherlands, Norway, Sweden, Switzerland, Turkey and the United Kingdom; including also Austria and Denmark in the case of coal.

[b] Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Soviet Union.

[c] First six months at annual rate.

[d] Including coke, lignite and briquettes.

[e] Thousands of cubic metres.

There was also some increase, in the first half of 1952, in western Europe's imports of eggs and sugar from eastern Europe, as indicated in table 83. Coal and timber imports, however, were considerably lower. In the case of coal, this largely reflected disagreement on prices between Poland and certain importing countries as well as the improved supply in western Europe. Danish imports of coal from Poland were consequently at a standstill in the first half of 1952. In September 1952, Polish export prices for coal, which had for a time equalled or exceeded the c.i.f. price of imports from the United States, were reduced.

While the aggregate volume of western Europe's exports to eastern Europe and particularly to mainland China fell between 1951 and the first half of 1952, there were some shifts in the commodity composition of exports, as indicated in table 84. The decline was most marked in the category of machinery and transport equipment, affected by export restrictions. On the other hand, there were increases in exports of foodstuffs and textiles. The food exports included fish from Iceland, Norway and the Netherlands, butter from Denmark and Sweden, and citrus fruits from Italy. Most of the western European textile exporting countries participated in the rise in textile deliveries to eastern Europe in the first half of 1952.

There was also some increase in exports or re-exports of rubber and tin by the United Kingdom and colonies to the Soviet Union in the first half of 1952, as shown in table 85. The figure for rubber in the first half of 1952 includes a substantial amount licensed for export in 1951 while actual shipment was delayed until 1952.

The value of Finland's trade with the Soviet Union increased in 1952. Following the completion of reparations shipments by Finland in September 1952, a new agreement with the Soviet Union provided for continued imports by the latter country of the products of industries developed in Finland to fulfil the reparations programme. In addition, a triangular agreement with mainland China and the Soviet Union provided for Finnish shipments to the former country to be paid for by imports from the latter.

A few other countries recorded a higher value of trade with eastern Europe in the first half of 1952—particularly certain countries in the Middle East. There was an increase in Egypt's trade with the Soviet Union, mainly as a result of barter arrangements completed early in 1952 involving Egyptian exports of 22,450 tons of cotton in return for 200,000 tons of wheat. Iran's trade with eastern Europe, particularly Hungary and the Soviet Union, also rose under barter agreements for Iranian exports of dates,

Table 84. Exports to Eastern Europe[a] and Mainland China by OEEC Countries, 1951 and 1952

(Millions of United States dollars; annual rate)

Commodity	Eastern Europe		Mainland China	
	1951	1952[b]	1951	1952[b]
Foodstuffs	74.1	86.0	0.5	0.1
Other consumer goods	42.8	53.1	3.6	1.9
Textiles	15.3	28.2	0.5	1.2
Raw materials	108.6	101.0	1.4	0.2
Other producers' goods	327.2	307.6	21.3	8.8
Machinery and transport equipment	193.3	162.6	9.4	2.0
Metals and metal manufactures	67.0	77.5	6.9	0.1
Industrial chemicals	42.1	49.2	4.3	6.4
TOTAL	552.7	547.7	26.8	10.9

Source: Statistical Office of the United Nations.

[a] Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Soviet Union.

[b] Annual rate, based on first six months.

Table 85. Exports of Rubber and Tin from the United Kingdom and British Colonies to USSR and Mainland China, 1950 to 1952

(Long tons)

Period	USSR		Mainland China	
	Rubber	Tin	Rubber	Tin
July to December 1950	42,128[a]	125	72,518	474
January to June 1951	20,618	—	59,798	—
July to December 1951	35,426	—	—	—
January to June 1952	64,873	200	—	—

Source: United Kingdom, *Board of Trade Journal* (London), 1 November 1952.

[a] This figure may include a small element of double-counting in the exports of Malaya and re-exports of the United Kingdom.

almond products and cotton in exchange for sugar, textiles and some machinery.[12] An agreement signed in September 1952 made provision for an increase in the trade of Syria with Czechoslovakia. Pakistan, whose exports to China and Poland rose in the first half of 1952, concluded a trade agreement with the Soviet Union in September 1952 providing for deliveries by Pakistan of 22,000 tons of jute and 13,150 tons of cotton in exchange for 150,000 tons of wheat.

Other non-European countries, including Australia, Hong Kong, and Japan, generally reported declines in trade with eastern Europe and mainland China in the first half of 1952. In 1951 India had imported 66,000 tons of rice and 360,000 tons of coarse grain from the Chinese mainland. In the first half of 1952, there was a decline in coarse grain shipments, but rice imports increased under agreements for further imports of 150,000 tons. Ceylon also reached agreement with mainland China in October 1952 for deliveries of rubber in exchange for rice. Argentina and Brazil concluded trade agreements with Czechoslovakia and Poland during 1952.

[12] Provision was also made for Hungarian imports of Iranian oil, but no actual shipments appear to have been made in 1952.

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