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# FOREWORD

Each year the Secretary-General of the United Nations prepares a comprehensive review of world economic conditions. The present report is the seventh in this series. Like the earlier publications, it is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of the world economic situation as a prerequisite for recommendations in the economic field, as well as to serve the needs of the general public. The reports are issued in response to General Assembly resolution 118 (II), which requested an annual factual survey and analysis of world economic conditions and trends.

The present report, continuing the practice in earlier ones, analyses major recent changes in domestic economic conditions and in international trade and payments, with special emphasis on developments in 1953 and 1954. Part I is concerned with changes in the domestic economic situation in three broad groups of countries: economically developed private enterprise economies (chapter 1); centrally planned economies (chapter 2); and economically under-developed private enterprise economies (chapter 3). Part II analyses changes in international trade and payments; the most important aspects are reviewed in chapter 4, which is followed by chapters relating to the external transactions of countries which, for the most part, are exporters of manufactured products (chapter 5) or of primary commodities (chapter 6); and of countries with centrally planned economies (chapter 7). There is inevitably some overlapping of treatment in parts I and II, since changes in the domestic economy of a country and in its external transactions are in many respects interdependent. The classification of countries in part I is not in all respects the same as that in part II. The grouping of countries and parts of countries for the various chapters is dictated solely by analytical requirements.

As in previous years, there are published as supplements to this report reviews of economic conditions in areas outside the scope of the work of the regional economic commissions of the United Nations: *Economic Developments in the Middle East, 1945 to 1954* (sales number 1955.II.C.2), *Review of Economic Activity in Africa, 1950 to 1954* (1955.II.C.3) and *Scope and Structure of Money Economies in Tropical Africa* (1955.II.C.4).

A special feature of the present report is an analysis of certain longer-range problems of international trade, presented in response to Economic and Social Council resolution 531 C (XVIII) of 4 August 1954. That resolution, referring to advantages which might accrue from the expansion of international trade and indicating that it would be useful if the Council could be furnished with a broad examination of the various factors tending to limit such expansion, requested the Secretary-General to include in his next *World Economic Report* an analysis of such factors, with a study of problems involved in promoting the development of trade within and between various geographic and currency areas. This far-reaching subject is discussed in general terms in the "Introduction" to the present report. In addition, there is published as a further supplement to the report a study entitled *The Quest for Freer Trade* (1955.II.C.5), which examines in more detail the obstacles to trade that have resulted from national commercial policies and from balance of payments difficulties, and also reviews national measures and international action taken by inter-governmental agencies with a view to removing or reducing such obstacles.

The basic data used in the report are, in general, as officially reported by governments. The significance of the figures may vary from country to country, depending on the statistical concepts and methods followed and on the structure and development of the national economy. For this reason, the compilation of international statistical tables requires that attention be given to any important elements of non-comparability or qualifications attaching to the data; these are usually shown in the tables of the report or in the detailed statistical publications of the United Nations from which the data are derived.

The report was prepared in the Department of Economic and Social Affairs, largely by the Bureau of Economic Affairs. Substantial assistance was received from the Statistical Office of the United Nations, which collected most of the basic statistical data and prepared many of the tables. Some of the statistical material was obtained from the specialized agencies, notably the International Monetary Fund, the International Bank for Reconstruction and Development, and the Food and Agriculture Organization of the United Nations.

New York, April 1955

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## *EXPLANATORY NOTE*

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

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

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

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

A minus sign (—) indicates a deficit or decrease

A full stop (.) is used to indicate decimals

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

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

Use of a hyphen (-) between dates representing years, e.g., 1950-54, 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., 1950 to 1954 means 1950 to 1954, inclusive.

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

The term "billion" signifies a thousand million.

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

# TABLE OF CONTENTS

# List of Tables

## Charts

# INTRODUCTION

# Introduction

# SOME PROBLEMS IN INTERNATIONAL TRADE POLICY

## Recent activities of international bodies concerning trade policy

At its eighteenth session, the Economic and Social Council, in resolution 531 C (XVIII), requested the Secretary-General to include in the forthcoming edition of the *World Economic Report* an examination of the various factors tending to limit the expansion of international trade. This work was to include a study of the problems involved in promoting the development of trade within and between various geographic and currency areas. In partial fulfilment of that request, a brief examination of outstanding problems and issues relating to international trade is presented here.[1]

The nature of some of these problems and issues is indicated by actions of the Council and of other international organizations in recent months. In the resolution just referred to, the Council recognized "the contribution which a continuing expansion of international trade can make to increasing production, employment, standards of living, economic development of under-developed countries and international stability"; urged governments to "take all practicable steps to facilitate the further expansion of mutually beneficial international trade"; and decided "to place the question of the expansion of international trade and the development of international economic relations on the agenda for its twentieth session . . .".

The concern of the Council regarding problems of trade in primary products is indicated by another action taken during 1954. Following earlier resolutions calling for studies, the Council, in resolution 512 A (XVII), decided to established a Permanent Advisory Commission on International Commodity Trade, emphasizing the "need for devising effective measures for international co-operation to solve the grave problems of the inadequacy and instability of the proceeds of primary commodity exports". At its eighteenth session, the Council constituted this Commission, which held its first meeting from 17 January to 2 February 1955.

The Council, at its eighteenth session, also considered a proposal by the Economic Commission for Europe (ECE) calling for inter-regional consultations of trade experts to be held under the auspices of the regional economic secretariats. These consultations would be similar, in general, to the consultations concerning trade among European countries which have been sponsored by the Economic Commission for Europe. They would involve, on the one hand, countries participating in the work of ECE and, on the other hand, countries participating in the work of the Economic Commission for Asia and the Far East (ECAFE) and the Economic Commission for Latin America (ECLA). The Council, in resolution 535 B (XVIII), requested the Secretary-General to prepare a technical report on the practical conditions under which effect might usefully be given to the proposal. Such a report has been submitted to the three regional economic commissions, to permit them to express their views on the matter for the use of the Council when it resumes its consideration of the subject at its twentieth session.

The problems of trade were one of the major subjects considered at the Conference of Ministers of Finance and Economy, held by the Organization of American States (OAS) at Rio de Janeiro from 22 November to 2 December 1954. The meeting was called by the Caracas session of the organization for the purpose of considering economic problems of Latin America, with particular reference to economic development. Considerable stress was placed at the conference on the importance for economic development of the volume of sales and the terms of trade of primary products produced for export by Latin American countries.

The Organisation for European Economic Co-operation (OEEC) has recently taken significant decisions concerning commercial policy and arrangements for multilateral payments, with a view to increased regional integration and a smooth transition to currency convertibility. Thus, in January 1955, OEEC decided that the minimum "percentage of liberalization" of imports from member countries should be further increased during the year, and that members should discontinue various artificial export incentives by the end of the year. In the same month, it also decided to prolong the European Payments Union (EPU) until 30 June 1956, and requested the Managing Board of the union to draw up plans for a European fund to aid members in payments difficulties when the currencies of major members become convertible.

The General Agreement on Tariffs and Trade (GATT) was intended to serve as an interim arrangement until the International Trade Organization should come into existence; it continued to function when this did not occur. Through this arrangement, substantial reductions in import duties have been negotiated, trade preferences have been somewhat reduced and

[1] See also the supplement to this report entitled *The Quest for Freer Trade* (sales number 1955.II.C.5).

rules for fair dealing have been established. However, there has been no formally recognized administering body and, as far as the United States is concerned, the agreement has been neither approved nor disapproved by the Congress but has continued on sufferance. At their 1953 session, the Contracting Parties, which have assumed responsibility for administering the General Agreement on Tariffs and Trade, decided to undertake a review of the agreement late in 1954 with a view to determining whether GATT should be continued and, if so, what arrangements should be made for its administration and to what extent the general agreement itself should be amended or supplemented. This review began on 8 November 1954 and was concluded on 7 March 1955. As a result of the review, several amendments were proposed, and a separate agreement will, if it becomes effective, establish an Organization of Trade Co-operation as the body to administer the general agreement.[2]

### Trade policy and the promotion of national economic objectives

In entering upon a discussion of international trade problems it is well to have in mind some generally accepted propositions. International trade is a means by which national economies that differ widely in many respects can be integrated into an international economy. For some countries international trade is a convenience rather than a necessity since they could apply their resources efficiently to many different kinds of production and thereby could become nearly self-sufficient if they so desired. Such countries usually have large populations and land areas and a wide diversity of resources. For other countries, however, trade is a vital necessity. This is especially so in the case of a small country lacking a diversity of resources and climate, whether it be an industrialized country with a high ratio of population to land area, or an agricultural country specializing in the production of one or a few primary products. Further, most economically under-developed countries, whatever their potentialities for future self-sufficiency, depend heavily on trade to supply them with both consumer goods and capital goods.

Since trade is the means through which a country can enjoy the many kinds of goods it requires, while specializing in the production of those goods with respect to which it has the greatest comparative advantage, there is a large measure of agreement that, in general, freer trade is better than more restricted trade. Despite such agreement, and the large stake that many countries have in trade, every major country to a greater or less degree imposes restrictions that redirect or may reduce international trade, with resulting harm to other countries. Some of these restrictions are imposed as a defensive reaction to external developments which the government does not have the power to prevent. Other restrictions have their origin in the decision of the government to promote some desired internal economic policy. Whatever their origin, the restrictions are imposed to promote a national interest that is deemed to be more important than the international trade benefits which may be lost as a result of the restrictions—to the extent that there is an understanding of such benefits. Since trade is not an end in itself but rather one of the means available to countries for achieving their objectives, the desirability to a country of more trade or freer trade depends on whether, on balance, these would in the circumstances help to achieve the objectives.

The problems of expanding the volume of trade and reducing the various restrictions imposed on it are complicated by conflicts of interest among governments regarding trade policies. Since each international transaction is subject to control—or prohibition—by two or more governments, inconsistent policies may be followed with respect to the same transaction. In this situation, the traditional ideal of free multilateral trade has fallen by the way. The problem of achieving more and freer trade is that of finding and taking practical steps which will not undermine the legitimate national objectives of trade restrictions. In many cases, it should be possible to find compromise solutions that will give some measure of benefit to all countries. Resolution of international conflicts of economic interests is one of the major problems of our times and one with respect to which international organizations have a special opportunity and responsibility.

### Reasons for restrictions on trade and payments

Governments impose restrictions on international trade and payments for a variety of reasons, which have been the subject of an imposing body of economic and political literature. In the present brief survey only a few major aspects can be considered.

The underlying reason for perhaps the largest and the most discussed part of restrictions on trade and payments imposed during the post-war period has been a persisting international economic imbalance, which has been reflected notably in balance of payments difficulties. Most countries, in order to prevent deterioration in their balance of payments positions, have imposed restrictions on trade and payments, many of which remain in force. Other purposes for which a government may impose trade restrictions include the protection of industry from foreign competition, an improvement in the terms of trade, the maintenance of internal economic stability, the regulation of the internal economy in various ways and the support of the government's international political policy.

While restrictions for any or all of the above reasons may be employed by any country, the rationale of the

[2] For further details of the review and its results, see *The Quest for Freer Trade*.

restrictions imposed by under-developed countries differs sufficiently from that of the restrictions imposed by industrialized countries to warrant division of the discussion into two parts. There is, of course, no clear-cut line of demarcation between economically under-developed countries and industrial countries, and the discussion necessarily shares the arbitrary nature of the categories.

### *Under-Developed Countries*

One of the factors that made the pre-war trade situation an unsatisfactory one, despite its equilibrium, was the persisting condition of very low incomes and virtual economic stagnation in many under-developed countries. A characteristic of the post-war period has been the widespread emphasis on economic development. When an economy begins to develop, it is likely to have a growing volume of external trade and, as its development accelerates, it is also likely to impose substantial barriers on trade, for several reasons.

#### *Economic development and balance of payments difficulties*

In the first place, a country in process of development is likely to experience persisting pressure on its balance of payments, not necessarily as a result of external circumstances, but rather as a consequence of the process of development. The pressure results from import demand for both capital and consumer goods in excess of the country's supply of foreign exchange. The demand for machinery and other capital goods reflects their importance as a factor limiting the rate of economic development. The demand for imports of consumer goods is increased when the formation of capital within a country adds to the demand for consumer goods without adding to their supply. This is an aspect of the inflationary tendency of rapid economic development—a tendency that is difficult, if not impossible, to avoid in some degree without retarding development, but that calls for caution and internal restraint if the development itself is not to be hindered by distortion of the economy and discouragement of foreign investment.

When a developing country is short of foreign exchange, it commonly seeks to ration it in ways most likely to accomplish its objectives. Generally, the importation of consumer goods, especially less essential goods, is restricted, and available foreign exchange is devoted as far as possible to financing imports of the kinds of capital goods deemed most necessary. Restrictions on imports cause shifts in the types of goods imported; but this does not necessarily mean a decrease in the total volume of imports, especially if the country exports widely used raw materials to the world market. It is possible, however, that such a decrease might occur, for example, when a shift by a country in the kind of its imports reduces the ability of its customers to buy from it and thus also its ability to buy from them.

It is probable that controls on trade and exchange are applied for longer periods than are necessary, for they are usually imposed as soon as the need for them is felt, while administrative inertia tends to result in their continuance after they are no longer needed, especially since there may typically be no signal announcing the end of the need. In a number of countries, progressive simplification and other improvements have been made in the ways in which controls are imposed, thus ending, or at least reducing, administrative abuses, unjustified discrimination among products and countries, and harmful restraint on business activities important to economic development. In this connexion, stress may be laid on the usefulness to a country of having an integrated economic development programme, on the basis of which rational distinctions may be drawn between imports to be discouraged and imports to be permitted or encouraged.

#### *Protection of developing industries*

Another major reason for restrictions on trade and payments is that economically under-developed countries wish to protect and stimulate the growth of selected industries. Import tariffs are widely used for this purpose, and quantitative trade and exchange controls imposed to deal with balance of payments difficulties are often protectionist in purpose. In any event, such controls are likely to have an incidental protective effect, with the result that among the industries so stimulated may be some that are not sufficiently important to a developing economy to justify the use of scarce resources. Protectionist policy is another strong reason for an integrated development programme so that a minimum of protection may make the maximum contribution to the development of the country.

There has been much discussion and some controversy regarding the relative contribution to economic development that results from the expansion of industries producing for export, notably mining and agriculture, compared with those manufacturing goods which previously had been imported. The central question is how readily a country can increase its export earnings by developing export industries. If demand and supply conditions for these industries are favourable, a country may well be able to raise its level of consumption and provide capital goods for economic development to a greater extent through expanding its export industries than by devoting equivalent capital and effort to expanding import-replacing industries. There are likely, however, in some cases, to be rather narrow economic limits to the extent to which under-developed countries can increase their export earnings. While producers in one country might be able to enlarge their share in total earnings at the expense of competing producers in other countries, the ability of producers in general to enlarge their earnings would depend in considerable part on the elasticity of demand

for the product. Spokesmen for under-developed countries have often laid stress on the relatively low elasticity experienced in the demand for their export products. Other writers have painted a bright picture of the future demand for raw materials. The two views are not necessarily inconsistent, as one may be valid in the short run and the other in the longer run.

The chief argument for protecting new and growing industries in under-developed countries may be briefly stated. Economic development means increased productivity. Most under-developed countries are largely agricultural; with increased agricultural production per man, large numbers of agricultural workers are released for other employment. To provide them with employment requires the development of other industries. The extent to which export industries can be profitably expanded is limited; the industries to be developed are non-exporting industries which, to a large degree, would produce goods that previously had been imported. Industries are likely to be less efficient when newly established than later, and the argument for their protection is accordingly a powerful one. Further, the entire development process may depend on the stimulation of many interrelated industries, which may be possible only by protecting them all from outside competition.

There is always, of course, the danger, and even the probability, that efforts will be made to develop industries that are not economically appropriate for the stage of the economy. For one thing, the efficiency of production depends on the size of the market, the size necessary for efficient production being much larger for some industries than for others. During the early years of development, when national income is low and the market accordingly small, it is appropriate that resources should be devoted to industries which can be carried on efficiently with a small market, while other industries await a market of sufficient size.

It may happen that protective tariffs are not necessary for the development of industry, in view of the incidental protection that results from controls imposed to ration available foreign exchange. Alternatively, protective tariffs may reduce imports so as to make quantitative and foreign exchange controls unnecessary. There would seem to be a tendency to rush into protection as the method to be preferred for stimulating the growth of an industry, instead of one to be used when other measures fail. The result is the unnecessary enlargement of restraints on trade.

Much of the stimulus for under-developed countries to undertake large programmes of general industrialization undoubtedly comes from the desire of these countries to strengthen their positions in the world economy. The wide fluctuations in the demand and terms of trade for their exports, the shortages of necessary imports during periods of war and accelerated defence expenditure abroad, and the threat to markets from the development of synthetic substitutes, are among the elements that have buffeted economically under-developed countries in the past decade or two. These experiences constitute a strong incentive to countries to concentrate effort and capital on creating new manufacturing industries in order to become as self-sufficient as possible as quickly as possible. This incentive is likely to have a strong influence even when a more rapid increase in economic development could be achieved through a differently phased development programme.

*Trade and payments controls as a substitute for internal measures*

Under-developed countries often put trade and exchange controls to uses that may be interpreted as being primarily in the nature of alternatives or substitutes for internal measures of taxation and control of the economy. The control of foreign investment and of the earnings of foreign investors, the achievement of income redistribution within the country, the stabilization of returns to local producers, the reduction of inflationary internal spending of export earnings, the subsidizing of exports and imports, the guidance and direction of economic development, and the control of the pattern of consumption are some of the uses to which trade and exchange controls, including export taxes and multiple exchange rates, have been put. Frequently the results have been somewhat different from what was intended. For example, in some cases restrictions have been imposed on imports of luxury consumer goods in order to limit expenditures that had been going into conspicuous consumption and to make such funds available for developmental investment. The actual effect has sometimes been to promote the establishment of industries producing the luxury goods. Thus, the net gain for useful capital formation has been much less than the apparent gross saving achieved by import control.

The complexities, frequent changes and long delays in action that too often mark the use of trade and exchange controls for purposes of the kind just mentioned result in an unintended burden on exports and imports alike. Appropriate internal measures often would accomplish the desired results more fully and with fewer unintended side effects. Despite the superiority for such purposes of internal measures, the relative ease with which trade and exchange controls may be imposed and administered presents a strong temptation to use them. As the administrative machinery of under-developed countries is strengthened, they will undoubtedly find it desirable to diminish the use of trade and exchange controls for internal economic purposes and to substitute a variety of appropriate internal measures. In the meantime the possibility of serious administrative errors can be reduced by gearing the pattern of trade control to a comprehensive programme of integrated economic development.

Discriminations among countries in the application of trade and exchange controls, unless required to pro-

tect foreign exchange reserves, may constitute a regrettable departure from the body of fair practices that the General Agreement on Tariffs and Trade was intended to develop.

### *Industrial Countries*

Some of the reasons that motivate industrialized countries to impose trade restrictions are the same as in the case of under-developed countries, but others are different. Industrialized countries make less use of trade restrictions as a substitute for internal measures of taxation and control. While they impose tariffs for the protection of domestic industry, the purpose is not so much to stimulate new industries as to preserve existing ones.

#### *Restrictions to meet balance of payments difficulties*

An industrialized country may, of course, suffer from balance of payments deficits, and may impose restrictions on trade and payments, as well as internal measures, in an effort to protect its foreign exchange reserves and to restore equilibrium. It has been mentioned previously that imposing controls on imports affects the kinds of goods imported and may, depending on the circumstances, reduce the total volume of imports, such reduction being least likely when the controls are imposed to deal with a deficit in the balance of payments. It is not as usual, however, for an industrialized country to have a chronic tendency to deficit in its balance of payments as it is for an under-developed country. For a country tending to have a surplus in its balance of payments, the volume of exports usually is dependent on the volume of imports plus the amount it invests abroad. Accordingly, restrictions placed on imports by such countries are likely to result in an actual decrease in trade, both imports and exports. In general, therefore, tariffs and other restrictions on trade imposed by industrialized countries are more likely to reduce the volume of trade than are such controls imposed by economically under-developed countries.

#### *Protectionist policies*

The continuance of protective tariffs or other protective trade restrictions, or the imposition of new ones, by industrialized countries needs no justification in the eyes of the special groups that would thereby be preserved or promoted. These groups can be expected to urge upon legislators and others exercising legislative powers the importance, from the viewpoint of the national interest, of their special interests. They will, of course, be opposed by groups that want to keep the cost of imports low and by others that want to expand their sales abroad. Legislative bodies typically are more sensitive to demands for protection of established domestic industries that profess to be threatened by the competition of imports than they are to the demands of those who see the possible advantages of an expanded market for export industries. For this reason protection tends to be excessive in relation to the national interest. But there is often more to the matter than the political appeal of protecting an industry. If, for example, the removal of tariffs or other restrictions would result in the insolvency and liquidation of industrial plants, or even of whole industries, the fact that the exports of other industries would expand—though possibly only after considerable delay—may give little comfort to the inhabitants of the areas in which the liquidated industries are concentrated, since the expanding export industries might be located in a distant part of the country. For another thing, since capital, and even skilled personnel, are often highly specialized and not capable of economical transfer to other industries, the liquidation of a plant or industry may result in a loss substantially in excess of the normal depreciation of capital and retirement of labour. These arguments are often the basis for reducing trade barriers only gradually in order to make sure that the gains accruing from lower costs of imports and expansion of exports will be at least as great as losses from liquidation, as well as to guard against liquidations that might result from an unfavourable shift in comparative advantage that was only temporary. The arguments, however, would not justify the permanent continuation of protectionist measures. To avoid confusing the interests of particular industries and localities with the national interest in cases of these kinds, national measures might be taken to share the losses and speed the necessary readjustments.

Another argument that is used to defend not merely gradualness in the reduction of trade barriers but their retention at current levels, or even their increase, is that the industry in question is vital for the defence of the country in time of war, when the supply of essential goods might be cut off or when machines and special skills would be needed for war production. The validity of this argument would seem to depend on the circumstances. If pushed to extremes, it might be used to defend the protection of almost any industry. Even as actually used, the defence argument sometimes seems far-fetched and designed to hide the more general desire to preserve industries that have been granted protection in the past, whatever their probable future contribution to the country's welfare.

Aside from the defence argument, the most effective argument, politically, for the protection of domestic industries in an industrialized country appears to be that protection is needed to prevent unemployment. In part, the cogency of the argument regarding domestic industries in this connexion is an aspect of the general proposition that a national government can deal more effectively and readily with internal than with external matters. Beyond this, most industrialized countries have adopted policies calling for government action whenever a substantial increase threatens to develop in the

number of unemployed. The fear of unemployment—or of falling income in an industry such as agriculture in which unemployment may be difficult to measure—may lead to using protection against imports in various ways, all of which result in instability of trade restrictions. The instability may be derived from either the law or administrative practice. For example, some countries have laws providing that when a commodity included under a farm price support programme is in surplus supply at or below the supported price, no imports of that commodity may be made. Again, in some countries tariffs on certain products have been reduced administratively when demand for the products was strong and restored to their higher level when demand was weak. A threat of unemployment may also lead to changes in tariff laws or other trade restrictions.

These various barriers to imports are made in an effort to increase demand on domestic sources of supply. The use of such policies is understandably tempting, though it may in effect "export the unemployment" and is likely to lead to retaliation on the part of other countries, if for no other reason than that the resulting decline in their exports would reduce their ability to import. Thus, the export industries of the first country would suffer and, if the level of employment is to be maintained, it would be necessary to increase the employment of workers in other industries.

If only the period of depression is considered, such a shift in labour resources might be economically sound —if it proved feasible in the face of low total demand —since the unemployment of resources is likely to be more wasteful than their utilization at less than maximum efficiency. But such a static view of the matter is short-sighted in view of the need to restore levels of activity and international trade as early as possible. In the long run it may well be more advantageous for a country to deal with temporary unemployment through internal measures than to attempt a cure by increasing national self-sufficiency through trade restrictions, since this "cure" might actually result in widening and deepening a depression. Countries may differ greatly, of course, in the extent to which the government is in a position to choose among possible alternative policies when threatened by unemployment. The difficulties of individual countries have led to studies of the possibility of strengthening the position of national governments by collective action through international organizations, but few tangible steps in this direction have been taken.

*Restrictions on exports*

Reference was made earlier to import restrictions that an industrialized country may impose as a defence measure. Restrictions on exports are also imposed for the same general purpose. For example, during the rearmament movement accompanying the fighting in Korea, certain industrial countries, the United States in particular, placed general restrictions on the export of capital goods and finished products considered necessary for the defence effort. More lasting restrictions were placed on the export of certain "strategic materials" to countries considered potential enemies. These restrictions continue in force, though somewhat reduced. Their use is not limited to any one country or group of countries. Since the motives for such restrictions are related not to economic interests, as usually defined, of the country imposing them, but to political interests, it is not feasible or useful to analyse them here. There appears to be a general tendency in restrictions of this type to emphasize possible immediate or short-run benefits, with little regard to the effects of the restrictions on the future allocation of resources in the countries against which such restrictions are directed.

INTERNATIONAL ECONOMIC IMBALANCE

The subject of international economic imbalance has been referred to in the course of the preceding discussion. Thus, it has appeared that this imbalance has been one of the main reasons for governmental restrictions on trade and payments, and that these restrictions have been a factor contributing to imbalance. To remove the causes of imbalance, and thereby facilitate the achievement and maintenance of international economic equilibrium, is generally recognized as one of the most important continuing economic problems of the present day. The achievement of international economic equilibrium would not, of course, mean the complete freeing of trade. Protective tariffs and restrictive measures to support national policies, for example, would not necessarily be influenced by the achievement of equilibrium. However, with the restoration of equilibrium, a substantial freeing of trade would be made possible since many kinds of restrictions could be abandoned and one of the factors leading to protective measures would be eliminated.

A country may be said to be in a state of current international economic equilibrium when, in the absence of governmental restrictions, its payments to other countries and its receipts from other countries are in balance, taking into account all factors entering into its rights to receive, and obligations to make, payments —notably exports and imports of goods—and including, among other items, exports and imports of services and transfers of income. If the international equilibrium of the country is to be sufficiently stable to be a practical "working" equilibrium, it should also meet two other conditions. The country should have a reasonable degree of internal equilibrium, since serious internal imbalance—a large volume of unemployment, for example—is likely to upset an apparent equilibrium in international economic relations. Moreover, since precise international balance never exists for long, the country should possess a sufficient volume of foreign exchange reserves to absorb "normal" fluctuations with-

out the necessity of imposing controls on trade or payments.

References to international economic equilibrium usually are made with multilateral equilibrium in mind, that is, the situation in which each country is in payments equilibrium with all other countries combined, though not necessarily with any one country. For multilateral equilibrium to be effective, however, it is necessary that earnings in the currency of one country should be convertible into currencies of other countries. To the extent that currencies cannot be converted, the equilibrium that is significant is bilateral equilibrium—that is, equilibrium between a given country and each of the other countries with which it trades. There are many possible degrees of multilateralism, and the situation in practice commonly falls somewhere between rigid bilateral trade and universal multilateralism. The broader the multilateral system of trade and payments, the greater the access to markets and, depending on the situation, the more profitable the specialization of production is likely to be.

It would be a coincidence if the private importers of a country should seek to purchase the same volume of goods that private exporters are able to sell. Since, if a country is to be in international economic equilibrium, its payments and receipts must be kept in balance, some form of action is frequently necessary to achieve this result. In a world of independent national States, each controlling its fiscal and monetary policies, one cannot count on the effective automatic action of such forces as might tend to bring about and maintain economic equilibrium, which is not likely to be either achieved or maintained without the careful direction of governmental policies. Some of the forces operating to upset equilibrium are minor and readily dealt with, while others may be beyond the power of a single government to control, at least in the short run. The action of the government of one country may constitute an element disrupting the equilibrium of other countries in the absence of effective co-ordination.

Governments have at their disposal various means for restoring equilibrium or, failing in this, for preventing a lack of balance from growing worse. The effective use of these means may be limited by the fact that the internal policies of governments often have objectives which are inconsistent with the maintenance of a balance in payments. Perhaps the principal example is the inconsistency that may exist between stimulation of demand to restore or maintain full employment, and restriction of demand to achieve international equilibrium. The imposition of import and foreign exchange controls is usually a recognition that, at least for a time, international equilibrium cannot be achieved or, if achievable, can be reached only by using measures less palatable than the controls.

Many kinds of factors may operate to create imbalances. Inflation or deflation, an exceptionally good or bad harvest, speculative movements, are examples of factors which are irregular in timing. Other imbalances tend to be periodic: seasonal imbalances, which are likely to correct themselves over the course of the year, and cyclical imbalances, which correspond to cyclical movements of business and are likely to be more or less self-correcting over a short period of years. The occurrence from time to time of deficits in balances of payments, resulting from trade imbalances of the above-mentioned types, seems to be inevitable. Whether they have serious consequences for a particular country or for the international economy depends in the first instance on the strength of the disturbing element and the period of time during which it operates, but also on other circumstances. In some situations the determining factor may be the intelligence and firmness with which the government applies the measures at its disposal for restoring equilibrium, such as anti-inflationary monetary and fiscal policies and, in special circumstances, the readjustment of exchange rates for foreign currencies. Another important factor is the volume of reserves of foreign exchange and gold available to a country for meeting a deficit in its balance of payments; a temporary deficit, which may be readily surmounted if reserves are sufficiently large, may force restrictions on imports and foreign exchange if reserves are inadequate. It is in this connexion that the adequacy of international facilities for supplementing a country's reserves may be a major factor in protecting countries against the disruptive effects of trade imbalances.

Fluctuations in demand and prices for primary products have resulted in serious cases of cyclical imbalance, though the most violent of such fluctuations have been caused by other than the usual variations in business. The relative helplessness of a producing country to protect itself against such fluctuations undoubtedly is a major reason why great stress is being placed on efforts to devise effective international measures for preventing or dealing with them.

Other imbalances—and these are likely to affect many countries—may result from a breakdown in the multilateral payments system, about which more will be said later. These imbalances are not readily overcome and equilibrium restored unless an effective multilateral payments system is re-established. This necessary condition, however, is rarely one that any single government can achieve, and the problem accordingly is an appropriate one for international action.

Still other imbalances, involving relative shortages or excesses in the productive capacities of different industries—commonly referred to as "structural" imbalances—may arise from war destruction and economic distortion due to war, as well as from other causes, discussed below. They are likely to be stubborn; they are not cured merely by freeing trade or enlarging the area of the market. Indeed, from the viewpoint of a specific country, an enlargement of the market may increase the imbalance or even create one.

*Background of Existing Imbalances*

The principal sources of the present-day problem of international imbalance are the breakdown of the multilateral payments system and the development of structural imbalances. These have their roots very far back in point of time. It may be doubted whether there was a full recovery of multilateral equilibrium after the far-reaching changes resulting from the First World War. The general breakdown of the multilateral payments system dates from the international financial crisis of 1931 and was part of what might by medical analogy be called a "depression syndrome". The hardest pressed countries found themselves unable to meet their obligations and placed restrictions on payments. Their creditors, in turn, not being able to collect, were themselves unable to pay. Exchange controls and quantitative restrictions on trade spread rapidly. Once the multilateral payments system had broken down, its re-establishment depended on having necessary basic conditions for restoring payments by many countries simultaneously. Any individual country would have been likely to exhaust its resources without accomplishing any large-scale or long continued improvement. The diversion of production to armaments, moreover, had distorting effects on trade and discouraged efforts to re-establish international co-operation. There was little restoration of the multilateral payments system during the nineteen thirties, and this factor undoubtedly contributed towards deepening and lengthening the depression.

The war further disrupted international trade and was responsible for much of the structural imbalance that has complicated the situation ever since. Physical destruction and economic dislocation of means of production were particularly great in Europe, which also lost a large part of its oversea investments and was faced with the necessity of increasing its net exports to pay for the large volume of imports previously financed by interest and dividends. The war also stimulated the growth of industries in less-developed countries by depriving them of goods for which they had formerly depended on industrialized countries. As previously mentioned, this industrial growth has been supported and further advanced in many countries by the imposition of protective tariffs and other trade restrictions. The rapid development in the United States and other industrialized countries of synthetic substitutes for such commodities as silk and rubber was another source of structural imbalance which was stimulated by the war and has continued in the post-war period.

*Recent Progress towards Equilibrium*

The rebuilding of production and trade that has taken place since the war represents a signal achievement in view of the world-wide involvement in the war, the magnitude of the physical destruction and the general breakdown of economic relations. This achievement is the product not only of great effort within different countries but also of international co-operation. The new international economic institutions, such as the International Bank for Reconstruction and Development and the International Monetary Fund, are important examples of international co-operation, as is the General Agreement on Tariffs and Trade. The Marshall plan was of particular importance in the reconstruction and recovery of Europe, including as it did the granting of economic aid; and the establishment of the Organisation for European Economic Co-operation, and, through it, of the European Payments Union, has been of particular help in the restoration of both trade within Europe and oversea trade.

*The World Economic Report*[3] of last year, which examined in some detail economic developments since the end of the war, particularly from 1950 to 1953, noted favourable trends in 1953 with respect to international trade and payments; these trends continued in general in 1954. The total volume of world trade was slightly higher in 1954, the equilibrium in trade movements was greater and the monetary reserve position, particularly with reference to the dollar, continued to improve. With a few exceptions, the prices of primary products were stable or moved upward, and demand was maintained. These favourable developments took place despite a recession in the United States, where production and imports were reduced.

This improvement in the trade and payments situation was accompanied by continuing progress in the removal or relaxation of restrictions. While in earlier years great progress had been made in regional trade liberalization and co-operation, particularly in western Europe and the sterling area, there was in 1953 and 1954 a widespread liberalization of imports payable in dollars and other measures to restore a unified world market. A few examples will suffice to illustrate the nature of the progress.[4] The United Kingdom made sterling freely transferable between almost all non-dollar countries outside the sterling area, returned the import of most primary commodities to private hands, liberalized imports from the dollar area and reopened its international commodity exchanges in several products. These measures practically resulted in *de facto* convertibility of the pound for non-residents. Residents also were given greater freedom in spending dollars. Similarly, western Germany unified accounts held by foreigners, released blocked balances and—like the Benelux group of countries, Italy, Sweden and other countries—freed long lists of dollar goods from import restrictions. Some non-European countries also liberalized their imports of dollar goods; the Union of South Africa actually ended trade discrimination altogether. There were exceptions, however: Pakistan, Spain and

[3] United Nations, *World Economic Report, 1952-53* (sales number 1954.II.C.1).

[4] Further details are given in part II of the present report.

Turkey, for example, did not liberalize trade and payments during the year.

Moreover, the increase in imports that followed the relaxation of restrictions seemed likely in some countries to require either measures to keep domestic demand in check or reimposition of trade controls. Most of these countries seemed inclined to follow the former course. Thus, following a deterioration in the payments position of the United Kingdom, the discount rate was raised sharply in that country; similar action was taken by Norway, while Denmark relied on increased sales taxes and New Zealand on the tightening of credit control. Australia, on the other hand, had recourse to the tightening of import restrictions in the autumn of 1954 and in 1955.

On balance, there was improvement during 1954 in the volume and equilibrium of trade and in the balance of payments position, particularly with respect to holdings of gold and dollar reserves outside the United States, thanks partly to continued dollar aid. The improvement was particularly welcome in view of the concern with which the rest of the world observed the declining level of production in the United States in the closing months of 1953 and the opening months of 1954. Most economists, especially in Europe, held the view that the consequence of reductions in production and employment in the United States would be even greater reductions in production and employment in Europe and in the primary producing countries. The experience of 1949 had seemed to confirm this view. Instead of these expected consequences, the 1953 upward trend in activity in Europe continued into 1954 and reached record levels, production being 8 per cent higher in the third quarter of 1954 than in the same quarter of 1953, though merchandise imports into the United States from western Europe were approximately 13 per cent lower in the first three quarters of 1954 than in the same period of 1953. During the time that western Europe's exports to the United States were declining in 1954, its other exports were increasing, so that, in the third quarter of 1954, western European exports to all other areas combined rose by 7.6 per cent. Several factors made possible the financing of this increase in exports to other areas. United States imports from these areas declined only slightly, while western Europe expanded its imports from them. There may have been an increase in capital outflow from Europe. Finally, the buyers of European exports showed a willingness to reduce their normally favourable trade balances.

The explanation for continued European expansion in the face of a recession in the United States, and a decrease of imports by the United States, would appear to be in part one of a favourable constellation of circumstances, just as the 1949 difficulties are explained by some economists as being, at least in part, a reflection of an unfavourable one. Other factors, however, appear to be more important. Europe was far better organized economically in 1953 than it had been in 1949. The Marshall plan had been consciously directed towards developing sources of supply and markets for Europe outside the United States. As production expanded in many parts of the world it became less necessary to rely on supplies from dollar areas. Larger supplies of products from non-dollar sources were becoming available to the non-dollar world—for example, there was a marked growth in Middle East oil production. The ability of Europe to compete successfully in world markets was growing as productivity increased with plant modernization and lower costs.

### *Outlook for Achievement of Equilibrium*

Despite the substantial progress towards international economic equilibrium since the war, it would be incautious to forecast that the trade and payments situation will necessarily continue to improve or that the world is "over the hump" in its efforts to achieve equilibrium. There are several factors which indicate that the task of achieving and maintaining equilibrium will continue to be one of great difficulty.

#### *The dollar shortage*

A major evidence of imbalance has been the dollar shortage, and there are few, if any, aspects of the postwar economy that have been studied and written about at greater length. Some comment about the dollar shortage, even though it must be brief, is necessary for the present discussion. Without attempting a refined definition, it may be said that "dollar shortage" describes a situation in which the number of dollars provided to other countries, chiefly by United States importers, tourists and investors, is insufficient to pay commitments to the United States and to finance the goods and services that other countries seek to buy in the United States. As a result, governments in some of these countries have been obliged to restrict the purchase of goods for dollars, thus protecting their balances of payments, while United States exports have been lower than if there had been no scarcity of dollars. The gap between the supply and the demand for dollars has been filled in large part by United States governmental grants, investments and expenditures abroad, but only in part, as is indicated by the continuance of some of the restrictions just mentioned.

That the problem of the dollar shortage has been diminishing is shown by continued increases in the estimated gold reserves and dollar holdings of countries outside the United States, which reached a total of $23.5 billion by the end of 1954; five years earlier the comparable figure was $15.4 billion. In relation to the volume of world trade, however, these assets are much less adequate than were those held before the war, and undoubtedly far from sufficient to meet a substantial shock such as might come from a war emergency or a severe depression in one or more of the major industrialized countries. The fact that the United States recession in 1953 and 1954 had smaller interna-

tional repercussions than had been expected has reduced somewhat the fear of future depressions. This is fortunate, since it leads to greater confidence in making trade commitments. However, since the United States recession was relatively minor and the circumstances in other countries may have been unusually favourable, previous excessive pessimism should not be replaced by excessive optimism. A high level of business activity in the United States is an important factor in maintaining imports and the resulting supply of dollars at a high level.

Even in the years 1953 and 1954, when gold reserves and dollar holdings of other countries rose substantially, United States governmental grants, investments and expenditures abroad exceeded the rise by substantial amounts—more than $2 billion in 1953. These governmental payments thus continue to be a substantial crutch supporting international economic equilibrium with respect to the dollar by helping to finance the excess of exports over imports and commitments to the United States. As long as this situation continues to exist, some degree of pessimism regarding the end of the dollar shortage is in order. There is, of course, nothing novel about the export surplus of the United States, since its commodity exports have exceeded its commodity imports in every year of this century. Before the First World War the balance was made up by payments for services and by interest and dividends on foreign-held investments in the United States. During the First World War, and again in the Second, very large amounts in loans or aid were granted by the United States to its military allies. In the decade of the nineteen twenties private investors in the United States made substantial investments abroad, many of which later resulted in losses and consequent discouragement of further foreign investment. For the rest, the United States accepted large amounts of gold, eventually holding about 70 per cent of the world supply of monetary gold, although much of this represented funds sent to the United States for greater safety. While this picture is a greatly over-simplified one, it indicates that beginning with the First World War a considerable part of the demand for dollars has been supplied in ways which do not reflect international equilibrium and cannot be counted on to continue.

There are two major approaches to achieving the equilibrium that would end the dollar shortage and the dependence for dollars on United States government grants and expenditures abroad. One is to increase imports into the United States. A policy directed to that end would involve provision for lowering the level of United States tariffs and for removing administrative impediments—for example, unduly burdensome customs formalities. It would also involve greater assurance of future stability in tariff levels to encourage the long-term commitments that in many cases are necessary for the expansion of trade.

A sufficient reduction of tariffs and other trade barriers imposed by the United States would certainly stimulate imports and might conceivably increase them enough to solve the problem of the dollar shortage. There is, however, an aspect of United States productive efficiency which might make a sufficient increase difficult, if not impossible. This aspect is not, as some have argued, that the United States has greater productive efficiency than other countries, since comparative advantage in production, in addition to absolute advantage, is a basis for successful competition in international trade. Rather, the difficulty grows out of the high degree of flexibility and mobility of United States industry, which rests on such factors as the size of the national market, the diversity of resources, the number of persons with technological skills, the large volume of available capital, the relatively rapid replacement of machinery and generally competitive and adaptable industrial management. Foreign manufacturers seeking to build up large markets in the United States would be faced not only with the uncertainties of future United States tariff policy but also with the uncertainties of future competition. If, for example, European producers achieved a sufficiently large market in the United States in some product to make mass production methods profitable, producers in the United States might be able, through technical improvements and cost reduction, to overcome the comparative advantage of the European producers, undercut the price and take over the business. The prospect of such a result might discourage European producers, even in the absence of tariffs, from making the heavy investments in advertising, sales offices, servicing facilities and the like that are necessary to build up a large volume of sales for many kinds of products in the United States.

A second approach to ending the shortage of dollars would be a large-scale increase in capital exports from the United States; this would also make an important contribution to the economic development of underdeveloped countries. The situation, however, is not one that encourages large-scale investment abroad. In this connexion, the experience of other countries in earlier times has little relevance, in view of the vastly different situation that exists in the world today. The assurances that governments in some periods were in a position to give their private investors abroad with respect to risks of a political character are neither possible nor appropriate today. The understandable insistence of governments in countries which need and desire capital that the investments be in harmony with their development plans may adversely affect the outlook for profit. The uncertainty as to whether the foreign exchange situation will permit earnings to be transferred and investments repatriated when desired also affects the willingness to invest. To these and other difficulties in the way of a large expansion of private foreign investment must be added the attractive investment opportunities in the expanding economy of the United States.

In recognition of these difficulties in achieving large-scale private capital exports from the United States, as well as from other industrial countries, considerable attention has been directed to the use of public agencies, national and international, for investing government funds and promoting investments of private funds. The United States Government, through the Export-Import Bank of Washington, has been lending considerable amounts to finance exports, for the most part to economically under-developed countries. The International Bank for Reconstruction and Development, financed through government subscriptions and flotations of bonds on private capital markets, had by the end of 1954 made total loans of a little over $2 billion, of which nearly half had gone to countries usually classified as economically under-developed; a very large proportion has been in dollars.

A proposed International Finance Corporation, which for several years has been strongly urged by the Economic and Social Council and the General Assembly, seems about to come into existence. It would be administered as an adjunct to the International Bank for Reconstruction and Development and would seek to stimulate the flow of private capital to economically under-developed countries. One method would be through the purchase of debentures of private business enterprises in these countries, with a view to selling the securities at some later time to private investors who might convert them into equity holdings. Another proposed agency for enlarging the flow of capital is a Special United Nations Fund for Economic Development, which has been approved in principle by the General Assembly and continues under study looking to its establishment when conditions are favourable. This does not exhaust the list of new institutions that might be used to stimulate the international flow of capital to under-developed countries, as well as to enlarge and channel their domestic savings. The international agencies mentioned above would draw investment funds from many countries, but in the nature of the world situation, a large proportion would be in dollars.

Mention may also be made of the development banks that have been set up in a number of countries and in some instances have succeeded in drawing capital from a variety of public and private sources at home and abroad.

If the dollars that go from the United States to economically under-developed areas are to make the greatest possible contribution to solving the dollar shortage, it must be possible for Europe, where the shortage has been most acute, to earn dollars from the countries to which they are paid. To do this, European producers must be efficient enough to compete successfully. But, however efficient they may be, European producers cannot earn dollars that originate in loans and grants if these are "tied" to expenditures in the United States, as is the case for example, with Export-Import Bank loans. The tying of loans and grants is practised by certain other countries also, but is of greater significance in the case of the United States, since it is the dollar that is in generally short supply. Expenditures of loans and other investments made by international organizations are, of course, not limited to any country.

*Other aspects of the trade picture*

As previously indicated, the return of Germany, and to some extent of Japan, to competition in world markets has thus far been fairly smooth and without serious shock. However, the adjustment is by no means complete, particularly in the case of Japan. In 1953 Japanese exports had a value of only 53 per cent of its imports. United States military expenditures and aid continued to provide the balancing item, but if Japan is to become self-supporting, it is obvious that its exports will have to be substantially increased or its imports substantially decreased—presumably the former, since the quantum of Japan's exports in 1954, although over six times as great as in 1948, and 30 per cent greater than in 1953, apparently was only about half of the 1934-36 average. The quantum of imports was about three-fourths of the 1934-36 average in both 1953 and 1954. The quantum per capita was less, since the number of persons fourteen years of age and over has been rising about 2 per cent a year. Many difficulties appeared to stand in the way of substantial and continuing improvement of Japanese trade. For example, the large proportion of trade which Japan had carried on with mainland China before the war was greatly reduced, with little hope that it would be restored in more than moderate degree.

There have been signs of growing competition for foreign markets among leading manufacturing countries. The maintenance and continued extension of trade stability are by no means assured and may depend in large degree on the achievement of greater effectiveness in trade and exchange regulation by the Contracting Parties to the General Agreement on Tariffs and Trade and by the International Monetary Fund, and on the avoidance by exporters and exporting countries of practices that might lead to difficulties later. In this connexion, the acceptance of the new agreements on tariffs and trade would seem to be particularly desirable.

*Longer-run factors*

Aside from specific problems of imbalance, there are certain factors in the post-war situation that may make the achievement and maintenance of international economic equilibrium more difficult than in earlier decades. One of these is the rapid rate of technological development; the outlook for major, and perhaps far-reaching, changes with respect to atomic power is a particularly spectacular example. Any dynamic element presents a

threat to stability in relations among national economies, and a dynamic technology applied not only in industrialized but also in economically less developed countries may result in major shifts in production and trade. While technological development thus is likely to give rise to a need for adjustments, it also contributes to ease in making such adjustments. As pointed out below, structural adjustments necessary to achieve equilibrium at a high level of production and trade are made with least difficulty in an expanding world economy, which in turn is dependent in no small degree on a high rate of technological development.

Another change from the pre-war period which may increase the difficulty of achieving and maintaining international equilibrium is the acceptance by national governments of wide responsibility for the stability and growth of their national economies. The recognition of a high level of employment as a major objective of governmental policy tends to diminish the use of traditional devices of internal deflationary monetary and fiscal measures to restore international equilibrium, since under present-day conditions they may be found to reduce employment more than prices. There is another side to this, however. High levels of trade and high levels of income and employment bolster each other, and success by governments in their full-employment policies should mean fewer depressions for international equilibrium to weather. Moreover, national governments appear to be recognizing to an increasing degree the importance of international economic developments to their national economies and to be more willing to accept co-ordination of national actions by international organizations. Potentialities along this line would seem to be great.

Governmental responsibility for the national economy may adversely affect the achievement of international economic equilibrium by increasing economic nationalism, in the sense that any acceptable system of international payments must allow a larger degree of national independence in monetary and fiscal policies than was previously the case. This is an important obstacle to the return of the semi-automatic deflationary and inflationary pressures towards equilibrium, and the tendency to keep price levels of different countries from diverging, that were exerted by the international gold standard. There are, of course, other major obstacles to the return of the international gold standard, at least in its previous form. One is the scarcity of gold in relation to the volume of trade. Another is the improbability that countries would be willing to accept a continuing stream of gold to balance an export surplus over a long period of years, as noted with regard to the United States.

It may also be pointed out that the future stability of international economic relationships is dependent in large degree on the future of political relationships. Economic balance and stability in the broadest sense go hand in hand with political stability; each supports the other. International political tensions do not make a good seed-bed for the growth of stable economic relationships.

*Impossibility of restoring pre-war pattern of trade and payments*

The pattern of production, trade and payments to be reflected in the economic equilibrium towards which the world has been moving may be expected to differ in many important respects from the pre-war pattern. There continue to be important similarities. Tropical countries continue to have a decisive advantage in producing a variety of important agricultural products. The known distribution of minerals has not shifted in major degree. The countries that were industrially most advanced in the pre-war period continue in the lead.

While, for these reasons, the broad outlines of post-war trade movements resemble those of the pre-war period, closer examination reveals important changes. The centrally planned economies have been trading more with one another and much less with other countries than was the case before the war. Even if all factors restricting trade between the centrally planned economies and other countries were removed, including policies promoting industrialization and self-sufficiency, the pre-war pattern of trade would not be restored since, among other reasons, far-reaching structural adjustments already have been made.

An inevitable change in the pattern of trade also results from the growth of industry in under-developed countries, which may affect the pattern in several ways. Since the industries that are introduced first are likely to be those supplying basic consumer needs—for example, textiles—industrialization may be expected to reduce the demand for imports of some kinds of consumer goods. On the other hand, the process of industrialization greatly increases the demand for machinery, equipment and capital goods generally. Changes in the goods flowing from under-developed countries are taking place as the processing of raw materials before shipment is increased, and accordingly more materials are sent abroad in refined, or otherwise processed, form.

The discovery and development of petroleum in Canada, Latin America, the Middle East and elsewhere have greatly altered the pattern of trade in this important source of power. Uranium and thorium have become highly valuable and important minerals. For the future, it is not now possible to forecast with reasonable precision the magnitudes of the shifts that the development of atomic energy (and possibly solar energy) may make in the relative productive advantages of different countries, but such shifts almost certainly will be important in determining future trade patterns. Developments in technology stimulated by the war have produced large and growing synthetic

industries which have affected the markets for natural rubber, silk, cotton and certain other materials. Technological developments, moreover, have altered, and continue to alter, the balance of productive advantage with respect to many manufactured products.

Notable shifts have taken place in the financing of trade. The London financial market completely dominated the international picture before the First World War, but the heavy financial burden of the war resulted in the liquidation of many British foreign holdings. Between the two wars, though New York and, to a lesser degree, Paris, emerged as independent financial markets, London continued to be the chief market, but declined in importance after the financial crisis of 1931. The Second World War resulted in still further liquidation of British foreign investments. Following the war, the importance of London as a financial market was much reduced, with New York becoming the dominant market and the dollar the dominant currency. From being a debtor country before the First World War, the United States after the Second World War was definitely a creditor country. Moreover, thanks to accelerated productive development and an extensive domestic market, it had emerged from the war with very efficient operation in many industries just at the time when European productive power was largely out of action. In a sense, the United States thus found itself cast in a role similar to that which the United Kingdom had played in the previous century, though in a world that was vastly different.

### Importance of balanced economic growth to freer trade

Preceding sections have examined some of the major reasons why the world does not now enjoy free multilateral trade. Among these factors, the lack of international economic equilibrium has been foremost during a period of more than two decades. While the achievement and maintenance of equilibrium would not bring free trade, since the other factors are strong and persistent, it would make a great contribution towards freer trade. But it should be clear that achieving and maintaining equilibrium is a difficult problem. Substantial imbalances remain, and the payments system has too little convertibility to support full multilateral trade. Generally, as trade becomes freer many apparent structural imbalances disappear. Others do not, and the need for adjustment is made clearer. In still other cases, the opening of opportunities for competition may create new imbalances. As in the past, equilibrium once achieved will be subject to many upsetting forces, such as domestic economic instability and the tendency to inflationary price-wage spirals. In addition, dynamic technology may substantially alter the comparative advantages of producers in different countries. The continuing economic development of under-developed countries may prove especially significant in this connexion.

Freedom in trade is encouraged by the expansion of markets and discouraged by their contraction. Accordingly, the economic situation under which needed adjustments can most readily be made while maintaining and expanding freedom of trade is an expanding international economy. In an economy with higher levels of productivity and higher incomes there is greater demand for both consumer and capital goods. In this situation industrial adjustments can be made with a minimum of loss in fixed capital and specialized skills, and of failure of expectations. Growth can occur in the places and directions which are most appropriate, without causing wastage of capital or skills aside from normal depreciation.

What is needed for freer trade is an expanding world economy—expanding in all countries, with the highest rate of growth in the less developed countries where levels of production and consumption are lowest. If an expanding world economy is to make its maximum contribution to the freeing of trade and to relatively painless readjustments of industries, there should be balanced growth, that is, a pattern of growth that reduces economic imbalances and promotes economic equilibrium. It is a growth in which each expanding industry supports the others and none is neglected or exaggerated.

A question immediately arises regarding the viewpoint from which balance is to be judged. Is it to be that of the country in which growth is taking place? If so, an example of unbalanced growth would be the development of a particular industry that is not accompanied by increases in social capital and supporting industries, including agriculture. Balanced growth in this sense is what an integrated development programme for a country would seek to achieve. However, this kind of balanced growth may involve extensive duplication of productive facilities in other countries, with resultant trade barriers to protect new industries, thereby possibly injuring established industries and necessitating painful structural adjustments, with consequent waste of capital. From the viewpoint of industrially advanced countries, balanced growth in economically under-developed countries may be visualized as growth in which duplication of existing productive facilities is avoided and industries are developed that complement and do not compete with existing facilities.

Both of these points of view have some claim to recognition. On the one hand, capital is too scarce to be wasted. Moreover, industrialized countries which are called upon to promote economic development of under-developed countries through grants of technical and economic aid may be expected to be somewhat concerned with the effect which the aid might have on their own economies. The recipients of such aid are, of course, aware of this concern and must take it into account in their own development planning. On the other hand, countries cannot but press to build up their

industrial strength along lines most economically sound for them, and this is scarcely possible without adverse effects on industries elsewhere. The extent to which, in the case of any industry, balanced growth within a country comes into conflict with balanced international growth depends, in part, on how rapidly the new competing production is developed and on the energy and success with which established businesses make readjustments or turn to other lines of production when they find their markets diminishing. It depends also on the rate of economic growth in general, not only in one country but in many countries. If the rise in incomes is sufficiently rapid and widespread, the demand for the product in question may increase sufficiently to absorb both the new and the old output. This would permit both concepts of balanced growth to be achieved in large degree at the same time.

Rapid growth, however, presents problems of its own; it is not only difficult to achieve but it may involve serious internal social strains. Adverse effects on established producers are by no means limited to the consequences of industrializing economically under-developed countries. Industrialized countries, through rapid development of synthetic materials, have captured from primary producing countries the markets for certain of their products. The effects on the economies of some of these producing countries have been far more profound and the problems of adjustment more difficult than those which have resulted from the entrance of under-developed countries into industrial production.

This discussion of balanced growth cannot be pursued further in the present report, but it is a subject that deserves extensive examination.

### "Responsibility" as a test for national and international policies

The discussion thus far makes it clear that it is difficult to ensure extensive international trade, let alone a true world economy, in a world composed of sovereign nations. Economic relations, notably trade, bring great benefits which are vital to many countries for their existence. But, from time to time, trade and trading policies subject countries to adverse impacts, against which each government seeks to protect itself, perhaps with adverse impact on others. The economic interests of different countries often appear to be competing or conflicting.

Any tendency to react to these problems by concluding that there is no point in working towards the re-establishment of a multilateral trade and payments system, and that governments might instead better turn their efforts towards making themselves self-sufficient and towards arranging closely knit preferential trading areas, is defeatist and is completely opposed to the intention of the Council resolutions mentioned above. It would be ironical indeed if countries that are coming increasingly close together in physical terms should look forward to being economically more and more separated.

There are, moreover, some very encouraging aspects. The interests of different countries, viewed broadly, are more harmonious than their apparent differences in certain particular matters, and their long-run interests are more harmonious than their short-run interests. Techniques for dealing with international imbalance have been greatly improved and are much more widely understood than ever before. The acceptance by governments of responsibility for the economic welfare of their peoples has conditioned them to prompter and bolder steps to meet international economic problems when they arise. Of signal importance is the fact that co-operation and collective action by governments, particularly through international organization, is available. The needed institutions are largely at hand, and experience has been gained that should prove valuable in showing how to strengthen them and use them more effectively. Nevertheless, some element essential to making a firm and intelligent attack on the problem of international economic relations seems to be lacking —perhaps the awareness that the international economy may face severe storms which only international action can prevent or mitigate.

An international economy among sovereign States cannot operate through controls over their actions. But an international economy can scarcely exist if countries do not co-ordinate their actions. The alternative to control is responsible behaviour. Theoretically, a country might withdraw completely from relations with the rest of the world in order to avoid international responsibilities, though this is virtually inconceivable. But if countries participate in the world economy, they have a responsibility for making that economy work effectively; they are not at liberty to choose the benefits without helping to carry the load. The more dominant the position of a country as an influence on international markets, the greater its responsibility. One of the phases of responsibility concerns the avoidance of policies which are harmful to the interests of other countries. A country cannot be expected to ignore its own interests, but these include promotion of a thriving world economy—in which every country benefits. A responsible government considers how its immediate, and possibly superficial, interests compare with its long-run underlying interests and is prepared to sacrifice the immediate.

It is recognized that while no country is exempt from such responsibilities, not all countries are in similar position to undertake them. In general, countries with highest income levels and greatest mobility of resources are in the best position to accept such responsibilities, since they are in the best position to adjust themselves to changing conditions. It is often difficult for even such countries individually to make adjustments appropriate to a difficult situation. The benefits of isolated action by

even the strongest country will be absorbed in part by others, and its resources are liable to be exhausted without achieving the results it seeks. Collective action among countries through international organizations may be the only method by which serious problems of the world economy can be dealt with effectively. Accordingly, an aspect of the responsibility of countries is their willingness to participate in effective collective action through international organization. On such participation may depend in large degree the future of international economic relations, and perhaps of political relations as well.

# Part I

# MAJOR NATIONAL ECONOMIC CHANGES

# Chapter 1

# ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES

## General Trends, 1950 to 1954

Major trends in the economically developed private enterprise economies[1] during the period 1950 to 1954 are indicated in tables 1 and 2. Although the indices set forth therein reflect the experience of these countries as a group—as a segment of the world economy—the pattern of economic changes which emerges is to some extent also typical of the experience of the individual countries. The principal exception to this is 1954, when developments in North America differed markedly from those in western Europe.

Real national product[2] in 1954 was about 16 per cent higher than in 1950 for the group as a whole (table 1).

**Table 1. Real Gross National Product and Components in North American and Western European Countries as a Group, 1950 to 1954**
(In 1952 prices, as a percentage of total 1952 gross national product)

| *Item* | *1950* | *1951* | *1952* | *1953* | *1954* |
|---|---|---|---|---|---|
| Gross national product | 91.0 | 97.1 | 100.0 | 104.4 | 105.4 |
| Personal consumption | 61.4 | 62.1 | 64.0 | 66.8 | 68.6 |
| Government expenditure | 13.4 | 16.7 | 20.0 | 21.6 | 20.5 |
| Private investment | 16.3 | 17.6 | 15.5 | 16.2 | 16.2 |
| Investment in fixed capital | 14.3 | 14.5 | 14.5 | 15.6 | 16.1 |
| Increase in inventories | 2.0 | 3.1 | 1.0 | .6 | .1 |
| Balance of exports and imports of goods and services | −.1 | .7 | .5 | −.2 | .1 |
| Exports of goods and services | 11.6 | 13.4 | 13.4 | 14.1 | 15.5 |
| Imports of goods and services | −11.7 | −12.7 | −12.9 | −14.3 | −15.4 |

*Source:* See tables 3 and 9.

*Note:* In order to provide data for all countries of the group on a comparable basis, all components of the gross national product in each country for the five years, 1950 to 1954, are expressed in percentages of the 1952 gross national product. Thus, for 1952 the components of gross national product total 100, while for each of the other years the sum of the components equals the index for the gross national product for the year, with 1952 as the base period.

In order to obtain an over-all figure, covering North American countries and western European countries, for the real gross national product and its components as shown in this table, figures for individual countries were weighted first by civilian employment and then by industrial production. (The weights for industrial production are roughly comparable to those used by the Statistical Office of the United Nations in computing the world index of industrial production, base year 1948, when adjusted to the base year 1952.) Since the two sets of results were very close for most years, arithmetical averages of the weights were employed.

The largest increases in product occurred in 1951 and 1953, when national product rose 7 per cent and 4 per cent, respectively. These developments may be largely accounted for by the movements of three demand components.

(*a*) *Government expenditure.* During the period as a whole, government expenditure was the most dynamic element of demand. This mainly reflected the large-scale rearmament programme initiated at the beginning of the period. There was a rapid expansion in expenditure in the earlier years, a lesser increase in 1953 and a significant decrease in 1954.

(*b*) *Inventory accumulation.* Changes in the rate of inventory investment had less influence on national product during the period as a whole than on variations within the period. The rate of inventory accumulation rose to very high levels in the latter part of 1950 and most of 1951. This increase in rate was closely related

[1] The countries covered in this chapter are Australia, Belgium, Canada, Denmark, France, western Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, United Kingdom and United States. For statistical reasons, Australia, Japan and New Zealand are not included in tables 1 and 2 and are not taken into account in the following introductory analysis of general trends.

[2] Except where explicitly indicated, references to changes in national product and its components in this chapter are in real terms, that is, in constant 1952 prices.

to the initiation of the rearmament programme and the raw material boom which anticipated and accompanied it. The rate of increase in inventories fell to modest levels in 1952 and 1953 and dropped to virtually zero in 1954.

(c) *Personal consumption.* Acceleration of economic activity was accompanied by a rise in consumer demand. Personal consumption was restrained, however, especially in 1951, by an increase in the burden of taxation; thereafter the burden of taxation was either not increased or was lightened. After 1951 consumption rose more rapidly, and by 1954 the total increment in national product as compared with 1950 was almost equally shared between personal consumption and government expenditure.

As a result of the rearmament programme initiated in 1950, government expenditure rose very rapidly in 1951 and 1952, almost three-quarters of the increment in national product during these two years being absorbed by such expenditure. Government expenditure continued to rise in 1953, though more slowly, but in 1954, owing to a substantial reduction in military outlays in the North American countries, over-all expenditure by government fell back to its 1952 level.

Private investment in fixed capital remained at a relatively high and stable level throughout the period. In volume there was a moderate increase from year to year, though relative to national product there was some decline. Expenditures on plant and equipment supporting military programmes expanded in 1951, but investment in industries producing civilian goods was restrained by corporate taxation, tightening of credit and allocation of strategic materials. Restrictions were relaxed after 1951, but over-all investment in fixed capital continued to rise only moderately. The increases which occurred in the years 1952 to 1954 were largely due to residential building, which received active official encouragement in most countries.

Investment in inventories, for the reasons noted above, rose to high levels in the latter part of 1950 and in 1951. Speculative motives for inventory accumulation disappeared in the second half of 1951, and the real increase in inventories dropped from over 3 per cent of national product in 1951 to one per cent or less in subsequent years. However, the rate of inventory accumulation has been much less stable than the over-all annual figures would suggest. In general, the rate fell to a low level in late 1951 and early 1952 —in reaction to the rapid accumulation of 1950-51— then recovered partially in the latter part of 1952 and early part of 1953. In 1954 there was a substantial decumulation of inventories in North America in the first three quarters of the year while in western Europe inventories generally increased.

Although variations in the real balance of exports and imports of goods and services were not large in any year for the group as a whole, the volume of foreign trade changed significantly. As might be expected in a period of considerable expansion, the volume of foreign trade rose more rapidly than national product. Exports and imports of goods and services were about 15 per cent of the national product in 1954, compared with 13 per cent in 1950, when trade was already at a relatively high level. Since something over 50 per cent of the total foreign trade of members of this group during this period was intra-group trade, over-all movements in real exports as well as imports were closely related to economic developments within the group as a whole. The volume of trade rose rapidly during the latter part of 1950 and early part of 1951, levelled off in 1952 and subsequently rose steadily. The rapidity of the rise in trade in 1950 and 1951 and the levelling off in 1952 may be related in particular to the inventory cycle described above. The modest changes in the real balance of exports and imports of goods and services for the group as a whole were, of course, the result of fluctuations in trade outside of the group, in this case in trade with raw material producing countries. The increase in the real balance in 1951 and the subsequent decrease in 1952 and 1953 reflected the cycle in raw material prices. This cycle first improved the terms of trade of primary producing countries and enabled them to increase real imports from, beyond their real exports to, industrial countries; subsequently it precipitated a decline in their terms of trade and necessitated the reverse adjustment. The effect of this factor on the "economically developed" group as a whole was modified by the fact that the group itself includes some countries which are important producers of raw materials. In 1954 the volume of trade increased again for the group as a whole—exports somewhat more than imports. The share of North America in the total trade, however, fell substantially, owing to absolute reduction in its trade.

Personal consumption over the period 1950 to 1954 rose about 12 per cent, compared with an increase in national product of 16 per cent. In per capita terms the increase in consumption was about 7 per cent. Consumption rose very little in 1951, increased more or less in line with national product in 1952 and 1953,[3] and rose significantly more than national product in 1954. A substantial rise in the burden of taxes (net of transfers) was the main factor restraining consumption in 1951. In subsequent years the tax burden remained virtually unchanged. There was, however, a significant alleviation of the burden in North America in 1954, which, together with a continued increase in real wage rates, helped to sustain consumption in spite of a drop in national product.

The rise in national product from 1950 to 1953 of about 15 per cent was accompanied by an increase in

[3] For a more detailed analysis see "Consumption and National Product, 1950 to 1953", *World Economic Report, 1952-53* (sales number 1954.II.C.1), page 33.

**Table 2. Real Gross National Product and Industrial Production, Employment and Unemployment, Retail Prices and Wage Rates in North American and Western European Countries, 1950 to 1954**

(1952=100)

| *Item* | *1950* | *1951* | *1952* | *1953* | *1954* |
|---|---|---|---|---|---|
| Real gross national product | 91 | 97 | 100 | 104 | 105 |
| Industrial production | 91 | 98 | 100 | 107 | 106 |
| Civilian employment | 97.3 | 99.3 | 100.0 | 100.8 | 101.0 |
| Unemployed as percentage of civilian labour force available for hire | 6.1 | 4.8 | 4.9 | 4.6 | 5.8 |
| Retail prices[a] | 87.5 | 96.0 | 100.0 | 100.5 | 101.5 |
| Real wage rates[a] | 95.5 | 97.0 | 100.0 | 104.0 | 107.0 |

*Source:* Data in tables 1, 5, 7, 10 and 11.

[a] The over-all indices for retail prices and real wage rates were obtained by weighting the individual figures by the number of employed workers. This weighting factor was chosen in the absence of comparable real payrolls.

civilian employment of 3 to 4 per cent (see table 2). The increase in the armed forces over this period amounted to 1 to 2 per cent of the labour force. There was thus a very substantial increase in productivity. Part of the over-all improvement in productivity in the period 1950 to 1953 may be attributed to a shift in the structure of national product towards industries in which the value added per man is on the average higher. The over-all increase in industrial production in the period was 18 per cent compared with an expansion in the remainder of the economy of about 13 per cent. Part of the over-all improvement in productivity may also be attributed to a slight increase in the share of the total product of the group contributed by North America, where average value added per man is higher, the increase in national product being about 2 per cent more in North America than in western Europe. However, the greater part of the over-all increase in productivity may be attributed to improvements in plant and equipment and to more complete use of available capacity.

In contrast to these earlier years, in 1954 the over-all increase in productivity was small, the rise of one per cent in national product being accompanied by some, though negligible, increase in employment. This represents the result of an increase in employment of about 1½ per cent and a substantial improvement in productivity in western Europe, combined with a 1½ per cent decrease in employment together with some reduction in average hours worked per week and virtually unchanged over-all productivity in North America. The absence of any significant improvement in productivity for the group as a whole may be explained largely by a reversal of the tendency noted in previous years of a relative shift towards industries and areas with high average value added per man. In 1954 industrial production of the group fell one per cent owing to the recession in North America; non-industrial output of goods and services, on the other hand, experienced a modest rise of 1 to 2 per cent. At the same time the share of North America in the total product dropped significantly, North American national product falling by 3 per cent, while the product of western Europe rose by 5 to 6 per cent.

Unemployment fell in 1951 by about 1½ per cent of the civilian labour force available for hire and remained approximately stable in 1952 and 1953. The fall in unemployment in 1951 resulted from the combination of a substantial increase in civilian employment and a sharp increase in the armed forces. In 1952 and 1953 the rise in employment was more or less matched by a rise in the labour force. In 1954 the slight rise in over-all employment failed to match the increase in the civilian labour force, and unemployment rose by one per cent of the civilian labour force available for hire. This was the result of divergent unemployment trends in North America and western Europe—a rise of over 3 per cent in North America, contrasted with a modest decrease in western Europe.

The increase in productivity over the period was associated with a rise in real wage rates. From 1950 to 1953 the index of real wage rates for the group rose by 9 per cent,[4] or, on the average, by 3 per cent a year. The rise in 1954 was again almost 3 per cent. The increase occurred in North America as well as in western Europe. As already noted, this helped to sustain consumption in North America in spite of the fall in employment and national product.

Retail prices rose rapidly from 1950 to 1952, stimulated by the raw material boom of 1950/51, but in 1953 the rise was only about one-half of one per cent in both North America and western Europe. In 1954 the change was greater, approximately one per cent, the greater rise occurring in western Europe but some rise also appearing in North America. Costs of food and raw materials to importers and manufacturers fell considerably in 1953. In North America and some countries of western Europe this reduction in costs was

[4] The rise in real wages, however, was somewhat less since the coverage was not complete in all countries and the excluded industries tended to be those with smaller increases.

more or less offset by a rise in unit labour costs—the rise in money wage rates exceeding that in productivity. In 1954 there was again a rise in unit labour costs in North America and some western European countries but without such substantial offsetting reductions in other costs.

Since economic developments in 1954, in contrast to earlier years, varied so widely as between North America and western Europe, the following two sections consider separately and in some detail economic changes in these two areas. The one element which distinguished the two areas throughout the period 1950 to 1954 was the relative size (1950 to 1953) and direction (1954) of changes in government expenditure. From 1950 to 1953 the increment to government expenditure relative to national product in North America was double that in western Europe; and in 1954 there was a substantial reduction in government expenditure in North America while government expenditure in western Europe was more than sustained. A third section analyses developments in three countries—Australia, New Zealand and Japan—which because of economic and statistical problems peculiar to these countries have not been included with either North America or western Europe, nor in the above discussion of general trends.

## Major Economic Changes in North America[5] in 1954

### National product and expenditure components

Although certain tendencies were somewhat more accentuated, the dominant economic trends in North America in the period 1950 to 1953 were generally of the same character as in the economically developed private enterprise group as a whole. National product rose over 15 per cent (table 3). The largest increase was in 1951, but substantial increases were also registered in 1952 and 1953. The dynamic element in the expansion of output was government expenditure, which rose during this period by an amount equal to over 80 per cent of the increment to national product. In 1951, consumption was held down, in spite of a rapid rise in national income, by a sharp increase in the

[5] Canada and the United States.

**Table 3. Real Gross National Product and Components in North American Countries, 1950 to 1954[a]**
(In 1952 prices, as a percentage of total 1952 gross national product)

| Country and year | Gross national product | Personal consumption | Government expenditure | Private investment | | Exports and imports of goods and services | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Investment in fixed capital | Change in inventories | Balance | Exports | Imports |
| *Canada:* | | | | | | | | |
| 1950 | 88.2 | 58.8 | 11.2 | 16.1 | 2.3 | −.2 | 19.9 | 20.1 |
| 1951 | 93.1 | 58.6 | 14.1 | 17.0 | 4.1 | −.7 | 21.8 | 22.5 |
| 1952 | 100.0 | 61.5 | 17.8 | 18.2 | 1.7 | .8 | 23.9 | 23.1 |
| 1953 | 103.8 | 65.0 | 17.6 | 20.3 | 2.3 | −1.4 | 23.9 | 25.3 |
| 1954 | 101.1 | 66.6 | 17.1 | 19.1 | −.8 | −.9 | 23.1 | 24.0 |
| *United States[b]:* | | | | | | | | |
| 1950 | 90.2 | 60.8 | 12.6 | 13.9 | 2.6 | .3 | 4.6 | 4.3 |
| 1951 | 96.5 | 61.2 | 17.5 | 13.7 | 3.0 | 1.1 | 5.4 | 4.3 |
| 1952 | 100.0 | 63.2 | 21.7 | 13.6 | 1.0 | .5 | 5.2 | 4.7 |
| 1953 | 104.1 | 65.5 | 24.3 | 14.2 | .3 | −.2 | 4.9 | 5.1 |
| 1954 | 100.8 | 65.9 | 21.9 | 14.0 | −1.2 | .2 | 5.1 | 4.9 |
| *Combined index, above countries[c]:* | | | | | | | | |
| 1950 | 90.1 | 60.7 | 12.5 | 14.0 | 2.6 | .3 | 5.6 | 5.3 |
| 1951 | 96.3 | 61.0 | 17.3 | 13.9 | 3.1 | 1.0 | 6.5 | 5.5 |
| 1952 | 100.0 | 63.1 | 21.4 | 13.9 | 1.0 | .6 | 6.5 | 5.9 |
| 1953 | 104.1 | 65.5 | 23.8 | 14.7 | .4 | −.3 | 6.2 | 6.5 |
| 1954 | 100.8 | 65.9 | 21.6 | 14.4 | −1.2 | .1 | 6.3 | 6.2 |

*Source:* Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, Preliminary 1954* (Ottawa); United States: Department of Commerce, *Survey of Current Business* (Washington, D.C.).

[a] Gross national product deflated by appropriate price indices of components.

[b] For the sake of comparability, adjustments were made in two of the components of the gross national product 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 included in this chapter. The balance was obtained by adding economic aid to net foreign investment, the corresponding item being omitted from government expenditure on goods and services.

[c] See note, table 1.

burden of taxation and by other restraints; but in 1952 and 1953 consumption rose about in proportion to national product. Over the period as a whole, consumption rose by about 8 per cent (or 2 to 3 per cent per capita), an amount equal to over 33 per cent of the increment to national product. The increment to government expenditure and consumption together thus exceeded the increment to product—a phenomenon made possible by a sharp decline in the amount of product going to augment inventories. Inventories were being built up at a very rapid rate at the end of 1950 in anticipation of the requirements of the rearmament programme and of generally accelerated economic activity; by 1953, however, inventory accumulation had fallen off to more modest levels and in the latter part of the year in the United States a tendency to decumulate inventories appeared.

Because of the preponderant weight of the United States in the North American economy, the above account approximates very nearly United States experience over the period 1950 to 1953. There were, however, some significant differences in the development of Canada and the United States in these years. In Canada expansion of government expenditure was of less importance and expansion of consumer expenditure of more importance. By 1953 government expenditure and consumption accounted for about equal portions—approximately 40 per cent—of the increment in Canadian national product from 1950 to 1953. Over-all inventory experience was generally similar in the two countries except that large wheat crops made agriculture's share in inventory investment larger in Canada in 1953.[6] A rise in investment in fixed capital, however, was an important feature in Canadian expansion —an increase of over 25 per cent from 1950 to 1953— as contrasted with a negligible over-all change in the United States. This rise in investment in Canada reflected a rapid development of certain basic natural resources.

In 1954 the direction of economic changes which had set the pattern for the period 1950 to 1953 was reversed in these two countries. For North America as a whole, national product fell in 1954 by 3 per cent. The demand components chiefly contributing to this result were government expenditure and inventory investment. Government expenditure fell in 1954 by an amount equal to over 65 per cent of the decline in national product; inventory investment turned sharply negative, continuing the trend that appeared late in 1953, and fell by an amount equal to about 50 per cent of the decline in national product. Partial offsets were provided by consumption, which increased slightly in spite of the fall in national product, and by imports, which declined more or less at the same rate as national product.

In the United States the reversal in economic tendencies was already apparent in the latter part of 1953. Table 4 presents quarterly data at seasonally adjusted annual rates of expenditure in current prices for 1953 and 1954. The annual rate of government expenditure reached a peak of $87 billion in the second quarter of 1953, fell off somewhat in the second half, dropped substantially in the first three quarters of 1954 and declined but at a slower rate in the fourth quarter, reaching a level of $74 billion. The main element in this decline was federal national security expenditure, which fell steadily over the same period from over $54 billion in the second quarter to less than $51 billion in the fourth quarter of 1953, and to less than $41 billion in the fourth quarter of 1954. The decline in national security and in other federal expenditure over

[6] In the national accounts of the United States, the large inventories of farm products held under farm price support programmes are included in government expenditure.

Table 4. United States: Gross National Product and Components, 1953 and 1954

(Billions of current dollars; seasonally adjusted at annual rates)

| *Period* | *Gross national product* | *Personal consumption* | *Government expenditure*[a] | *Investment in fixed capital* | *Change in inventories* | *Balance of exports and imports of goods and services*[a] |
|---|---|---|---|---|---|---|
| *1953:* | | | | | | |
| First quarter | 361.8 | 228.6 | 83.0 | 49.1 | 2.8 | −1.8 |
| Second quarter | 369.9 | 230.8 | 86.6 | 50.5 | 5.4 | −3.3 |
| Third quarter | 367.2 | 231.2 | 85.4 | 50.4 | 2.0 | −1.8 |
| Fourth quarter | 360.5 | 229.7 | 86.0 | 49.7 | −4.2 | −0.6 |
| *1954:* | | | | | | |
| First quarter | 355.8 | 230.5 | 81.9 | 48.7 | −4.2 | −1.1 |
| Second quarter | 356.0 | 233.1 | 78.3 | 49.4 | −3.8 | −1.0 |
| Third quarter | 355.5 | 234.8 | 75.6 | 50.1 | −4.8 | −0.2 |
| Fourth quarter | 362.0 | 237.7 | 74.1 | 50.8 | −1.3 | 0.8 |

*Source:* United States Department of Commerce, *Survey of Current Business*.

[a] 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.

this period was partially offset by an upward trend in state and local government expenditure. For the year 1954 as a whole, however, the fall in government expenditure in current prices (though not, as noted above, in constant prices) was about equal in amount to the fall in national product.

The break in inventory investment was the most striking element in the reversal of economic tendencies in the United States in the latter part of 1953 and the sharp fall in this item was a major contributing cause of the decrease in national product in 1954. Investment in inventories fell from an annual rate of $5 billion in the second quarter of 1953 to $2 billion in the third quarter; in the fourth quarter there was liquidation amounting to $4 billion. The rate of decumulation remained at about this level during the first three quarters of 1954. The estimated decumulation in the fourth quarter was less, about $1 billion. Net decumulation of inventories was about $3.5 billion in 1954 as against a net accumulation of $1.5 billion in 1953.

The strong tendency to liquidate inventories in these months may be related to (*a*) substantial additions to aggregate inventories over the period mid-1950 to mid-1953—an accumulation which raised the ratio of inventories to output; and (*b*) the levelling off and subsequent decline in national product after mid-1953 resulting—apart from inventory behaviour itself—from the decline in government expenditure. The rapid rate of inventory accumulation in the latter part of 1950 and during most of 1951 tended to raise aggregate inventories relative to current output. Accumulation in the following two years—to late 1953—was of more modest proportions but was roughly consonant with the increase in real output; that is, aggregate inventories relative to national product were maintained at the comparatively high level reached by the end of 1951. Under such circumstances a change in national economic prospects from one of continued expansion to even a "levelling off" might be expected to be accompanied by a tendency to decumulate inventories. The rate of decumulation from the fourth quarter of 1953 on was rapid enough to reduce aggregate inventories in relation to the national output even though the latter also fell.

Fixed capital investment, as in earlier years, changed little in the United States in 1954. Some decline might have been expected since output was falling well below capacity in many industries. Real investment in producers' durable equipment actually did fall by about 10 per cent, but this was largely offset by an increase in new construction, chiefly residential building, which was stimulated both by easier mortgage conditions and by lower interest rates.

As is usual in a "localized" recession, the decline in the level of demand in the United States in 1954 was partly mitigated by an improvement in the real balance of exports and imports. Imports fell more or less in line with the decline in internal economic activity, whereas exports increased slightly. However, because of the relatively small role of foreign trade in the country's economy (exports amounting to only about 5 per cent of national product) this improvement in the real balance was of no great significance for the economy as a whole.

The level of real personal consumption reached in 1953 was maintained in 1954 or rose slightly. In spite of the decline in national product—calculated at $8 billion in current prices—preliminary estimates of real disposable personal income showed some increase in 1954. This surprising result cannot be wholly explained at the present time because of statistical discrepancies in the preliminary estimates.[7] However, it is clear that the factors which largely determined the divergence between the movement of national income and disposable personal income were (*a*) an improvement in labour's share in the wage-profit distribution; and (*b*) a sharp reduction in government net appropriation from national income.

In spite of a decline in aggregate man-hours roughly proportionate to the drop in national product, there was an increase in money wage rates so that aggregate labour income fell only one per cent (approximately $2 billion). Since these changes were not accompanied by an improvement in productivity on an economy-wide basis, corporate profits before taxes fell substantially (estimated at some $4 billion).

Federal and local government net appropriations from national income fell by over $8 billion in 1954. The chief elements in this reduction were a $2 billion increase in government transfer payments (mainly caused by the increase in unemployment); a net reduction in personal income taxes (including social security contributions)[8] of $2.5 billion; and a reduction in corporate profits taxes of almost $4 billion. The increase in government transfer payments approximately offset the drop in labour income, while the drop in corporate profits taxes almost offset the estimated drop in corporate profits. It was thus feasible for corporations to maintain and even to increase, as they did, dividend disbursements. Under these circumstances the increase in disposable personal income was more or less equal to

[7] Preliminary estimates of gross national product by expenditure components show a $4 billion greater fall in 1954 than do estimates of national product by income components. If the expenditure estimates stand, then net national income should show a fall of $9 billion or more (since the sum of indirect taxes net of subsidies plus depreciation allowance have clearly risen) instead of the $4 billion estimated at present. The distribution of this further decrement among income components might affect the analysis of consumption as related to disposable income significantly. It is not impossible, however, that national product has not fallen as much as expenditure estimates now suggest, that corporate profits have fallen more than present estimates suggest, leaving present disposable personal income estimates comparatively unchanged.

[8] The rate of personal income taxes was reduced by 10 per cent on 1 January 1954. Social security contributions, on the other hand, were increased by the rise in rates—personal contributions yielding $0.6 billion more in 1954 than 1953.

the reduction in personal income taxes. The apparent net result of these wage, profit and tax changes in 1954 was that, in spite of the shift towards labour income in the wage-profit distribution, there was some increase in the share of total disposable personal income distributed to recipients of non-labour income.

In spite of the fact that 1954 was a year of contraction in the United States, it may be noted that the trend from the third to the fourth quarter, in contrast to the same period a year earlier, was definitely upwards. Industrial production increased considerably, and national product rose to a level over one per cent higher than the average for the year. The chief elements which contributed to the improvement were a decline in the rate of inventory decumulation and a rise in personal consumption. Government expenditure in the fourth quarter, however, was $3 billion less than the average for the year.

The trends of economic change in Canada in 1954 were in most instances in the same direction as those in the United States. However, on the whole the forces of contraction appeared later and were somewhat less severe in Canada. The national product fell 2½ per cent but this was largely the result of the unusually poor grain crop.

As in the United States, military expenditure declined in 1954, but this reduction was offset by an increase in non-military expenditure. The reduction in inventory investment, however, was severe, amounting to some 3 per cent of national product. Accumulation of business inventories turned sharply negative in the second and third quarters of the year, becoming positive again in the fourth quarter. Added to this reduction in business inventories for the year as a whole was a sharp drop in farm inventories, reflecting the very poor grain crop of 1954 compared with a good yield in the previous year.

Private investment in fixed capital declined. As in the United States, residential building expanded substantially (under the stimulus of new provisions affecting mortgage lending) but this was insufficient to offset the declines in non-residential construction and in purchases of producers' durable equipment.

Exports fell moderately, a drop that was more than accounted for by lower exports of grain. Imports, however, declined even more, reflecting the decline in non-farm inventory accumulation and the reduction of investment in durable equipment. There was therefore a small improvement in the balance of exports over imports.

Personal consumption rose in Canada by over 2 per cent in spite of the fall in national product. This divergency of movement may be explained largely in terms of two sets of factors. (*a*) The reduction in national product was chiefly the result of a drop in grain yields. Sharp fluctuations in grain incomes in Canada, however, normally have only a minor influence on consumer expenditures in the calendar year in which the change in output and income is registered. (*b*) Non-farm national income and product remained virtually unchanged, while non-farm disposable personal income increased substantially. This divergence in movement of national income and disposable personal income resulted from factors similar to those noted in the case of the United States. Real wages increased largely at the expense of profits, and personal income taxes were about 5 per cent lower for the year as a whole than in 1953.[9]

### Production, employment and unemployment

Gross national product is a measure of the national production of final goods and final services. The latter, which constitute approximately one-third of national product in the United States, increased more than did production of final goods in the period 1950 to 1954 (see tables 5 and 6). From 1950 to 1952 the expansive element in final services was the expansion in the civil and military service of government. From 1952 to 1954 the combined civil and military service of federal and local governments declined, while output of consumer services expanded. In 1954, when the production of goods and the civil and military services of government fell, the output of consumer services continued to increase. An important element was an increase in residential rental service.

Industrial production rose faster than the non-industrial contribution to production of final goods in the period 1950 to 1953, in all years except 1952, when there was a very substantial reduction in the rate of inventory investment. In 1954 industrial production fell 7 per cent compared with a 5 per cent fall in production of final goods. This again may be explained by the concurrent sharp reduction in the rate of inventory investment.[10]

Employment increased in the United States over the period 1950 to 1953 much less than real national product—reflecting a substantial improvement in productivity (see table 5). In 1954 employment was reduced by only about 1½ per cent and, although average weekly hours of work also were reduced, it would appear that the normal improvement in productivity was not realized. In the manufacturing industry, however, employment fell by 7 per cent and average weekly hours by 2 per cent whereas production fell only 7 per cent. The fact that productivity failed to rise on an economy-wide basis in 1954 thus appears to be

[9] Effective 1 July 1953, personal income taxes were reduced by 10 per cent.

[10] Production of final goods involves the productive contribution not only of primary producers and manufacturers but also of firms concerned with the distribution of goods—transport, wholesale and retail trade, communication, and so on. In a period when the rate of inventory accumulation is increasing, the contribution of the former group to the value of goods produced tends to rise relative to the latter. The reverse tendency appears when investment in inventories is declining.

Table 5. Real Gross National Product, Industrial and Agricultural Production, Employment and Unemployment in North American Countries, 1950 to 1954

(1952=100)

| Country and year | Real gross national product (1) | Industrial production [a] (2) | Agricultural production (3) | Civilian employment (4) | Unemployed as percentage of civilian labour force available for hire [b] (5) |
|---|---|---|---|---|---|
| *Canada:* | | | | | |
| 1950 | 88 | 91 | 83 | 96 | 4.5 |
| 1951 | 93 | 97 | 93 | 99 | 2.8 |
| 1952 | 100 | 100 | 100 | 100 | 3.2 |
| 1953 | 104 | 107 | 94 | 101 | 3.3 |
| 1954 | 101 | 105 | 69 | 100 | 5.6 |
| *United States:* | | | | | |
| 1950 | 90 | 90 | 93 | 98 | 6.2 |
| 1951 | 97 | 97 | 96 | 99 | 3.7 |
| 1952 | 100 | 100 | 100 | 100 | 3.2 |
| 1953 | 104 | 108 | 101 | 101 | 2.9 |
| 1954 | 101 | 101 | 101 | 99 | 6.1 |
| *Combined index for above countries:* | | | | | |
| 1950 | 90 | 91 | 92 | 98 | 6.1 |
| 1951 | 96 | 97 | 96 | 99 | 3.6 |
| 1952 | 100 | 100 | 100 | 100 | 3.2 |
| 1953 | 104 | 108 | 100 | 101 | 2.9 |
| 1954 | 101 | 101 | 97 | 99 | 6.1 |

*Source:* For column 1, see table 3. Column 2: United Nations, *Monthly Bulletin of Statistics*. Column 3: Canada: Dominion Bureau of Statistics, *Quarterly Bulletin of Agricultural Statistics* (Ottawa); United States: *Economic Report of the President* (Washington, D.C.), January 1955. Columns 4 and 5: Canada: Dominion Bureau of Statistics, *The Labour Force* (Ottawa), November 1945–January 1955, Reference Paper No. 58; United States: Department of Commerce, *Current Population Reports, Labor Force*, series P-57 (Washington, D.C.).

[a] For Canada, indices cover mining, manufacturing, electricity and manufactured gas; for the United States, mining and manufacturing only.

[b] Civilian labour force available for hire is equal to wage earners and salaried workers plus unemployed.

linked not so much to an interruption in the rate of improvement in productive techniques as to a relative shift away from the industrial sector—where average value added per man is high—to the non-industrial and service sectors—where average value added per man is low. This shift is apparent in table 6. It follows, of course, that part of the increase in productivity on an economy-wide basis in the period 1950 to 1953 was due to the relative shift towards the industrial sector.

Table 6. United States: Indices of Production of Final Goods and Final Services, 1950 to 1954

(1952=100)

| Item | 1950 | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|---|
| Gross national product | 90 | 96 | 100 | 104 | 101 |
| Production of final goods | 92 | 97 | 100 | 105 | 100 |
| Non-farm | 91 | 97 | 100 | 105 | 101 |
| Non-farm, excluding construction | 90 | 96 | 100 | 105 | 100 |
| Industrial | 90 | 97 | 100 | 108 | 101 |
| Production of final services | 87 | 95 | 100 | 102 | 102 |
| Consumer | 93 | 96 | 100 | 103 | 104 |
| Governmental, civil and military | 73 | 92 | 100 | 99 | 96 |

*Source: Economic Report of the President*, January 1955.

The production indices are derived from values produced, at 1954 prices, with the exception of the index of industrial production, which is a physical volume of production index.

Although civilian employment fell only 1½ per cent, unemployment rose from less than 3 per cent to more that 6 per cent of the civilian labour force available for hire. This change reflected an increase in the labour force, combined with some reduction in the armed forces. There was some improvement in the unemployment outlook in the latter part of 1954. Unemployment reached a peak of 3.7 million in March, followed the usual seasonal decline through the middle of the year but then did not rise as is seasonally typical in the closing months of the year.

In Canada in the period 1950 to 1953, industrial production rose from year to year by approximately the same percentages as in the United States. The share of industrial production in total Canadian output, however, increased very little since a series of good harvests raised the share of agriculture during the period. In 1954, however, industrial production fell by about 2 per cent, a definite fall in relation to all other non-farm product but proportionately the same as the decrease in total national product. The fall in agricultural output,

Table 7. Indices of Retail Prices, Real Wage Rates, Export Prices and Import Prices in North American Countries, 1950 to 1954
(1952 = 100)

| Country and year | Retail prices | Real wage rates | Commodity export prices | Commodity import prices |
|---|---|---|---|---|
| *Canada*[a]: | | | | |
| 1950 | 88.5 | 93.5 | 88.5 | 100.0 |
| 1951 | 97.5 | 95.5 | 101.0 | 114.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 99.0 | 105.4 | 97.0 | 99.0 |
| 1954 | 100.0 | 107.5 | 94.5 | 99.5 |
| *United States*[b]: | | | | |
| 1950 | 90.5 | 97.5 | 88.5 | 84.0 |
| 1951 | 98.0 | 97.5 | 101.0 | 105.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 101.0 | 105.0 | 100.0 | 95.5 |
| 1954 | 101.0 | 107.5 | 98.0 | 97.5 |
| *Combined index for above countries*[c]: | | | | |
| 1950 | 90.5 | 97.0 | 88.5 | 88.0 |
| 1951 | 98.0 | 97.0 | 101.0 | 108.0 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 100.5 | 105.0 | 99.0 | 96.5 |
| 1954 | 101.0 | 107.5 | 97.0 | 98.0 |

*Source:* Canada: Dominion Bureau of Statistics, *Canadian Statistical Review* (Ottawa); Department of Labour, *Wage Rates, Salaries and Hours of Labour in Canada* (Ottawa). United States: Department of Labor, *Monthly Labor Review* (Washington, D.C.).

[a] Wage rates represent straight-time earnings in manufacturing, mining, forestry, construction, transportation and communications, and services (laundries). Figures for 1954 estimated by the United Nations Bureau of Economic Affairs.

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

[c] In retail prices and real wage rates, the weighting factor used was the number of employed workers; for export and import prices, the weights employed were based on the national product weights (see table 1) multiplied by the percentage of exports and imports, respectively, to the national product in 1952.

as already noted, accounted for most of the decrease in national product.

As in the United States, employment increased over the period 1950 to 1953 much less than production, reflecting a steady improvement in national productivity. In 1954, although non-farm product virtually held its level, non-farm employment fell 1 to 2 per cent and working hours were somewhat reduced. There was thus a continued improvement in productivity in the non-farm sector. The contrast with United States experience in this respect is accounted for by the fact that in Canada there was no relative shift away from the industrial sector. Unemployment increased by about 2½ per cent of the civilian labour force available for hire in 1954, reflecting the decline in employment and the increase in the labour force.

### Prices and wages

In both the United States and Canada there was an inflationary increase in retail prices from mid-1950 to the end of 1951 but thereafter little over-all change (table 7). In the face of the rising cost of living in 1951 real wage rates did little more than maintain their level, but in subsequent years they rose substantially. In spite of the decline in output and employment and the sharp rise in unemployment in 1954, real wage rates increased 2 to 3 per cent in both countries. The effect of this increase in real wage rates in 1954 on average real hourly earnings on an economy-wide basis was partially offset in the United States by the relative shift away from industrial production—since real wage rates as well as average value added per man are relatively high in industry.

## Major Economic Changes in Western Europe in 1954

### National product and expenditure components

The pattern of economic developments in western Europe as a whole in 1954 was not unlike that in 1953. However, in both years the pattern differed in several important respects from that of the previous two years. The major differences between these two periods appear

in table 8, which shows the real increments from year to year in the major expenditure components and in national product when these are expressed, as in table 9, in terms of indices with the real national product of 1952 equal to 100.

Developments in 1951 and 1952 were dominated by three major influences: (*a*) substantial increases in government expenditure; (*b*) a boom followed by a slump in inventory investment; and (*c*) an expansion followed by a levelling off in real exports and imports, accompanied by a deterioration and subsequent partial recovery in the terms of trade. The marked difference in the rate of expansion of national product in 1951 and 1952 was largely accounted for by the boom and slump in inventory investment.

Personal consumption was restrained in 1951 mainly by a sharp increase in the burden of taxation. In addition, the general deterioration in European terms of trade had a damping effect on expansion of real wages and other personal income. Real wage rates increased only about 2 per cent as compared with an increase in average output per man of perhaps twice as much. In 1952 consumption was restrained by a reduced rate of expansion of the non-consumption components of demand—as a matter of fact, the sum of the non-consumption expenditures (owing to the sharp fall in inventory investment) was approximately unchanged. Consumption, however, did increase. This reflected a rise of about 3½ per cent in real wage rates compared with a much smaller increase in average output per man. This movement, facilitated by partial recovery in the terms of trade for the group as a whole, tended to increase real disposable personal income relative to real national output.

Developments in 1953 and 1954, on the other hand, were dominated by a steady expansion of private investment, especially in fixed capital, and an increase in personal consumption more or less consonant with the increase in national product and income. Whereas government expenditure had accounted for over 50 per cent of the increment to total product from 1950 to 1952, it accounted for only 6 per cent from 1952 to 1954. In contrast, the share of the increment accounted for by private investment in fixed capital rose from 8 to 27 per cent and that accounted for by consumption from 35 to over 60 per cent.

Consumption rose in line with national product in 1953, but slightly less than national product in 1954. In 1953 real wage rates rose by about 3½ per cent—a rise, however, apparently somewhat less than the increase in average output per man. This tended to reduce real labour income relative to real national product. This factor was offset, however, by a further improvement in the terms of trade for the group as a whole, which tended to increase real personal non-labour income relative to real national product. In 1954 real wage rates rose less than 3 per cent while the increase in average output per man was about the same as in the previous year. The divergence between the two was thus greater in 1954 than in the previous year. In addition, the depressing effect of this divergence on personal income relative to national product was not, in contrast to 1953, offset by an improvement in the terms of trade.

Although in broad outline the picture of economic changes in western Europe was fairly clearly defined, the experience of individual countries varied considerably, especially in the period 1950 to 1952. Developments in individual countries have been treated in some detail in earlier issues of the *World Economic Report*, but it may be noted here that western Germany constituted an exceptional case during this period, and greatly affected the measures of over-all changes. Its national product rose 23 per cent from 1950 to 1952. This phenomenal increase reflected ready availability of labour and rapid progress in post-war reconstruction, which had been delayed in earlier years. If western Germany is omitted from the group, national product shows a rise from 1950 to 1952 of less than 5 per cent (instead of 9 per cent), with the increment in government expenditure just about equalling the increment in total product and with a very slight increase in consumption. Indeed,

**Table 8. Increments in Real Gross National Product and Its Components in Western European Countries, 1951 to 1954**

(As a percentage of 1952 gross national product)

| *Item* | *1951* | *1952* | *1953* | *1954* |
|---|---|---|---|---|
| Personal consumption | 1.2 | 1.5 | 3.2 | 3.6 |
| Government expenditure | 1.7 | 2.3 | 0.5 | 0.2 |
| Private investment | 2.4 | −2.2 | 1.5 | 2.2 |
| Fixed capital | 0.5 | 0.1 | 1.5 | 1.4 |
| Inventories | 1.9 | −2.3 | 0.0 | 0.8 |
| Balance of exports and imports | 1.0 | 0.0 | −0.5 | 0.1 |
| Exports | 2.9 | 0.0 | 1.9 | 2.8 |
| Imports | 1.9 | 0.0 | 2.4 | 2.7 |
| Gross national product | 6.3 | 1.6 | 4.7 | 6.1 |

*Source:* Derived from table 9.

## Table 9. Real Gross National Product and Components, at 1952 Prices, in Western European Countries, 1950 to 1954[a]

(Percentage of total 1952 gross national product)

| Country and year | Gross national product | Personal consumption | Government expenditure | Private investment | | Exports and imports of goods and services | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Investment in fixed capital | Change in inventories | Balance | Exports | Imports |
| *Belgium:* | | | | | | | | |
| 1950 | 96.3 | 67.9 | 12.7 | 15.4 | 0.0 | 0.2 | 30.1 | 29.9 |
| 1951 | 102.5 | 68.1 | 14.5 | 14.6 | 1.7 | 3.6 | 35.5 | 31.9 |
| 1952 | 100.0 | 67.8 | 16.0 | 13.3 | 1.2 | 1.7 | 34.3 | 32.6 |
| 1953 | 102.0 | 68.2 | 16.8 | 14.2 | −1.7 | 4.5 | 38.3 | 33.8 |
| 1954 | 106.1 | 68.9 | 17.2 | 14.8 | 0.1 | 5.1 | 42.6 | 37.5 |
| *Denmark:* | | | | | | | | |
| 1950 | 99.7 | 66.2 | 15.5 | 19.0 | 3.8 | −4.8 | 27.1 | 31.9 |
| 1951 | 100.0 | 64.5 | 16.1 | 19.1 | −0.2 | 0.6 | 30.6 | 30.0 |
| 1952 | 100.0 | 63.8 | 16.5 | 19.3 | −0.1 | 0.6 | 29.8 | 29.2 |
| 1953 | 105.0 | 67.3 | 17.7 | 20.1 | 0.8 | −0.8 | 32.7 | 33.5 |
| 1954 | 106.2 | 70.8 | 18.4 | 20.9 | 0.0 | −3.9 | 35.8 | 39.7 |
| *France:* | | | | | | | | |
| 1950 | 94.5 | 65.0 | 14.3 | 12.1 | 2.8 | 0.3 | 13.1 | 12.8 |
| 1951 | 98.6 | 67.8 | 14.6 | 13.6 | 1.4 | 1.2 | 16.4 | 15.2 |
| 1952 | 100.0 | 69.7 | 19.2 | 12.0 | 0.2 | −1.1 | 14.6 | 15.7 |
| 1953 | 101.6 | 71.2 | 19.8 | 11.8 | −1.0 | −0.2 | 16.1 | 16.3 |
| 1954 | 109.4 | 76.4 | 19.5 | 12.5 | 0.2 | 0.8 | 18.3 | 17.5 |
| *Germany, western*[b]*:* | | | | | | | | |
| 1950 | 81.3 | 48.1 | 14.6 | 17.9 | 1.4 | −0.7 | 11.4 | 12.1 |
| 1951 | 94.8 | 51.9 | 15.8 | 19.2 | 5.3 | 2.6 | 15.7 | 13.1 |
| 1952 | 100.0 | 56.1 | 17.9 | 19.6 | 3.9 | 2.5 | 18.5 | 16.1 |
| 1953 | 106.8 | 61.5 | 17.7 | 22.5 | 3.7 | 1.4 | 21.8 | 20.4 |
| 1954 | 115.5 | 66.3 | 18.3 | 25.2 | 4.7 | 0.9 | 26.9 | 26.0 |
| *Italy:* | | | | | | | | |
| 1950 | 92.2 | 67.4 | 11.5 | 14.2 | 1.2 | −2.1 | 10.0 | 12.1 |
| 1951 | 97.6 | 69.3 | 12.5 | 15.6 | 2.0 | −1.8 | 11.3 | 13.1 |
| 1952 | 100.0 | 71.6 | 14.2 | 18.1 | −0.1 | −3.8 | 10.9 | 14.7 |
| 1953 | 107.0 | 76.0 | 15.0 | 19.9 | 0.3 | −4.2 | 13.3 | 17.5 |
| 1954 | 111.9 | 78.5 | 15.1 | 21.5 | 0.4 | −3.6 | 13.6 | 17.2 |
| *Netherlands:* | | | | | | | | |
| 1950 | 96.0 | 62.8 | 13.7 | 18.7 | 7.3 | −6.5 | 44.0 | 50.5 |
| 1951 | 98.0 | 60.9 | 14.1 | 18.5 | 4.9 | −0.4 | 51.2 | 51.6 |
| 1952 | 100.0 | 61.5 | 15.2 | 17.8 | −2.8 | 8.3 | 54.8 | 46.5 |
| 1953 | 109.1 | 63.8 | 17.3 | 18.9 | 1.6 | 7.5 | 61.5 | 54.0 |
| 1954 | 115.5 | 67.6 | 18.1 | 20.6 | 4.9 | 4.3 | 70.1 | 65.8 |
| *Norway*[b]*:* | | | | | | | | |
| 1950 | 93.7 | 54.1 | 8.7 | 30.8 | 0.4 | −0.3 | 36.4 | 36.7 |
| 1951 | 97.6 | 54.1 | 9.4 | 31.0 | 3.5 | −0.4 | 39.4 | 39.8 |
| 1952 | 100.0 | 56.3 | 10.0 | 32.6 | 1.1 | 0.0 | 39.4 | 39.4 |
| 1953 | 102.1 | 57.8 | 11.3 | 34.8 | −0.6 | −1.2 | 41.1 | 42.3 |
| 1954 | 106.0 | 59.7 | 11.9 | 37.1 | −0.2 | −2.5 | 44.4 | 46.9 |
| *Sweden:* | | | | | | | | |
| 1950 | 98.5 | 57.3 | 17.3 | 20.6 | −0.4 | 3.7 | 23.1 | 19.4 |
| 1951 | 98.5 | 56.4 | 18.3 | 20.4 | 2.4 | 1.0 | 24.1 | 23.1 |
| 1952 | 100.0 | 57.9 | 19.8 | 19.7 | 2.2 | 0.4 | 21.8 | 21.4 |
| 1953 | 104.0 | 59.8 | 21.7 | 21.5 | −0.9 | 1.9 | 23.3 | 21.4 |
| 1954 | 109.0 | 62.0 | 23.4 | 23.3 | −1.1 | 1.4 | 25.4 | 24.1 |
| *United Kingdom*[c]*:* | | | | | | | | |
| 1950 | 96.3 | 68.6 | 16.1 | 11.4 | 0.0 | 0.3 | 24.8 | 24.5 |
| 1951 | 100.8 | 67.8 | 19.7 | 10.6 | 3.5 | −0.8 | 26.4 | 27.2 |
| 1952 | 100.0 | 66.9 | 21.4 | 10.8 | −0.2 | 1.0 | 25.7 | 24.7 |
| 1953 | 104.0 | 69.7 | 21.9 | 12.1 | 1.0 | −0.7 | 25.4 | 26.1 |
| 1954 | 108.3 | 72.6 | 21.6 | 12.8 | 1.4 | −0.1 | 27.0 | 27.1 |
| *Combined index for above countries*[d]*:* | | | | | | | | |
| 1950 | 92.1 | 62.3 | 14.4 | 14.6 | 1.3 | −0.5 | 18.7 | 19.2 |
| 1951 | 98.4 | 63.5 | 16.1 | 15.1 | 3.2 | 0.5 | 21.6 | 21.1 |
| 1952 | 100.0 | 65.0 | 18.4 | 15.2 | 0.9 | 0.5 | 21.6 | 21.1 |
| 1953 | 104.7 | 68.2 | 18.9 | 16.7 | 0.9 | 0.0 | 23.5 | 23.5 |
| 1954 | 110.8 | 71.8 | 19.1 | 18.1 | 1.7 | 0.1 | 26.3 | 26.2 |

(See next page for notes to table)

in four countries—Belgium, Denmark, the Netherlands and the United Kingdom—real consumption expenditure was less in 1952 than in 1950. However, in 1953 and 1954, while the rate of expansion in western Germany remained high, it did not diverge so radically from that of other countries.

The general character of the expansive forces in 1953 and 1954 has been indicated above. The chief differences between the pattern of developments in 1953 and 1954 are, first, that in the latter year there was some increase in investment in inventories, as compared with a negligible increase in 1953 and, second, that there was some acceleration in the rate of expansion of foreign trade, especially exports. The increment in government expenditure was somewhat lower in 1954, but the increments in private investment in fixed capital and personal consumption were about the same in both years. As a result, the national product rose by almost 6 per cent, compared with less than 5 per cent in 1953.

The increase in national product experienced by western Europe in 1954 was shared, as in 1953, by every member of the group. In Belgium, France and Norway, where the rate of expansion was low (around one to 2 per cent) in 1953, it rose substantially in 1954, the largest increase (almost 8 per cent) being in France, following two consecutive years of relative stagnation. In Italy and Denmark the rate of increase in national product was appreciably lower—a change associated in both countries with continued expansion in industrial production and a drop in crop yields. In the remaining countries—the United Kingdom, Sweden, the Netherlands and western Germany—the rate of expansion, already high in 1953, continued at about the same rate in 1954—4 to 5 per cent a year in the United Kingdom and Sweden and 6 to 9 per cent in the Netherlands and western Germany.

The over-all increment in government expenditure was not large in 1954—around one-third of one per cent of national product. In only one country did it exceed one per cent of national product. In contrast to North America, in no country of western Europe was there any significant reduction in government expenditure.

Investment in fixed capital rose by a more substantial amount—approximately 1½ per cent of national product. All countries without exception shared in this increase. In all countries, except France, the increment was more or less of the same order as in 1953; in France there was a small increase in 1954, as compared with a slight fall in 1953. The most buoyant investment item in 1954, which in many cases received active official encouragement, was residential building; in this respect there was some similarity with North America.

In most countries both residential and industrial investment contributed to the increase in investment. In almost all, as already noted, governments continued to give support to residential construction. In France the rise in residential building accounted for most of the increase in private investment in fixed capital. This may be explained at least in part by the fact that the French Government had relaxed mortgage requirements for home construction in March 1953 and had established a system of subsidies. Though not high as compared with some other countries, residential building in France was very much higher in 1954 than in 1953. In Norway, on the other hand, the government restricted residential building by its lending policy and by direct controls, and as a result it declined slightly. A major element in the increase in over-all investment in Norway was the addition made to the merchant fleet.

Investment in inventories in western Europe in 1954 was about 1½ per cent of national product, compared with slightly less than one per cent in 1953. In the light of the fact that the national product, for the group as a whole, rose in both years by 5 to 6 per cent and that there was in addition a more than proportionate increase in exports and imports, the investment in inventories seems by no means large. The fact that inventory accumulation was larger in 1954 than in 1953 may

*Source and footnotes to table 9.*

*Source:* Belgium: Estimates by the United Nations Bureau of Economic Affairs, based, for 1950 to 1953, on: Free University of Brussels, Solvay Institute of Sociology, *Premiers éléments d'une comptabilité nationale de la Belgique, 1948–1951* (Brussels), and Ministry of Economic Affairs, *L'Economie belge en 1953* (Brussels). Denmark: The Economic Secretariat of the Government, *Okonomisk Arsoversigt, Marts 1955;* Department of Statistics, *Statistiske Efterretninger* (Copenhagen). France: Ministry of Finance, *Rapport sur les comptes provisoires de la Nation de l'année 1953* (Paris); reply to United Nations questionnaire on full employment and related matters, covering 1953 and 1954; National Assembly, *Projet de loi de finances pour l'exercice 1955* (Paris). Germany, western: Statistisches Bundesamt, *Wirtschaft und Statistik* (Stuttgart). Italy: Central Institute of Statistics, *Compendio statistico italiano*, 1954 (Rome); Chamber of Deputies, *Relazione generale sulla situazione economica del paese*, 1953, 1954 (Rome); Bank of Italy, *Annual Report*, 1951, 1952 and 1953 (Rome). Netherlands: Central Planning Bureau, *Central Economic Plan* (The Hague), for 1953, 1954 and 1955; Central Bureau of Statistics, *Statistische en econometrische onderzoekingen* (Utrecht). Norway: Department of Finance and Customs, *Nasjonalbudsjettet*, 1955 (Oslo); Central Bureau of Statistics, *Statistiske Meldinger* (Oslo). Sweden: Department of Finance, *Nationalbudget för år 1955* (Stockholm); Business Cycle Institute, *Meddelanden från Konjunkturinstitutet*, series B:16 and A:25. United Kingdom: Central Statistical Office, *National Income and Expenditure, 1946–1953* (London).

*Note:* The figures for 1954 are preliminary or have been estimated by the United Nations Bureau of Economic Affairs. They may thus be appreciably revised when the final official figures become available. For those cases where consistent data covering the whole period were lacking, the available official figures have had to be linked in a more or less arbitrary manner. Thus, the calculation of year to year changes may involve the use of different price bases.

[a] Gross national product deflated by appropriate price indices of components.

[b] Investment in fixed capital includes civilian public investment.

[c] Public investment, with the exception of residential housing carried out by local authorities, is included here in government expenditure; in the official statistics public investment is included with private investment under the heading of capital formation.

[d] See note, table 1.

be partly explained by inventory experience in earlier years. Partly, or even largely, for speculative reasons, the rate of inventory accumulation was very high in the latter part of 1950 and in 1951. Inventory investment thus tended to fall sharply in 1952. In some cases, however, a partly involuntary accumulation of inventories appeared in 1952 as a result of the levelling off or drop in exports. In a number of countries—for example Belgium, France, Norway and Sweden—there was consequently a reduced rate of accumulation or even a decumulation of inventories in 1953, a contributing factor being, in some cases, the unexpected strength of export demand. In 1954, inventory investment in most countries remained low, and, in Sweden, there was a significant decumulation of inventories. Here a decrease equal to approximately one per cent of national product occurred for the second consecutive year. This reflected the fact that stocks were considerably larger than normal at the end of 1952 and, with the quickening of export and other demand in 1953 and 1954, inventories were reduced.

However, in two countries—western Germany and the Netherlands—investment in inventories was high in 1954, and this largely accounted for the fact that investment in inventories for the group as a whole rose to about 1½ per cent of national product. In both countries inventory investment was equal to about 4 per cent of the national product. These exceptional increases appear to have been related to equally exceptional increases in foreign trade.[11]

Exports and imports of goods and services in western Europe increased by 11 to 12 per cent in 1954—an increment in total foreign trade comparable with that of 1951. An important cause of the rise in both imports and exports in 1954, as in 1953, was the increase in trade within the group, encouraged by liberalizing measures. The slight improvement in the over-all export balance in 1954 may be explained in part by the relaxation of exchange and import controls—compared with 1953—in some oversea markets such as Australia and New Zealand.

All countries in western Europe shared in the expansion of foreign trade in 1954. As a percentage of national product the smallest increases in exports were experienced by Italy, the United Kingdom and France with a range from one-half to 2 per cent. The largest increases were in Belgium and Germany—equivalent to 4 to 5 per cent—and in the Netherlands—equivalent to over 8 per cent of the national product. The smallest changes in imports were also experienced by Italy, the United Kingdom and France, with changes ranging from a slight decline to an increase of about one per cent of national product. The largest were experienced by Belgium, Norway, Denmark and western Germany, with increases equal to 4 to 6 per cent of national product, and the Netherlands, with an increase equal to about 11 per cent of national product.

Taking the group as a whole, improvements in the balance of exports over imports in the United Kingdom, Italy, Belgium and France were offset by a decline in the balance of Sweden, western Germany, Norway, Denmark and the Netherlands. The reduction was substantial only in the case of the last three countries. In Norway, the decline was related to the heavy purchase abroad of ships, in Denmark to the poor harvest, which necessitated a sharp increase in imports of livestock fodder, and in the Netherlands to the substantial increase in inventories.

Personal consumption increased in 1954 in western Europe by about 5 per cent. The increase, however, was proportionately slightly less than the increase in national product. The causes of this fall in the ratio of consumption to gross national product varied from country to country. Among these causes were: (*a*) an increase in the burden of taxation—especially automatic increases in countries with high marginal rates of personal income tax, and (*b*) a lesser increase in real wage rates than in productivity—a fact related, in some cases, to a deterioration in terms of trade. This last factor seems to have been the most important cause of the small rise in consumption in Belgium, the only country where the ratio of consumption to national product fell by over one per cent. Only in Denmark did consumption rise relatively more than national product. A poor harvest tended to reduce national product and farm incomes without a corresponding effect on consumption. A more detailed analysis of changes in the ratio of consumption to gross national product is included in the section entitled "Major Factors Affecting the Rate of Economic Expansion, by Countries, 1953 and 1954".

### Production, employment and unemployment

Industrial production expanded substantially in western Europe in the period 1950 to 1954, in most years more rapidly than gross national product (see table 10). In 1954 it rose by over 8 per cent as against a less than 6 per cent increase in national product. This compared with a 5 per cent increase in both in 1953. The greater relative increase in industrial production as compared with national product in 1954 is partly explained by the increase in inventory investment in that year[12] and the relative smallness of the increase in agricultural output. Industrial production rose in all countries, the increases ranging from 4 to 6 per cent in Sweden, Denmark, the United Kingdom and Norway and from 8 to 13 per cent in Belgium, the Netherlands, France, Italy and Germany.

[11] Expressed as percentages of the 1952 national product, the increases in exports, imports and national product from 1952 to 1954 in Germany were around 8, 10 and 16 per cent and in the Netherlands approximately 15, 19 and 16 per cent, respectively.

[12] See footnote 10.

Although there was some over-all rise in agricultural production in western Europe in 1954, the increment to farm output was small and less than in the previous year. In Italy there was a significant decline compared with the very favourable harvest in 1953; in Denmark a poor and late harvest made necessary a sharp increase in imports of livestock feeds and significantly reduced net farm output.

In most countries the increase in output was achieved with only a small increase in employment. Only in western Germany was the increase in employment substantial—about 5 per cent, a rise made possible by the relatively large number of unemployed and the continuing influx of labour. In all countries there was apparently an appreciable improvement in non-farm productivity.

**Table 10. Real Gross National Product, Industrial and Agricultural Production, Employment and Unemployment in Western European Countries, 1950 to 1954**

(1952=100)

| Country and year | Real gross national product (1) | Industrial production [a] (2) | Agricultural production [b] (3) | Civilian employment (4) | Unemployed as percentage of civilian labour force available for hire (5) |
|---|---|---|---|---|---|
| *Belgium*[c]: | | | | | |
| 1950 | 96 | 90 | 93 | 100 | 6.9 |
| 1951 | 102 | 103 | 96 | 102 | 6.1 |
| 1952 | 100 | 100 | 100 | 100 | 7.0 |
| 1953 | 102 | 100 | 103 | 99 | 7.4 |
| 1954 | 106 | 108 | . . | . . | 6.8 |
| *Denmark*[d]: | | | | | |
| 1950 | 100 | 102 | 98 | 102 | 8.7 |
| 1951 | 100 | 104 | 95 | 102 | 9.7 |
| 1952 | 100 | 100 | 100 | 100 | 12.5 |
| 1953 | 105 | 104 | 105 | 101 | 9.2 |
| 1954 | 106 | 110 | . . | . . | 8.0 |
| *France*[e]: | | | | | |
| 1950 | 95 | 85 | 100 | 96 | 2.1 |
| 1951 | 99 | 96 | 95 | 99 | 1.6 |
| 1952 | 100 | 100 | 100 | 100 | 1.9 |
| 1953 | 102 | 97 | 106 | 98 | 2.2 |
| 1954 | 109 | 106 | . . | 98 | 2.2 |
| *Germany, western*[f]: | | | | | |
| 1950 | 81 | 78 | 91 | 92 | 10.2 |
| 1951 | 95 | 93 | 97 | 97 | 9.0 |
| 1952 | 100 | 100 | 100 | 100 | 8.4 |
| 1953 | 107 | 109 | 104 | 104 | 7.5 |
| 1954 | 116 | 121 | . . . | 109 | 6.8 |
| *Italy*: | | | | | |
| 1950 | 92 | 86 | 95 | . . . | 14.0 |
| 1951 | 98 | 98 | 100 | . . . | 14.5 |
| 1952 | 100 | 100 | 100 | . . . | 15.5 |
| 1953 | 107 | 110 | 108 | . . . | 16.0 |
| 1954 | 112 | 119 | . . | . . . | 16.0 |
| *Netherlands*: | | | | | |
| 1950 | 96 | 96 | 93 | 100 | 2.6 |
| 1951 | 98 | 99 | 97 | 101 | 2.9 |
| 1952 | 100 | 100 | 100 | 100 | 4.3 |
| 1953 | 109 | 109 | 98 | 101 | 3.2 |
| 1954 | 116 | 120 | . . | 103 | 2.3 |
| *Norway*: | | | | | |
| 1950 | 94 | 92 | 104 | 100 | 0.9 |
| 1951 | 98 | 99 | 97 | 100 | 1.1 |
| 1952 | 100 | 100 | 100 | 100 | 1.2 |
| 1953 | 102 | 106 | 101 | 100 | 1.5 |
| 1954 | 106 | 112 | . . | 101 | 1.3 |
| *Sweden*[g]: | | | | | |
| 1950 | 99 | 98 | 100 | 100 | 2.2 |
| 1951 | 99 | 102 | 97 | 100 | 1.8 |
| 1952 | 100 | 100 | 100 | 100 | 2.3 |
| 1953 | 104 | 100 | 102 | 100 | 2.9 |
| 1954 | 109 | 104 | . . | 100 | 2.6 |

Table 10. Real Gross National Product, Industrial and Agricultural Production, Employment and Unemployment in Western European Countries, 1950 to 1954 (*continued*)

(1952=100)

| *Country and year* | *Real gross national product* (1) | *Industrial production* [a] (2) | *Agricultural production* [b] (3) | *Civilian employment* (4) | *Unemployed as percentage of civilian labour force available for hire* (5) |
|---|---|---|---|---|---|
| *United Kingdom* [b]: | | | | | |
| 1950 | 96 | 100 | 97 | 99 | 1.6 |
| 1951 | 101 | 103 | 97 | 100 | 1.3 |
| 1952 | 100 | 100 | 100 | 100 | 2.1 |
| 1953 | 104 | 106 | 102 | 101 | 1.8 |
| 1954 | 108 | 113 | ... | 102 | 1.5 |
| *Combined index for above countries* [i]: | | | | | |
| 1950 | 92 | 90 | 96 | 97 | 6.1 |
| 1951 | 98 | 99 | 97 | 99 | 5.7 |
| 1952 | 100 | 100 | 100 | 100 | 6.2 |
| 1953 | 105 | 105 | 105 | 101 | 6.0 |
| 1954 | 111 | 114 | ... | 103 | 5.6 |

*Source:* For column 1, see table 9. Column 2: United Nations, *Monthly Bulletin of Statistics*. Column 3: Food and Agriculture Organization of the United Nations. Columns 4 and 5: Belgium: Ministry of Economic Affairs, *L'Economie belge en 1953;* Denmark: Ministry of Foreign Affairs, *Economic Survey of Denmark, 1954* (Copenhagen); France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique* and *Bulletin hebdomadaire 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 1953 and 1954; Norway: Department of Finance and Customs, *Nasjonalbudsjettet*, 1953, 1954 and 1955; Sweden: Department of Finance, *Nationalbudget*, 1953, 1954 and 1955; United Kingdom: Central Statistical Office, *Monthly Digest of Statistics* (London).

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

[b] 1952/53=100. The crop year 1952/53 rather than 1951/52 was chosen as the base period because there is an approximate correspondence in terms of output between the crop year and the calendar year indicated by the first part of the crop year. The indices of agricultural production shown for the calendar years 1950 to 1954 represent figures for the crop years 1950/51 to 1954/55.

[c] Unemployment figures represent wholly unemployed.

[d] Industrial production includes manufacturing, electricity and manufactured gas. Unemployment is expressed as a percentage of insured trade unionists.

[e] Unemployment percentages were estimated on the basis of the national sample surveys in October 1952, June and December 1953. The total number of unemployed obtained from these surveys was extrapolated for the entire year on the basis of the average number of applicants for work, and the number of employed salaried workers and wage earners was extrapolated on the basis of the over-all index of employment of the Ministry of Labour.

[f] Figures for civilian employment represent employed wage earners and salaried workers.

[g] Industrial production includes manufacturing and mining. Unemployment percentages represent the percentage of unemployed in trade unions.

[h] Industrial production includes construction. Figures for unemployment include those temporarily stopped.

[i] For 1950 to 1953, aggregate figures for civilian employment exclude Italy, and for 1954, the figure excludes Belgium, Denmark and Italy.

The rise in employment, though small, was generally more than sufficient to absorb the normal increment to the labour force. In no country was there a rise in average unemployment. In most countries unemployment was under 3 per cent of the labour force. However, there were still areas where over-all unemployment, though declining, remained high—for example about 7 or 8 per cent in Belgium, Denmark and western Germany. In Italy unemployment remained unchanged at about 16 per cent.

### Prices and wages

Retail prices rose rapidly in western Europe in 1950 and 1951, levelled off in 1952 and 1953 and then showed some tendency to increase in most countries especially toward the latter part of 1954. In terms of annual averages for western Europe as a group, retail prices rose by 1½ per cent in 1954 as compared with one-half per cent in 1953 (see table 11).

From the point of view of an economy as a whole, the cost factors promoting price changes are, first, changing import costs and, second, changing wage costs per unit of output. Import prices of goods and services for the group of western European countries as a whole fell by about 9 per cent in 1953 and by a further 3 per cent in 1954. Unit wage costs, on the other hand, rose in some countries and fell in others but for the group as a whole remained almost unchanged. The figures below indicate the effect of these cost elements on total unit costs and show, for comparison, changes

in the over-all price index of total expenditure (including, for these purposes, personal consumption, government expenditure, private investment and exports).

| | *1953* | *1954* |
|---|---|---|
| | *(Percentage change compared with preceding year)* | |
| Import prices of goods and services | −9.0 | −3.0 |
| Unit wage costs[a] | 0.0 | 0.5 |
| Total unit costs[b] | −2.2 | −0.4 |
| Over-all price index of total expenditure[c] | −0.9 | 0.1 |
| Item 4 minus item 3 | 1.3 | 0.5 |

[a] Money wage rates divided by output per man-hour.
[b] For the group as a whole the respective weights of import and wage costs are around 1 to 3.
[c] For the group as a whole in these years changes in indirect taxes net of subsidies had a negligible effect on prices. The percentage changes in the over-all price index of total expenditures, calculated at factor cost, were −0.8 in 1953 and 0.2 in 1954.

The fall in the over-all price index of total expenditure in 1953 was due to a fall in export prices of goods and services of about 6 per cent. Similarly, the smallness of the rise in 1954 is explained by a further fall in export prices of 2 to 3 per cent. However, the fact that the over-all price index of total expenditure in 1953 declined less than unit costs implies a rise in profit margins in that year in spite of the fall in export prices. This reflects the fact that domestic prices failed to fall as import costs dropped. In 1954 the higher profit margins of 1953 were apparently maintained and even somewhat increased, reflecting a rise in domestic prices with approximately unchanged unit costs. It may perhaps be suggested that the rise in profit margins in 1953 mainly reflected a relative "stickiness" of prices in the face of declining costs,

**Table 11. Indices of Retail Prices, Real Wage Rates, Export Prices and Import Prices in Western European Countries, 1950 to 1954**

(1952 = 100)

| *Country and year* | *Retail prices* | *Real wage rates*[a] | *Commodity export prices* | *Commodity import prices* |
|---|---|---|---|---|
| *Belgium*[b]: | | | | |
| 1950 | 90.5 | 95.0 | 75.0 | 85.5 |
| 1951 | 99.0 | 96.0 | 100.5 | 103.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 99.5 | 100.0 | 85.0 | 95.5 |
| 1954 | 101.5 | 100.5 | 77.0 | 90.0 |
| *Denmark*[c]: | | | | |
| 1950 | 87.0 | 96.0 | 85.0 | 80.0 |
| 1951 | 96.5 | 93.5 | 95.0 | 101.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 100.0 | 104.0 | 95.0 | 90.5 |
| 1954 | 101.0 | 105.0 | 94.0 | 87.0 |
| *France*[d]: | | | | |
| 1950 | 76.5 | 88.0 | 79.5 | 78.5 |
| 1951 | 89.5 | 96.5 | 92.0 | 101.0 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 99.0 | 103.5 | 94.0 | 90.5 |
| 1954 | 98.5 | 110.5 | 89.0 | 89.0 |
| *Germany, western*[e]: | | | | |
| 1950 | 91.0 | 89.5 | 76.5 | 82.5 |
| 1951 | 98.0 | 95.0 | 92.5 | 105.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 98.5 | 106.0 | 94.0 | 87.5 |
| 1954 | 98.5 | 108.5 | 90.5 | 84.0 |
| *Italy*[f]: | | | | |
| 1950 | 87.5 | 94.0 | 90.0 | 79.5 |
| 1951 | 96.0 | 94.0 | 107.0 | 103.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 102.0 | 104.5 | 96.0 | 91.0 |
| 1954 | 104.5 | 105.0 | 99.0 | 91.0 |
| *Netherlands*[g]: | | | | |
| 1950 | 89.0 | 101.5 | 83.5 | 82.5 |
| 1951 | 100.0 | 98.0 | 98.0 | 101.0 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 100.5 | 101.0 | 88.5 | 82.5 |
| 1954 | 105.5 | 106.5 | 84.5 | 84.0 |

Table 11. Indices of Retail Prices, Real Wage Rates, Export Prices and Import Prices in Western European Countries, 1950 to 1954 (*continued*)

(1952=100)

| Country and year | Retail prices | Real wage rates[a] | Commodity export prices | Commodity import prices |
|---|---|---|---|---|
| *Norway*[b]: | | | | |
| 1950 | 79.0 | 99.5 | 72.5 | 80.5 |
| 1951 | 91.5 | 98.0 | 100.5 | 96.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 102.0 | 102.5 | 87.0 | 95.0 |
| 1954 | 106.5 | 103.0 | 86.0 | 92.0 |
| *Sweden*[i]: | | | | |
| 1950 | 80.0 | 87.0 | 65.0 | 75.0 |
| 1951 | 92.5 | 91.0 | 101.5 | 95.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 101.0 | 103.5 | 87.0 | 91.5 |
| 1954 | 102.0 | 107.5 | 86.0 | 91.5 |
| *United Kingdom*[j]: | | | | |
| 1950 | 84.0 | 101.5 | 81.5 | 77.5 |
| 1951 | 92.0 | 100.5 | 95.0 | 103.0 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 103.0 | 101.5 | 97.5 | 88.5 |
| 1954 | 105.0 | 104.0 | 95.0 | 88.0 |
| *Combined index for above countries*[k]: | | | | |
| 1950 | 85.0 | 94.5 | 80.0 | 79.5 |
| 1951 | 94.5 | 96.5 | 96.0 | 102.5 |
| 1952 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1953 | 100.5 | 103.5 | 93.5 | 89.0 |
| 1954 | 102.0 | 106.5 | 91.0 | 88.0 |

*Source*: United Nations, *Monthly Bulletin of Statistics*; Belgium: University of Louvain, *Bulletin de l'Institut de recherches économiques et sociales*; France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique*; Italy: Central Institute of Statistics, *Bollettino mensile di statistica*; United Kingdom: Central Statistical Office, *Monthly Digest of Statistics*.

[a] Money wage rates deflated by retail prices.

[b] Retail price figures exclude rent. Wage rates represent hourly earnings of married workers in manufacturing and transportation, inclusive of family allowances.

[c] The official retail price figures given here include personal taxes and dues. Wage rates represent hourly earnings in manufacturing, construction, transport, commerce and services. For comparability with other countries, wage rates were deflated by a retail price index excluding personal taxes and dues.

[d] Retail price figures represent family consumption prices in Paris. Wage rates represent hourly rates published by the Ministry of Labour for male and female workers in industry, building, transportation and commerce for all France.

[e] Wage rates represent hourly earnings in manufacturing and construction.

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

[g] Wage rates represent hourly rates for male workers in manufacturing, mining and construction.

[h] Wage rates represent hourly earnings for male workers in manufacturing and mining.

[i] Wage rates represent hourly earnings in manufacturing and mining.

[j] Wage rates represent weekly rates for all workers.

[k] See footnote c, table 7.

whereas the rise in 1954 reflected, at least more than in 1953, an increasing pressure of demand upon supply. In several countries this pressure was becoming more evident towards the end of the year.

The rise in money wage rates in 1954 ranged from 2 and 2.5 per cent in Belgium and western Germany to 6 and 11 per cent in France and the Netherlands, the increase being 3 to 5 per cent in all other countries. In most countries, however, there was an improvement in productivity in 1954 which tended to offset the effect of rising wages on unit wage costs. On balance there would seem to have been (*a*) some over-all reduction in unit wage costs in Belgium; (*b*) little change in France, western Germany, Sweden, and possibly Italy; and (*c*) some increase in the United Kingdom, Norway, Denmark and the Netherlands. With a few exceptions, import prices fell in all of these countries.

In Belgium consumer prices rose slightly in spite of the reduction in total unit costs. This rise was perhaps largely attributable to an increase in the price of certain imported food products, such as coffee, even though, on the whole, import prices continued to fall. A continued fall in export prices and a deterioration in the terms of trade tended to offset the increase in over-all profit margins suggested by this analysis.

In France and western Germany consumer prices remained stable although, with some decline in import prices, there was apparently a slight decline in total

Table 12. Increments in Real Non-Consumption and Consumption Expenditures and Related Indices in Western European Countries, 1953 and 1954

(Percentage change as compared with preceding year)

| Country and year | Non-consumption expenditure [a] | Personal consumption | National product | Civilian employment | Real wage rates |
|---|---|---|---|---|---|
| *Belgium:* | | | | | |
| 1953 | 5.0 | 0.6 | 2.0 | −1.0 | 0.0 |
| 1954 | 10.1 | 1.0 | 4.0 | ... | 0.5 |
| *Denmark:* | | | | | |
| 1953 | 4.1 | 5.5 | 5.0 | 1.0 | 4.0 |
| 1954 | −6.1 | 5.2 | 1.1 | ... | 1.0 |
| *France:* | | | | | |
| 1953 | 0.3 | 2.2 | 1.6 | −1.0[b] | 3.5 |
| 1954 | 8.6 | 7.3 | 7.7 | 1.5[b] | 6.5 |
| *Germany, western:* | | | | | |
| 1953 | 3.2 | 9.6 | 6.8 | 4.0 | 6.0 |
| 1954 | 8.6 | 7.8 | 8.1 | 4.5 | 2.5 |
| *Italy:* | | | | | |
| 1953 | 9.1 | 6.2 | 7.0 | ... | 4.5 |
| 1954 | 7.8 | 3.3 | 4.6 | ... | 0.5 |
| *Netherlands:* | | | | | |
| 1953 | 17.7 | 3.7 | 9.1 | 1.5 | 1.0 |
| 1954 | 5.7 | 6.0 | 6.0 | 2.0 | 5.5 |
| *Norway:* | | | | | |
| 1953 | 1.4 | 2.7 | 2.1 | 0.5 | 2.5 |
| 1954 | 4.5 | 3.3 | 3.8 | 1.0 | 0.5 |
| *Sweden:* | | | | | |
| 1953 | 5.0 | 3.3 | 4.0 | −0.5 | 3.5 |
| 1954 | 6.3 | 3.7 | 4.8 | 0.5 | 4.0 |
| *United Kingdom:* | | | | | |
| 1953 | 3.6 | 4.2 | 4.0 | 0.5 | 1.5 |
| 1954 | 4.1 | 4.2 | 4.1 | 1.5 | 2.5 |
| *Combined percentage for above countries:* | | | | | |
| 1953 | 4.3 | 4.9 | 4.7 | 0.5 | 3.5 |
| 1954 | 6.8 | 5.3 | 5.8 | 2.0 | 2.9 |

*Source:* See tables 9, 10, 11.

[a] Government expenditure plus private investment plus exports minus imports.

[b] Ministry of Labour index of man-hours in all activities except agriculture and government (National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique*).

unit costs. In Sweden both consumer prices and total unit costs remained more or less stable. In Italy consumer prices rose somewhat although total unit costs probably remained more or less unchanged.

In the remaining countries—those experiencing some rise in unit wage costs—consumer prices increased more or less in the same proportion as unit wage costs, although total unit costs generally rose less. In the United Kingdom, Norway and Denmark, unit wage costs and consumer prices rose about 1½ to 3½ per cent and in the Netherlands around 5 per cent.

### Major factors affecting the rate of economic expansion, by countries, 1953 and 1954

In this section the major factors affecting the overall rate of economic expansion in 1953 and 1954 are traced, country by country. Attention is drawn in particular to the respective rates of expansion in the consumption and non-consumption components of demand (see table 12). Emphasis is placed on the dynamic role of expansion in the non-consumption components of demand, and on the relationship between the respective rates of expansion of consumption and non-consumption expenditure[13] as determined during this period largely by the relationship between the rate of increase in real wage rates and the rate of improvement in productivity.

Real consumption tends to vary in proportion with real national product so long as real personal income after taxes, and in particular real labour income after taxes, varies in line with real national product. Real labour income changes proportionately with real national product so long as real wage rates rise in line with improvements in average output per man. Thus, in

[13] The sum of the non-consumption expenditures is taken for practical purposes to equal government expenditure plus private investment plus exports minus imports. The theoretically desirable sum would be government expenditure plus private investment plus exports minus the import content of these components only.

a period when there is relatively little change in the net burden of direct taxation, real consumption tends to rise in step with real national product so long as real wage rates increase in the same proportion as productivity, to fall relative to real national product when real wage rates lag behind productivity and to rise relative to real national product when real wage rates rise more than productivity.

In the period 1952 to 1954, when rates of personal taxes and transfers were on the whole stable in western Europe, the relationship of changes in real wage rates and productivity was generally the crucial factor determining what increment of consumption accompanied a given increase in the non-consumption expenditures. However, in some cases the high marginal rate of personal income taxes and in other cases the lag of a year or more in collections or changes in the rate structure, varied the proportionate tax burden from year to year. The chief factors making for a divergence between real wage rates and productivity during this period were: (*a*) wage settlements and domestic price movements tending to effect a redistribution of income as between labour income and profits; and (*b*) changes in the terms of trade tending to reduce or raise real national income relative to real national output.

The latter factor, it may be noted, exerts an influence on consumption by affecting real profits as well as real labour income relative to national product. However, the influence of current changes in the terms of trade on personal non-labour income is normally small even though its impact on profits is large—that is, changes are registered chiefly in undistributed profits. In addition, savings out of personal non-labour income are typically relatively high.

Three countries, France, Belgium and Norway, which had the lowest proportionate increases in national product in 1953—about 2 per cent—experienced an acceleration in their rate of expansion in 1954. This change was accompanied, and given impetus, by a rapid expansion in the non-consumption components of demand. The crucial elements in all three countries in 1954 were the cessation of inventory decumulation and a substantial expansion in foreign trade.

*France.* In 1953 there was virtually no increase, in real terms, in the sum of non-consumption expenditures. There was an increase in exports equal to about 1½ per cent of the national product as well as some increase in government expenditure, but these changes were offset by increased imports and a shift from inventory accumulation to decumulation. A factor in this shift may have been some involuntary accumulation in 1952, resulting from the drop in exports. In spite of the negligible increase in non-consumption expenditures, consumption rose 2 per cent. This mainly reflected the fact that real wage rates increased more than productivity. In 1954 exports expanded by an amount equal to 2 per cent of the national product, and concurrently there was some increase in private fixed capital investment, chiefly residential building, and, even more important, the decumulation of inventories apparently ceased. Industrial production, which had remained more or less stable in 1953, rose rapidly in 1954; productivity, wage rates and consumption all increased substantially. The increase in real wage rates was apparently more or less proportional to the improvement in average output per man. In addition, there was some reduction in the proportionate burden of taxes (owing to a reduction in rates and the normal lag in collections). Both national product and consumption rose by about 7½ per cent.

*Belgium.* In 1953 there was a moderate increase in the sum of non-consumption expenditures in real terms. There was a substantial increase in exports—equal to almost 4 per cent of the national product—as well as some increase in both government expenditure and private fixed capital investment. These changes were partially offset, as in France, by a pronounced shift from positive to negative inventory investment and by some increase in imports. The decumulation in 1953 followed an accumulation of inventories in 1952 which, owing to the drop in exports in that year, was probably in part involuntary. One of the elements in the decumulation in 1953 was an increase in exports of industrial products while output remained generally stable. The net increase in the sum of non-consumption expenditures, however, was not accompanied by a consonant increase in consumption, reflecting the fact that a sharp drop in the terms of trade militated against an increase in money wage rates and that real wage rates remained unchanged while productivity improved. However, there was some reduction in the burden of taxes (owing chiefly to a reduction in anticipatory payments of income tax), and consumption apparently did increase slightly. In 1954 exports expanded further by an amount equal to about 4 per cent of the national product, the inventory decumulation apparently ceased, and there was a substantial increase in private fixed capital investment, especially in residential building. These increases were partially offset by an increase in imports proportionately much greater than in overall output, but there was on balance a sizable increase in the sum of non-consumption expenditures which directly brought about a substantial increase in national product. The effect of the increase in non-consumption expenditure on economic activity as a whole was, as in 1953, disproportionately small. Although industrial production rose 8 per cent and national product 4 per cent, the improvement in productivity was such that employment remained more or less unchanged. At the same time the terms of trade continued to deteriorate (though less rapidly than in 1953, the deterioration over the two years 1952 to 1954 being about 15 per cent), and this continued to militate against an increase in wage rates in line with the improvement in productivity. These factors, combined with some in-

crease in the burden of taxation, restrained consumption in spite of the sizable increase in non-consumption expenditures.

*Norway.* In 1953 there was an appreciable increase in real terms in government expenditure and private fixed capital investment as well as a rise in exports equal to more than 1½ per cent of the national product. These increases in demand were largely met or offset by a sharp drop in inventory investment and an increase in imports equal to almost 3 per cent of the national product.[14] Thus, the rise in the sum of the non-consumption expenditures was small. Nevertheless, personal consumption rose by almost 3 per cent and the national product about 2 per cent. As in Belgium, there was a sharp drop in export prices and a loss stemming from a deterioration in the terms of trade, which exceeded in amount the increment to real national output. In spite of this, however, real wages increased by almost 3 per cent—an increase larger than that in output per man. In consequence of this wage settlement, the full brunt of the loss to the economy as a result of the fall in export prices was borne by profits in the export industries.[15] The increase in unit wage costs in the non-export industries, on the other hand, was offset by some reduction in import prices. In 1954, there was a significant rise in the sum of the non-consumption expenditures. Fixed capital investment increased as much as the year before, decumulation of inventories came virtually to a halt, and exports rose by an amount equal to over 3 per cent of the national product. There was, however, a further increase in imports—equal to 4 to 5 per cent of the national product—which partially offset the other increases, leaving a net increase in the sum of the non-consumption components of expenditure equal to about 2 per cent of the national product. Real wage rates rose about 2 per cent[16]—somewhat less than output per man. Consonant with these changes consumption rose about 3 per cent compared with an increase in national product of about 4 per cent.

In four countries—Sweden, the United Kingdom, western Germany and the Netherlands—the rate of expansion in national product, which was already high in 1953, continued at about the same rate in 1954—4 to 5 per cent a year in Sweden and the United Kingdom and 6 to 9 per cent in western Germany and the Netherlands. In general, the same factors which promoted expansion in 1953 continued to operate in 1954.

*Sweden.* In 1953 government expenditure, private fixed capital investment and exports all increased substantially. There was at the same time, however, a decumulation of inventories equal to about one per cent of national product in contrast to a buildup of inventories in the previous year equal to over 2 per cent of the national product. This shift reflected, among other things, the fact that the inventory accumulation in 1952 had been largely involuntary (as a result of the sudden drop in exports in that year) and that an offsetting tendency to decumulate was to be expected in 1953. Despite an extension of trade liberalization in the course of the year, imports failed to increase, reflecting decumulation of inventories, a good harvest and more adequate domestic production of metal products. The increase in the sum of the non-consumption expenditures was substantial—equal to approximately 2 per cent of the national product. Consumer expenditure also increased but proportionately slightly less than the national product. Real wage rates increased slightly less than productivity, and furthermore the high marginal rates of the personal income tax reduced the increase in disposable labour income to something proportionately less than the increase in real national product. In addition, a sharp drop in export prices, bringing as it did a 4 per cent deterioration in the terms of trade, reduced non-labour income relative to national product. In 1954 government expenditure, private fixed capital investment and exports all increased substantially again. Investment in inventories showed little change, the decline continuing at a rate equal to about one per cent of the national product. In contrast to the previous year, imports increased substantially—by an amount equal to over 2½ per cent of the national product. On balance, the increase in the sum of the non-consumption expenditures was equal to almost 3 per cent of the national product. Consumption rose[17] but again proportionately less than national product. Real wage rates increased more or less in line with productivity, but the high marginal rates of the personal income tax again tended to reduce aggregate disposable personal income relative to national product. The increase in national product was about 5 per cent as compared with about 4 per cent in the previous year.

*United Kingdom.* In 1953 there was a substantial increase in private fixed capital investment, compared with unchanged investment the year before, and a positive investment in inventories as against a net decrease in inventories in 1952 (following the large, partly speculative buildup in 1951). There was a partially offsetting increase in imports—an increase, however, which was not large in view of the fact that there was a drop in import prices of over 10 per cent and some liberalization of trade during the course of the year. The increase in the sum of the non-consumption expenditures was equal to a little over one per cent of the national product. This increase was supplemented, however, by a consonant increase in consumption. Real wage rates increased, but somewhat less than produc-

[14] For example, purchase of ships was a major element in the rise of both fixed capital investment and imports.

[15] In Belgium, on the other hand, the stability of wage rates under similar circumstances enabled the export industries to reduce unit wage costs as productivity improved and thus to soften the impact of reduced export prices.

[16] That is, money wage rates deflated by an index of prices of consumption goods and services as a whole rather than, as given in tables 11 and 12, deflated by the cost of living index.

[17] An important element was a substantial increase in consumer purchase of automobiles, many of them imported.

tivity. There was, however, a considerable reduction in income tax rates and a substantial improvement in the terms of trade, which tended to increase real non-labour income relative to real product. Real consumption expenditure rose, as did the national product, about 4 per cent. In 1954 the increase in the sum of the non-consumption expenditures was again equal to something over one per cent of the national product. Private fixed capital investment remained at the same level, but exports rose by an amount equal to about one per cent of the national product. Imports also rose, but not so much as the previous year. Real wage rates increased slightly more than productivity but, owing to the high marginal rates of income tax, the proportional burden of direct taxes increased. Both national product and consumption rose, as in the previous year, by about 4 per cent.

*Western Germany.* In 1953 investment in fixed capital and exports expanded appreciably. At the same time imports rose rapidly—by an amount equal to over 4 per cent of the national product. The sum of the non-consumption expenditures rose consequently by an amount equal to only 1½ per cent of the national product. However, real wage rates rose by about 6 per cent, while the improvement in over-all average output per man was about half that percentage—a development which was facilitated by a drop in import prices bringing a 7 per cent improvement in the terms of trade. Consumer expenditure consequently rose proportionately more than real output, increasing by approximately 10 per cent as against a 7 per cent rise in national product. In 1954 there were substantial increases in the non-consumption expenditures, especially in the investment components and exports, resulting, in spite of a further rise in imports, in an increase in the sum of these expenditures amounting to some 4 per cent of the national product. Real wage rates rose perhaps slightly less than output per man, but there was some decrease in the burden of taxation, and both consumption and national product rose by about 8 per cent.

*Netherlands.* In 1953 there was a substantial increase in the sum of non-consumption expenditures. There was a substantial increase in government expenditure and private investment, investment in inventories rising by an amount equal to over 4 per cent of the national product. Exports rose by an amount equal to almost 7 per cent, and imports by almost 8 per cent, of the national product. The increase in inventory investment in 1953 represented a reversal of the tendency to run down inventories in 1952 (following the heavy, speculative accumulation of inventories in 1950 and 1951). The very sharp rise in imports reflected the reversal in inventory policy as well as the sharp increase in exports, both inventories and exports having a very high import content in the Netherlands. There was, in addition, an extension of liberalization of trade during the course of the year. The increase in the sum of the non-consumption expenditures was the highest in Europe—an increment equal to almost 7 per cent of the national product. With such an increase it was scarcely feasible from the standpoint of productive capacity that there should be an increase in consumption of a corresponding magnitude. In spite of an over-all increase in output per man of 7 to 8 per cent, real wages rose only one per cent.[18] However, there was some decrease in the burden of taxation. Consumption rose by something less than 4 per cent, while national product rose by 9 per cent. In 1954, inventories rose by an amount equal to almost 5 per cent, and exports by an amount equal to almost 9 per cent, of the national product. Imports again increased, this time very sharply—by an amount equal to almost 12 per cent of the national product.[19] The sum of non-consumption expenditures showed, on balance, a more modest, but still large, increment equal to about 3 per cent of the national product. Real wage rates rose 5 to 6 per cent, somewhat more than productivity, and, in addition, the proportionate burden of taxation was further reduced. However, consumption increased proportionately with the national product, rising about 6 per cent.

In two countries, Denmark and Italy, output continued to expand in 1954 but at a considerably smaller rate than in 1953. In both countries the rate of increase in industrial production was sustained in 1954 while net farm output declined.

*Italy.* In 1953 government expenditure, private fixed capital investment, exports and imports all increased substantially. The increase in the sum of the non-consumption expenditures was equal to about 2½ per cent of the national product. At the same time real wage rates apparently increased by over 4 per cent—probably somewhat less than over-all output per man,[20] in spite of a 5 per cent improvement in the terms of trade. Consumption increased by about 6 per cent and national product by 7 per cent. In 1954 the increases in the non-consumption expenditures were about the same as in the previous year, the chief increase being in private fixed capital investment. In contrast with the previous year, real wage rates apparently scarcely rose at all. Consumption rose by about 3 per cent while national product rose by about 4½ per cent.

*Denmark.* In 1953 there were increases in government expenditure, private investment, exports and imports. The largest increases were in foreign trade, exports rising by an amount equal to 3 per cent, and imports by an amount equal to over 4 per cent, of national product,

[18] There was no deterioration in terms of trade of commodity exports and imports in the Netherlands in 1953, but both export and import prices fell by over 10 per cent. The redistribution of income suggested by the above comparison of changes in productivity and real wages would thus seem to be concentrated particularly in a shift towards profits of enterprises using imports to produce goods for the domestic market.

[19] This again reflected the exceptionally high level of exports, the partially correlated accumulation of inventories, and the extension of trade liberalization in 1953.

[20] Data on total employment are not available.

the increase in imports reflecting in part the extension of trade liberalization during the year.[21] On balance the increase in the sum of the non-consumption expenditures was equal to about 1½ per cent of the national product. Real wages increased by about 4 per cent—a rise facilitated by a 4 per cent improvement in the terms of trade and probably about the same as the improvement in output per man. Consumption increased by about 5½ per cent, while national product rose by 5 per cent. In 1954 inventory investment fell, but government expenditure, private fixed capital investment and exports continued to rise. Imports, however, rose sharply, the increase over 1953 being equal to over 6 per cent of the national product, chiefly because of a bad harvest which necessitated heavy imports of livestock feed. As a result, the sum of non-consumption expenditures fell in 1954. Nevertheless, personal consumption rose by about 5 per cent.[22] This is largely explained by the fact that real wages and employment rose, reflecting the continued expansion in the non-farm sector, while over-all output per man failed to rise (or fell) owing to the bad harvest.

## Major Economic Changes in Australia, New Zealand and Japan in 1953 and 1954

### Developments in Australia and New Zealand

Developments in Australia and New Zealand in the period 1949/50 to 1953/54 show a somewhat similar pattern (see table 13). The origin of this similarity lies in the post-Korean boom, subsequent collapse and partial recovery in the price of wool, from which a large part of their export income is derived. The abrupt increase in the price of wool was reflected in a sharp rise in incomes and a strong upsurge in the demand for imports. Both countries took steps to soften the inflationary impact by withholding from growers part of the proceeds of wool sales,[23] and they also relaxed restrictions on imports from dollar areas. However, large orders placed by importers were reflected in the inflow of goods from abroad only after considerable delay. Following the collapse in wool prices early in 1951, the balances of payments tended to deteriorate sharply. Both countries began to adopt fiscal and monetary policies designed to correct this situation, and in April 1952 they imposed drastic restrictions on imports. The effect of these measures was reinforced by an improvement in the terms of trade (in Australia in 1952/53 and in New

[21] An important element in the increase in imports was a substantial rise in expenditure on automobiles.

[22] As in the previous year there was a rapid expansion in purchases of automobiles.

[23] In New Zealand, under the wool retention scheme, growers agreed to the freezing of one-third of the proceeds of wool sales in 1950/51. It was later arranged to release these funds in five equal annual instalments. In Australia the Government imposed a levy of 20 per cent on wool sales in 1950/51, subject to approval by the growers. After the scheme was rejected by the growers, it was arranged that the levy should be treated as a prepayment of income taxes.

**Table 13. Real Gross National Product and Components, at 1951/52 Prices in Australia and New Zealand, 1949/50 to 1953/54**

(Percentage of total 1951/52 gross national product)

| Country and year | Gross national product | Personal consumption | Government expenditure | Private investment | | Exports and imports of goods and services | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Investment in fixed capital | Change in inventories | Balance | Exports | Imports |
| *Australia*[a]: | | | | | | | | |
| 1949/50 | 96.1 | 68.6 | 17.0 | 12.7 | 1.7 | −3.9 | 21.2 | 25.1 |
| 1950/51 | 102.1 | 73.4 | 20.2 | 15.6 | 2.2 | −9.3 | 18.9 | 28.2 |
| 1951/52 | 100.0 | 70.4 | 22.8 | 16.2 | 6.0 | −15.4 | 20.4 | 35.8 |
| 1952/53 | 102.1 | 67.6 | 22.0 | 13.7 | −4.3 | 3.1 | 24.3 | 21.2 |
| 1953/54 | 105.8 | 72.1 | 20.5 | 13.8 | 1.6 | −2.3 | 24.1 | 26.4 |
| *New Zealand*[b]: | | | | | | | | |
| 1949/50 | ... | 59.6 | 20.4 | 10.0 | 2.8 | ... | ... | ... |
| 1950/51 | 95.6 | 64.2 | 20.4 | 12.2 | 6.4 | −7.7 | 24.5 | 32.2 |
| 1951/52 | 100.0 | 65.0 | 20.7 | 13.2 | 5.2 | −4.2 | 38.4 | 42.6 |
| 1952/53 | 101.7 | 60.5 | 24.1 | 13.7 | 1.7 | 1.7 | 39.3 | 37.6 |
| 1953/54 | 104.2 | 65.2 | 24.8 | 15.1 | −2.8 | 0.9 | 35.9 | 35.0 |

*Source:* Australia: Commonwealth Bureau of Census and Statistics, *National Income and Expenditure, 1953–54* (Canberra); New Zealand: Census and Statistics Department, *Report on the Official Estimates of National Income and Sector Accounts for the Years 1938–39 to 1953–54* (Wellington).

[a] Figures relate to twelve months ending 30 June of the year indicated. Gross national product has been deflated by the cost of living index, except for balance of exports and imports, which was obtained as a difference between exports and imports deflated by their respective indices of merchandise trade. Estimated expenditure on passenger cars is included in consumer expenditure rather than in private investment.

[b] Figures relate to twelve months ending 31 March of the year indicated. Gross national product has been deflated as follows: personal consumption and government current expenditures deflated by consumer price index, exports and imports deflated by their respective unit values, and capital items deflated by import unit values.

Zealand in 1953/54) and in these circumstances some relaxation of restrictions was introduced,[24] thereby contributing to an increased flow of imports.

*National product and expenditure components, 1952/53 and 1953/54*

The period under review was characterized by wide fluctuations in a number of the components of national expenditure. There were violent shifts in the real balance of exports and imports and in investment in inventories, and a pronounced fall and rise in consumption. Nevertheless, gross national product rose in 1952/53 and in 1953/54 in both countries.

Australian exports rose considerably in 1952/53, owing largely to a distinct improvement in agricultural output, and continued at much the same level in 1953/54. In 1953/54 New Zealand's exports fell appreciably below the level of the two previous years, largely as a result of unfavourable factors affecting both the output of, and the market for, dairy products. However, the dominant influence on the real balance was on the side of imports. In both countries the measures adopted to control the flood of imports transformed a deficit in the real balance in 1951/52 into a surplus in 1952/53, the shift being much more pronounced in Australia than in New Zealand. Although somewhat reduced, the real balance in New Zealand continued to be positive in 1953/54. However, in Australia the relaxation of import restrictions in 1953/54, together with the recovery in industrial activity, led to a new upsurge in imports and the real balance again became negative.

In Australia the substantial improvement in the terms of trade in 1952/53 and the subsequent slight deterioration in 1953/54 magnified the effect of the shift in the real balance upon the balance of payments. New Zealand's terms of trade moved unfavourably in 1952/53 so that there was a deficit in the balance of payments despite the surplus in the real balance. In 1953/54 a distinct improvement in the terms of trade contributed to the surplus in the balance of payments.

There was a fairly heavy accumulation of business inventories in both countries in 1951/52, associated with the exceptionally high level of imports.[25] In 1952/53 Australia experienced a strong shift to inventory decumulation and in New Zealand the rate of accumulation of inventories declined sharply. In 1953/54 decumulation began in New Zealand, and by then accumulation of inventories was once more under way in Australia, because of renewed industrial activity and the increase in imports.

There was marked divergence between the two countries in the trend of government expenditure and private capital expenditures. In New Zealand both components rose in 1952/53 and again in 1953/54. In Australia government expenditure fell in both years, reflecting a decline in capital expenditures and in 1953/54 in military expenditures as well. Private capital expenditures fell sharply in 1952/53, reflecting the recession in industrial output that began in 1951/52, but rose a little the following year.

In both countries there was a sharp fall in consumption in 1952/53 followed by an equally sharp rise in 1953/54. The main factor explaining the fall in consumption in 1952/53 in both countries was the relatively high level reached in 1951/52. This was itself a reflection of exceptionally large farm incomes in the preceding year, to which spending made only a delayed adjustment. In addition, the restriction of imports in 1952/53 may have tended to reduce the available supply of certain consumer goods. In both countries the increase in consumption in 1953/54 was more or less consistent with higher levels of activity and incomes in the non-farm sector. In Australia the relaxation of import controls may have contributed to raising the level of consumption, while in New Zealand the substantial increase in real wages tended to raise labour income relative to national product.

*Production and employment*

In 1952/53 there was a decided increase in farm output in Australia and some rise in New Zealand as well, so that changes in the farm sector served to counteract the contraction (in Australia) or stagnation (in New Zealand) in manufacturing output. In 1953/54 in both countries farm output was slightly above the level of the previous year. The changes in agricultural production are shown below (1951/52=100):

| | *1949/50* | *1950/51* | *1951/52* | *1952/53* | *1953/54* |
|---|---|---|---|---|---|
| *Australia:* | | | | | |
| All commodities | 115 | 108 | 100 | 118 | 119 |
| Food | 118 | 110 | 100 | 118 | 120 |
| *New Zealand:* | | | | | |
| All commodities | 97 | 100 | 100 | 105 | 107 |
| Food | 97 | 100 | 100 | 106 | 107 |

*Source:* Food and Agriculture Organization of the United Nations.

[24] However, because of deterioration in the Australian balance of payments in the course of 1954 the Government in October of that year reimposed most of the import restrictions that had been removed the previous April.

[25] The high level of accumulation in New Zealand is not fully apparent in the table because accumulation of business inventories was partly offset by the drawing down of the huge stocks of wool built up during the water-front strike in the previous year.

Table 14. Indices of Retail Prices, Real Wage Rates, and Export and Import Prices in Australia and New Zealand, 1949/50 to 1953/54
(1951/52=100)

| Country and year | Retail prices | Real wage rates [a] | Export prices | Import prices |
|---|---|---|---|---|
| *Australia*[b]: | | | | |
| 1949/50 | 71.5 | 95.5 | 85.0 | 74.5 |
| 1950/51 | 81.5 | 100.5 | 151.5 | 90.0 |
| 1951/52 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1952/53 | 109.0 | 101.5 | 105.0 | 92.0 |
| 1953/54 | 112.0 | 102.0 | 103.0 | 91.5 |
| *New Zealand*[c]: | | | | |
| 1949/50 | 83.5 | 99.0 | 76.0 | 77.5 |
| 1950/51 | 89.5 | 100.5 | 127.0 | 84.0 |
| 1951/52 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1952/53 | 106.0 | 99.0 | 96.5 | 102.5 |
| 1953/54 | 111.0 | 103.0 | 106.0 | 98.5 |

*Source:* Australia: Commonwealth Bureau of Census and Statistics, *Monthly Review of Business Statistics*; New Zealand: Census and Statistics Department, *Monthly Abstract of Statistics*.

[a] For both Australia and New Zealand, wage rates represent nominal weekly rates for adult males.

[b] Figures relate to twelve months ending 30 June of the year indicated.

[c] Figures relate to twelve months ending 31 March of the year indicated.

No index of industrial production is available for Australia but a decline of nearly 5 per cent in employment in factories in 1952/53 and an increase of more than 5 per cent in 1953/54 give some measure of the recession and recovery in industrial activity during the period. In New Zealand, factory output in 1952/53 was about the same as in the preceding year but in 1953/54 it resumed its upward course.

The recession in Australia in 1952/53 was accompanied by an appreciable decline in employment and by a sharp rise in unemployment from the very low level of previous years. Despite the recovery in 1953/54, employment was barely equal to that of 1951/52. In New Zealand, where unemployment has consistently been extremely low, there was no faltering in the rate of increase in employment. Indices of employment are shown below (1951/52=100):

| | 1949/50 | 1950/51 | 1951/52 | 1952/53 | 1953/54 |
|---|---|---|---|---|---|
| Australia[a] | 94.7 | 98.7 | 100.0 | 97.0 | 99.4 |
| New Zealand[b] | 96.7 | 98.2 | 100.0 | 102.0 | 105.0 |

*Source:* Australia: *Monthly Review of Business Statistics* (Canberra); New Zealand: *Monthly Abstract of Statistics* (Wellington).

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

[b] Excluding farming, fishing, hunting, trapping.

*Prices and wages*

The movement of domestic prices in both countries has been closely correlated with that of import prices, which until 1951/52 had risen virtually without interruption for many years. Subsequently, import prices began to level off or decline. However, consumer prices and wages continued to rise in 1952/53 and in 1953/54 in both countries (see table 14). In Australia the rate of increase in 1952/53 was still fairly high (about 10 per cent), reflecting in part earlier increases in import prices. The rate of increase was considerably reduced the following year. In New Zealand, on the other hand, the 1952/53 rate of increase in consumer prices was maintained in 1953/54, the rise in the latter year being largely wage-induced.

## Developments in Japan

In 1953, as compared with 1952, industrial production increased by about 22 per cent (see table 15), and construction activity registered a small gain over the previous year. Agricultural production, on the other hand, fell sharply, owing to a decline of about 20 per cent in rice output. As a result, gross national product in 1953 showed an increase of only about 10 per cent in real terms. All the demand components contributed to this increase except the real balance of exports and imports, which changed from a small surplus in 1952 to a substantial deficit in 1953, largely as a result of the increase in imports. The rise in real consumption was proportionately less than that in gross national product. The marked deterioration in the balance of

payments towards the end of 1953 prompted the Government to adopt a deflationary policy in 1954.[26]

Table 15. Japan: Indices of Industrial and Agricultural Production, Retail Prices and Earnings, 1950 to 1954
(1952 = 100)

| Item | 1950 | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|---|
| Industrial production[a] | 67 | 91 | 100 | 122 | 130 |
| Agricultural production[b] | 86 | 90 | 100 | 88 | ... |
| Retail prices | 82 | 95 | 100 | 107 | 113 |
| Real earnings[c] | 82 | 89 | 100 | 109 | 110 |

*Source:* Bank of Japan, *Economic Statistics Monthly* (Tokyo); Economic Counsel Board, *Japanese Economic Indicators* (Tokyo); Food and Agriculture Organization of the United Nations.

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

[b] Figures are for crop years, beginning in the year indicated.

[c] Monthly earnings in manufacturing, mining, commerce and finance.

The increase of 7 per cent in industrial production in 1954 was accounted for by the substantial increase in government demand and by the continuation of inventory accumulation financed by the expansion of bank credit. Agricultural production increased, according to preliminary estimates, by about 12 per cent, mainly as a result of a larger rice crop. With the changes in other sectors of the economy, real gross national product in 1954 showed a further substantial increase, which was, however, smaller than that of 1953.

[26] According to the official forecast, real gross national product in 1954 was to increase by 3 per cent, which was to be accounted for entirely by a rise in agricultural production. The aim of the deflationary policy was to bring demand factors into line with this small increase in gross national product. The real balance of exports and imports was to rise, while a small increase in private consumption (in proportion to the gain in gross national product) was to be offset by a decline in both private investment and government expenditure.

On the demand side, the real balance of foreign trade improved in 1954 although not to the extent expected. During the first half of 1954 the volume of imports rose sharply above the 1953 level, in spite of the announced cuts in allocation of foreign exchange at the beginning of the year. Except for foodstuffs, which were imported by the Government after the crop failure of 1953, the increase in imports was partly speculative in nature and was financed by foreign exchange left in private hands under various export incentive schemes. However, the volume of imports started to fall during the second half of 1954. The reasons for this were more strict control of imports, slackening in the rate of increase in industrial production and a decrease in imports of staple foods as a result of improved domestic production. For the year as a whole, the volume of imports was about 4 per cent higher than in 1953. By contrast, for the same period the volume of exports expanded more than 20 per cent. Invisible receipts, other than special procurements, which declined sharply, probably also increased.

Contrary to the forecast, there was a substantial rise in government expenditure as a result of increases in expenditures on investment and armament. Private investment in fixed capital increased, but construction activity declined. Total private investment rose, partly because of substantial accumulation of producer and trader inventories, which resulted from rather stable consumption in the face of the rise in industrial output.

Consumption rose slightly in 1954, but less than in proportion to the increase in gross national product. The index of urban consumer prices rose significantly, but real earnings of workers remained fairly stable. The index of employment in enterprises employing more than thirty persons showed a small increase in 1954.

# Chapter 2

# CENTRALLY PLANNED ECONOMIES

In all centrally planned economies of eastern Europe,[1] important changes took place in 1954 in the pattern of production, in the allocation of investment among different industries and in the share of consumption in national income. These changes were the result of the new economic policies adopted during the second half of 1953, with a view to eliminating certain disproportions among various sectors of the economy which had developed during the preceding period of rapid industrialization. The main objectives of the policies were to achieve in a period of two to three years a substantial rise in output of industrial consumer goods and agricultural products, and to increase output of certain basic industries, such as fuel, power and mining, which had lagged considerably behind the expansion of manufacturing, especially the expansion of metallurgical and engineering sectors of heavy industry. To this end, resources were shifted from investment to consumption, and consumer goods industries and agriculture were assigned a higher priority in the investment programme. At the same time disposable income of the population was raised through increases in wages and higher prices paid to peasants for government purchases; retail prices in government and co-operative trade were reduced.

Although considerable progress was achieved, the conversion of economies geared for many years to rapid expansion of heavy industry proved to be difficult and costly. The improvement in the supply of consumer goods resulted in a substantial increase in real incomes but was not commensurate with the rise in demand, and scarcities of various consumer goods persisted.

The main obstacle to the further rise in output of light industry and food-processing industries was the scarcity of raw materials due to the lag in agricultural output. This problem, underlined by a disappointing harvest in 1954, together with considerations related to the military potential, prompted a reappraisal of economic policies in some countries of the area. A new policy was announced in the Union of Soviet Socialist Republics at the beginning of 1955.

The new policy restores high priority to the expansion of heavy industry and puts less emphasis on the development of light industry and food processing industries. However, it does not represent a return to the pattern of development preceding the changes introduced in 1953. While agricultural production had been neglected in that period, the new pronouncements gave even more prominence to the development of agriculture than it had received in 1953. The present policy seems to reflect the view that further extensive development of light industry and food processing industries must be preceded by a huge expansion of agriculture, and that until this objective has been achieved rapid expansion of capacity in consumer goods industries at the cost of slowing down expansion in heavy industry would merely hamper the future development of the economy.

In contrast to the centrally planned economies of eastern Europe, mainland China in 1954 continued to expand its investment at a rapid rate. During the period under review, there were no major changes in planning and in carrying out the policy announced at the inception of the first five-year plan in 1953. In 1953 and 1954, the rate of expansion in the output of heavy industry exceeded that in consumer goods industries. However, production of consumer goods also rose substantially. Owing to drought in some areas and floods in others, there was only a small increase in food production. The increase in output of food and industrial consumer goods together with the release of accumulated stocks made possible an increase in real wages of industrial workers and in peasants' incomes. However, as in the case of eastern European countries, although for different reasons, the improvement in the supply of consumer goods was not commensurate with the rise in demand. Partial rationing of certain essentials (food grains, vegetable oils and cotton cloth) was introduced in urban areas and in certain rural areas in the latter part of 1953 and in 1954. Retail prices remained approximately unchanged in the period under review.

In Yugoslavia, the recovery in agricultural production in 1953 and the sharp decline in 1954 were important influences in shaping the economic situation in the period under review. Industrial production rose substantially in both years, following a two-year period of stagnation. The rise in investment and in exports, and in the latter part of the year the effect of the very poor harvest, gave rise to inflationary pressures in 1954, and real wages declined slightly. In order to counteract inflationary pressures, the Government at the end of the year imposed controls on profits of industrial enterprises, investment and exports.

[1] Except Yugoslavia, which is dealt with separately.

# Eastern European Countries and Mainland China

## Major Changes in Economic Activity, 1953 and 1954

*Industrial production*

Industrial production continued to increase in 1954 in all the centrally planned economies.[2] In the Union of Soviet Socialist Republics, the annual increase of 13 per cent in 1954 exceeded those of 1953 and 1952. In all other countries of this group, the rates of increase were substantially smaller than in the preceding period (table 16).

**Table 16. Indices of Industrial Production in Centrally Planned Economies, 1951 to 1954**

(Preceding year = 100)

| Country | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|
| Bulgaria | 119 | 118 | 112 | 109 |
| China, mainland[a] | 137[b] | 137[b] | 133 | 123[c] |
| Czechoslovakia | 115 | 118 | 110 | 104 |
| Germany, eastern | 122 | 116 | 113 | 110 |
| Hungary | 130 | 124 | 112 | 103 |
| Poland | 124 | 120 | 118 | 111 |
| Romania | 129 | 123 | 114 | 107 |
| Union of Soviet Socialist Republics | 116 | 111 | 112 | 113 |

*Source:* Reports on fulfilment of plans.

[a] Excluding output of individual craftsmen and handicraft co-operatives.

[b] Average annual rate of increase during 1949–52.

[c] Preliminary estimate.

The reasons for this decline in the rate of expansion were not the same in mainland China as in the other centrally planned economies. In mainland China industrial production (excluding output of handicraftsmen and handicraft co-operatives) increased by 23 per cent in 1954 as compared with a 33 per cent increase in 1953. The decline in the rate of increase was partly due to the fact that by 1954 most idle capacity had been brought into use. But it was also due to the effect of changes in the structure of investment. In earlier years, as well as in 1953, the Government had devoted a large part of its investment programme to the restoration and reconstruction of existing productive capacity, with the result that investment expenditure brought about a rapid expansion in production. The new investment programme under the first five-year plan, which began in late 1953, concentrated on constructing new large-scale heavy industries, based to a large extent on capital equipment imported from the Union of Soviet Socialist Republics. A large part of this new construction was not yet completed and thus could not be used for production in 1954.

Among the remaining countries of this group, the decline in the rate of increase from 1953 to 1954 was rather moderate in Bulgaria and eastern Germany but elsewhere it was drastic—in Czechoslovakia from 10 to 4 per cent, in Hungary from 12 to 3 per cent, in Romania from 14 to 7 per cent and in Poland from 18 to 11 per cent. The decline in the annual rate of growth of industrial production was related to the new policies adopted in 1953, which involved a slowing down of the process of industrialization, a reduced share of investment and an enhanced share of consumption in national income. However, these changes in policy were in part attributable to the lag in output of industrial and agricultural raw materials as well as in the production of fuel and power, and to the growing difficulty of adding to the industrial labour force; these tended to retard the advance of industrial production. In some countries inadequate supplies of imported raw materials were a further factor. These persisting bottlenecks were to a large extent responsible for the difficulties encountered in attempting to reach the targets set for 1954 in several countries of this group.

[2] The countries analysed in this section do not publish regular statistical series. All data given in the chapter are derived from quarterly and annual reports on fulfilment of plans, budgetary statements and other official announcements published in the government daily press and other periodicals. Most of the data are given in percentage changes between the preceding year and the current year. Absolute figures are given from time to time for specific commodities.

In the centrally planned economies of eastern Europe the percentage changes in industrial production relate to gross output. So long as the degree of double-counting involved in this method of computation remains unchanged, the indices of gross and net output move in a roughly parallel way. However, the degree of double-counting may be affected by structural changes in the economy. The effect of these changes is likely to be small over a short period, but it may be significant in longer-range comparisons. In the Union of Soviet Socialist Republics, the new index of industrial production used since 1952 is weighted on the basis of prices as of 1 January of that year. This has eliminated a major defect of the old index, in which the weighting was based on 1926/27 prices. The new index has not been extended back for the years preceding 1952. The concept of national income used in these countries corresponds to net output, inclusive of indirect taxes, of industry, agriculture, transport, communications and trade. Only percentage changes measured in constant prices are published.

For mainland China, no national income data are published. A rough indication of changes in national income is provided by the official index of total output of industry and agriculture. Little information is available on the method of constructing this index although output data for individual commodities in both sectors are published. According to official statements, considerable effort is being made to improve the quality and the coverage of statistical information.

The publications most frequently used in the chapter are the following: Bulgaria: *Rabotnichesko Delo* (Sofia); mainland China: *Jin Min Erh Pao* and *People's China* (Peking); Czechoslovakia: *Rudé Právo and Czechoslovak Economic Bulletin* (Prague); eastern Germany: *Neues Deutschland* and *Die Wirtschaft* (Berlin); Hungary: *Szabad Nep, Statisztikai Szemle* and *Hungarian Bulletin* (Budapest); Poland: *Trybuna Ludu, Nowe Drogi* and *Gospodarka Planowa* (Warsaw); Romania: *Scinteia* and *Probleme Economice* (Bucharest); Union of Soviet Socialist Republics: *Pravda, Voprosy Ekonomiki, Statisticheskv Vestnik* and *Planovoe Khozyaistvo* (Moscow).

In some countries the shift of resources from investment to consumer goods industries, required by the new policies, was not accomplished without some difficulty and dislocation. The smooth flow of raw materials and semi-fabricated goods through the productive process was interrupted, leading to undue accumulation of stocks at some stages and bottlenecks at others. In the first quarter of the year, the severe weather created special problems in the supply of fuel and power. In these circumstances, though productivity was improved and costs reduced, what was accomplished in this regard fell considerably short of the plan in most countries of the group.

The most serious difficulties were experienced in Czechoslovakia and Hungary. In these two countries a drastic upward revision of the targets for heavy industry in 1950 involved major alterations in the structure of their economies, and the change of policy in 1953 and its consequences were therefore more pronounced than in other countries. In both countries the plans for fuel, coal and engineering were not fulfilled, which created difficulties in other industries. In Czechoslovakia, there was a further revision of plans in the course of the year, involving the scaling down of targets. The bottlenecks in coal, ore, rolled steel and some other industries prevented the fulfilment of export targets and thus adversely affected imports of raw materials and food. In Hungary, the dislocation resulting from the shift in policy was even greater, and thus the required transfer of resources was much more difficult to achieve. The output of consumer goods increased substantially but that of producers' goods fell, productivity declined and costs increased.

In Bulgaria and Romania, which are the least industrialized countries of this group, and in Poland, where the original plan had not been altered, the changes introduced in 1954 were much more moderate than in Czechoslovakia and Hungary.

The output of consumer goods increased substantially in all the centrally planned economies. In the eastern European countries, the increases were particularly striking with respect to durable consumer goods, which had been produced on a very small scale in the preceding period. In most countries the output of consumer goods increased in 1954 either at a higher rate than that of producers' goods, or at the same rate, as is apparent from the incomplete data set out in table 17. No aggregate data are available for Bulgaria and the Union of Soviet Socialist Republics. However, the indices for specific goods seem to indicate that in these countries also the increases in the output of consumer goods were very substantial, although it is not certain whether the difference between the rates of increase in the two sectors was narrowed. In mainland China the output of producers' goods continued to increase at a higher rate than that of consumer goods although the latter also showed substantial increases.

**Table 17. Indices of Output of Consumer and Producers' Goods in Centrally Planned Economies of Eastern Europe, 1954**

(1953 = 100)

| *Country* | *Total* | *Consumer goods* | *Producers' goods* |
|---|---|---|---|
| Czechoslovakia | 104 | 105 | 104 |
| Germany, eastern | 111 | 116 | ... |
| Hungary | 103 | 110[a] | 97[b] |
| Poland | 111 | 111[c] | 111[c] |
| Romania | 107 | 111 | 104 |

*Source:* Reports on fulfilment of plans.

[a] Light industry only; in the food processing industry 112.

[b] Including consumer goods produced by heavy industry.

[c] Based on official statements that the rates of increase were approximately the same for producers' goods as for consumer goods.

The increase in the output of consumer goods was made possible in all centrally planned economies by a more complete utilization of existing capacity as well as by new capacity coming into use. In eastern European countries, an improved supply of agricultural raw materials from the 1953 harvest, higher imports of raw materials for use in light industry, the larger share of fuel, power and labour allocated to consumer goods industries, and probably also the drawing down of reserve stocks, helped to account for the increase. Although the rise in investment in consumer goods industries could not have an appreciable effect on output in 1954, the higher priority given to these industries in the distribution of resources made for better utilization of capacity and accelerated the completion of plants in process of construction. For durable consumer goods, the increase in output was achieved in part by devoting more capacity in heavy industry to their production.

*Employment and productivity*

In the Union of Soviet Socialist Republics and in mainland China, industrial employment increased at the same rate as in 1953. While the rate of increase was slightly higher in Bulgaria, in the remaining countries of the group it was lower than in the preceding year. In several countries, especially in Czechoslovakia, eastern Germany and Hungary, labour was in short supply in some sectors of the economy.[3] This was partly owing to the fact that, in conformity with the new economic policy, further withdrawals of manpower from agriculture were restricted. Moreover, some labour flowed back to the rural areas as a result of various advantages accorded to peasants under the new policy.

Output per man increased more than in 1953 (table 18) in the Union of Soviet Socialist Republics and in mainland China. In most of the other countries the increases were much smaller than in earlier years. In

[3] In Hungary, the reorganization in industry and in administrative service gave rise to some temporary unemployment.

Table 18. Indices of Industrial Employment and Output per Man in Centrally Planned Economies, 1951 to 1954

(Preceding year = 100)

| Country | Industrial employment[a] | | | | Output per man[a] | | | |
|---|---|---|---|---|---|---|---|---|
| | 1951 | 1952 | 1953 | 1954 | 1951 | 1952 | 1953 | 1954 |
| Bulgaria | 104 | 106 | 105 | 106 | 114 | 111 | 107 | 102 |
| China, mainland | ... | 122 | 115 | ... | ... | ... | 113 | ... |
| Czechoslovakia | 105 | 101 | 103 | 102 | 110 | 116 | 107 | 102 |
| Germany, eastern | 112 | 105 | 107[b] | 105[b] | 113[b] | 113[b] | 109[b] | 104[b] |
| Hungary | 114 | 112 | 108 | 105[c] | 114 | 111 | 104 | 98.5 |
| Poland | 109 | 106 | 106 | 104 | 114 | 113 | 111 | 107 |
| Romania | 117 | 109 | ...[d] | 104 | 110 | 113 | ... | 103 |
| Union of Soviet Socialist Republics | 106 | 104 | 106 | 106[e] | 110 | 107 | 106 | 107 |

*Source:* Reports on fulfilment of plans.

[a] In some instances indices of employment in industry are derived from indices of production and of output per man; in others it is the index of output per man which is derived.

[b] Nationalized industry only.

[c] Total employment increased by one per cent.

[d] Total employment increased by 12 per cent.

[e] Total employment increased by 4 per cent.

Bulgaria the rise in output per man was only 2 per cent, compared with 14, 11 and 7 per cent increases in the preceding three years, while in Hungary output per man fell by 1.5 per cent as compared with 1953. In most of the countries of this group the targets set for output per man were not fulfilled. This was partly the effect of a severe winter in 1953/54, which in many countries led to shortages of fuel and power and caused interruption of work. Probably a more important factor was the slowing down of production because of the structural changes necessitated by the shift towards consumer output.

*Agricultural production*

Agricultural production generally increased in 1953. The greatest increase took place in Hungary, which had suffered a disastrous decline in 1952; there agricultural production rose by about 28 per cent in 1953. Livestock numbers, however, were lower than in 1952. In Czechoslovakia, all crops except wheat, oats and rape-seed were substantially higher than in 1952, but, as in Hungary, the number and yield of livestock were reduced. In Bulgaria and Romania crops increased substantially, and livestock numbers increased slightly. In the Union of Soviet Socialist Republics the grain crop was lower than in 1952, the potato crop unchanged and crops of cotton, sugar-beets, sunflower seeds and vegetables higher; livestock numbers increased substantially. In mainland China, total agricultural production increased by 1.5 per cent above the 1952 level. Production of food grains increased only slightly. The increase in the output of sugar-cane, tobacco, some important oil-bearing crops and livestock was offset by a large decline in output of cotton. In Poland the grain crop was lower, mainly because of a decline in coarse grains, while output of sugar-beets and potatoes rose and there was an increase in livestock numbers.

In 1954, as a result of bad weather in eastern Europe, grain crops were smaller in most countries of the area. The sharpest declines took place in Bulgaria and in Hungary where bread grains fell about 11 per cent. The grain crop as a whole fell less, since in Hungary the output of maize was higher and in Bulgaria the output of coarse grain remained unchanged. Cattle numbers remained unchanged in both countries, but the number of hogs increased in Hungary. In eastern Germany output of grains and pulses declined by 2 per cent, while potatoes, sugar-beets and fodder crops increased by 20, 19 and 39 per cent; livestock remained unchanged, except that the number of sheep rose by 11 per cent. In Romania bread grains declined, but the maize crop was substantially higher, and agricultural output appears to have risen in total. In Czechoslovakia crops were lower, but output of livestock products rose by 5 per cent. Cattle and sheep numbers were unchanged, but the number of hogs increased.

In the Union of Soviet Socialist Republics total agricultural production was very slightly above 1953. The grain crop was somewhat better than in 1953 despite a substantial fall in crops in the southern Ukraine and in the Volga region due to bad weather; the output of cotton, flax,[4] potatoes and vegetables was higher than in 1953. Livestock numbers increased—cattle by 3 per cent, hogs by 7 per cent and sheep by 2 per cent. In mainland China, output of food grains increased by 3 per cent, mainly as a result of an increase in the output of wheat. Production of cotton in 1954 remained at the level of 1953, but other industrial crops, as well as livestock products, continued to show continuous substantial increases. Only in Poland was agricultural production appreciably higher in 1954 than in 1953; crops

[4] The increase in the crop of flax represented only a slight recovery from the sharp decline in the period 1951 to 1953.

Table 19. Indices of National Income and Investment in Centrally Planned Economies, 1951 to 1954

(Preceding year = 100)

| Country | National income | | | | Investment | | | |
|---|---|---|---|---|---|---|---|---|
| | 1951 | 1952 | 1953 | 1954 | 1951 | 1952 | 1953 | 1954 |
| Bulgaria | 136 | ... | 116 | ... | 141 | 114 | 111 | 98[a] |
| China, mainland | ... | ... | 111[b] | 113[b] | ... | ... | 118 | 131 |
| Czechoslovakia | 110 | 115 | 105 | ... | ... | 117 | 100 | 100 |
| Germany, eastern | 116 | 111 | 106[c] | ... | 141 | 135 | 121 | 105[d] |
| Hungary | 123 | 105 | 112 | ... | 145 | 125 | 107[c] | 67 |
| Poland | 112 | 110 | 110 | 107 | 138 | 122 | 115 | 102 |
| Romania | ... | ... | ... | ... | 131 | 136 | 128 | ... |
| Union of Soviet Socialist Republics | 112 | 111 | 108 | 111 | 112 | 111 | 104 | 115 |

*Source:* Reports on fulfilment of plans.

[a] Derived from data on planned total investment and on percentage fulfilment of the plan.

[b] Preliminary estimate. Total output of agriculture and industry.

[c] Partly estimated.

[d] Six months. According to some official sources the increase was only 3 per cent.

were higher by 6.7 per cent, grains alone by 10 per cent,[5] livestock production by 2.4 per cent and total agricultural output by 4.8 per cent.

*National income and investment*

In the Union of Soviet Socialist Republics and in mainland China, national income increased in 1954 at a higher rate than in 1953. The rates of increase for the Union of Soviet Socialist Republics were 11 per cent as compared with 8 per cent in 1953, and for mainland China 12.6 per cent[6] as compared with 11.4 per cent (table 19). In most other countries the rate of increase slackened perceptibly. In Poland it fell from 10 per cent in 1953 to 7 per cent in 1954. Very tentative estimates for other countries of the group suggest that in eastern Germany and Romania national income increased, but at a lower rate than in the previous year; in Czechoslovakia and Hungary national income increased little, if at all, and in Hungary it may have declined.

Investment in fixed capital in 1954 increased in both the Union of Soviet Socialist Republics and mainland China. In the Soviet Union investment increased by 15 per cent as compared with the exceptionally low rate of 4 per cent in 1953, but the rate of increase was not much higher than that achieved in 1951 and in 1952. In mainland China, owing to the acceleration of industrialization under the five-year plan, investment in fixed capital, which had increased by about 18 per cent in 1953, showed a further large increase of about 31 per cent in 1954.

In other countries of this group, investment in fixed capital either declined, remained unchanged or increased at a much slower rate than in 1953. In eastern Germany investment in fixed capital in the first half

[5] This represented in part a recovery from the poor harvest in 1953.

[6] For mainland China, the index of total output in agriculture and industry was used as an indicator of changes in national income.

Table 20. Indices of Investment in Selected Sectors of the Centrally Planned Economies of Eastern Europe, 1954

(Preceding year = 100)

| Item | Czechoslovakia[a] (Full year) | Eastern Germany (First half) | Poland[b] (Full year) | Romania (Full year) | USSR[c] (First half) |
|---|---|---|---|---|---|
| Total | 100 | 105[d] | 102 | ... | 114 |
| Light industry | ... | 227 | ... | 167 | 148 |
| Food processing industry | ... | 280 | ... | 181 | |
| Agriculture | 200 | ... | 137 | 160 | 153 |
| Trade | ... | ... | ... | ... | 230 |
| Housing | 139 | 198 | 121[e] | ... | 120 |

*Source:* Reports on fulfilment of plans.

[a] The index for social and cultural services was 182.

[b] The index for social and cultural services was 123.

[c] The index for transport was 108.

[d] According to other official sources, 3 per cent only. For the year as a whole, investment in the food processing industry increased by 56 per cent, in light industry by 11 per cent, and in housing by 13 per cent. No data on total investment were published.

[e] Housing and public utilities.

of the year increased by 5 per cent as compared with 21 per cent in 1953 as a whole. In Poland investment rose by 2 per cent, as compared with 15 per cent in 1953. In Czechoslovakia in both 1953 and 1954 investment remained at the level of 1952. In Bulgaria investment declined by 2 per cent in 1954, as compared with an increase of 11 per cent in 1953. Hungary was the only country of the group where investment declined sharply, in fact by as much as 33 per cent.

The changes in investment in eastern Europe described above were mainly the outcome of the decision to increase the share of consumption in national income. However, in some countries investment plans were not fulfilled, partly at least because of the difficulties inherent in bringing about shifts in the distribution of investment. The fragmentary data presented in table 20 give a general indication of the direction and magnitude of these shifts.

The very large increases in investment in light industry and in food processing industries, agriculture and housing in eastern European countries, when set against the increases in total investment, show that the rate of increase in heavy industry was lower than the average. This difference was not necessarily very considerable. The sectors in which the sharpest increases took place claimed less than 20 per cent of the total in 1953[7] and consequently a sharp rise in investment in these sectors would not depress substantially the rate of increase in investment in heavy industry as compared with the average rate.

It seems, however, that in some countries investment in heavy industry did in fact decline. In Hungary there was obviously a decline, since total investment was drastically reduced while substantial increases took place in agriculture, housing and other consumer goods sectors. The small increase in total investment in Poland, in the face of substantial increases in certain consumer sectors, indicates a decline in investment in heavy industry. It is also possible that total investment in heavy industry declined in eastern Germany and in Czechoslovakia despite the fact that investment in power and mining increased in both countries. In eastern Germany it was officially stated that the sharp increases in investment in consumer industries and in coal and power in the first quarter of 1954 were made possible by a 49 per cent decline in investment in the metallurgical industry and by a 68 per cent decline in investment in the engineering industry. In Czechoslovakia total investment for the year as a whole remained at the 1953 level, while investment in consumer goods industries and in agriculture increased sharply. This would indicate a fall in investment in heavy industry although investment in power stations increased by 7 per cent. In the Union of Soviet Socialist Republics, where investment in heavy industry increased in 1954, an estimate based on the data for the first half of 1954 seems to indicate that this increase must have been very small by comparison with a 15 per cent increase in total investment. In mainland China, where the policy of rapid industrialization continued in 1954, investment in heavy industry increased much more than did investment in consumer goods industries and agriculture.

In the Soviet Union, where national income increased by 11 per cent and investment by 15 per cent in 1954, investment absorbed a larger share of national income than in 1953.[8] The same was true of mainland China. In most other centrally planned economies, the share of investment declined, in accordance with the policy announced in 1953.

In eastern European countries other than the Union of Soviet Socialist Republics, the effect of these changes in investment on that part of national income available for consumption was enhanced by a decline in military expenditure. In most cases this decline was very slight. However, in the Union of Soviet Socialist Republics, where budgeted military expenditure was lower by about 10 per cent in 1954 than in 1953, this decline could easily have offset the effect of the rise in investment and brought about an increase in the share of consumption in national income.[9]

*Demand-supply position*

In 1954, in all centrally planned economies, there were important changes in both demand and supply. However, developments in the eastern European centrally planned economies and in mainland China differed considerably, partly in reflection of different policies applied in 1954. While mainland China continued to pursue a policy of rapid industrialization, in most eastern European countries this policy was at least temporarily relaxed.

In the latter countries, the supply of consumer goods increased substantially as a result of expanded output of light industry and the food processing industries, a sharp rise in output of durable consumer goods, an improvement in agricultural output because of the better 1953 harvest, which affected supply during the greater part of 1954, and also a drawing down of inventories. The increase in the market supply of con-

[7] For instance, in Poland in 1953 investment in agriculture absorbed 9 per cent of the total, light industries 7 per cent; in the Union of Soviet Socialist Republics, food processing and light industry 5 per cent, and agriculture 8 per cent. In Romania the plan for 1951 to 1955 allocated 9 per cent of total investment to light industry and 10 per cent to agriculture. In most of the countries investment in heavy industry claimed 40 to 50 per cent of the total.

[8] In 1953 the share of investment in national income was sharply reduced; the increase in 1954 restored the 1952 ratio.

[9] In the budget for 1955, military expenditures were raised by about 12 per cent.

sumer goods, as reflected in data on retail sales in State and co-operative trade, is shown in table 21.

Table 21. Indices of Volume of Retail Sales in State and Co-operative Trade in Centrally Planned Economies, 1954

(1953 = 100)

| *Country* | *Index* |
|---|---|
| Bulgaria[a] | 129 |
| China, mainland[b] | 118 |
| Czechoslovakia[b] | 120 |
| Germany, eastern[b] | 114 |
| Hungary | 121 |
| Poland | 118 |
| Romania | 115 |
| Union of Soviet Socialist Republics | 118 |

*Source:* Reports on fulfilment of plans.
[a] Six months.
[b] Including private trade.

In several countries sales in rural districts increased more than sales as a whole, which no doubt reflected the effort to divert a larger proportion of industrial goods to rural areas in order to encourage larger output and deliveries of agricultural products. However, this increase may reflect also the fact that retail sales include, in addition to consumer goods, certain investment goods, such as building materials, cement and some farm implements, sold to agricultural producers. The increased sales of such goods could not significantly influence the over-all index, but might have had an important effect on the trend of sales in rural areas.

Although in previous years data on retail sales in State and co-operative trade might have reflected in part a shift from private trade, either in urban areas or on farm markets or both, this does not seem to have been the case in 1954. Indeed, sales on farm markets increased in all countries of this group, and private trade by handicraftsmen and small retailers was encouraged in several countries. The growth of private trade was especially important in eastern Germany, where it represented a significant proportion of all trade, and in Hungary, where handicraftsmens' output and sales increased substantially in 1954. The rise in supply on farm markets was particularly large in Bulgaria, Romania and Hungary.

In most of the countries, sales of industrial consumer goods increased proportionally more than sales of food. The large rates of increase in supply of durable goods in several countries must be considered in relation to the rather low volume of output during the preceding period. There was, however, a substantial increase in absolute terms in the supply of such staples as textiles and footwear in most countries of this group.[10]

[10] In Romania there was only a moderate increase in the supply of these goods; sales of food increased more than sales of industrial consumer goods.

In 1954, as in 1953, retail prices of consumer goods in State and co-operative trade were reduced. In the Union of Soviet Socialist Republics, eastern Germany and Hungary, prices were reduced much less than in 1953, while in Czechoslovakia and Poland they were reduced more than in 1953.[11] In Hungary, Romania and Bulgaria, at least in the first half of 1954, prices of several foods on farm markets were lower than in the corresponding period of 1953. In Bulgaria the decline amounted to about 10 per cent.

Despite the increase in supply of consumer goods in all countries of eastern Europe, there was no significant improvement in the relation of supply to demand. In fact, in some countries the pressure of demand upon supply seems to have increased. The increase in demand in 1954 reflected a substantial rise in the incomes of the population as a result of various measures introduced in the latter part of 1953 and in 1954. Money wages were raised, and furthermore there was unauthorized over-spending of wage funds by State enterprises. Income taxes and subscriptions to loans were reduced. Simultaneously, the incomes of peasants were substantially increased by the rise in prices paid for deliveries or contractual purchases by government agencies, by the reduction in delivery quotas, which left a larger share of output for sale at higher prices in the free market, and by the reduction in taxation.

In all countries of the group except the Union of Soviet Socialist Republics and Poland, the rise in wages far exceeded the increase in productivity in industry. The disparity between changes in productivity and money incomes was not limited to industry. Indeed, the rise in prices paid to peasants by government purchasing agencies, the reduction in taxes and other measures introduced in 1953 and 1954 in all eastern European countries increased peasant money income per unit of output. It follows that the average money income of the population increased more than average productivity, a disparity which tended to create an unbalance between demand and supply. The price reductions on consumer goods in government and co-operative trade that took place in 1953 and 1954 were in some countries an even more important influence tending in the same direction.

Since the Government claimed a smaller share of the national product for investment and military expenditure, a larger share of output was available for consumption. However, it appears that at the price levels established and maintained in 1954, the shift in the composition of output in favour of consumers did not match the shift in purchasing power described above. In these circumstances, demand continued to press upon supply and in some countries the pressure was accentuated, especially as compared with the second half of 1953.

[11] In Czechoslovakia prices were reduced by about 10 per cent, in Poland by 6 per cent and in the USSR by 4 per cent in 1954.

It seems probable that in several countries the new income-price relationships were not introduced on the basis of careful planning of supply and demand but rather were conceived of—at least in part—as a means of encouraging higher production in agriculture and in industry. In the Union of Soviet Socialist Republics it was officially stated that prices were reduced as a matter of policy even though the lower prices were not fully warranted by the supply situation.

These developments took place against a background of rising real incomes and consumption, and in these circumstances there was a tendency for demand to shift towards better quality products. Thus, the pressure of demand expressed itself in specific shortages of certain foodstuffs and industrial consumer goods. Prices in government trade were maintained at the reduced level, but in some countries the pressure of demand led to an increase in prices of certain goods on free markets and encouraged black market operations. In some countries manufactured goods were purchased by speculators for resale at higher prices, and in the rural areas illegal slaughtering[12] and sale of livestock took place.

While in all countries of the group there were shortages of some industrial consumer goods, in most countries the principal shortages were in foodstuffs, principally animal products, fruits and some vegetables. In Hungary, for example, prices of these foodstuffs rose on farm markets. In Poland there was an extension of black market operations in meat, especially in the second half of the year.

Romania and eastern Germany, the only two countries of the group in which rationing was maintained in 1954, had both announced their intention of abolishing it in the course of the year. However, in eastern Germany the supply-demand situation did not improve enough to permit derationing. In Romania, the substantial increase in the output of food and industrial consumer goods, together with the fact that prices were not much reduced, brought supply and demand into better balance than in several other countries. When rationing was abolished[13] at the end of the year, prices of most consumer goods were raised to the level of free sale prices, which were substantially higher, while prices of some foodstuffs (meat, beans, eggs, milk) were raised above the free sale prices. However, prices of some industrial consumer goods, farm implements and building materials were set at a level about 10 to 20 per cent below former free sale prices. The effect on real wages of the increase in prices of goods previously rationed was at least in part compensated for by a rise in wages, bonuses, pensions and other payments to wage and salary earners. The extent of this compensation cannot be ascertained for lack of adequate data, especially with respect to the share of rationed supply in total purchases of wage earners. For the peasants, the reduction of about 10 to 20 per cent in the prices of manufactured goods and of various agricultural implements represented a net gain.

In mainland China, changes in the relationship between demand and supply were different from those in the centrally planned economies of eastern Europe. Moreover, the situation changed notably in the course of the period under review. During 1952 and most of 1953 the rise in government investment and military expenditure was accompanied by an increase in the supply of consumer goods approximately sufficient to meet the growing demand. The volume of total retail turnover increased by about 20 per cent in each of these two years. However, the situation changed in 1954. The large increase in consumer income, arising out of a sharp rise in government investment expenditure, not fully financed by taxation, was not matched by the rise in supply of consumer goods. On the one hand, the increase in production of industrial consumer goods was smaller than for total industrial production, as a result of the Government's policy of speeding up the rate of industrialization; on the other hand, the plan for agriculture was not fulfilled because of bad weather.

Retail sales increased by about 18 per cent in 1954. This was made possible by the substantial increase in output of industrial consumer goods and, in many instances, also by running down reserve stocks. However, there was an unbalance between demand for, and supply of, some staples, such as cotton cloth, vegetable oil and food grains.[14] In large cities, moreover, the pressure of demand upon the supply of food was accentuated by a considerable increase in demand resulting from rapid expansion of industrial employment, which absorbed a large influx of surplus rural labour. Therefore, in November 1953, the Government introduced in the large cities and certain rural areas a scheme of partial rationing of food grains and vegetable oils,[15] followed by rationing of cotton cloth in September 1954. Average retail prices[16] in eight large cities remained practically stable from 1952 to 1954.

In spite of the deficiencies described, real incomes increased substantially in all countries of the group in 1954. Money wages rose in Bulgaria by 5 per cent, in

[12] Before fulfilment of delivery quotas

[13] Although rationing and the system of dual prices were abolished, special coupons were introduced for wage earners, entitling them to priority purchases of bread.

[14] The domestic supply of certain agricultural staples could not have been appreciably affected by changes in exports since the volume of exports of these products did not increase significantly during this period.

[15] The scheme of rationing adopted for food grains and vegetable oils was confined to large cities and certain rural areas. The articles rationed varied in different regions: for instance, in the north region wheat flour was rationed but not rice, whereas in the south region the reverse was true.

[16] Retail price indices are based upon "parity savings units" or "parity wage units" in eight large cities. The parity units consist of a number of commodities, in fixed proportion, which reflect local consumption habits; for instance, in Shanghai: rice, coal briquettes, vegetable oil and cotton fabrics; in Peking: millet, wheat flour and cotton fabrics.

eastern Germany by 9 per cent and in Romania by 8 per cent. Since prices declined, the increases in real wages in these countries were larger.[17] In Czechoslovakia real wages increased by 20 per cent; in Hungary by 15 per cent. In Poland real wages rose by 12 per cent in 1954, while the average real income of peasants rose by 11 per cent, reflecting the increase in farm output and in the prices received, as well as the reduction in prices paid for manufactured goods. In the Union of Soviet Socialist Republics real wages increased by 5 per cent mainly as a result of price reductions. Since employment increased by more than 4 per cent, the real wage bill rose by about 10 per cent. Total income of the population increased by 11 per cent in real terms, which indicates an approximately parallel increase in the real income of peasants and that of the urban population.

The particularly sharp rise in real wages in Czechoslovakia, Hungary and Poland represents in part a recovery from the decline that had occurred between 1950 and the latter part of 1953. Differences in the rates of increase in real wages among the countries of eastern Europe reflect the variety of their experience in foreign trade as it affected the supply of consumer goods, in agricultural production, which fluctuated sharply in some countries, as well as in the extent of the shift from investment to consumption that took place in 1954.

In mainland China, real wages of industrial workers increased by 5 per cent in both years. Incomes of peasants also increased, reflecting the rise in output and in prices paid by government purchasing agencies. The rise in real incomes was made possible by an improvement in supply of consumer goods arising from both an increase in output and the release of government stocks accumulated during the preceding years.

### Plans and policies

In 1954 the economic policies pursued in eastern European countries differed in many important respects from those followed in mainland China. While eastern European policies underwent considerable modification in 1953 and again in 1954, mainland China continued to follow the policy laid down at the inception of the current five-year plan of development. In view of these differences, mainland China is treated separately from the rest of the group in the following discussion.

Until the end of 1954 all centrally planned economies of eastern Europe continued to follow the economic policies introduced during the second half of 1953. However, because of difficulties encountered in raising agricultural production, increased attention was devoted to problems of agriculture.

In some countries further incentives were given to peasants in the form of higher prices for certain deliveries, or reduction in quotas, as well as in the form of priority sales of manufactured goods for fulfilment of deliveries. In several countries special attention was given to extending the area under cultivation. Czechoslovakia and Poland announced plans to reclaim abandoned land, but in these two countries this policy could have only limited scope. In the Union of Soviet Socialist Republics, however, it was decided to plough 13 million hectares of fallow and virgin lands in the eastern part of the country. This operation, which required huge capital investment and the resettlement of about 200,000 workers, was successfully carried out, and the original target substantially exceeded. By the end of the year 17.6 million hectares[18] had been claimed for cultivation, which was equal to about 11 per cent of the previous sown area of the Soviet Union.

In most countries which have announced their plans, the policy pursued in 1954 is to be continued in 1955. As in 1954, the new annual plans give priority to expansion in output of consumer goods, raw materials, fuel and power—sectors which had lagged behind during the preceding period of rapid industrialization.

Industrial production is planned to increase in 1955 by 7 per cent in Czechoslovakia, by 9 per cent in Poland and the Union of Soviet Socialist Republics and by about 10 per cent in eastern Germany. In Czechoslovakia, Germany, Hungary and Poland the output of consumer goods is to increase in 1955 at a faster rate than that of investment goods.[19] However, the relationship between the rates of increase for consumer and investment goods planned for 1955 is generally considered rather exceptional in the light of long-range objectives. It is intended primarily to bring about a better balance between the two types of output during a two-year or three-year period.

In most countries of the area 1955 is the last year of the long-term plans of development now in progress. Czechoslovakia and Hungary, whose long-term plans ended in 1953 and 1954, respectively, decided to postpone the beginning of their new long-term plans until 1956 in order that they might be inaugurated simultaneously with those of other countries.[20] The new five-year plans for 1956 to 1960 are to be prepared in closer co-ordination, on the basis of division of labour among the countries of the group, and are to take into account such factors as availability of local resources of raw materials, fuel and power, as well as transportation

[17] In the case of scarcities the increases in real wages would not necessarily indicate a corresponding increase in consumption. The case is similar to a decline in ration prices not associated with an increase in the ration.

[18] Only 3.6 million hectares were actually sown in 1954.

[19] In Czechoslovakia, for instance, the planned increase in the food industry is 9.5 per cent. Light industry is to raise the output of goods for domestic consumption by 22 per cent, which may imply some reduction in exports. In Poland the target for investment goods is a 6 per cent increase, while the output of consumer goods is to increase by 11 per cent.

[20] In Bulgaria the current five-year plan was inaugurated in 1953.

Table 22. Planned Expenditure on the Development of the National Economy in the Union of Soviet Socialist Republics, 1954 and 1955[a]

| Item | 1954 (billions of roubles) | 1954 (per cent) | 1955 (billions of roubles) | 1955 (per cent) | 1955 (1954 = 100) |
|---|---|---|---|---|---|
| Total | 326.7 | 100.0 | 335.2 | 100.0 | 102.6 |
| Heavy industry | 133.2 | 40.8 | 163.6 | 48.8 | 122.8 |
| Consumer goods industries and trade | 36.7 | 11.2 | 27.9 | 8.3 | 76.0 |
| Agriculture | 51.1[b] | 15.6 | 65.2 | 19.5 | 127.6 |
| Transport | 38.8 | 11.9 | 40.5 | 12.1 | 104.4 |
| Others | 66.9 | 20.5 | 38.0 | 11.3 | 56.8 |

*Source:* *Pravda* (Moscow), 28 April 1954; 11 February 1955.

[a] The data shown in this table cover not only allocations from the budget but also planned expenditures to be financed from funds accumulated by industries. In addition to investment, allocations for the national economy include all current expenses of machine and tractor stations, subsidies, expenses of technical training in factories, expenditure on inventions and experiments not covered in the budget for education and other unspecified items. The data for 1954 are planned expenditure, not actual expenditure.

[b] The total allocation of 74.4 billion roubles for 1954 included 23.3 billion roubles for procurement of agricultural products. This sum was deducted in order to make the 1954 figures comparable with those for 1955.

costs and other elements determining comparative costs. Greater economic integration may imply in some countries more emphasis on the development of agriculture and consumer goods industries, for export as well as for domestic consumption, and a slower rate of growth of certain segments of heavy industry whose products could readily be purchased at lower cost from other countries.

At the time when these programmes were formulated, it was stated that the policies adopted in 1953 were to continue, at least during part of the new five-year plans. However, at the end of 1954, an important change took place in the economic policy of the Union of Soviet Socialist Republics. Hungary also announced its intention of changing its policy. It was not known at the time of writing whether and to what extent similar policies would be adopted in other countries.

The new policy of the Union of Soviet Socialist Republics strongly reasserts the priority of heavy industry, rejecting the view that at the present stage of development light industry should expand more rapidly than other industry. In official statements this policy is linked to requirements of development as well as to considerations related to military potential. Accordingly, funds allocated for development of heavy industry in 1955 are sharply increased, both in absolute terms and in relation to other industries, and those allocated for military expenditures also raised. Simultaneously, loan subscriptions, reduced in 1953 and in 1954, are almost doubled, bringing them to their 1952 level, and—contrary to the practice of the past few years—the new budget does not provide for reductions in retail prices in 1955. However, although the emphasis on rapid expansion of production of consumer goods is abandoned, even more stress than previously is put on the expansion of agriculture.

The shift in the priorities assigned to various sectors of the economy is reflected in the distribution of funds allocated for the development of the national economy, both from the budget and from the retained profits and amortization funds of industries and enterprises (table 22). The data in the table are in current prices, and, because of the reduction in prices of investment goods and in freight rates announced for 1955, they do not reflect exactly the changes in real outlays.

The striking features of the new financial plan are the 23 per cent increase in expenditure on heavy industry, the 28 per cent increase in expenditure on agriculture and the 24 per cent decline in allocations for consumer goods industries and trade. Even more indicative is the change in the share of expenditure allocated to various sectors. The share of heavy industry is raised from 41 to about 49 per cent, that of agriculture from about 16 to 20 per cent while that of consumer goods and trade is reduced from 11 to 8 per cent. No detailed information on the distribution of investment in 1955 has been published. However, the data on investment show a shift similar to that shown in total allocations for the national economy. Total investment in 1955 is to be 167.2 billion roubles, compared with 184.9 billion planned for 1954, but this apparent decrease reflects in part the reduction in the price of investment goods. Investment in heavy industry is planned to increase from 90 billion roubles to 93.5 billion, raising its share of total investment from 49 to 55 per cent.

Military expenditures, which are not included in the expenditure for the national economy, had been reduced by 10 billion roubles in 1954, but in 1955 they are to increase from 100 billion to 112 billion in current prices, the increase in constant prices being still larger.

The greater emphasis assigned to agriculture is reflected in a new six-year plan of development. Detailed

measures for its implementation have been announced. The main targets in this plan, covering the period 1955 to 1960, are shown in the following table (1954=100):

| | |
|---|---|
| All grains | 131[a] |
| Maize | 800[b] |
| Meat and fats | 200 |
| Pork | 200 |
| Beef | 170 |
| Eggs | 220 |
| Wool | 180 |

[a] Estimated on the basis of average biological yield (standing crop) in 1949–52, the latest data available. Until 1953 estimates of the harvest were made on the basis of biological yield, but in that year it was announced that future estimates would be on the basis of barn yield.

[b] Estimated on the basis of the planned increase in area sown assuming unchanged yields.

The output of grain is planned to rise to a minimum of 164 million tons in 1960,[21] compared with an average of 125 million tons in 1949-52, that is, an increase of about 30 per cent.[22] The rise in output is to be achieved in several ways. A considerable extension of the area under grain is planned, mostly on newly cultivated lands. In 1955, 20 million hectares of new land are to be sown, and the new area is to be increased by 1960 to 28 million hectares, representing 25 per cent of the area under grain in 1954. Output of grain on newly cultivated land in the eastern territories is scheduled to reach 29.5 million tons in 1960, about 18 per cent of the aggregate grain output scheduled for that year.

In addition, yields are to be increased by greater use of fertilizers and by further mechanization, which is designed to lessen delays and consequent loss in harvesting operations. Finally, an increase in the area under maize with yields per hectare more than double those of wheat—from about 3.5 million hectares in 1953 to 28 million hectares in 1960—is to raise sharply the total output of grain.

A large part of the additional output of grain is to be used for feeding livestock. In addition, the plan provides for about a fivefold increase in the output of other feeding stuffs, such as concentrates, silage and root fodders, in 1960 as compared with 1953.

Thus, it appears that the new policy represents only in part a return to the policy pursued before 1953, when heavy industry was emphasized to the neglect of both consumer goods industries and agriculture. The new policy is in part determined by deficiencies in the supply of agricultural raw materials which set fairly narrow limits to the potential expansion in output of many consumer goods. In this situation, reducing the rate of increase in heavy industry would simply slow down the rate of development of the economy as a whole. The need to make huge additions to the stock of farm implements[23] if the plans for agricultural production are to be fulfilled may be an element in the decision to renew the emphasis on heavy industry. Apart from the purely economic reasons motivating this change in policy, there were, as already stated, considerations related to the military potential. Finally, it is possible that the present emphasis on heavy industry in the Union of Soviet Socialist Republics may also be related to the proposed co-ordination of the economic plans of the area, if it is assumed that the Soviet Union intends to increase the exchange of the products of heavy industry against consumer goods and agricultural raw materials from other countries of the group.

In contrast to the situation in the centrally planned economies of eastern Europe, the economic policy in mainland China has not undergone any essential change during the period under review. The five-year plan of development now in progress covers the period from 1953 to 1957. The central theme of this plan is concentration on investment in heavy industries, fuel and power, and related transport. Among consumer goods industries, it is only in textiles that fairly heavy investment is under way. As for other consumer goods industries, the present medium-scale and small-scale production, including handicrafts, is being maintained with little additional capital investment, and much of the improvement in production is expected to result from other factors, such as the adoption of new techniques, more complete utilization of existing capacity and the enlargement of productive units through co-operation of handicraftsmen.[24]

In 1954 about half of all investment was devoted to industry and, among investments in industry, 80 per cent to heavy manufacturing industries, fuel and power. Under the five-year plan 156 large-scale enterprises are to be constructed or renovated, with the help of capital equipment imported from the Union of Soviet Socialist Republics. The carrying out of this programme will require an appreciable increase in expenditure for investment during the remaining three years of the plan.

Completion of the investment programme is intended to bring about, by 1957, marked changes in the structure and organization of the economy. In fact, during

[21] The new target is in fact much lower than the target of 174 million to 187 million tons set for 1955 in the current five-year plan.

[22] If the stated goal is expressed in terms of barn harvest, the planned increase would be much larger, since losses due to delay in harvesting are very substantial, making up as much as 25 per cent of biological yield in certain *kolkhozes* and *sovkhozes*.

[23] For instance, in 1954 out of a total output of 137,000 tractors (measured in terms of units of fifteen horsepower) 115,000 were sent to the new territories, leaving only about 22,000 for replacement and modernization for the rest of the country. This is an insignificant percentage of the more than one million tractors used in agriculture.

[24] Whenever possible, mechanized or semi-mechanized production is introduced to replace production by hand tools. During the past two years, there has been a rapid increase in the number of handicraft co-operatives in different trades. It is planned to complete the organization of handicraft co-operatives throughout the country by the middle of the second five-year plan, that is, about 1960.

Table 23. Mainland China: Indices of Actual and Planned Production of Steel, Coal and Electricity, 1953 to 1957
(1952=100)

| Industry | Index of production | | | Average yearly rate of increase 1953 and 1954 |
|---|---|---|---|---|
| | 1953 (actual) | 1954[a] (actual) | 1957[b] (planned) | |
| Steel | 131 | 161 | 400 | 27 |
| Coal | 109 | 129 | 160 | 13 |
| Electricity | 126 | 146 | 200 | 21 |

*Source: People's Daily* (Peking).

[a] Actual production in 1954 was, in absolute terms, as follows: steel, 2.2 million metric tons; coal, 82 million metric tons; electricity, 10.8 billion kilowatt-hours.

[b] According to some indications, the fulfilment of these targets may be extended beyond 1957.

the first two years of the plan, the share of industrial production (excluding output of handicraftsmen and handicraft co-operatives) in total output rose from 27 per cent in 1952, the year before the beginning of the plan, to 33 per cent in 1954; in the same period the share of producers' goods in industrial output rose from 29 per cent to 42 per cent. Simultaneously, the extension of the State and co-operative sector[25] increased its share in the value of production from 58 per cent in 1952 to 71 per cent in 1954.

While the targets under the first five-year plan of mainland China have not been explicitly stated, in general terms the objective of the plan is to achieve by 1957 the over-all position which industry in the Soviet Union had attained in 1932 after completion of its first five-year plan. This will require in the remaining years of the plan steady expansion and an increasing diversification of industrial output as well as a continued high rate of increase in the output of producers' goods relative to consumer goods. It is expected that the rate of increase of industrial production (excluding handicrafts and handicraft co-operatives) will remain approximately that of 1954, that is, 23 per cent, which was substantially lower than the average rate of increase of 37 per cent during the reconstruction period, 1949-52, and lower than the 33 per cent rate of increase in the first year of the plan. The maintenance of the 1954 rate for 1955 to 1957 is to be made possible by the fact that many new factories in heavy industry will be completed and put into operation in that period. Thus, if the targets of the plan are achieved in 1957, the level of industrial production will be about three times higher than in 1952. Actual and planned production of steel, coal and electricity is shown in table 23.

In regard to agriculture, the five-year plan originally envisaged an annual rate of increase of 6 per cent in food grains and of 9 per cent in cotton. Owing to unfavourable weather, these goals were not realized in 1953, and in 1954 the target for food grains was reduced to 3 per cent, which was in fact achieved. In 1953 and 1954 the cotton crop was lower than in 1952, as a result of poor weather. The revised targets for 1955 are an increase in output of food grains by 6 per cent and in output of cotton by 20 per cent.[26] In addition, substantial increases in the production of vegetable oils, tobacco, tea, jute and livestock are also planned for 1955.

The increase in agricultural production is to be achieved through an expansion of the area sown to food grains, which it is planned to increase by 6.5 million hectares, representing about 6 per cent of the existing cultivated land. This land is mostly virgin land on which large-scale State farms will be established. Various methods will be adopted to increase yields, such as improvements in irrigation and in the supply of agricultural implements and of cheap fertilizers. It is expected also that expanding the scope of mutual aid teams, which are to be transformed gradually into agricultural producers' co-operatives, will contribute to raising agricultural production.[27] The target is to increase the scope of co-operative farming to cover all rural households, and of agricultural producers' co-operatives to cover 50 per cent by the end of 1957.

The State and co-operative sector of trade is to be further expanded during the first five-year plan. In domestic trade, the share of government trading companies and co-operatives had already increased from 70 per cent in 1953 to 80 per cent in 1954 in wholesale trade, and from 38 per cent to 50 per cent in retail turnover. Supply and marketing co-operatives are to be further expanded, especially in rural areas, but retail trade will not be entirely nationalized. However, profit margins of private traders will be controlled and, in the case of some daily necessities such as rice and cloth, traders will act as government agents. In foreign trade, the share of the State and co-operative sector already amounts to 97 per cent, and it is planned to achieve a complete State monopoly in this field.

[25] It is not planned to nationalize all private enterprises during the first five-year plan. However, these enterprises will be gradually transformed into mixed State-private enterprises or put to work entirely on government contracts.

[26] Actual production in 1954 was about 170 million metric tons for food grains and about 1.2 million metric tons for raw cotton.

[27] There was a further growth in co-operative farming from 1953 to 1954. In 1953 about 43 per cent of rural households were engaged in co-operative farming, but agricultural producers' co-operatives constituted less than one per cent. In 1954 the proportion of rural households engaged in co-operative farming rose to 60 per cent, and there was also a further expansion of producers' co-operatives.

## Yugoslavia

The economic situation in Yugoslavia in 1953 and 1954 was influenced by sharp fluctuations in agricultural output, which after recovering in 1953 from the extremely low lovel of 1952, again declined substantially in 1954. A rise in investment in fixed capital and a decline in import balances were important elements in the inflationary situation which developed in 1954.

Industrial production,[28] which in 1951 and 1952 had declined by 3 per cent and one per cent respectively, rose by 11 per cent in 1953 and by 14 per cent in 1954 (table 24). This reversal in trend was to a large extent the result of the fact that various investment projects undertaken under the five-year plan were completed and came into production in 1953 and 1954.

In contrast to the developments in previous years, output of consumer goods increased in 1954 at a higher rate than that of capital goods. Employment in industry increased at a higher rate than industrial production, from which it follows that output per man declined in 1954.[29]

Agricultural production, which fell sharply in 1952, increased in 1953 by more than 30 per cent. In 1954, because of a poor harvest, the grain output fell by more than 30 per cent, but this decline was partly compensated for by an 11 per cent increase in livestock and by some increases in certain industrial crops. The sharp fluctuations in output of grain[30] during the past five years are shown by the following index (1949=100):

| | |
|---|---|
| 1950 | 63 |
| 1951 | 100 |
| 1952 | 53 |
| 1953 | 103 |
| 1954 | 70 |

[28] Exclusive of armament industries, shipbuilding and motion picture industries.

[29] This was accounted for by interruptions in work during the first quarter of the year because of weather-induced deficiencies in the supply of power and possibly also by the initially low level of productivity in new plants which came into operation in large numbers in the course of the year.

[30] Wheat, rye, barley, oats, maize. Based on data from the following source: *Indeks*, No. 11 (November 1954) and No. 2 (February 1955), and *Statistical Yearbook of Yugoslavia, 1954* (Belgrade).

Despite the decline in agricultural production, the national product increased in 1954 as a result of increases in industrial production, building, transport and trade. A rough estimate of these changes indicates a 4 per cent increase in national income compared with a 9 per cent increase in real terms in 1953. Consumption also increased in 1954 although at a slower rate.

Investment in fixed capital increased substantially in 1954.[31] Military expenditure remained unchanged or was lower. However, there was a substantial rise, in real terms, in exports while imports changed very slightly. A rough estimate of the sum of the changes in fixed investment, expenditure for armament and in the balance of exports and imports would indicate an increase of the order of 7 per cent compared with 1953, thus increasing their share in national income. Since the additional income generated by this expenditure was not accompanied by a proportionate increase in the supply of consumer goods, its rise had an inflationary effect. This inflationary tendency was mitigated in 1954 by the liquidation of stocks of food derived from the 1953 harvest and of stocks of industrial consumer goods accumulated in 1953 because of inadequate demand. The influence of this reduction in stocks was apparent during the first half of the year; during the second half imports of foods increased. Thus, consumption appears to have increased slightly in 1954, despite a bad harvest.

As a result of inflationary pressures the cost of living rose throughout the year, and by December 1954 was about 10 per cent above December 1953, although for the year as a whole it was about 2 per cent below the level of 1953. Real wages, which increased during the first half of 1954 compared with the corresponding period of 1953, declined during the second half of 1954 and fell below the level reached during the second half of 1953.

It follows from the preceding analysis that the chief factors which contributed to the rise in inflationary pressures in 1954 were a sharp rise in investment in

[31] For the first ten months of the year the increase was about 17 per cent in real terms.

Table 24. Yugoslavia: Indices of Industrial Production and Employment, 1951 to 1954

(Preceding year = 100)

| *Item* | *1951* | *1952* | *1953* | *1954* |
|---|---|---|---|---|
| Industrial production[a] | 97 | 99 | 111 | 114 |
| Capital goods | 104 | 110 | 130 | 104 |
| Raw materials and semi-manufactured goods | 96 | 102 | 108 | 115 |
| Consumer goods | 98 | 87 | 114 | 115 |
| Industrial employment[b] | .. | 93 | 108 | 116 |

*Source: Indeks*, No. 2 (Belgrade, February 1955).

[a] Exclusive of armament industries, shipbuilding and the motion picture industries. Printing is included in 1954 only.

[b] Wage earners only.

fixed capital, a sharp decline in net imports and a fall in agricultural production. The expansion of exports was, at least during the first half of the year, encouraged by the Government with a view to reducing the persisting deficit in the balance of payments. During the second half of 1954, restrictions on exports were introduced in order to protect the domestic supply—export quotas were established for textiles and some other industrial goods as well as for live cattle and meat products. The inflationary effect of the rise in foreign balance would have been much smaller if the targets set for investment in the plan for 1954 had not been considerably exceeded. The substantial increase in investment in fixed capital was financed by ploughing back large profits realized by enterprises as well as by expansion of credit.[32] The decentralization introduced in the course of the past few years had given considerable autonomy to enterprises and permitted them to determine their prices and the use to be made of net profits. Since many enterprises enjoyed a monopolistic or quasi-monopolistic position, partly because of import restrictions, they could often raise their prices well above cost and realize higher profits at the expense of less favourably situated sectors of the economy. In the export industries subsidies in various forms, including favourable exchange rates, were important elements in the high level of profits. The difficulties arising from this situation led the federal authorities at the end of the year to reassert their right to control the distribution of income through credit and fiscal policies in order to correct the distortion resulting from monopoly profits. Various measures tending to control profits and investment were adopted. A considerable part of the profits realized in excess of the plan in 1954 was frozen. At the same time, the surrender quotas of foreign currency,[33] which had been 50 to 60 per cent of the export proceeds, were raised to 80 to 90 per cent in order to reduce export profits.

In addition to these measures, which were designed to check inflationary pressures in 1955, the Government planned to increase substantially the import of food, financed by foreign aid, thus alleviating the supply situation until the harvest.

[32] In 1954 credit was allocated among enterprises on the basis of their profits and the interest they were prepared to pay in excess of the fixed minimum. This obviously gave an additional stimulus to investment by enterprises with high profits arising out of their monopolistic position.

[33] Foreign currency is surrendered to the Government at the official rate of 300 dinars to the United States dollar. The currency left at the disposal of exporting firms may be exchanged at the free rate, which is about three times as high. In addition, the new exchange regulations increase the differential between hard and soft currencies in order to channel exports to hard currency areas, and introduce a system of priorities under which the central authorities allocate foreign exchange in such a way as to favour essential imports.

# Chapter 3

# ECONOMICALLY UNDER-DEVELOPED COUNTRIES

This chapter deals with major economic trends in 1953 and 1954 in economically under-developed countries. The first section of the chapter contains an introductory statement summarizing general trends, with particular emphasis on the impact of the slump that occurred in 1951 and 1952 in prices of raw materials. The second section presents a survey of economic developments in a group of selected Asian and Latin American countries producing food and raw materials. The third section continues for 1953 and 1954 the analysis of major economic changes in a group of five Latin American countries (Argentina, Brazil, Chile, Cuba and Mexico) which has appeared regularly in preceding issues of the *World Economic Report*. Finally, a special section is devoted this year to a study of inflation in Chile between 1940 and 1953. This is intended to be a case study of the general problem of inflationary price increases in countries with rapidly rising non-agricultural incomes and employment, a development which has been noted on several occasions in this report in connexion with the analysis of current trends in economically under-developed countries.

## General Trends, 1953 and 1954

While the countries discussed in this chapter are designated broadly as under-developed economies, they constitute a fairly heterogeneous group. There is wide diversity among individual countries in regard to such factors as the degree of economic development, the composition of output and the structure of foreign trade. The impact upon the economies of individual countries of the post-Korean slump in raw material markets differed considerably according to the nature and the degree of diversification of their exports, the timing of the decline in export demand and the extent to which factors of domestic origin (for example, private and public investment, and government economic policies) provided an offset to the fall in incomes resulting from adverse developments in foreign trade. Moreover, as most of these countries have a persistent food deficit which is offset by imports, fluctuations in domestic production of food were an important element in changes in the balances of payments and the levels of real consumption. This was particularly true of countries whose foreign trade plays a relatively small part in total economic activity. Because of these divergencies, both with regard to structural and short-run factors, the following appraisal of economic tendencies in this group of countries can be made only in very broad terms; it should be borne in mind that in some cases developments deviated substantially from the pattern described.

It was shown in *World Economic Report, 1952-53* that in most major primary producing countries of Latin America and Asia the effects in 1952 of the collapse of the raw material boom were limited. Production of export commodities, in particular those of agricultural origin, was maintained or continued to rise, in a delayed response to the price increases of 1950 and 1951. In the face of a general decline in exports, this resulted, in some instances, in accumulation of unsold inventories. In a number of cases inventory accumulation was due to government policy in exporting countries, and was made possible by special governmental financing. The impact of reduced demand and prices was also softened by the fact that the level of government expenditures, both on current account and on development, remained about the same. Private investment was also maintained, or even increased, and private incomes and consumption were generally higher. There was, however, a substantial decline in profits in export industries and trade. The delayed effect of the slump was shown particularly in the fact that imports did not generally fall, owing to the time lag, and even rose in a number of countries, with a resulting drop in real trade balances. Because of deterioration in the terms of trade, there was an even greater fall in money balances, leading to foreign exchange difficulties.

The full impact of the slump was felt, with few exceptions, in 1953. The pattern of developments in that year may be described broadly as follows. The deterioration in the terms of trade continued, owing to a further fall in export prices. At the same time, the volume of exports was only slightly affected; in some cases it was sustained by liquidation at lower prices of previously accumulated inventories. Imports fell sharply, reflecting in part the decline in private incomes but chiefly the general tightening of import restrictions, following the deterioration in the foreign exchange position in 1952. Real balances of trade generally increased. There was a drop in private and public investment, both because the decline in profits and in

Table 25. Indices of Prices of Selected Raw Materials and Foods, 1950 to 1954
(1952=100)

| Product and description | 1950 | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|---|
| *Wheat:* | | | | | |
| Canada, export price to non-signatories of International Wheat Agreement | 92 | 102 | 100 | 92 | 78 |
| *Rice:* | | | | | |
| Burma, f.o.b., white, export price | 76 | 80 | 100 | 104 | 95 |
| Thailand, f.o.b., charges and premium, export price | 80 | 83 | 100 | 105 | 94[a] |
| *Sugar:* | | | | | |
| Cuba, 96° centrifugal, f.o.b., exports to United States | 95 | 95 | 100 | 101 | 98 |
| Cuba, 96° centrifugal, f.o.b., exports to rest of world | 119 | 136 | 100 | 81 | 78 |
| Philippines, 96° centrifugal, exports to United States | 99 | 95 | 100 | 107 | 105[b] |
| *Coffee:* | | | | | |
| Brazil, Santos No. 4, Santos | 94 | 98 | 100 | 109 | 152 |
| Colombia, ordinary, Medellin, in pesos | 77 | 93 | 100 | 107 | 150[c] |
| *Tea:* | | | | | |
| Ceylon, Colombo, market price, including export duty and taxes | 119 | 116 | 100 | 111 | 151 |
| *Cocoa:* | | | | | |
| Brazil, Bahía | 84 | 98 | 100 | 91 | 148 |
| *Cotton:* | | | | | |
| Brazil, type 5, São Paulo | 86 | 123 | 100 | 80[d] | 73 |
| Peru, type 5, Lima, including export tax | ... | ... | 100 | 91 | 103[a] |
| United States, middling 15/16, average of 10 markets | 94 | 108 | 100 | 85 | 88 |
| *Wool:* | | | | | |
| United States, greasy, raw 56's, Boston | 119 | 174 | 100 | 101 | 99 |
| *Jute:* | | | | | |
| India, first grade, Calcutta | 111 | 181 | 100 | 83 | 91 |
| Pakistan, middle white, including duties, Narayanganj | 104 | 167 | 100 | 87 | 94[b] |
| *Copra:* | | | | | |
| Indonesia, 95 per cent sundried A, Djakarta | 146 | 146 | 100 | 139 | 127[b] |
| Philippines, Manila | 146 | 147 | 100 | 149 | 138[b] |
| *Rubber:* | | | | | |
| Ceylon, RSS, f.o.b., Colombo, including duties | 102 | 161 | 100 | 96 | 85 |
| Malaya, No. 1, RSS, in bales, f.o.b., Singapore | 113 | 177 | 100 | 70 | 70 |
| *Petroleum:* | | | | | |
| Venezuela, f.o.b., Arend-Aruba, 36 to 36.9 grade | 106 | 105 | 100 | 101 | 110 |
| *Tin:* | | | | | |
| Malaya, Singapore, ex-works | 76 | 110 | 100 | 76 | 74 |
| United States, grade A, New York | 80 | 106 | 100 | 79 | 77 |
| *Copper:* | | | | | |
| Chile, f.o.b., exports to United States | 63 | 79 | 100 | 108 | 90[c] |
| *Lead:* | | | | | |
| United States, domestic, pig, common grade, New York | 81 | 106 | 100 | 82 | 85 |
| *Zinc:* | | | | | |
| Mexico, block or pig, f.o.b., exports to United States | 62 | 112 | 100 | 70 | 63[b] |

*Source:* United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics* (Washington, D.C.); International Cotton Advisory Committee, *Quarterly Bulletin* (Washington, D.C.); Argentina: Ministry of Technical Affairs, *Síntesis Estadística Mensual de la República Argentina* (Buenos Aires); Malaya: Secretariat of the International Rubber Study Group, *Rubber Statistical Bulletin* (London). Prices are expressed in United States dollars unless otherwise noted.

[a] Six months.

[b] Eleven months.

[c] Nine months.

[d] The price decline was particularly sharp in the second part of the year, corresponding to a phase of active liquidation which extended into 1954.

[e] Ten months.

government revenue reduced the supply of investment funds and because restrictions on imports affected the supply of capital goods. As a result of adverse developments in the foreign trade sector and the decline in investment activities, deflationary tendencies appeared in a number of countries. Private incomes and real consumption declined, though the decline was mitigated, on the demand side, by a fall in the burden of real taxation and, on the supply side, by an increase in domestic output of food in most food-deficit countries. Thus, 1953 may be considered a year in which most of the countries producing raw materials under-

went a process of deflationary adjustment to the raw material slump, which was reflected in declines in investment, incomes and consumption.

Deflationary tendencies were generally checked in 1954, though on the basis of the available information, the situation may be more aptly described as a halt in the process of deterioration rather than a marked improvement. The declining trend in the terms of trade was either arrested or reversed, as a result of a general strengthening of prices of industrial raw materials in the course of 1954 (see table 25). There were no marked tendencies or pronounced changes in the volume of trade. Exports and imports continued on the whole at the 1953 level. However, in some countries the cessation of inventory decumulation was reflected in a decline in exports, and in others there was a slight relaxation of import restrictions—made possible by improvement in the balance of payments position—in order to alleviate the shortages brought about by drastic cuts in imports in 1953. There were no major changes in investment. Real consumption was generally maintained and in some cases improved slightly.

As mentioned above, the described pattern of developments was not general. It reflects most closely developments in countries which are predominantly exporters of industrial raw materials, the prices of which fluctuated widely, and in some cases violently, during the upward and downward phases of the price cycle of 1950 to 1953.[1] There were marked deviations from this pattern. Thus, because of special market conditions, some raw materials followed the described pattern of price fluctuations to a very limited degree (for example, petroleum) or with a considerable time lag (copper in Chile). Moreover, prices of some exports were insulated against fluctuations in world markets by special contractual agreements (such as sugar exports of Cuba and the Philippines under the United States quota). As a result, adverse effects of the general slump in raw materials upon the economies of exporting countries were either attenuated or delayed.[2] A number of commodities, in particular food grains (wheat and rice), followed another price pattern.[3] These commodities were affected only slightly, if at all, by the price declines of 1951 and 1952. Thus, economic changes in 1951 and 1952 in the countries under discussion which export food grains (Argentina, Burma and Thailand) were largely independent of the price cycle in raw materials, and were affected primarily by a number of factors of domestic origin; in Argentina, for example, export earnings fell sharply in that period as a result of a succession of poor crops which reduced supplies for export. In 1953, export demand for food grains, particularly rice, weakened noticeably and, in contrast to the tendency in prices of industrial raw materials, there was a substantial decline in their export prices in 1954.[4] Because of various offsetting factors, the decline in export demand had little effect on the level of economic activities in countries exporting food grains in 1953. In 1954, all these countries suffered a substantial fall in their terms of trade and a deterioration in their balance of payments position; in one instance—Thailand—the slump in the export sector resulted in the appearance of deflationary tendencies in the economy.

[1] Prices of sugar in the world market—aside from that covered by special agreements—moved substantially along the same pattern.

[2] Developments in Chile in 1953 and 1954 present a rough analogy to those which had taken place in most raw material producing countries in 1952 and 1953.

[3] There were also divergent movements in 1953 and 1954 in the prices of coffee, tea and copra. The price of coffee, which had remained relatively stable until 1953, rose substantially in the course of that year; the rise proved to be short-lived and a sharp reaction set in early in 1954. Tea prices rose in 1953 and 1954. Prices of copra rose in 1953 and declined in 1954. The effects of these price movements upon the economies of the major exporters of these commodities (Brazil, Ceylon, the Philippines and Indonesia) are described below.

[4] The reasons for the weakening in food grain markets are, on the one hand, heavy accumulations of stocks in the chief exporting countries (for example, wheat in Canada and the United States, rice in Burma and Thailand), and, on the other hand, substantial recovery of output in the normally food-deficit countries of Asia, owing not only to continued rehabilitation of agriculture and to measures encouraging production but also to favourable weather which resulted in a succession of good crops.

## Major Economic Changes in Selected Countries Producing Raw Materials and Food, 1953 and 1954

Changes in economic activity in a number of countries producing raw materials and food, with particular emphasis on the impact upon their economies of changes in the world demand for their exports, are discussed in this section. The countries were selected with a view to securing reasonably broad coverage without regard to geographical location, namely Burma, Ceylon, China: Taiwan, India, Indonesia, Malaya, Pakistan, the Philippines and Thailand in south-eastern Asia and the Far East, and Bolivia, Peru and Venezuela in Latin America. Exports of these countries cover a wide range of industrial raw materials, such as non-ferrous metals and minerals, petroleum, rubber, fibres and vegetable oils, and certain foodstuffs, such as rice, tea and sugar. For the purpose of this discussion the following grouping was adopted. The first group comprises all countries listed above, with the exception of Burma, Thailand and India. Burma and Thailand, which are predominantly exporters of rice, are treated as a separate group, since the export demand for rice had a pattern

Table 26. Indices of Unit Values and Terms of Trade of Selected Countries Exporting Raw Materials and Food, 1951 to 1954
(1952=100)

| Group, country and item | 1951 Full year | 1952 Full year | 1953 First half | 1953 Second half | 1953 Full year | 1954[a] First half | 1954[a] Second half | 1954[a] Full year |
|---|---|---|---|---|---|---|---|---|
| *Countries exporting raw materials and food other than rice:* | | | | | | | | |
| *Bolivia:* | | | | | | | | |
| Exports[b] | 105 | 100 | 99 | 79 | 89 | 86 | ... | ... |
| Imports[c] | 101 | 100 | 96 | 95 | 96 | 95 | ... | ... |
| Terms of trade | 104 | 100 | 103 | 83 | 93 | 90 | ... | ... |
| *Ceylon:* | | | | | | | | |
| Exports | 129 | 100 | 103 | 100 | 102 | 106 | 119[d] | 113 |
| Imports | 93 | 100 | 92 | 90 | 91 | 90 | 88[d] | 89 |
| Terms of trade | 139 | 100 | 112 | 111 | 112 | 118 | 135[d] | 127 |
| *Indonesia:* | | | | | | | | |
| Exports[b] | 138 | 100 | 93 | 80 | 86 | 80 | 82[e] | ... |
| Imports[c] | 95 | 100 | 93 | 90 | 91 | 89 | 88[e] | ... |
| Terms of trade | 146 | 100 | 100 | 89 | 94 | 90 | 93[e] | ... |
| *Malaya:* | | | | | | | | |
| Exports | 138 | 100 | 87 | 73 | 80 | 72 | 75[e] | ... |
| Imports | 112 | 100 | 96 | 91 | 93 | 85 | 83[e] | ... |
| Terms of trade | 124 | 100 | 91 | 80 | 86 | 84 | 91[e] | ... |
| *Pakistan:* | | | | | | | | |
| Exports | 136 | 100 | 71 | 70 | 70 | 76 | 74 | 75 |
| Imports[c] | 101 | 100 | 90 | 90 | 90 | 89 | 89[e] | 89 |
| Terms of trade | 135 | 100 | 79 | 77 | 78 | 85 | 83 | 84 |
| *Peru:* | | | | | | | | |
| Exports[b] | 121 | 100 | 89 | 88 | 89 | 96 | 95[e] | ... |
| Imports[c] | 95 | 100 | 98 | 97 | 97 | 96 | 96[e] | ... |
| Terms of trade | 127 | 100 | 91 | 91 | 91 | 100 | 99[e] | ... |
| *Philippines:* | | | | | | | | |
| Exports | 128 | 100 | 127 | 118 | 122 | 116 | 102 | 109 |
| Imports | 102 | 100 | 98 | 93 | 95 | 94 | 89 | 91 |
| Terms of trade | 125 | 100 | 130 | 127 | 128 | 123 | 115 | 120 |
| *Venezuela:* | | | | | | | | |
| Exports[b] | 100 | 100 | 98 | 103 | 101 | 110 | 110 | 110 |
| Imports[c] | 96 | 100 | 98 | 97 | 98 | 97 | 96 | 96 |
| Terms of trade | 104 | 100 | 100 | 106 | 103 | 114 | 114 | 114 |
| *Countries exporting rice:* | | | | | | | | |
| *Burma:* | | | | | | | | |
| Exports | 81 | 100 | 109 | 104 | 106 | 87 | 79[d] | ... |
| Imports | 102 | 100 | 80 | 93 | 87 | 81 | 80[d] | ... |
| Terms of trade | 79 | 100 | 136 | 112 | 122 | 107 | 98[d] | ... |
| *Thailand:* | | | | | | | | |
| Exports[f] | 101 | 100 | 100 | 95 | 98 | 85 | ... | ... |
| Imports[c] | 97 | 100 | 90 | 90 | 90 | 90 | ... | ... |
| Terms of trade | 104 | 100 | 112 | 106 | 109 | 95 | ... | ... |

*Source:* United Nations, *Monthly Bulletin of Statistics*, and estimates of Bureau of Economic Affairs based on official national statistics; International Monetary Fund, *International Financial Statistics*.

[a] Provisional.

[b] Valued in United States dollars.

[c] Estimated on the basis of the export prices of countries which are main sources of supply of imports.

[d] Five months only.

[e] Third quarter only.

[f] Based on the dollar export prices of rice, rubber and tin.

of its own. India, where the level of economic activity and consumption is dependent to a much lesser extent on exports, is also discussed in a separate section.

### Countries exporting raw materials and food other than rice

In most countries of this group, namely, Bolivia, Ceylon, Indonesia, Malaya, Pakistan and Peru, developments during 1953 and 1954 followed a broadly similar pattern. These countries are primarily exporters of industrial raw materials, prices of which generally showed a sharp decline in 1951 and 1952. The declining trend of prices continued during 1953 and part of 1954;[5] this trend was arrested, however, in the latter

[5] There were notable exceptions. Thus, prices of tea, copra and palm oil, which account for a substantial part of the exports of Ceylon and Indonesia, rose in 1953, and prices of petroleum and wool, which are exported by Peru, remained relatively stable in that year. This difference was reflected in the relatively small decline in the 1953 export prices of Indonesia and Peru, and in the slight increase in the prices of the exports of Ceylon, where the rise in the price of tea more than offset the decline in the price of rubber exports. Indonesia also benefited in 1953 from favourable prices for tin, under a contract with the United States.

## Table 27. Value of Foreign Trade of Selected Countries Exporting Raw Materials and Food, 1951 to 1954

(Millions of indicated currency units at 1952 prices)[a]

| Group, country, item and currency | 1951 Full year | 1952 Full year | 1953 First half | 1953 Second half | 1953 Full year | 1954[b] First half | 1954[b] Second half | 1954[b] Full year |
|---|---|---|---|---|---|---|---|---|
| *Countries exporting raw materials and food other than rice:* | | | | | | | | |
| *Bolivia* (United States dollar): | | | | | | | | |
| Exports | 145 | 142 | 70 | 70 | 140 | ... | ... | ... |
| Imports | 90 | 93 | 30 | 40 | 70 | ... | ... | ... |
| Real balance | 55 | 49 | 40 | 30 | 70 | ... | ... | ... |
| *Ceylon* (rupee): | | | | | | | | |
| Exports | 1,475 | 1,502 | 730 | 805 | 1,535 | 790 | 810 | 1,600 |
| Imports | 1,680 | 1,705 | 885 | 880 | 1,765 | 780 | 790 | 1,570 |
| Real balance | −205 | −203 | −155 | −75 | −230 | 10 | 20 | 30 |
| *Indonesia* (United States dollar): | | | | | | | | |
| Exports | 935 | 934 | 415 | 540 | 955 | 480 | 280[c] | ... |
| Imports | 920 | 948 | 385 | 440 | 825 | 385 | 180[c] | ... |
| Real balance | 15 | −14 | 30 | 100 | 130 | 95 | 100[c] | ... |
| *Malaya* (Malayan dollar): | | | | | | | | |
| Exports | 4,400 | 3,917 | 1,830 | 1,955 | 3,785 | 2,025 | 1,085[c] | ... |
| Imports | 4,260 | 3,873 | 1,705 | 1,770 | 3,475 | 1,755 | 965[c] | ... |
| Real balance | 140 | 44 | 125 | 185 | 310 | 270 | 120[c] | ... |
| *Pakistan* (rupee): | | | | | | | | |
| Exports | 1,855 | 1,762 | 1,145 | 920 | 2,065 | 845 | 740 | 1,585 |
| Imports | 1,735 | 2,022 | 590 | 695 | 1,285 | 550 | 655 | 1,205 |
| Real balance | 120 | −260 | 555 | 225 | 780 | 295 | 85 | 380 |
| *Peru* (United States dollar): | | | | | | | | |
| Exports | 205 | 234 | 110 | 140 | 250 | 110 | 80[c] | ... |
| Imports | 275 | 288 | 150 | 150 | 300 | 130 | 70[c] | ... |
| Real balance | −70 | −54 | −40 | −10 | −50 | −20 | 10[c] | ... |
| *Philippines* (peso): | | | | | | | | |
| Exports | 640 | 704 | 305 | 335 | 640 | 365 | 380 | 745 |
| Imports | 945 | 860 | 480 | 455 | 935 | 505 | 550 | 1,055 |
| Real balance | −305 | −156 | −175 | −120 | −295 | −140 | −170 | −310 |
| *Venezuela* (United States dollar): | | | | | | | | |
| Exports | 1,345 | 1,453 | 705 | 730 | 1,435 | 760 | 775 | 1,535 |
| Imports | 665 | 723 | 370 | 385 | 755 | 400 | 450 | 850 |
| Real balance | 680 | 730 | 335 | 345 | 680 | 360 | 325 | 685 |
| *Countries exporting rice:* | | | | | | | | |
| *Burma* (kyat): | | | | | | | | |
| Exports | 1,225 | 1,256 | 645 | 425 | 1,070 | 740 | 530[d] | ... |
| Imports | 640 | 914 | 460 | 505 | 965 | 560 | 555[d] | ... |
| Real balance | 585 | 342 | 185 | −80 | 105 | 180 | −25[d] | ... |
| *Thailand* (United States dollar): | | | | | | | | |
| Exports | 365 | 329 | 170 | 160 | 330 | 150 | ... | ... |
| Imports | 280 | 306 | 215 | 190 | 405 | 180 | ... | ... |
| Real balance | 85 | 23 | −45 | −30 | −75 | −30 | ... | ... |

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

[a] Figures in constant prices were obtained by deflating the values of imports and exports by their appropriate price indices as given in table 26. Imports are on c.i.f., and exports on f.o.b., basis in all countries except Bolivia, the Philippines and Venezuela, where both imports and exports are f.o.b.

[b] Provisional.

[c] Third quarter only.

[d] Five months only.

part of 1954 as a result of the strengthening of export demand for, and prices of, most of these commodities (see table 25 above).

Since import prices generally fell less than export prices during the period 1952 to 1954, the terms of trade deteriorated in 1952 and 1953 in all these countries, with the exception of Ceylon (see table 26). In 1954, the declining trend in the terms of trade was arrested; they remained at the 1953 level, or improved —for example, in the case of Pakistan and Peru—as a result of the rise in prices of industrial fibres.

The decline in export prices in 1953 and 1954 was

not generally accompanied by a rise in the volume of exports (see table 27).[6] Production of some important raw materials, like rubber, textile fibres and metals, declined in the period under review, in some cases, however, after a considerable time lag.[7] This trend was arrested and partly reversed in the course of 1954.

Imports were generally lower in 1953 and in 1954.[8] The decline in imports, which affected both investment and consumption goods, was greater than the drop in the level of incomes would by itself have brought about. A large part of the fall was caused by new import restrictions imposed by governments after the collapse of the raw material boom and, in the cases of food importing countries, by an increase in domestic food production. As a result the real balances of exports and imports, with a few exceptions, showed a distinct improvement in both years. Since the improvement in real balances generally more than offset the deterioration in the terms of trade, the money balances of most countries rose in 1953 and 1954.[9]

Investment in fixed capital tended to fall in 1953 and 1954, reflecting the effect of restrictions on imports of capital goods, on the one hand, and the fall in export profits and in public revenue from foreign trade, on the other.[10] Little direct statistical information is available as regards changes in inventories; in a number of cases, export inventories were apparently reduced.[11] As a result of severe cuts in imports there was probably a decline in inventories of imported goods.[12]

The deflationary effect of the fall in export incomes[13] and of the decline in investment, together with a reduction in imports, had a general adverse effect on consumption in 1953.[14] But for the increase in the production of food crops (table 28),[15] induced mainly by the drop in prices of export crops, the effect on consumption would have been even greater. Actually, there was only a slight reduction in real consumption in some countries, and some rise in consumption in others—Ceylon, Indonesia and possibly Malaya. In the latter two countries, the rise in local production of food crops apparently offset the adverse effect of declining export incomes on the level of consumption in 1953. During 1954, as a result of improved foreign trade conditions

[6] Industrial production in most of the importing industrial countries was higher in 1953 and 1954, but increased industrial output was to a large extent supported by drawing upon previously accumulated inventories.

[7] Mining production in Bolivia and Peru, which showed little change in 1953, began to fall in 1954. In Pakistan, production of cotton and jute rose in 1952/53, reflecting to some extent the influence of export subsidies, but fell in 1953/54, owing chiefly to government action restricting cultivation of fibres in favour of food crops.

[8] Peru and Ceylon, whose imports rose slightly in 1953, were exceptions to the general trend. In the former, the rise in imports was to some extent related to anticipated devaluation of the sol, which took place in the course of that year, while in Ceylon it was accounted for by larger imports of food grains.

[9] This was not the case in 1953 in Malaya and Peru, where money trade balances deteriorated slightly during the year.

[10] However, in Bolivia, Ceylon and Pakistan there was an increase in public investment.

[11] In Pakistan there was in both years a substantial reduction of stocks of cotton and jute accumulated in 1952.

[12] However, there was apparently some hoarding of consumer goods, both domestic and imported, in 1953 in Peru and Bolivia in anticipation of the depreciation of the currency.

[13] In Indonesia and Malaya the substantial decline in the incomes of the small rubber planters directly affected their consumption. In Malaya, moreover, there was a reduction in wages.

[14] In Indonesia and Pakistan, the cuts in imports of manufactured consumer goods were offset to some extent by the rise in domestic output. This was particularly the case in Pakistan, where there was a substantial rise in the output of textiles, stimulated by the scarcity of imported goods.

[15] Pakistan is a notable exception; as a result of government policy in subsidizing exports, the shift from export to food crops did not take place until 1953/54, and the domestic supply of food increased only in 1954.

Table 28. Indices of Agricultural Production in Selected Countries Exporting Raw Materials and Food, 1950/51 to 1953/54
(1951/52 = 100)

| Group and country | Total agricultural production | | | | Food | | | |
|---|---|---|---|---|---|---|---|---|
| | 1950/51 | 1951/52 | 1952/53 | 1953/54[a] | 1950/51 | 1951/52 | 1952/53 | 1953/54[a] |
| *Countries exporting raw materials and food other than rice:* | | | | | | | | |
| Ceylon | 98 | 100 | 96 | 101 | 96 | 100 | 97 | 104 |
| Indonesia | 92 | 100 | 100 | 100 | 95 | 100 | 102 | 105 |
| Malaya[b] | 113 | 100 | 99 | 98 | 109 | 100 | 108 | 107 |
| Pakistan | 100 | 100 | 101 | 98 | 101 | 100 | 99 | 102 |
| Peru[c] | 96 | 100 | 101 | 106 | 97 | 100 | 100 | 105 |
| Philippines | 98 | 100 | 101 | 105 | 97 | 100 | 101 | 105 |
| Venezuela | 97 | 100 | 106 | ... | 97 | 100 | 106 | ... |
| *Countries exporting rice:* | | | | | | | | |
| Burma | 95 | 100 | 105 | 102 | 94 | 100 | 103 | 101 |
| Thailand | 94 | 100 | 95 | 105 | 95 | 100 | 95 | 106 |

*Source:* Food and Agriculture Organization of the United Nations; Venezuela: Economic Commission for Latin America, *Economic Survey of Latin America, 1953* (United Nations publication: sales number 1954.II.G.1).

[a] Provisional.

[b] Federation of Malaya.

[c] Data for calendar years 1950, 1951, 1952 and 1953.

Table 29. Indices of Cost of Living in Selected Countries Exporting Raw Materials and Food, 1951 to 1954
(1952=100)

| Group, country and item | 1951 Full year | 1952 Full year | 1953 First half | 1953 Second half | 1953 Full year | 1954[a] First half | 1954[a] Second half | 1954[a] Full year |
|---|---|---|---|---|---|---|---|---|
| *Countries exporting raw materials and food other than rice:* | | | | | | | | |
| *Bolivia* (La Paz): | | | | | | | | |
| General | 81 | 100 | 154 | 250 | 202 | 372 | 504[b] | ... |
| Food | 77 | 100 | 158 | 254 | 206 | 406 | 537[b] | ... |
| *Ceylon* (Colombo): | | | | | | | | |
| General | 101 | 100 | 100 | 103 | 102 | 101 | 101 | 101 |
| Food | 102 | 100 | 103 | 109 | 106 | 106 | 106 | 106 |
| *Indonesia* (Djakarta): | | | | | | | | |
| Food | 95 | 100 | 105 | 108 | 106 | 111 | 115 | 113 |
| *Malaya* (Kuala Lumpur): | | | | | | | | |
| General | 99 | 100 | 97 | 97 | 97 | 93 | 89 | 91 |
| Food (rice and rice equivalent) | 95 | 100 | 106 | 109 | 107 | 99 | 95 | 97 |
| *Pakistan* (Karachi): | | | | | | | | |
| General | 98 | 100 | 110 | 111 | 111 | 109 | 109 | 109 |
| Food | 96 | 100 | 108 | 108 | 108 | 105 | 106 | 106 |
| *Peru* (Lima): | | | | | | | | |
| General | 94 | 100 | 106 | 112 | 109 | 114 | 116 | 115 |
| Food | 93 | 100 | 108 | 115 | 111 | 117 | 121 | 119 |
| *Philippines* (Manila): | | | | | | | | |
| General | 104 | 100 | 94 | 93 | 94 | 90 | 94 | 92 |
| Food | 104 | 100 | 91 | 90 | 90 | 86 | 91 | 88 |
| *Venezuela* (Caracas): | | | | | | | | |
| General | 99 | 100 | 99 | 98 | 99 | 98 | 100 | 99 |
| Food | 98 | 100 | 96 | 95 | 95 | 94 | 99 | 97 |
| *Countries exporting rice:* | | | | | | | | |
| *Burma* (Rangoon): | | | | | | | | |
| General | 104 | 100 | 96 | 98 | 97 | 92 | 95[c] | ... |
| Food | 104 | 100 | 95 | 98 | 97 | 94 | 96[c] | ... |
| *Thailand* (Bangkok): | | | | | | | | |
| General | 90 | 100 | 105 | 114 | 110 | 114 | 104 | 109 |
| Food | 89 | 100 | 105 | 115 | 110 | 114 | 99 | 106 |

*Source:* United Nations, *Monthly Bulletin of Statistics*; and Federation of Malaya, *Monthly Statistical Bulletin* (Kuala Lumpur).

[a] Provisional.
[b] Third quarter only.
[c] Five months only.

and a further increase in local food production, the declining trend in consumption was arrested, and there was some evidence of rising consumption in most countries of the group.[16]

In all these countries food prices and cost of living indices rose in 1953.[17] In 1954, the rising trend was arrested in most countries; prices remained fairly stable at the level of the second half of 1953, and in some cases, even showed a tendency to decline. Prices continued to rise, however, in Bolivia, Indonesia and Peru (see table 29). The principal factors in price increases in 1953 were a reduction in the volume of imports of consumer goods because of import restrictions and, in the case of the food importing countries, a rise in the import prices of rice. Moreover, in some countries food subsidies were withdrawn (Ceylon) or indirect taxes raised (Pakistan) in an effort to improve the budgetary situation, and in others there was a rise in import prices as a result of the depreciation of the rates of exchange (Bolivia and Peru). The rise in prices in 1953 was generally moderate; increases in the food price index ranged from 6 per cent in Ceylon and Indonesia to 11 per cent in Peru. In Bolivia there was a sharp rise in prices in 1953 and an equally steep increase in 1954. Here inflationary pressure resulting from acute shortages of food and manufactured consumer goods was aggravated by the depreciation of the currency and an active cost-wage spiral.[18]

[16] In Bolivia, an important contributing element in 1954 was a food grant under the United States aid programme.

[17] The official cost of living indices reflect price movements in the capital cities and may not be representative of the trend of prices in the interior.

[18] The sharp fall in imports in 1953 affected not only finished consumer goods but also raw materials and supplies for domestic industry, as a result of which industrial output fell substantially in 1953. In addition, the available supply of consumer goods was reduced by speculative hoarding. Some aspects of Bolivian inflation closely resemble those analysed in a study of inflation in Chile, presented later in this chapter.

Because of the nature of their principal exports (petroleum, copra, coconut oil and sugar) and certain other factors, developments in the economies of the Philippines, Venezuela and Taiwan showed a different pattern.

In the Philippines and Venezuela, the effects of the raw material slump were relatively moderate. Prices of the major exports of these countries (copra and coconut oil in the Philippines, petroleum in Venezuela) did not fall in 1953. In 1954, following the decline in the prices of copra and coconut oil after the middle of 1953, there was a decrease in the export unit values of the Philippines, while the rise in petroleum prices was reflected in a further increase in the export prices of Venezuela. In both years the Philippines benefited from favourable prices of sugar under its export quota to the United States.[19] Since the import prices of these countries declined in 1953 and 1954, their terms of trade, unlike those of the group of countries previously discussed, were throughout this period well above the 1952 level, though in the Philippines there was a mild deterioration in the terms of trade in 1954.

In both countries, rising export prices were accompanied in 1953 by only a small decline in their physical exports so that the foreign exchange earnings of these countries increased in 1953. This enabled them to increase the volume of their imports,[20] and their real balances of trade declined during the year. Exports and imports continued to rise in both countries in 1954, with the result that the real trade balance remained unchanged in Venezuela, while in the Philippines, where the increase in imports was apparently larger than in exports, there was a further decline in the real balance.

[19] The price of sugar exports to the United States was maintained well above world market prices, which continued to decline in 1953 and 1954.

[20] In the Philippines, some of the increase in imports was apparently due to buying in anticipation of stricter exchange controls.

Total investment in the two countries probably did not change much during the period under review. In both, there was some increase in fixed capital investment in the export industries (sugar in the Philippines, oil and iron ore in Venezuela) but this was partly, if not wholly, offset by a fall in public investment and a decline in residential construction in 1953 and 1954. Government current expenditures tended in general to be stable. Consumption increased in both countries in line with the rise in domestic incomes. The main contributing factor to this increase was the improvement in the supply of consumer goods, made possible by larger imports and a rise in the domestic production of food. The increase in supplies, together with falling import prices, accounted for a slight decline in the cost of living in both countries.

In China: Taiwan, changes in the foreign trade sector were also influenced by special factors not connected with the raw material slump. Moreover, the economic situation was dominated by such internal factors as a rising budget deficit and an increase in domestic investment, particularly speculative investment in inventories.

The changes in the volume of exports—consisting of sugar, rice, tea, fruits and some industrial goods—were largely determined in 1953 and 1954, as in earlier years, by the progress achieved in raising the output of these goods (see table 30). While prices of most export commodities, as in other countries exporting raw materials, fell in 1953 and 1954, the volume of exports rose steadily in both years, reflecting the recovery and expansion of domestic agricultural and industrial production.[21] Commercial imports moved broadly in line with export proceeds, but imports under the United States aid programme increased sharply, amounting to 40 per cent of the total value of imports in 1953 and to 45 per cent in 1954. As a result, in both years there was a large import surplus.

[21] Exports of sugar fell sharply in 1954; while prices were maintained, the decline greatly affected total export proceeds in that year.

Table 30. China: Taiwan: Selected Indicators of Economic Activity, 1951 to 1954

| *Item and unit* | *1951* | *1952* | *1953* | *1954* |
|---|---|---|---|---|
| Agricultural production (1952=100):[a] | | | | |
| Total | 91 | 100 | 111 | 113 |
| Food | 92 | 100 | 112 | 113 |
| Cost of living, Taipeh[b] (1952=100) | 77 | 100 | 118 | 120 |
| Foreign trade (millions of new Taiwan dollars): | | | | |
| Exports | 1,084 | 1,468 | 1,984 | 1,451 |
| Imports | −1,688 | −2,533 | −2,754 | −3,304 |
| Foreign Operations Administration aid | −500 | −765 | −1,099 | −1,496 |
| Balance | −604 | −1,065 | −770 | −1,853 |

*Source:* Food and Agriculture Organization of the United Nations; Ministry of Economic Affairs, *Economic Reference Data* (Taipeh); Economic Stabilization Board, *Industry of Free China* (Taipeh).

[a] Crop year ending in the year indicated.

[b] Cost of living index for civil servants in Taipeh.

The basic inflationary factors in Taiwan after 1949 were a rising budget deficit, resulting from large military expenditures, and a tendency to reinvest in commodities the liquid funds thereby introduced into the economy. Cheap bank credit granted for financing the investment of public and private corporations was an additional source of such funds. The pressure thus exerted upon domestic prices continued during 1953 and 1954.

The rise in prices, which had subsided for a brief period during 1952, resumed its course in the first half of 1953. The increase in the budget deficit and in investment in fixed capital and inventories by public and private corporations was not accompanied by an increase in the supply of consumer goods. In fact, imports of consumer goods declined as a result of a fall in imports under the United States aid programme during the early months of 1953 and reduced allocations of foreign exchange for commercial imports. In addition, the supply of rice, depleted by excessive exports in 1952, was further adversely affected by a smaller spring crop in 1953. As a result, prices tended to rise, leading to renewed hoarding of rice and of some imported commodities. During the first half of 1953, the cost of living index in Taipeh rose by 12 per cent over the 1952 level.

From July 1953 to June 1954, the budget deficit and investment in fixed capital and inventories continued to rise, though the rate was slower in the latter, owing to a stricter credit policy. This was, however, offset by an increase in imports of essential commodities under the United States aid programme and by an increase in the rice crops. As a result, inflationary pressure once again subsided and the cost of living index remained stable.

### Countries exporting rice

The principal factor in changes in economic conditions in 1953 and 1954 in Burma and Thailand was the decline in export demand for rice, owing to general improvement in domestic output of food in the main rice importing countries of the area (in particular, India, Indonesia and Malaya).[22] In both Burma and Thailand, the result of this decline in demand was, in 1953, a fall in exports of rice and an accumulation of stocks while prices were generally maintained. In 1954, the export price of rice was substantially reduced in both countries in an attempt to stimulate exports (see table 25). Exports of rice rose in Burma, as a result of special contracts for bulk sales concluded with some of the importing countries.[23] In Thailand, however, there was a further decline in exports,[24] and a marked accumulation of inventories of rice.[25]

In 1953 in both Burma and Thailand, but particularly in Burma, the general level of economic activity, and of private income and consumption, was only slightly affected by adverse developments in the export sector. The fall in exports was primarily reflected in fluctuations in government trading profits.[26] In both countries, government expenditure on economic development was increased in 1953, in spite of the substantial drop in revenue and in foreign exchange receipts.

Generally sustained private incomes and the increase in public investment were reflected in a rise in imports of both consumer goods and capital equipment. As a result, in both countries the real balances of exports and imports declined, and in Thailand, in spite of an improvement in the terms of trade,[27] there was a marked deterioration in the balance of payments by the end of 1953.

In 1954, continued adverse developments in the export sectors were associated with divergent trends in the domestic economies of Burma and Thailand. In the former, government expenditures on both current and capital account rose in the face of a further decline in trading profits. Imports of both capital equipment and consumer goods increased substantially, but because of larger exports the real balance rose slightly. While this rise was offset by a fall in inventories—the counterpart of increased exports—private incomes were sustained by the maintenance of the level of public investment. Real consumption apparently rose as a result of lower prices of rice and larger supplies of imported manufactured consumer goods. The situation was different in Thailand, where deflationary tendencies appeared in 1954. In an effort to check a further rise in the budget deficit, there was a cutback in government development expenditures, which was reflected in a decline in imports of capital goods.[28] As a result of the fall in exports and in government activities there was a decline in private incomes and in demand, particu-

[22] The increase in output resulted, in part, from the substitution of food crops, especially rice—whose price had risen in 1951 and 1952—for the export crops which had been affected by the slump in raw materials and, in part, from generally favourable weather conditions in the 1952/53 and 1953/54 crop years. The only important exception in the latter year was Japan, whose rice crop was much smaller because of typhoon damage.

[23] Contracts were concluded with Ceylon, India and Japan. The sales agreement with India covered the delivery in 1954 of 900,000 tons of rice at a price 20 per cent below that of 1953.

[24] In order to stimulate private exports, government controls on private trade in rice were further relaxed, and the fall in export prices was offset by an increase in effective exchange rates payable to exporters.

[25] The steep rise in inventories was due to the fact that the fall in exports coincided with an exceptionally good rice harvest in 1953/54. The rice crop in Burma in that year was somewhat smaller.

[26] This was particularly the case in Burma, where export trade in rice is practically a government monopoly.

[27] The improvement in the terms of trade in 1953 was due primarily to a decline in the prices of imports; in fact, export prices in Thailand—which is also an exporter of rubber and tin—fell slightly.

[28] Imports of consumer goods also fell somewhat after import restrictions were tightened towards the end of 1953 and during 1954 in an effort to check the deterioration in the balance of payments position.

Table 31. India: Selected Indicators of Economic Activity, 1951 to 1954

| Item and unit | 1951 | 1952 | 1953 | 1954[a] |
|---|---|---|---|---|
| *Agricultural production* (1951/52=100):[b] | | | | |
| Food grains | 99 | 100 | 111 | 127 |
| Other crops | 96 | 100 | 94 | 98 |
| Total | 98 | 100 | 105 | 117 |
| *Industrial production* (1952=100): | | | | |
| Cement | 90 | 100 | 107 | 124 |
| Coal | 95 | 100 | 99 | 101 |
| Steel ingots | 95 | 100 | 95 | 106 |
| Cotton cloth | 91 | 100 | 107 | 109 |
| Jute manufactures | 92 | 100 | 91 | 97 |
| Total | 91 | 100 | 105 | 113 |
| *Foreign trade* (millions of 1952 rupees):[c] | | | | |
| Exports | 6,480 | 6,185 | 6,225 | 6,490 |
| Imports | 8,685 | 8,032 | 6,375 | 6,655 |
| Real balance | −2,205 | −1,847 | −150 | −165 |
| *Foreign trade* (1952=100):[c] | | | | |
| Export unit value | 124 | 100 | 85 | 86 |
| Import unit value | 98 | 100 | 91 | 88 |
| Terms of trade | 126 | 100 | 94 | 98 |

*Source:* Government of India, *Monthly Abstract of Statistics* (New Delhi).

[a] Provisional.

[b] Data represent crop years ending in the year stated. Crops harvested at the end of 1952 and 1953 are generally available for consumption in the following calendar years, and are assumed to be included in the gross national product for 1953 and 1954, respectively.

[c] Exports and export unit values adjusted to include export duties. Exports and imports include sea, air and land trade deflated by unit value indices. Unit value indices are based on seaborne and airborne trade which represents over 90 per cent of total trade.

larly for manufactured consumer goods. In Burma, where the real balance of trade rose, and in Thailand, where it remained about the same, the balance of payments deteriorated in 1954. In both countries this reflected the decline in their terms of trade as a result of the fall in export prices and, in the case of Burma, the substantial increase in imports.

Changes in the cost of living in the two countries in the period under review showed divergent trends. In Burma, the cost of living continued to decline slightly in 1953 and 1954; in Thailand, consumer prices rose in 1953, levelled off in the first half of 1954 and declined appreciably in the second half of the year (see table 29). The slight decline in prices in Burma, in the face of a rising volume of investment, was mainly due to the fall in prices of imported consumer goods combined with a stable domestic price of rice.[29] In Thailand, where trade in rice is shared by private exporters, the price of rice to consumers is not insulated to the same extent as in Burma from fluctuations in export demand and changes in domestic supply. Thus, in 1953 the increase in private incomes resulting from higher investment activities, and the smaller 1952/53 rice crop, resulted in a rise in food prices.[30] The substantial increase in rice output in 1953/54, together with the deflationary effect of the fall in export incomes and the reduction in the scale of public investment, had the effect of first checking and then reversing this trend in the course of 1954.

[29] Both procurement prices and those paid by urban consumers were kept stable.

[30] As to prices of imported goods, the fall in the foreign prices of imports was probably more than offset by the depreciation of the effective rate of exchange in 1953 and 1954.

### Economic changes in India

The predominant factor in the economic situation in India in 1953 and 1954 was the substantial increase in crops of food grains in both years. As a result of an increase in acreage, exceptionally favourable weather and improvements brought about by implementation of agricultural development projects under the five-year plan, output of food grains increased by 11 per cent in 1952/53 and by a further 15 per cent in 1953/54, when production was more than 25 per cent above the abnormally low output of 1950/51 and 1951/52 (see table 31). Production of cotton was unchanged in 1952/53 and rose sharply in 1953/54, but there was a drop in the output of raw jute and sugar in both years. This fall reflected a shift to cultivation of food grains as a result of unfavourable jute and sugar prices. Industrial production in large-scale industry rose 5 per cent in 1953 and about 8 per cent in 1954. As a result of these changes, the national product of India rose by about 4 per cent in 1953 and further by more than 7 per cent in 1954. As increases in industrial production resulted in the main from higher productivity, employment of labour in large-scale industry during 1953 and 1954 did not change appreciably. Urban unemployment, reflecting disparity between the

expansion of available employment opportunities and the labour force available for hire in industry and other urban occupations, rose sharply in 1953 and 1954, continuing a trend which has become apparent since 1952.

The real balance of exports and imports increased rapidly in 1953 owing to a sharp decline in imports while the volume of exports was practically unchanged; increases in exports of tea and cotton textiles were balanced by a decline in exports of jute manufactures. The principal element in the decline in imports was a substantial fall in imports of food grains and raw cotton made possible by a rise in domestic output. The terms of trade deteriorated further in 1953 as a result of a sharp decline in export prices, especially of jute and cotton textiles. As this was more than offset by the steep rise in real balances, money trade balances improved considerably in that year. In 1954 the volume of both exports and imports rose slightly, and the real balance of trade remained at about the 1953 level. There was a slight improvement in terms of trade and money balances.[31]

Investment in fixed capital remained unchanged in 1953 and rose substantially in 1954. In both years public investment in projects under the five-year plan continued to gain, offsetting in 1953 the decline in private investment. The rise in public investment was particularly large in 1954, reflecting a further substantial increase in public construction under the plan, especially in irrigation projects and road building. There was apparently some rise in private investment as well. Since imports of capital goods during this period remained relatively stable, the increase in investment was met in the main by higher domestic output of capital goods.

Investment in inventories fell in 1953 but rose in 1954. In 1953, there was an accumulation of stocks of cotton textiles, since higher domestic output was not matched by similar increases in domestic consumption and exports; this, however, was more than offset by a decline in investment in inventories of sugar and jute manufactures. The drop in the former was caused by the poor sugar-cane crop; the decrease in the latter reflected reduction in stocks to meet export and domestic demand in the face of a decline in output. In 1954, investment in inventories as a whole rose in spite of the fact that stocks of industrial raw materials in factories declined. This was largely accounted for by increases in public and private stocks of imported food grains.[32] On the one hand, the Government sought to build up food stocks as a reserve against future emergencies; on the other hand, there was a building up of stocks in private trade following the gradual transfer of the trade in food grains to private channels, a process which was substantially completed by the end of 1954.

Government expenditure on current account, including military expenditures, continued to increase in 1953 and 1954, as the activities of the central and state governments continued to expand.

In both 1953 and 1954 there was a substantial rise in real consumption. The rise in output of food grains, which made possible higher consumption of food in the countryside, was the key factor in the increase.[33] The rise in real consumption in 1953 was apparently smaller than that in the national product. Real income of the urban population in that year was adversely affected by the abolition of food subsidies in large urban centres, where prices of food grains, the most important item in consumption, actually rose.[34] In small towns where rationing was abolished, food prices in the free market did not fall. This may be explained by the fact that in spite of larger crops, the marketable supply of food grains in 1953 was not appreciably higher than in the previous year. There was a rise in consumption of food grains in the rural areas, especially in the case of subsistence farmers and agricultural labourers whose consumption had fallen considerably during the previous years of poor crops; moreover, the market supply was further affected by the decline in imports and the building up of inventories in private trade as a result of derationing.[35] In 1954, further improvement in the supply of food grains was a major factor in the increase in consumption, both in urban and rural areas, while consumption of manufactured goods appears to have risen only slightly.

Thus, the small increase in the national product in 1953 was the result of a rise in the real balance of foreign trade, current government expenditure and personal consumption, which more than offset the decline in inventory investment, while investment in fixed capital remained unchanged. In 1954, all components except the real balance of exports and imports contributed to the rise in the national product.

In 1953, the rise in prices of food grains resulting from the abolition of food subsidies was reflected in an increase in the cost of living in large urban centres. In 1954, the significant downward movement in grain prices resulted in a decline in cost of living indices in most of the urban centres; the prices of manufactured consumption goods were generally unchanged during this period.

[31] The sharp advance in the export price of tea was largely offset by declines in the export prices of pepper and cotton textiles.

[32] Sugar stocks also rose somewhat as a result of higher government imports to meet shortages created by the decline in domestic output.

[33] The adverse effect on real income of the substantial decline in terms of trade was rather limited in view of the reduction in export duties.

[34] Discontinuance of food subsidies was related to the fall in government receipts, which was largely a result of a reduction in export duties while other tax receipts remained about the same.

[35] However, grain prices began to fall by the end of 1953 with the prospect of still another excellent harvest in food grains.

# Major Economic Changes in Selected Latin American Countries, 1953 and 1954

Although the five Latin American countries discussed in this section—Argentina, Brazil, Chile, Cuba and Mexico—are in the same geographical area, they present wide diversity in the structural characteristics of their economies and the nature of their exports, so that the developments described below also reflect to some extent those in other countries producing food and raw materials. The more detailed analysis of developments in these countries thus supplements the broader survey given in the preceding section. The discussion is divided into three parts: The first deals with changes in the components of gross national product in 1953 and in 1954, the second describes parallel changes according to the principal producing sectors of the economies and the third discusses changes in prices and wages.

## Changes in principal components of gross national product

### *Developments in 1953*

One of the characteristic changes in the components of gross national product in 1953 was an almost general increase in the real balance of exports and imports, which was due to the cumulative effect of changes in both exports and imports (see table 32). While the weakening in the export demand for industrial raw materials (metals and fibres) continued, exports were sustained by liquidation at lower prices of export inventories accumulated in previous years. There were, in addition, some special favourable factors in individual countries,[36] with the result that the volume of exports rose in all countries, with the notable exception of Chile.[37] Real imports, on the other hand, either declined, in some cases sharply (for example, in Brazil and Cuba), or failed to rise (in Chile and Mexico), as a result of a tightening of import restrictions because of foreign exchange difficulties.

Changes in the terms of trade in 1953 did not follow a definite trend (see table 33). The terms of trade im-

[36] Thus, the bumper crop of 1952/53 in Argentina enabled that country to resume large-scale shipments of grain and oilseeds, and the active demand for coffee helped to strengthen the exports of Brazil and Mexico; in the latter country, larger shipments of coffee offset a substantial drop in exports of non-ferrous metals (lead and zinc) and cotton.

[37] As mentioned in *World Economic Report, 1952-53*, the timing of the impact of the slump in raw materials upon individual commodities and upon primary producing countries was uneven. In Chile, the impact was felt only in 1953, with the decline in the export demand for copper and a fall in its price from the high levels of 1952. Chile, like other raw material producing countries in similar circumstances, responded to the drop in prices by withholding sales and accumulating substantial inventories of copper.

**Table 32. Components of Gross National Product of Selected Latin American Countries, 1951 to 1953**

(In 1950 prices, as percentage of total 1952 gross national product)

| *Country and year* | *Gross national product* | *Sum of personal consumption and changes in inventories* | *Government expenditure on current account* | *Gross investment, public and private, in fixed capital* | *Balance of exports and imports of goods and services* |
|---|---|---|---|---|---|
| *Argentina:* | | | | | |
| 1951 | 107.2 | 77.3 | 11.6 | 21.8 | −3.5 |
| 1952 | 100.0 | 72.0 | 10.4 | 19.3 | −1.6 |
| 1953 | 105.5 | 75.3 | 9.4 | 17.5 | 3.3 |
| *Brazil:* | | | | | |
| 1951 | 95.0 | 68.5 | 11.3 | 16.6 | −1.4 |
| 1952 | 100.0 | 73.0 | 11.3 | 18.1 | −2.4 |
| 1953 | 104.0 | 75.8 | 11.7 | 14.9 | 1.6 |
| *Chile:* | | | | | |
| 1951 | 95.1 | 77.1 | 11.0 | 11.3 | −4.3 |
| 1952 | 100.0 | 80.3 | 11.8 | 12.5 | −4.6 |
| 1953 | 106.0 | 83.4 | 13.9 | 14.0 | −5.3 |
| *Cuba:* | | | | | |
| 1951 | 94.5 | 66.3 | 11.2 | 11.4 | 5.6 |
| 1952 | 100.0 | 76.3 | 10.7 | 9.3 | 3.7 |
| 1953 | 89.5 | 59.1 | 10.6 | 9.0 | 10.8 |
| *Mexico:* | | | | | |
| 1951 | 98.5 | 76.9 | 5.7 | 18.1 | −2.2 |
| 1952 | 100.0 | 76.8 | 6.4 | 17.6 | −.8 |
| 1953 | 98.0 | 75.6 | 6.2 | 16.2 | — |

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

Table 33. Indices of Unit Values and Terms of Trade of Selected Latin American Countries, 1951 to 1954
(1952=100)

| Country and item | 1951 Full year | 1952 Full year | 1953 First half | 1953 Second half | 1953 Full year | 1954 First half |
|---|---|---|---|---|---|---|
| *Argentina:* | | | | | | |
| Exports[a] | 112 | 100 | ... | ... | 98 | ... |
| Imports[a] | 79 | 100 | ... | ... | 77 | ... |
| Terms of trade | 141 | 100 | ... | ... | 127 | ... |
| *Brazil:* | | | | | | |
| Exports[a] | 106 | 100 | 96 | 102 | 98 | 104 |
| Imports[a] | 90 | 100 | 94 | 92 | 93 | 89 |
| Terms of trade | 118 | 100 | 102 | 111 | 105 | 117 |
| *Chile:* | | | | | | |
| Exports[a] | 88 | 100 | ... | ... | 103 | 94 |
| Imports[a] | 92 | 100 | ... | ... | 94 | 92 |
| Terms of trade | 96 | 100 | ... | ... | 110 | 102 |
| *Cuba:* | | | | | | |
| Exports | 108 | 100 | 84 | 88 | 86 | ... |
| Imports | 100 | 100 | 99 | 95 | 97 | ... |
| Terms of trade | 108 | 100 | 85 | 93 | 89 | ... |
| *Mexico:* | | | | | | |
| Exports[a] | 89 | 100 | 89 | 81 | 85 | 89 |
| Imports[a] | 102 | 100 | 102 | 95 | 98 | 98 |
| Terms of trade | 87 | 100 | 87 | 85 | 87 | 91 |

*Source:* Computed by the United Nations Bureau of Economic Affairs on the basis of data from the following sources: Statistical Office of the United Nations; Argentina: United Nations, Economic Commission for Latin America (ECLA); Brazil: Ministry of Finance, *Mensario Estatistico* (Rio de Janeiro); Chile: Central Statistical Office, *Estadística Chilena* (Santiago); Mexico: National Bank for Foreign Trade, *Comercio Exterior* (Mexico, D.F.).

[a] Valued in United States dollars.

proved in Argentina, Brazil and Chile and deteriorated in Cuba and Mexico. In the first group of countries, the improvement in the terms of trade was largely due to a decline in the prices of imports,[38] while increases or decreases in the prices of exports were moderate.[39] In the second group of countries, the terms of trade of Cuba were affected by a decline in sugar prices,[40] and those of Mexico, by the fall of the prices of base metals.

The changes in the real balances of exports and imports, combined with the changes in the terms of trade, resulted in an improvement in the balance of payments position of Argentina, Brazil and Cuba, though in the case of the latter country, deterioration in the terms of trade had largely offset the rise in quantum balances. There was a deterioration in the money balances of Mexico and also of Chile; in the latter country, the slight improvement in the terms of trade was more than offset by the sharp decline in real trade balances.

With the exception of Chile, investment in fixed capital declined in all these countries. The decline in private investment reflected the generally low level of business anticipations in the previous year, while investment finance was unfavourably affected by the fall in profits in foreign trade. Public investment was similarly affected by the decrease in government revenue from export and import duties as a result of lower export prices and the decline in imports. In some countries—Brazil, for example—a contributing factor was the shortage of imported capital goods because of import restrictions.

As in 1952, an important element in changes in total investment were the changes in export inventories. In Argentina, Brazil and Cuba, the liquidation of inventories of export goods (wool in Argentina, cotton, cocoa and other exports—other than coffee—in Brazil, sugar in Cuba) brought total investment in these countries to a level substantially below that of 1952.[41] Only

[38] The sharp decline in 1953 import unit values in Argentina as compared with 1952 largely reflected the drop in import prices from the exceptionally high levels of 1952. The resulting steep rise in the terms of trade in 1953 should be interpreted in the same context; in fact, the terms of trade in 1953 were about 10 per cent lower than in 1951.

[39] In Brazil the rise in the price of coffee helped to offset the decline in export prices resulting from the liquidation of inventories of other exports (in particular, cotton) at substantially lower prices, and in Chile the decline in export demand for copper was resisted by maintaining prices and withholding shipments, so that it was reflected only in the sharp fall in the volume of exports.

[40] While prices of shipments of Cuban sugar under the United States import quota were maintained, average export prices declined in 1953, as a result of a further drop in the prices of sugar shipments outside the United States quota.

[41] There were also some offsetting factors: in Argentina, investment in farm products rose because of replenishment of depleted stocks of food grains and oil-seeds, and in Mexico there was, apparently, some accumulation of inventories of manufactured goods because of smaller consumer demand.

in Chile where, in addition to the rise in investment in fixed capital, there was also heavy accumulation of unsold stocks of copper, was there a net rise in total investment.

There appear to have been no substantial changes in government expenditures on goods and services on current account, except in Argentina, where the policy of budgetary retrenchment also appears to have been carried out with respect to current government operations.

The movement of the "active" components of gross national product, described above, may be broadly summarized as follows. In all countries except Chile the improvement in real balances was offset to a greater or lesser extent by a decline in total investment, in which liquidation of inventories of export goods played a considerable part. Thus, the over-all contribution of the changes in these components of the gross national product in 1953 was either negative (in Cuba and Mexico) or relatively small (in Argentina and Brazil); the net balances of these components rose significantly only in Chile, where changes in both trade balances and total investment were against the general trend.

In addition to the factors described above, real consumption was affected by the effects on private incomes of changes in taxation and terms of trade, and in supplies, primarily of food. In general, the changes in 1953 in the burden of real taxation, that is, the net balance in real terms of public receipts and payments in the private sector, favoured private incomes; in countries where the terms of trade fell, the effect on private incomes was damped to a larger or smaller extent by a decline in real government revenue from taxation of foreign trade and profits. In general, the supply situation was also a favourable factor in the changes in real consumption. Food supplies were generally satisfactory because of better crops and adequate food imports. However, in countries where imports had been sharply cut in 1953—Brazil, for example—shortages of raw materials and industrial supplies appeared, and consumption of imported manufactured goods by higher income groups also declined.

Among the individual countries, real private incomes and consumption in Cuba and Mexico reflected the deflationary effects of the fall in the net sum of real trade balances and total investment, especially since the decline in the terms of trade was not fully offset by the reduced burden of taxation.[42] In both countries, real consumption declined. Because of the poor crop which resulted from drought conditions over extensive areas, there were some shortages of food staples (corn and beans) in Mexico in the early part of 1953; these were, however, made good in the course of the year by greater imports of food and a much larger crop in 1953/54. In Cuba, the supply situation with regard to both food and consumer goods was satisfactory because of a rise in the domestic output of rice and of domestic substitutes for imported manufactured goods, which offset the decline in imports.

In the group of countries in which the net sum of the active components of national product increased (Argentina, Brazil and Chile), private income and consumption rose. In Argentina, the decrease in the burden of real taxation reflected to a large extent the cost of government support of domestic prices of grain in the face of falling export prices. In line with government policy of providing adequate incentives to raise Argentine agricultural output, prices paid to grain and oil-seed farmers for deliveries to the government export monopoly had been substantially increased for the 1952/53 crops (this was reflected in a marked deficit in the 1953 accounts of the export monopoly). The increase resulted, in fact, in a substantial rise in "parity" farm prices, that is, farm prices measured in purchasing power of non-farm consumer goods. Thus, the record grain harvest of 1952/53 resulted in a sharp rise of real farm incomes in 1953. As real incomes of urban labour remained on the whole unchanged,[43] total private incomes were substantially above those of 1952. Consumption of both food and manufactured goods rose. While there were some sporadic scarcities during the year, consumption of meat in the urban centres was higher than in 1952.[44]

Consumption of manufactured goods, on the other hand, was only slightly higher than in 1952. This may be explained by the fact that urban incomes failed to increase, while the rise in agricultural incomes was not reflected in a corresponding increase in rural consumption of manufactured goods until the latter part of the year—apparently because of the time lag in the adjustment of demand.[45] In Brazil, private incomes benefited from the improvement of the terms of trade while the burden of real taxation remained about the same. However, since the benefits of the improvement in terms of trade accrued primarily to incomes from profits, and since inflationary pressure appeared as a result of shortages of food in the early part of the year, real consumption, though higher than in 1952, lagged behind the rise in national product. In Chile, the decline in export demand and the resulting accumulation of inventories affected mostly net public revenues, which fell substantially as a result of the decline in govern-

[42] In Cuba, however, the effect on consumption was mitigated by the fact that the deterioration in the terms of trade primarily affected income from profits.

[43] The decline in employment and man-hours worked in industry was roughly offset by the slight rise in real wages of industrial labour.

[44] The rise in consumption was made possible by a number of government measures for improving the meat supply in urban centres, such as tightening the enforcement of controlled slaughterings, raising official prices of meat cattle, and some diversion of export meat to domestic consumption.

[45] The operation of a similar time lag, in reverse, could be observed in the preceding year, when the sharp decline in rural real incomes did not result in a corresponding drop in consumption of manufactured consumer goods.

ment profits on sales of copper.[46] Real consumption rose in both food and manufactured goods; the rise in consumption of food was made possible by larger imports.

As a result of changes in the various components described above, gross national product rose in Argentina, Brazil and Chile and declined in Cuba and Mexico (see table 32). In the former countries, the increases ranged from 4 to 6 per cent. There was a sharp drop in Cuba, while national product in Mexico showed only a slight decline.

*Developments in 1954*

It was noted above that in 1953 in most countries there was a tendency towards a rise in real export balances, the contributing factors being liquidation of export inventories and tightening of restriction on imports. This trend was largely arrested in 1954. The volume of exports rose only slightly in Argentina, remained about the same in Mexico and fell in Brazil and Cuba.[47] In the two latter countries, the process of liquidation of export inventories which had been an important element in sustaining the level of exports in 1953 was reversed, and there was considerable accumulation of inventories of export commodities in 1954. As to imports, in some countries (Argentina and Brazil) scarcities in a number of import items—a result of the cuts in imports in 1953—led to a relaxation of restrictions; this was made possible by the improvement in the foreign exchange situation. In Cuba and Mexico imports remained at about their former level. On balance, real trade balances declined in Argentina, Brazil and Cuba, particularly in the last two countries, and remained unchanged in Mexico. In Chile, because of the time lag in the impact of the raw material slump, referred to earlier, developments in foreign trade were again contrary to the general trend. Exports rose as a result of liquidation of copper inventories, and there was a significant fall in imports following the tightening of import restrictions because of foreign exchange difficulties. The real trade balance rose sharply.

There was no uniform pattern of changes in the terms of trade, mainly because prices of the principal exports of the area had shown divergent tendencies during 1954; prices of imports did not change significantly and tended on the whole to decline slightly. The terms of trade of Mexico were only slightly below the level in 1953,[48] and those of Cuba remained about the same. The steep rise in coffee prices in late 1953 and early 1954 was reflected in the improvement of the terms of trade of Brazil. On the other hand, there was a substantial deterioration in the terms of trade of Argentina, because of weakening in the prices of food grains, and the fall in export prices of copper resulted in a decline in the terms of trade of Chile. The changes in both directions in the terms of trade of the countries of the group, with the exception of Argentina, were confined within relatively small limits. In most cases the balance of payments position was affected mainly by the changes in real balances of exports and imports mentioned above. There was some deterioration in the balance of payments on current account in all countries except Mexico; this decline was particularly pronounced in Argentina,[49] Brazil and Cuba, and there was consequent pressure on foreign exchange reserves.

Investment in fixed capital generally showed an improvement over 1953; fixed capital investment rose in all countries except Chile. A contributing factor in the gain was the relaxation of restrictions on imports of capital goods. In some countries (Cuba, Mexico) there was also a rise in the volume of public investment.[50] Investment in inventories reflected developments in the export sector. For reasons described above, there was accumulation of inventories of coffee in Brazil, while the decline in export demand for sugar resulted in added accumulation of sugar inventories in Cuba in spite of a further restriction of output in 1953/54. In Chile, on the other hand, copper inventories, while still of substantial magnitude, were lower than in 1953,[51] and in Argentina there was a drop in grain inventories as a result of continued shipments during the year.[52] If changes in inventories are taken into account, total investment rose in Brazil, Cuba and Mexico, probably remained about the same in Argentina and declined considerably in Chile.

Summing up the changes in the two components, there was, on balance, a generally unchanged position in all countries except Chile, where there was apparently a slight decline. This indicates that in 1954 declining tendencies in national product, incomes and consumption in a number of countries, which originated either in the foreign trade or in the investment sectors of the economies, had been checked. They emerged, however, in Chile.

On the basis of the information available at time of writing, only tentative conclusions may be reached

[46] The situation was similar to that of 1952, when the rise in prices and in the volume of exports of copper was reflected in an increase in government profits, without significantly affecting private consumption.

[47] In Brazil, sharp reaction in world coffee prices during 1954 led to a contraction of exports, in an attempt to resist the price decline; Cuban sugar exports also fell off substantially, compared with 1953.

[48] The weakening of the demand for Mexican exports of nonferrous metals and cotton was largely checked in 1954; in addition Mexico benefited from the rise in the prices of coffee.

[49] As noted, the chief factor in the deterioration in the case of Argentina was the sharp decline in the terms of trade.

[50] In Cuba, this resulted from the efforts of the Government to offset the decline in the export sector by compensatory spending on developmental activities.

[51] This decline was due largely to a sale to the United States, under special agreement, of 100,000 short tons from the 1953 stockpile.

[52] Apparently there was also some liquidation of inventories of manufactured goods in Argentina and Mexico.

as to developments with regard to real consumption. As in 1953, private incomes were sustained in most countries by the decline in the net payments to government by the private sector. Thus, in Argentina, the deterioration in the terms of trade resulting from a decline in the prices of its principal exports was reflected primarily in a drop in government profits, and in Brazil and Cuba there was a further decline in the real burden of taxation. The supply situation was generally satisfactory. In Argentina, there was a further rise in the supply of meat to urban centres at controlled prices and there was an increase in food crops in Brazil, Cuba and Mexico. In Chile, despite foreign exchange difficulties, the decline in 1953/54 food crops was balanced by larger imports of food. Real consumption rose in Argentina, Brazil and Mexico and appears to have been maintained in Chile and Cuba.

On the basis of the changes in the main components described above, in 1954 gross national product showed a further rise in Argentina and Brazil, recovered in Mexico, was probably unchanged in Cuba and declined somewhat in Chile.

### Production trends

Fluctuations in agricultural output were a dominant factor in the changes in national product in Argentina and Cuba in 1953 and 1954. Both countries experienced sharp fluctuations in agricultural production, compared with 1952, though in opposite directions. In Argentina, favourable weather conditions combined with an increase in the sown area to cause a sharp improvement in output of food grains and oil-seeds in the two successive crop years 1952/53 and 1953/54, though the latter failed to match the record output of the former year (see table 34). In Cuba, where a policy of restricting output had been adopted following the accumulation of sugar inventories in 1952, there was a sharp decline in sugar-cane production in 1953 and a further fall in 1954;[53] in the latter year, the moderate drop in the output of sugar-cane was balanced by a rise in other crops (rice in particular) so that the over-all level of agricultural production remained unchanged. The described fluctuations in crops in Argentina and Cuba which in both countries affected their principal exports determined to a large extent the general economic situation of these countries in 1953 and 1954. In Argentina, an important element in the domestic food supply situation was the continued improvement in the output of meat in both years.

Changes in agricultural output in the other countries of the group were of more limited scope. In Brazil, production continued to rise in both years. In Chile, there was an improvement in over-all output in the 1952/53 crop year and a slight fall in 1953/54, while the reverse was true in Mexico.[54] Of the chief export crops, the 1953/54 cotton crop in Brazil was sharply reduced; the cutback was related to serious marketing difficulties in 1952 and 1953 which resulted in accumulation of inventories and subsequent liquidation at lower prices. In Mexico, where no special marketing problems were experienced in cotton exports, output of cotton in both crop years was at a slightly lower level, but was followed by an extremely sharp rise—about 30 per cent above the average of the two preceding crops—in 1954/55. There was no significant change in the output of coffee in Brazil; however, as in most coffee producing countries other than Brazil, output of coffee continued to rise in Mexico in response to the favourable price situation.

[53] Output of sugar in Cuba was cut back from the record figure of about 7 million tons in 1952 to 5 million tons in 1953 and 4.75 million in 1954. There was a further restriction of output to 4.4 million tons in 1955.

[54] In Mexico, the 1952/53 output was affected by a protracted drought in large areas of the country, which resulted in extensive damage to the major food crops. The situation improved in 1953/54, and there was a further sharp gain in both food and export crops in 1954/55.

Table 34. Indices of Agricultural Production in Selected Latin American Countries, 1950/51 to 1954/55[a]

(1951/52=100)

| *Country* | *1950/51* | *1951/52* | *1952/53* | *1953/54* | *1954/55* |
|---|---|---|---|---|---|
| Argentina | 145 | 100 | 181 | 169[b] | ... |
| Brazil | 101 | 100 | 107 | 108 | 118[b] |
| Chile | 99 | 100 | 109 | 107[b] | ... |
| Cuba[c] | 84 | 100 | 78 | 78[b] | ... |
| Mexico | 96 | 100 | 97 | 101[b] | 118[b] |

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

[a] The crop year and the calendar years which it overlaps do not correspond uniformly in the various countries of the group. In Argentina, Chile and Cuba, there is a rough coincidence in terms of output, on the one hand, and income and consumption effect, on the other, between a given crop year and the calendar year indicated by the second part of the crop year (for example, crop year 1953/54 and calendar year 1954). In Brazil and Mexico, the income and consumption effects of a given crop year are spread over both calendar years (for example, the effects of the 1953/54 crop were felt in both 1953 and 1954).

[b] Preliminary index based on incomplete data.

[c] Weighted index of production of sugar-cane, tobacco, rice, coffee and dried beans.

Table 35. Indices of Industrial Production in Selected Latin American Countries, 1951 to 1954
(1952 = 100)

| Country and item | 1951 Full year | 1952 Full year | 1953 First half | 1953 Second half | 1953 Full year | 1954 First half | 1954 Second half |
|---|---|---|---|---|---|---|---|
| *Argentina:* | | | | | | | |
| Total industrial production[a] | 107 | 100 | 94 | 104 | 99 | 98 | 113[b] |
| Manufacturing | 107 | 100 | 93 | 103 | 98 | 96 | 112[b] |
| Extractive industries | 95 | 100 | 106 | 108 | 107 | 109 | 107[b] |
| *Brazil:* | | | | | | | |
| Manufacturing[c] | 95 | 100 | 104 | 110 | 107 | 113 | .. |
| Textiles | 95 | 100 | 103 | 109 | 105 | 126 | .. |
| Mining | 98 | 100 | 104 | 96 | 100 | 101 | .. |
| *Chile:* | | | | | | | |
| Total industrial production[d] [e] | 91 | 100 | 104 | 115 | 110 | 106 | 121[f] |
| Manufacturing[e] [g] | 90 | 100 | 103 | 111 | 107 | 105 | 117[b] |
| Textiles | 93 | 100 | 102 | 114 | 108 | .. | .. |
| Extractive industries[i] | 101 | 100 | 101 | 81 | 91 | 87 | 93[f] |
| *Mexico:* | | | | | | | |
| Total industrial production[j] | 97 | 100 | 100 | 104 | 102 | 105 | .. |
| Manufacturing[k] | 105 | 100 | 98 | 101 | 99 | 104 | .. |
| Textiles | 105 | 100 | 94 | 102 | 99 | 89 | .. |
| Mining, exclusive of oil[l] | 92 | 100 | 87 | 106 | 96 | 96 | .. |

*Source:* Argentina: Ministry of Technical Affairs, *Síntesis Estadística Mensual de la República Argentina* (Buenos Aires), July 1954; Brazil: Getulio Vargas Foundation, *Cônjuntura Econômica* (Rio de Janeiro), December 1954; Chile: Central Statistical Office, *Estadistica Chilena, Sinopsis*, 1953 (Santiago); Mexico: Bank of Mexico, thirtieth and thirty-second annual reports (Mexico, D.F.), 1952 and 1954.

[a] Including mining, gas and electricity.

[b] Two months.

[c] Indices as revised in the February 1955 issue of the source indicated above. The revised index includes mining, construction materials, iron and steel, paper, rubber, basic consumer goods industries, construction and electric power.

[d] Including construction and energy; excluding mining.

[e] The rise of the indices for industrial production and manufacturing in 1951 and 1952 reflected to a large extent the sharp increase in output of the iron and steel industry, which has a large weight in this index.

[f] Four months.

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

[h] Three months.

[i] Copper, gold and silver, nitrates, iodine, coal and iron.

[j] Including energy output, mining and oil.

[k] Excluding processing and refining of oil.

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

Changes in industrial production reflected the general economic trends in the countries of the group. In Argentina and Mexico, industrial output was stagnant during most of the period under review (see table 35). This reflected the deflationary trends in Mexico, described earlier, and the rather slow recovery in Argentina from deflationary developments in 1952. In both countries, there was a marked improvement in industrial output and employment in the second half of 1954, particularly in Argentina, under the stimulus of a continuing high level of farm income and higher investment activity. In Brazil and Chile, industrial output continued to rise during the period under review.

In Chile and Mexico, the principal mining countries of the group, there was a fall in output in 1953; activities in mining continued at approximately the same low level during most of 1954. The fall in output in Chile in 1953 was related to adverse developments in foreign demand for copper accompanied by the accumulation of inventories described above; in both years mining output was handicapped by strikes which led to protracted shutdowns of some of the large mines. There appears to have been a gain in mining output in the course of 1954, as a result of the improvement in export demand for non-ferrous metals.

### Prices and wages

In 1951 and 1952, continued and, in some cases, sharp increases in the cost of living had been a common feature of price developments in almost all countries of the group.[55] These rises generally came to a halt by the end of 1952 when there was a levelling off in consumer prices; in some cases there was even a slight fall (see table 36). The course of prices in 1953 and 1954 showed divergent trends. In Argentina, Cuba and Mexico, consumer prices remained relatively stable through most of the period. This was due in part to continued stagnation of economic activity, particularly of industrial output and employment, and in part to an increase in food supplies.[56] In Brazil and Chile, after the brief pause mentioned above, price increases recommenced. In both countries successive devaluations of monetary units, which had taken place in 1953 and

[55] Cuba, where price rises were halted in 1952, was an exception to the general trend.

[56] A contributing factor was a general decline in import prices.

1954, were an active factor in the rise; in particular, increases in domestic import prices resulting from the devaluations reactivated the cost-wage spirals which had been previously in operation in these countries. Finally, in the second half of 1954, there was a recrudescence of price increases in some of the countries of the first group.

Among the individual countries, in Argentina the cost-wage spiral which had been accelerated in 1952 by the rise in inflationary pressures in the food sector was checked completely in 1953. This was due, on the one hand, to an increase in the supply of food, particularly meat in urban centres, which resulted in a relaxation of pressure on food prices;[57] and, on the other hand, to the fact that the level of wages and salaries remained practically unchanged, in line with the government wage stabilization policy which was facilitated by the fall in industrial production and the decline in urban employment. After a slight initial drop, food prices and the general level of the cost of living remained relatively stable until mid-1954. A new upward movement in the cost of living occurred at that time, reflecting an increase in controlled prices of a number of basic food and consumer items (including bread, meat and textiles), which was accompanied by a new round of wage increases to industrial and agricultural labour.

In Cuba, the level of consumer prices remained unchanged throughout the period, though with a slight tendency to decline; because of the persistence of deflationary developments there was stagnation in consumer demand. On the other hand, supplies of food and manufactured goods were adequate, either because of imports or because of increased domestic output.

In Mexico, the decline in economic activities in 1953 exerted a downward pressure upon both private incomes and consumer demand. Shortages in food staples which appeared in 1953 as a result of a poor harvest were made up by large government imports of corn and beans, and prices of these basic foodstuffs had been kept from rising by government subsidies. Because of deflationary developments in industry and stability in food prices, the widespread wage adjustments which had taken place in the course of the year did not result in pressure on the general price structure. Pressure on prices and wages appeared, however, in the second half of 1954, following the devaluation of the Mexican peso in April of that year. Compared with the magnitude of the devaluation[58] and the consequent increase in domestic prices of imports, the rise in the cost of living was moderate. This was due to the fact that the impact of devaluation was damped to a considerable extent by a further improvement in the supply of food resulting from an exceptionally good harvest; this made it possible to check the rise in prices by government controls. The increase in the cost of living was accompanied by a new round of adjustments in industrial wages.

In Brazil, the pressure on consumer prices subsided somewhat in the latter part of 1953 after a steep rise in the first half of the year resulting from scarcities of food in urban centres. However, a fresh impetus was

[57] In spite of the rise in farm prices, prices of basic staples (meat, bread and flour, edible oils) to domestic consumers were maintained by government subsidies.

[58] The exchange rate was reduced from 11.6 United States cents per peso to 8.0 cents, a devaluation of 31 per cent.

Table 36. Indices of Cost of Living in Selected Latin American Countries, 1951 to 1954
(1952=100)

| Country and index | 1951 Full year | 1952 Full year | 1953 First half | 1953 Second half | 1953 Full year | 1954 First half | 1954 Second half | 1954 Full year |
|---|---|---|---|---|---|---|---|---|
| *Argentina:*[a] | | | | | | | | |
| General | 72 | 100 | 105 | 103 | 104 | 103 | 111[b] | . . |
| Food | 69 | 100 | 106 | 99 | 103 | 98 | 103[b] | . . |
| *Brazil:*[c] | | | | | | | | |
| General | 85 | 100 | 119 | 124 | 122 | 136 | 150 | 143 |
| Food | 82 | 100 | 129 | 134 | 131 | 147 | 169 | 160 |
| *Chile:*[d] | | | | | | | | |
| General | 82 | 100 | 108 | 143 | 126 | 185 | 247 | 216 |
| Food | 78 | 100 | 100 | 144 | 122 | 190 | 264 | 227 |
| *Cuba:* | | | | | | | | |
| Food | 99 | 100 | 97 | 96 | 96 | 93 | 92[e] | . . . |
| *Mexico:*[f] | | | | | | | | |
| General[g] | 88 | 100 | 98 | 98 | 98 | 99 | 106 | 103 |
| Food | 86 | 100 | 96 | 96 | 96 | 97 | 103 | 99 |

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

[a] Buenos Aires.
[b] Five months.
[c] São Paulo.
[d] Santiago.
[e] Four months.
[f] Mexico City.
[g] Cost of food, soap, clothing and coal.

given to the cost-wage spiral by the devaluation of the cruzeiro in late 1953. The effect upon prices of consumer goods was to some extent mitigated by the fact that the devaluation in practice was accomplished by introducing multiple exchange rates for exports and imports; essential imports received preferential treatment in the form of low import rates. Nevertheless, the cost of living advanced sharply in 1954, and a new adjustment in wage rates took place by the middle of the year.

In Chile, the characteristic cost-wage spiral, which had been prevalent in that country for some time, also took a sharp turn upwards by mid-1953, following a further substantial devaluation of the import exchange rate.[59] There was a sharp rise in prices in the second half of 1953, and further marked advances throughout 1954. The import rate was again devalued by the end of the year.

After a decline of several years, real wages of labour in Argentina advanced in 1953 and continued to rise in 1954.[60] There was apparently also a slight gain in real wages of urban labour in Chile and Mexico in 1953. On the basis of information available for 1954, it would appear that there was some decline in real wages in Chile, while in Brazil and Mexico the level of real wages remained unchanged.

## Inflation in Chile, 1940 to 1953

Inflationary price increases in a number of economically less developed countries, frequently aggravated by persistent price-wage spirals, have been described on several occasions in the *World Economic Report*, particularly in connexion with the analysis of current economic developments in Latin America. Such price increases generally originated in rises in incomes and employment in non-agricultural sectors, which were not accompanied by an adequate rise in the supply of food, primarily because of the lack of elasticity in agricultural output. Thus, they reflected as much the effect of developments in the current economic situation as the existence of long-run structural factors which accounted for the basic price instability of the economies. The following study was undertaken in an attempt to gain a closer insight into the nature of the inflationary developments of the type described. The case of Chile, where the progress of economic development in the last few decades has been associated with a persistent rise in prices, appears appropriate for a study of this kind.

Since the present study is intended to serve as an illustration of the general problem, it does not attempt to deal exhaustively with all aspects of the problem of inflation as it has arisen in the particular setting of Chile, and the conclusions that are drawn on the basis of the available statistical information should be considered tentative. Nevertheless, the following analysis and conclusions may be considered useful as a first approach to an assessment of some of the factors responsible for similar inflationary phenomena in countries in process of development.

### The course of prices

The depreciation of the Chilean peso has had a long history, beginning in the eighteen seventies. At several points in the process of currency depreciation, Chile was forced off the gold standard, and the parity of the Chilean peso was reduced in an attempt at monetary stabilization—generally short-lived and followed by another phase of depreciation. The beginning of the latest inflationary phase, the nature of which is particularly related to the object of the present study, may be placed at about 1932. In that year, Chile had abandoned the gold standard, following severe deflation resulting from the collapse of world markets for its main exports —nitrates and copper—in the depression of the early nineteen thirties. This phase falls roughly into two periods: first, between 1932 and 1939, sporadic rises (1932, 1933 and 1936, 1937) alternated with intervals of relative price stability (1934 and 1935, and 1938 and 1939); the annual compound rate of price increase for the period 1932 to 1939 was of the order of 7 per cent. In the second period, from 1940 on, the rise in prices was uninterrupted and at a faster rate. Price increases in individual years ranged from 9 to 34 per cent, and the annual compound rate of increase for the period 1940 to 1953 was of the order of 18 per cent (see table 37).[61]

The early nineteen thirties in Chile marked a transition from an agricultural country whose monetary economy had been predominantly based on mineral exports to one in a stage of relatively rapid development, in the course of which it evolved to the present state of a more diversified economy with a national product characterized by large shares of industry, trade and other services. Thus, the inflationary process which started in 1932 has taken place against a general economic background of sufficient continuity to have made it desirable, from an analytical point of view, to begin the analysis with that year. In view of the inadequacy of the basic

[59] In July 1953, most of the multiple exchange rates for imports were abolished and replaced by a single rate of 110 pesos to the United States dollar; this amounted to an effective devaluation in the previous average import rate of some 40 per cent.

[60] By the middle of 1954, as a result of an adjustment in the wages of agricultural labour, there was a substantial rise in real wages in that category.

[61] The rate of increase in prices accelerated considerably after the second half of 1953; from July of that year to the end of December 1954, prices rose by 220 per cent.

Table 37. Chile: Indices of Cost of Living, 1929 to 1953

| Year | Cost of living index | | Percentage change over preceding year |
|---|---|---|---|
| | March 1928 = 100 | 1937 = 100 | |
| 1929 | 101 | | 1.0 |
| 1930 | 100 | | −1.0 |
| 1931 | 96 | | −4.0 |
| 1932 | 104 | | 8.0 |
| 1933 | 130 | | 25.0 |
| 1934 | 131 | | 1.0 |
| 1935 | 134 | | 2.5 |
| 1936 | 145 | | 8.0 |
| 1937 | 163 | 100 | 12.5 |
| 1938 | 170 | 104 | 4.0 |
| 1939 | 173 | 106 | 2.0 |
| 1940 | 195 | 119 | 12.0 |
| 1941 | 224 | 137 | 15.0 |
| 1942 | 282 | 173 | 26.0 |
| 1943 | 328 | 201 | 16.0 |
| 1944 | 367 | 225 | 11.0 |
| 1945 | 398 | 244 | 9.0 |
| 1946 | 462 | 283 | 16.0 |
| 1947 | 617 | 378 | 34.0 |
| 1948 | 729 | 447 | 18.0 |
| 1949 | 864 | 529 | 18.6 |
| 1950 | 995 | 609 | 15.0 |
| 1951 | 1,224 | 750 | 23.0 |
| 1952 | 1,488 | 911 | 22.0 |
| 1953 | 1,867 | 1,144 | 26.0 |

*Source:* 1928 to 1937: Central Statistical Office, *Estadística Chilena*; 1937 to 1953: United Nations, *Monthly Bulletin of Statistics*.

statistical data for earlier years, however, it appeared more expedient to limit the inquiry to the most recent period of continued price rise, which began in 1940 after a few years (1937 to 1939) of relatively stable prices; the years 1937 to 1939 were included for purposes of comparison.[62] The second column in table 37 gives the cost of living series for the years 1937 to 1953 recalculated on a 1937 base, and the same year was used as a base for the other statistical series.

[62] It should be noted, however, that some of the factors in price increases during the period covered in this study were also present, though perhaps to a lesser degree, in earlier years.

[63] For the purpose of this analysis inflationary pressure is defined as pressure on prices resulting from disequilibrium between effective demand for and supply of consumer goods and services. Inflationary pressures arise if for a given increase in effective demand (for example, because of an increase in private incomes) the supply of consumer goods, particularly food, remains unchanged or rises at a slower rate. In the present case, the relevant factors in the inflationary situation are not short-run shortages of supply (for example, such as arise from crop failure) but the long-run lack of elasticity in domestic output of food, in response to rising demand of the non-agricultural population. Unless there is an adequate rise in imports to offset deficiencies in domestic output—which implies a corresponding expansion in export earnings—secular disequilibrium between demand for food and supplies is bound to occur.

Price increases due to inflationary pressure generally result in a redistribution of income in favour of profits and a fall in real wages. Since profit-receiving groups have a tendency to save a larger part of their incomes, this is reflected statistically, other things being equal, in a decline in the ratio of private consumption to private income.

### Factors in the inflationary process

The price increases in the period under review were brought about by a combination of factors. There were, first, inflationary pressures resulting from an inadequate rise in the supply of food in relation to the increase in incomes of the non-agricultural population.[63] There was the cost-inflating effect of the rise in prices of imported goods.[64] Further, there was a chronic cost-wage spiral which was activated from time to time by pressure on real wages arising from the other types of price increase.

#### *The growth of production, and pressure upon the supply of food*

Industrial production was the major factor in the rise of the national product of Chile between 1937 and 1953. The rate of growth in this sector averaged about 4.5 per cent a year, with most of the increase in industrial production concentrated during 1945 to 1953 (see table 38). Still another factor was the growth in trade and services. In contrast, there was little change in mining and agriculture. Output in mining fluctuated near the level of the base year, while agricultural output at the end of the period showed a relatively small rise compared with 1937.

The discrepancy between growth in production, employment and incomes in industry and services, and stagnation of agriculture, was responsible for the development of basic strains in the Chilean economy related to the supply of food. Output in agriculture, except for a few peak years, fluctuated within a relatively small range of its level at the beginning of the period.[65] Since agricultural production in Chile is devoted largely to food crops,[66] the stagnation of output affected marketable surpluses of food for the urban population, while, with the rise in output and employment in non-agricultural occupations, the demand for food rose sharply. Whereas the total population increased from 1937 to 1952 by 25 per cent, employment in non-agricultural occupations rose by about 80 per cent during

[64] As a factor in domestic price increases, the rise in prices of imports is clearly not characteristic of the present case, or, for that matter, of under-developed countries generally. The rise in import prices was, however, considered in the analysis as one of the factors responsible for price increases from the cost side.

[65] In view of the wide fluctuations in agricultural output in individual years owing to weather conditions, evaluation of changes in the level of output over longer periods of time can be made only by comparing the average for several years at the beginning and the end of the period involved. According to the official figures of agricultural output given in table 38, the annual average for 1950-53 was only 6 per cent above that for 1937-40. According to the report of the joint mission to Chile in 1952 of the International Bank for Reconstruction and Development and the Food and Agriculture Organization of the United Nations, there was a somewhat larger increase in real agricultural output from 1935-39 to 1945-49, of the order of 10 per cent (*Agricultural Economy of Chile*, Washington, D.C., December 1952, page 74).

[66] On the basis of 1945-49 production, the composition of agricultural output was as follows: cereals about 48 per cent (of which wheat accounted for more than three-fourths), other food crops (pulses, potatoes and grapes) 24 per cent, pastoral products about 25 per cent and various industrial crops 4 per cent.

Table 38. Chile: Indices of Production and Employment, 1938 to 1953
(1937=100)

| Year | Agricultural production | Industrial production[a] | Mining | Employment in non-agricultural occupations |
|---|---|---|---|---|
| 1938 | 101 | 104 | 88 | 106 |
| 1939 | 104 | 103 | 87 | 109 |
| 1940 | 102 | 114 | 95 | 121 |
| 1941 | 100 | 116 | 108 | 124 |
| 1942 | 97 | 115 | 105 | 127 |
| 1943 | 98 | 111 | 103 | 133 |
| 1944 | 109 | 114 | 102 | 138 |
| 1945 | 102 | 130 | 103 | 142 |
| 1946 | 103 | 138 | 93 | 151 |
| 1947 | 99 | 137 | 105 | 153 |
| 1948 | 109 | 141 | 111 | 157 |
| 1949 | 109 | 146 | 98 | 160 |
| 1950 | 103 | 146 | 95 | 165 |
| 1951 | 105 | 167 | 102 | 174 |
| 1952 | 106 | 184 | 100 | 183 |
| 1953 | 116 | 201 | 91 | ... |

*Source:* United Nations Bureau of Economic Affairs, based on the following: Agriculture (crops and livestock): Reply of the Government of Chile to the communication of the Secretary-General on measures taken by governments to deal with inflationary pressures, document E/2563; and Central Statistical Office, *Estadistica Chilena* (the latter also for indices of industry and mining); employment in non-agricultural occupations: Social Security Administration, *Anuario Estadística* (Santiago).

[a] Including construction, gas and electric energy.

the same period. Urban incomes and demand for food rose correspondingly, and resulted in a widening food deficit which had to be covered by imports.

In view of the fact that similar phenomena may be observed currently in a number of other countries in process of economic development, it may be useful to give a brief description of the mechanism involved. The rise in employment in non-agricultural occupations which is associated with economic development, results in a transfer of labour from the reservoir of disguised unemployment in the rural areas towards urban occupations. Because of low productivity in agriculture and low levels of food consumption on the farms, migration of labour towards the cities is not accompanied by simultaneous release of marketable food surpluses; rather, it results in higher per capita food consumption in the countryside. As a result, the demand for food by the additions to the urban labour force adds to the pressure upon food supplies, especially since, in view of the low level of real consumption, a very large proportion of the addition to the money incomes of urban labour is likely to be spent on food.

In fact, the pressure upon the supply of food antedates the period under review; it has been felt since the quickened tempo of industrialization in the early nineteen thirties.[67] This may be illustrated by the situation in three staple foodstuffs, wheat, meat and sugar, increase in the demand for which is generally associated with the growth of urban incomes. In the case of wheat, from a country which had exported this commodity in the nineteen twenties, Chile became an importing country with steadily rising imports. Imports of live cattle also rose sharply in the face of a declining trend in domestic production of meat;[68] as to sugar, which is almost entirely imported, the pressure of mounting imports upon the balance of payments resulted in efforts on the part of the Government to develop a national sugar industry based on domestically grown sugar-beets.[69]

The imbalance in the demand-supply situation resulted in a chronic tendency towards pressure on food prices. During most of the period under review, prices of imported foodstuffs, among other essential imports, had been effectively subsidized through the mechanism of preferential exchange rates,[70] and this helped to relieve the pressure upon prices. Nevertheless, there was a tendency, during the period as a whole, for the rise in prices of food to overtake price increases in manufactured goods, as can be seen from the changes in the ratios of wholesale prices of agricultural products and manufactured goods (table 39).[71]

[67] The situation with regard to agricultural output was not much more favourable in the preceding decade. The average output for the years 1938 to 1940 was only about 8 per cent higher than the 1928-30 average.

[68] Production of meat has declined steadily since the late nineteen twenties. According to the secretariat of the Economic Commission for Latin America, production in 1945-47 was some 10 per cent below the average of 1935-39 (*Estudio Económico de America Latina, 1949*, New York, 1951, page 356).

[69] Sugar consumption rose from an average of 121,000 tons in 1937-40 to 181,600 tons in 1951-53, an increase of 50 per cent.

[70] See page 84.

[71] Price ratios have also been calculated for cereals and textiles, which are representative commodities for each sector (column 6 of table 39). Although there are some divergencies in individual years, the two series show a fairly parallel trend.

Table 39. Chile: Indices of Agricultural and Industrial Prices, 1938 to 1953
(1937=100)

| Year | Wholesale agricultural prices (1) | Wholesale industrial prices (2) | Ratio (1)÷(2) (3) | Wholesale prices of cereals (4) | Wholesale prices of textiles (5) | Ratio (4)÷(5) (6) |
|---|---|---|---|---|---|---|
| 1938 | 94 | 97 | 97 | 96 | 91 | 106 |
| 1939 | 84 | 89 | 95 | 77 | 91 | 85 |
| 1940 | 103 | 97 | 107 | 83 | 105 | 80 |
| 1941 | 123 | 103 | 119 | 95 | 111 | 86 |
| 1942 | 156 | 128 | 114 | 146 | 128 | 114 |
| 1943 | 168 | 144 | 117 | 161 | 136 | 119 |
| 1944 | 183 | 112 | 113 | 163 | 140 | 117 |
| 1945 | 202 | 185 | 109 | 174 | 164 | 106 |
| 1946 | 239 | 219 | 109 | 224 | 181 | 124 |
| 1947 | 328 | 279 | 118 | 294 | 222 | 133 |
| 1948 | 376 | 344 | 110 | 368 | 310 | 119 |
| 1949 | 440 | 373 | 118 | 360 | 319 | 113 |
| 1950 | 506 | 418 | 121 | 426 | 371 | 115 |
| 1951 | 644 | 524 | 123 | 577 | 461 | 125 |
| 1952 | 879 | 641 | 137 | . | 481 | . |
| 1953 | 1,107 | 809 | 137 | . | 604 | . |

*Source:* United Nations Bureau of Economic Affairs, based on data from Central Statistical Office, *Estadística Chilena*.

*The effect of import prices*

Another factor in the price rise was the cost-inflating effect of the increase in the price of imports, a major part of which is accounted for by foods, manufactured consumer goods and raw materials which enter into the production of primary consumer goods (for example, raw cotton).[72] Even in the absence of active inflationary pressure, such increases in import prices, which raise domestic costs of production, are bound to be reflected in a rise of the cost of living.

It is necessary to distinguish two elements in the rise of import prices, first, the rise in foreign prices of imported goods, which is reflected in the unit value of imports in gold pesos (or in its equivalent in United States dollars);[73] second, changes in the import rate of exchange. The effect of each of the two elements is

[72] The composition of Chilean imports in 1948-52 was as follows: consumer goods 31.6 per cent, raw materials 21.1 per cent, fuel 13.1 per cent, capital goods 34.2 per cent (*Estudio Económico de America Latina, 1951-52*, Mexico, D.F., 1954, page 73). An example of the dependence on imported raw materials is the fact that all cotton consumed by domestic textile mills is imported from abroad.

[73] Chilean foreign trade figures are given in gold pesos, the latter being a unit of account for foreign trade which bears a constant relationship to the United States dollar (one United States dollar equals 4.85 gold pesos).

Table 40. Chile: Indices of Import Prices, 1938 to 1953
(1937=100)

| Year | Import prices in gold pesos | Average import rate of exchange | Import prices in current pesos | Wholesale prices of imports |
|---|---|---|---|---|
| 1938 | 113 | 100 | 113 | 98 |
| 1939 | 96 | 101 | 97 | 101 |
| 1940 | 105 | 107 | 113 | 110 |
| 1941 | 109 | 110 | 120 | 140 |
| 1942 | 148 | 110 | 162 | 209 |
| 1943 | 172 | 112 | 193 | 238 |
| 1944 | 186 | 112 | 208 | 223 |
| 1945 | 176 | 122 | 214 | 222 |
| 1946 | 183 | 123 | 226 | 254 |
| 1947 | 231 | 123 | 283 | 303 |
| 1948 | 224 | 137 | 306 | 326 |
| 1949 | 210 | 150 | 310 | 375 |
| 1950 | 209 | 197 | 412 | 465 |
| 1951 | 243 | 232 | 561 | 658 |
| 1952 | 264 | 252 | 665 | 764 |
| 1953 | 248 | 289 | 716 | 876 |

*Source:* United Nations Bureau of Economic Affairs, based on data from Central Statistical Office, *Estadística Chilena*: Customs Administration of Chile, *Boletín Oficial* (Santiago).

illustrated in table 40, which gives the "gold unit values" of Chilean imports (column 1) and the average import exchange rates (column 2).[74] The product of the two indices gives the unit value of imports in current pesos (column 3), the movement of which shows a trend roughly parallel to that of the index of wholesale prices of import commodities (column 4).[75]

Of the two elements, only the increase in foreign prices is the active factor in the rise in the domestic price level. As may be seen from the table, upward adjustments in import exchange rates were well behind the increases in the domestic price level, in line with the government objective of slowing down the rise in domestic prices. Successive devaluations of the import rate, which have been accelerated since 1948, may be considered as having been imposed by continued pressure of import demand upon the country's foreign exchange position.

*The cost-wage spiral and the movement of real wages*

Inflationary pressures originating in the food sector, and the cost-inflating effect of increases in the foreign prices of imported goods, resulted either separately or in combination in recurrent pressure on the domestic price level. The characteristic continuity of Chilean inflation during the entire period 1940 to 1953 resulted from the persistent cost-wage spiral.

While the available statistics do not permit construction of a complete comparable series for real wages,[76] it is nevertheless possible to provide a rough appraisal of the general movement of real wages for the period under review.

A series of legislative measures enacted in 1938 resulted in a general increase in money wages and salaries, the establishment of minimum wage and salary rates and for all practical purposes a linking of salary and wage levels in most occupations to the cost of living. The effect of this legislation was to raise substantially the average level of real earnings of Chilean wage and salary earners between 1938 and 1940. The phase of adjustment resulting from the legislation of 1938 may be considered completed by 1941. The average level of real earnings of the employed population did not undergo any major changes during the following years. After a succession of relatively minor advances and declines until 1948, the level remained about the same. During the period 1940 to 1952 as a whole, real earnings showed a moderately rising trend (table 41).

[74] Until the exchange reform of mid-1953, which introduced a single import rate, foreign exchange for authorized imports was sold by the Central Bank at multiple rates, with essential imports (food staples and raw materials for industry) benefiting from preferential low rates. The average import rate is a weighted average of various rates applied to different import categories

[75] Departures from the trend in individual years may be ascribed to the incidence of demand factors which either reinforced (for example, in 1941 and 1946) or attenuated the effect on costs of the rise in import prices.

[76] Prior to 1940, for example, statistical information is limited to part of the total wage earning population (see table 41).

**Table 41. Chile: Indices of Real Earnings of Wage and Salary Earners,[a] 1937 to 1952**
(1940 = 100)

| Year | Average earnings, workers and salaried employees[a] | Average wages | Wages in industry | Wages in mining | Wages in domestic services | Wages in agriculture |
|---|---|---|---|---|---|---|
| 1937 | .. | . | 74 | 85 | . | ... |
| 1938 | | | 80 | 94 | . | ... |
| 1939 | ... | ... | 93 | 104 | ... | ... |
| 1940 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1941 | 109 | 107 | 107 | 101 | 104 | 107 |
| 1942 | 102 | 100 | 100 | 98 | 88 | 100 |
| 1943 | 101 | 103 | 103 | 104 | 78 | 103 |
| 1944 | 105 | 108 | 108 | 112 | 87 | 107 |
| 1945 | 111 | 125 | 119 | 122 | 99 | 110 |
| 1946 | 109 | 115 | 115 | 126 | 105 | 108 |
| 1947 | 104 | 108 | 108 | 115 | 85 | 102 |
| 1948 | 105 | 114 | 116 | 112 | 92 | 106 |
| 1949 | 105 | 114 | 116 | 116 | 100 | 102 |
| 1950 | 105 | 116 | 123 | 113 | 107 | 102 |
| 1951 | 104 | 111 | 117 | 117 | 103 | 95 |
| 1952 | 106 | 112 | 121 | 120 | 95 | 93 |

*Source:* United Nations Bureau of Economic Affairs, based on data from the following sources: United Nations, *Statistics of National Income and Expenditure*, Statistical Papers, series H; International Monetary Fund, *Report on the Process of Inflation in Chile Together With Recommendations* (Washington, D.C., 1950); Social Security Administration, *Anuario Estadístico*; Central Statistical Office, *Industrias* (Santiago); *Panorama Económico* (Santiago).

[a] Compensation of salaried employees accounts for almost half the combined wage and salary bill in Chile, although numerically the "employee" group represents only about one-fifth of the hired labour force (the figures for 1948 were 48 per cent and 22 per cent, respectively).

Table 42. Chile: Components of Gross National Product in Real Terms, and Ratio of Consumption to Private Income, 1937 to 1953

| Year | Percentage of gross national product | | | | Ratio of real consumption to private income[a] |
|---|---|---|---|---|---|
| | Quantum balance of trade | Government expenditure on current account | Total investment, public and private | Consumption and changes in inventories | |
| 1937 | 14.2 | 7.0 | 8.1 | 70.7 | 76.1 |
| 1938 | 11.5 | 7.0 | 8.3 | 73.1 | 85.8 |
| 1939 | 10.1 | 7.5 | 8.4 | 73.9 | 83.3 |
| 1940 | 9.7 | 7.7 | 8.8 | 73.8 | 85.2 |
| 1941 | 11.0 | 8.2 | 7.5 | 73.3 | 84.8 |
| 1942 | 13.1 | 8.2 | 6.1 | 72.6 | 86.9 |
| 1943 | 13.0 | 9.2 | 5.8 | 72.0 | 88.3 |
| 1944 | 13.0 | 9.0 | 6.9 | 71.1 | 86.9 |
| 1945 | 11.5 | 9.4 | 7.6 | 71.4 | 86.7 |
| 1946 | 9.2 | 9.9 | 8.6 | 72.3 | 86.4 |
| 1947 | 7.7 | 11.3 | 11.1 | 69.8 | 85.1 |
| 1948 | 7.1 | 10.7 | 10.5 | 71.7 | 87.2 |
| 1949 | 3.0 | 9.5 | 13.2 | 74.3 | 87.9 |
| 1950 | 5.1 | 9.9 | 11.7 | 73.3 | 85.8 |
| 1951 | 1.6 | 10.3 | 12.3 | 75.8 | 88.3 |
| 1952 | 1.4 | 10.5 | 12.9 | 75.2 | 86.4 |
| 1953 | −1.7 | 11.7 | 13.7 | 76.3 | 88.5 |

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

The figures for 1951 to 1953 differ from those given in table 32, the divergence being particularly great for the balance of exports and imports. The major source of discrepancy lies in the shift of the price base year in table 32 from 1937 to 1950, and is explained by the sharp decline in the terms of trade in 1950 in relation to 1937 (see table 43). Another source of discrepancy is the fact that, in table 32, the components are related not to the national product of the year given but to that of 1952.

[a] Including net income of foreign mining companies before remittances of profits abroad.

Stability in the over-all level concealed divergent movements in individual categories of wage and salary earners, which depended largely on the strength of their bargaining positions. Relatively large gains were made by wage earners in industry and mining, whose real earnings at the end of the period under review were about 20 per cent above the level of 1940. On the other hand, real wages of such categories as personal services and agriculture showed a tendency to decline.

According to the incomplete statistical information available, output per man appears to have increased slightly during the period under review.[77] Since the over-all level of real wages during the same period also showed a slightly rising trend, there was apparently little deterioration, if any, in real wages in relation to productivity.[78] The fact that the continued rise in the cost of living failed to be reflected in any significant redistribution of income against wages is characteristic of a wage-cost spiral.

[77] Year-to-year comparisons of productivity may be misleading because of fluctuations in harvests. If the period 1950 to 1952 is compared with 1937 to 1939, output per man shows a rise of about 4 per cent. The rise was slightly higher when compared with 1940 to 1942.

[78] From 1937 to 1941 output per man was relatively stable, so that the wage adjustments of that period resulted in a substantial rise of real wages in relation to productivity. This reflected the redistribution of national income in favour of wages achieved by the legislation of 1938.

### The course of inflation as reflected in national product and consumption

In the following paragraphs, the effects of these developments are considered in terms of the structure of the gross national product, particularly in the movement of private consumption.

Reference is made to figures for 1937 to 1953 showing the gross national product and its components in real terms (table 42). The first three columns of the table show the real balances of exports and imports, government expenditures on current account, and investment in fixed capital and equipment. Private consumption of goods and services, given in the fourth column, was obtained as a residual. These figures, shown as percentages of the gross national product for the appropriate year, are in constant 1937 prices.[79]

[79] The value of the gross national product, quantum balance, investment and gross private income include the operations of foreign mining companies; thus, imports of these companies and their exchange and profit remittances abroad are included in the accounts. Because of the difficulty of separating private and public investment activities (for example, in the handling of investments by mixed enterprises and quasi-governmental agencies), total investment in fixed capital was computed on the basis of domestic production and imports of capital goods; data for changes in inventories were not available. Thus, government expenditures on goods and services here relates to expenditures on current account only. The consumption component, which was obtained as a residual, includes changes in inventories.

Significant structural changes occurred in the national product of Chile during the period under review. Except for the interval between 1942 and 1945, which was a period of war-time difficulties in supply of imported goods, the contribution of the real balance of exports and imports declined steadily. This reflected the fact that, except for the interruption of the war-time years, imports continued to rise in the face of the stagnation of exports after their drop from the high level of 1937 (see table 43). Investment in fixed capital followed a rising trend, again except for the war-time interruption related to difficulties in supply of imported capital goods. There was also a steady rise in government expenditure on goods and services, a contributing factor being a rise in government employment.[80]

If the war-time period, during which the relative shares of all components showed little change, is excluded, changes in the three components may be summarized by noting that the decline in the real balance of exports and imports was offset by an increase in the two other components. This shift reflected the process of economic development referred to earlier, as a result of which the Chilean economy tended to be increasingly based on activities of domestic origin. The shift also had a bearing upon the growth of demand for consumer goods. In view of the relatively low wage content of output in export industries (chiefly mining) as compared with other activities, an increase in the national product implied a larger addition to wage incomes and consequently to consumer demand.

[80] According to a statement by the Minister of Finance in 1948, the number of employees on the government payroll, excluding police and armed forces, had increased 59 per cent as compared with 1938.

In addition to the ratio of real consumption to national product, another series was calculated for the ratio of consumption to private income (see last column of table 42). This was obtained by making appropriate adjustments, on one hand, for gains and losses in real income arising from changes in the "gold terms of trade"[81] and, on the other, for changes in real net taxation. A major element in government receipts was the taxation of copper exports, either directly or through the mechanism of differential rates. Aside from direct taxation of profits of mining companies, the rate of which had been raised considerably in 1943, substantial profits were derived from official transactions in foreign exchange. Under the system of differential rates, the peso rate at which exchange was surrendered by the mining companies to cover their operating costs and taxes in Chile had remained unchanged in the face of continued devaluation in the exchange rate for imports. This source has been particularly productive of revenue since 1947; it provided the channel through which the Government absorbed a major part of the continued improvement in Chile's terms of trade, as may be seen by comparing the relative movements in the terms of trade in gold pesos and in current pesos shown in table 43. Beginning with 1947, there is a sharp break in the parallelism of the two series, the "paper" terms of trade failing to share the improvement shown in the "gold"

[81] The "gold terms of trade" or the ratio of export and import prices in gold pesos represent the terms of exchange of Chile with other countries. The "paper terms of trade", or the ratio of export and import prices in current pesos, may be considered an indication of the domestic terms of exchange between sellers of export goods and domestic consumers of import goods (both series are given in table 43). Only the first ratio is relevant in this case.

**Table 43. Chile: Indices of Quantum of Exports and of Imports, Unit Values and Terms of Trade, 1938 to 1953**

(1937=100)

| Year | Quantum of exports | Quantum of imports | Unit value of exports | | Unit value of imports | | Terms of trade | |
|---|---|---|---|---|---|---|---|---|
| | | | In gold pesos | In current pesos | In gold pesos | In current pesos | In gold pesos | In current pesos |
| 1938 | 90 | 103 | 80 | 79 | 113 | 113 | 71 | 70 |
| 1939 | 83 | 100 | 86 | 87 | 96 | 97 | 90 | 90 |
| 1940 | 89 | 112 | 83 | 88 | 105 | 113 | 79 | 78 |
| 1941 | 96 | 112 | 85 | 94 | 109 | 120 | 78 | 78 |
| 1942 | 96 | 98 | 96 | 101 | 148 | 162 | 65 | 62 |
| 1943 | 92 | 86 | 100 | 105 | 172 | 193 | 58 | 54 |
| 1944 | 96 | 91 | 105 | 119 | 186 | 208 | 56 | 57 |
| 1945 | 99 | 100 | 109 | 143 | 176 | 214 | 62 | 67 |
| 1946 | 97 | 121 | 122 | 160 | 183 | 226 | 67 | 71 |
| 1947 | 93 | 132 | 154 | 155 | 231 | 283 | 67 | 55 |
| 1948 | 95 | 136 | 178 | 178 | 224 | 306 | 79 | 58 |
| 1949 | 88 | 164 | 178 | 186 | 210 | 310 | 85 | 60 |
| 1950 | 84 | 134 | 179 | 215 | 209 | 412 | 86 | 52 |
| 1951 | 77 | 153 | 251 | 336 | 243 | 561 | 103 | 60 |
| 1952 | 80 | 156 | 285 | 495 | 264 | 665 | 108 | 74 |
| 1953 | 92 | 152 | 294 | 498 | 248 | 716 | 118 | 70 |

*Source:* United Nations Bureau of Economic Affairs, based on the following sources: Central Statistical Office, *Estadística Chilena*; Customs Administration of Chile, *Boletín Oficial* (Santiago); Central Bank of Chile, *Boletín Mensual* (Santiago).

series. After 1951, the greater part of the further improvement in the terms of trade due to the rise of copper prices was absorbed directly by the Government through trading profits on sales of copper which it obtained from the companies at a fixed price (*precio legal*).

With regard to the statistical significance of the two ratios of consumption to national product and to private income, though it is true that values for individual years may be affected by the changes in inventories, which are included in the consumption component, over longer periods of time they provide an adequate indication of the trends and are meaningful for the purpose of this analysis.

If the general trend of the ratio of consumption to private income is considered, it will be seen that after a sharp rise from 1937 to 1938, it fluctuated during the rest of the period—one of continued rising prices—around a fairly stable or perhaps moderately rising trend (see table 42 and chart 1). This would tend to corroborate the conclusions reached earlier in connexion with the discussion of real wages. Other things being equal, the ratio of consumption to private income follows the movement of real wages, in view of the fact that the tendency to consume out of additional wage incomes is generally higher. However, a more careful examination of the data will take into account the fact that, aside from changes in real wages, the ratio of consumption to private income was also affected by changes in the terms of trade and in the rate of taxation of export profits, referred to above, which determined the profit content of private incomes. Thus the two ratios have to be considered in greater detail in relation to the various factors involved.

Three phases may be distinguished in this respect. The first, 1937 to 1941, corresponds to the period of wage and salary adjustments under the legislation of 1938. Both ratios showed a rise. The rise in the first ratio reflected the increase in the general level of earnings of wage and salary earners which, as noted earlier, rose significantly in relation to output per man.[82] Since the level of taxation of mining profits was relatively low, the sharp deterioration in the terms of trade after 1937 was reflected in a correspondingly steep fall in profit incomes, with the result that there was an even larger rise in consumption in relation to private income. The rise in consumption was made possible by an increase in the supply of food and manufactured goods.[83] In the second phase, from 1942 to 1946, which corresponds, roughly, to the war-time period, there were no major changes in the two ratios and neither showed a definite trend. The movement of the ratio of consumption to private incomes was affected largely by changes in the terms of trade.

Developments in the third phase, from 1947 onward, are of special interest. There was continued improvement in the terms of trade. At the same time, taxation of mining profits was increased considerably, and this was reflected in a sharp rise in government tax receipts. Combined with the policy of subsidizing imports of food and essential imports (for example, raw materials for domestic manufacturing industries) by means of low preferential rates of exchange, this resulted in siphoning most of the gains from favourable terms of trade into subsidizing consumption of lower income groups.[84] Since the greater part of the improvement in the terms of trade was absorbed by increased taxation of profits in mining and was channelled into consumption, this eliminated the "profit effect" of the improvement upon the ratio of consumption to private incomes noted in the earlier years. The ratio showed a fairly horizontal trend in line with the stability of real wages during this phase. On the other hand, the ratio of consumption to physical product, since the latter was not affected by the changes in the terms of trade, tended to rise with the increase in the gains from foreign trade.[85]

The over-all effect of government fiscal policy was thus, first, to maintain roughly unchanged, in the face of rising export prices, the relative shares of wages and profits in national income and, second, to check the tendency towards a redistribution of income against wages which an unrelieved operation of the inflationary process would have brought about.

### The monetary aspect of Chilean inflation

Although direct reference has not been made to the policies pursued by monetary authorities and the commercial banking system in the course of the inflation, it is clear that these were implicit in the developments analysed in the preceding sections. The expansion of public development activities as well as of private investment implied the provision of necessary funds; on the other hand, the continuation of the cost-wage spiral was contingent upon adequate monetary expansion to sustain the growth of the real national product at a rising level of costs and prices. In both cases, necessary elasticity of the money and credit system was provided by means of flexible management of the

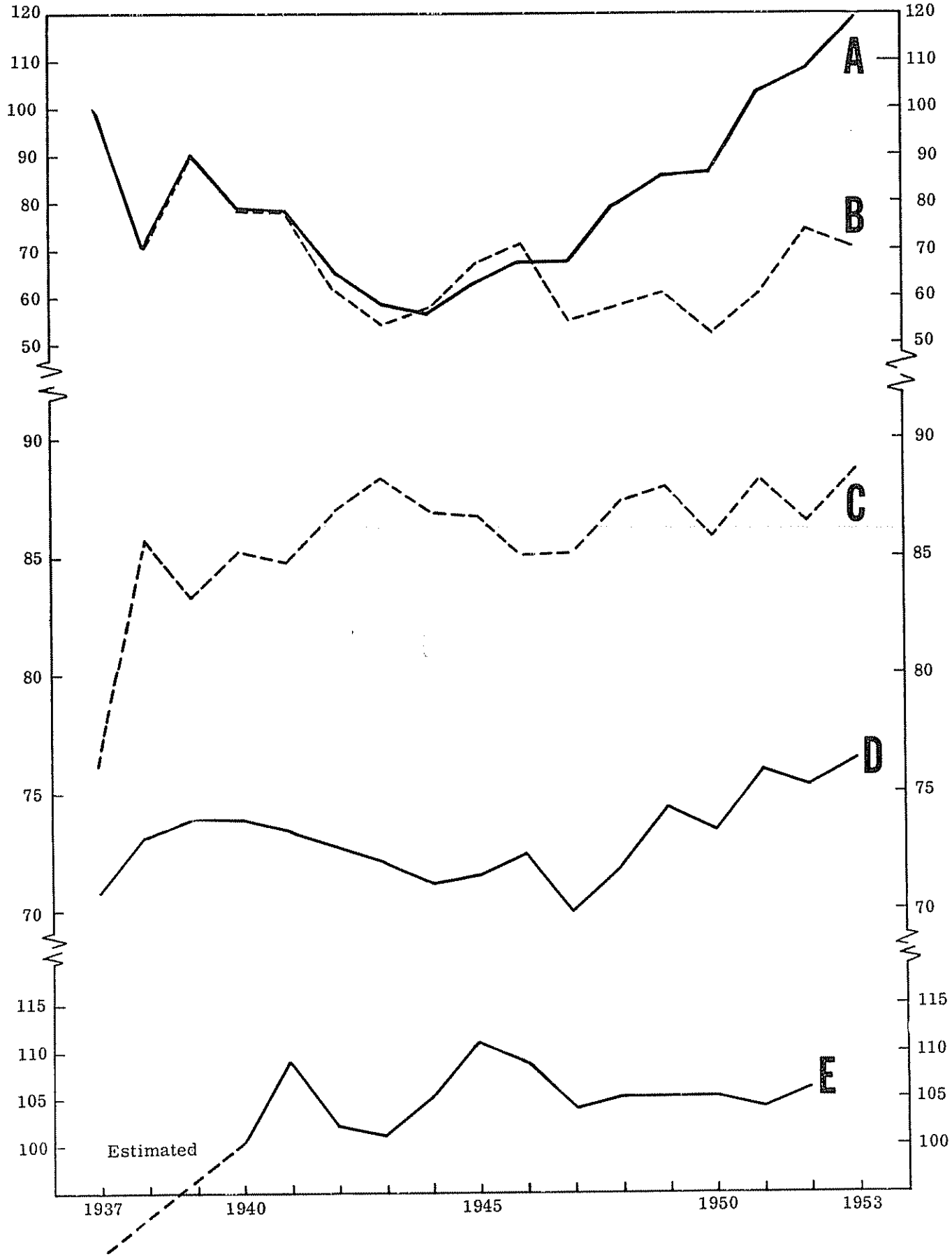
[82] It is assumed here, and in the following discussion, that changes in the share of labour consumption—or its practical equivalent, the total real wage and salary bill—moved parallel to total private consumption, an assumption which is borne out statistically.

[83] Between the two four-year periods, 1934-37 and 1938-41, while domestic production of food remained practically unchanged, imports rose by about 12 per cent. Imports of other consumer goods rose by more than 13 per cent.

[84] This amounted to increasing the supply of foreign exchange in the hands of the Government, which permitted the maintenance of imports at a level adequate to sustain real consumption.

[85] It is assumed that during this period output per man was roughly unchanged. Had there been a decline in productivity, the conclusions of this analysis would have been reinforced. In such case, the fact that real wages were maintained would have meant that the fiscal policy of the Government, in addition to counteracting the effect of inflationary pressure, also compensated for the fall in productivity.

Chart 1. Chile: Terms of Trade, Consumption and Earnings of Labour, 1937 to 1953




*Source:* See tables 41, 42 and 43.

A. Terms of trade in gold pesos (1937=100).
B. Terms of trade in current pesos (1937=100).
C. Consumption as a percentage of gross private income (1937=100).
D. Consumption as a percentage of gross national product (1937=100).
E. Average real earnings (1940=100).

Table 44. Chile: Indices of Industrial Production, 1938 to 1953
(1937=100)

| Year | Cement | Steel[a] | Electric energy | Textiles | Shoes | Total industrial production |
|---|---|---|---|---|---|---|
| 1938 | 116 | [a] | 106 | 96 | 100 | 104 |
| 1939 | 109 | 152 | 107 | 98 | 101 | 103 |
| 1940 | 123 | 127 | 120 | 110 | 120 | 114 |
| 1941 | 115 | 133 | 129 | 119 | 113 | 116 |
| 1942 | 117 | 192 | 134 | 119 | 100 | 115 |
| 1943 | 120 | 139 | 146 | 124 | 105 | 111 |
| 1944 | 116 | 152 | 153 | 137 | 118 | 114 |
| 1945 | 131 | 157 | 187 | 149 | 121 | 130 |
| 1946 | 185 | 150 | 207 | 139 | 119 | 138 |
| 1947 | 192 | 167 | 227 | 144 | 127 | 137 |
| 1948 | 173 | 216 | 245 | 145 | 115 | 141 |
| 1949 | 158 | 212 | 269 | 146 | 110 | 146 |
| 1950 | 164 | 118 | 319 | 145 | 112 | 146 |
| 1951 | 223 | 309 | 353 | 143 | 104 | 167 |
| 1952 | 268 | 448 | 393 | 153 | 105 | 184 |
| 1953 | 250 | 413 | 418 | 165 | 111 | 201 |

*Source:* Central Statistical Office, *Estadística Chilena*.

[a] 1936-38=100.

central banking mechanism and willingness on the part of commercial banking to provide expanded credit facilities. Central bank credit to the Government was expanded and this helped to finance recurrent budget deficits originating in the increase in public expenditures. At the same time, the central bank appears to have pursued a generally liberal rediscount policy, which provided commercial banks with sufficient liquidity. While bank credit was theoretically limited to short-term commercial loans, it was in fact widely used in long-term financing of private investment activities. The balance of payment surpluses which had been built up during the war-time years led to a favourable reserve position for the central bank and provided the basis for credit expansion. In the post-war years, the improvement in the terms of trade, combined with increased taxation of exports, enabled the central bank to maintain, on the whole, a favourable position with regard to foreign exchange reserves.

### Stagnation of output in consumer goods industries

Although over-all figures on output in consumer and capital goods industries are not available, it is possible to trace the relative development of the two sectors by means of a few representative series (see table 44). Examination of these indicates that while output of capital goods rose steadily, production in industries characteristically related to consumer demand of lower income groups, such as textiles and shoes, remained relatively stagnant, after a rapid increase in the years 1940 to 1945. This increase largely represented a rise in the domestic output of substitutes for imported goods caused by war-time limitations of supply.[86]

Expansion of the capital goods industries in Chile reflects the process of economic development in that country, particularly public investment activities.[87] The lack of parallel expansion in consumer goods industries, which is indicative of stagnation of domestic demand, despite a rise in employment and incomes, may be related to the inflationary factors analysed above. As consumption of food tended to absorb an increasing part of the incomes of urban lower income groups, their demand for manufactured consumer goods was correspondingly reduced. Normally, higher prices received by agricultural producers would result in increased consumption of industrial consumer goods in rural areas, thus offsetting the decline in urban demand. However, owing to the institutional structure of Chilean agriculture, the increased incomes accrued chiefly to large-scale producers, whose tendency to consume out of additional income is small, particularly with regard to goods of domestic manufacture. Thus, after a phase of expansion stimulated by substitution for imports, the capacity of the domestic market to absorb manufactured consumer goods was checked. Total real

[86] A similar "substitution phase" in the industrial development of Chile, stimulated by a sharp drop in imports as a result of acute foreign exchange difficulties, occurred in the depression period of the nineteen thirties. Total industrial output increased 47 per cent from 1929 to 1937; during the same period output of cotton textiles rose about 400 per cent. The substitution effect is illustrated by the decline in the percentage of consumer goods in Chilean imports, from 49 per cent in 1928-30 to 37 per cent in 1935-37.

[87] Governmental developmental activities tended towards expansion in the basic sectors of the domestic economy, including communications, facilities for the generation of electric power and the iron and steel industry (see reply of the Government of Chile to the communication of the Secretary-General of the United Nations requesting information on measures taken by governments to deal with inflationary pressures associated with high levels of economic activity or with the process of economic development in under-developed countries, document E/2563).

consumption continued to rise, so that the stagnant consumption of manufactured goods accompanied a continued rise in the consumption of food.

### Concluding remarks

The characteristic features of Chilean inflation were, first, an imbalance between the demand for food and the food supply, reflecting the stagnation in agriculture in association with the rise in non-agricultural employment and incomes; second, a persistent cost-wage spiral (while the rise in foreign prices of imported goods contributed to the price rise, it cannot be considered a characteristic factor). In the face of continued price rises, wage and salary earners succeeded, on the whole, in maintaining—and apparently raising somewhat—the level of real wages which they had achieved as a result of the wage and salary adjustments of the period 1938 to 1941. The fact that the price rises failed to result in a redistribution of income against real wages, usually associated with an inflationary process, was due to government policy of sustaining consumption of lower income groups by means of subsidies for imports of food and essential raw materials for domestic industries, financed by taxation of export profits. The effect of this policy was to channel into consumption the benefits from terms of trade which were improving during most of the period—the volume of exports showed a declining trend—and to offset to that extent deficiencies in the domestic food supply. However, the fact that the balance in the demand-supply situation thus achieved was precarious was reflected in the persistence of the cost-wage spiral and in the development of strains in the structure of consumption, resulting in a tendency towards stagnation of domestic consumer goods industries.

Another aspect requires brief comment. The question may well be raised why, in view of the protracted nature of the inflation, the rate of price increase remained on the whole within reasonable limits, without degenerating into runaway inflation or hyper-inflation.

The transformation of a "normal" inflationary process into runaway inflation depends essentially on changes in the rate of price increases. Acceleration of this rate beyond a certain critical point may lead to general expectation of further rises and reluctance to hold money except for the minimum required for current transactions. All incomes received by individuals thus tend to be spent immediately on consumption or investment, the latter in particular taking the form of massive hoarding of goods. There develops a flight from money into goods which results in a still further acceleration of the price rise, degenerating finally into a hyper-inflationary spiral.[88] In the case of Chile, the government policies described, which sought to protect the level of real consumption of lower income groups, helped to keep price increases under control, in spite of recurring "shocks" resulting from the precarious balance between demand and supply and increases in foreign import prices. These policies acted as a brake on accelerating tendencies that might have developed in the inflationary process.

[88] Discussion of the nature of hyper-inflation was contained in an earlier United Nations report in connexion with the situation in China in the period immediately following the war (see *Inflationary and Deflationary Tendencies, 1946-1948*, sales number 1949.II.A.1).

# Part II

# INTERNATIONAL TRADE AND PAYMENTS

# Chapter 4

# MAJOR DEVELOPMENTS IN WORLD TRADE

Developments in world trade have continued to be generally favourable since about the middle of 1952. The volume of world trade has steadily grown, and relatively stable terms of trade have prevailed between primary producing and industrial countries. The balance of payments difficulties which had characterized so large a part of the world during the post-war period have been considerably eased, and gold and dollar reserves, outside the United States of America, have continued to increase. While the conditions for an early resumption of convertibility did not appear to have been established in 1954, there was a growing tendency to dismantle parts of the machinery of international trade controls on which most non-dollar nations have had to rely up to now for protection of their balance of payments.

The current measure of international balance, unlike that which obtained in 1950/51, has been achieved without relying upon an abnormally inflated United States demand and booming prices in exports to the United States. On the contrary, it was maintained in 1954, albeit with a partial setback, in the face of a recession in economic activity in that country. While it is true that the contraction was mild and not cumulative in its effect on income and demand—it was halted in the first half of 1954 and an upturn began in the second half—it had been commonly feared in many parts of the world that even a mild recession would lead to a decline in world trade and in prices of primary products, and would pose a balance of payments problem for the rest of the world. The volume of world trade and the prices of primary products were both supported, however, by rising demand generated by expanding activity in western Europe. That the rest of the world should have been able to add substantially to its international reserves while its output was expanding and that of the United States falling, is a striking indication of the extent to which its earlier dependence upon an import balance with the United States and its vulnerability to small fluctuations in United States import demand have been lessened.

Just as the gradual increase in production and supply of consumer goods in the early post-war years had provided the basis for eliminating the war-time system of internal price and rationing controls, so the continuing rise in international reserves since the middle of 1952 has permitted a considerable degree of relaxation of trade and payments controls, and even a lessening of discrimination against imports from the United States. A part of Europe's imports from the dollar area has been freed from quantitative controls, import licences have been granted more liberally, and, in the United Kingdom, markets have been reopened for a considerable number of commodities, permitting their importation without restriction as to source of supply. Exchange restrictions on service and capital payments have also been relaxed in western Europe.

Both the industrial and the primary producing countries have shared, although not in equal degree, in the rise in volume of world trade. Their gold and foreign exchange reserves also rose in 1954, although the rate was slower than in 1953, and there were some exceptions from the general trend, most notably in non-dollar Latin America.

While the rise in world trade in 1954 was widely shared, and the changes in trade balances did not generally raise acute difficulties, several problem areas did develop. A number of countries, including both industrial and primary producers, were either confronted with an actual deterioration, or were concerned with a potential deterioration, in their balance of payments in the course of 1954 or early in 1955. The contraction in United States output was a relatively unimportant factor in these developments. Most of the countries involved had greatly expanded their imports owing to higher incomes and production and to relaxation of import restrictions, although in several instances poor weather conditions affecting food grains and feedstuffs were also important factors. In addition, exports of a number of countries fell, owing to increased production or declining demand for inventories in some importing countries, or to resistance to large and rapid price increases. To check the actual or threatened deterioration in their balances, the countries concerned generally tightened credit facilities or raised their interest rates, and in a number of instances decided to cut public expenditure, restrict private fixed capital investment or increase indirect taxes and import duties. Mexico, Chile and Brazil adjusted their exchange rates in the course of the year. Although the general tendency was to relax direct import restrictions, especially in Europe, a number of countries had to tighten quota or exchange controls towards the end of 1954 or early in 1955 to check the rise in imports.

Apart from the immediate difficulties resulting from deteriorating trade balances in 1954, there remain serious problems of imbalance of longer-term significance. Among the most important of these is the emergence of surpluses in a number of agricultural commodities, especially rice, sugar, wheat and cotton. These surpluses have posed a problem not only for the countries holding them, but also for other exporters of these commodities. The increasing concern of primary producing countries with the price instability of their major export products was an important factor in the establishment of the Commission on International Commodity Trade in 1954.

While progress towards balance in international transactions with the United States has been considerable, it should be noted that other countries have a combined deficit with the United States on commercial current and long-term capital account of about $3.2 billion, the rise in foreign gold and dollar holdings in 1954 being associated with United States short-term and medium-term capital outflow and with foreign economic aid and military expenditure. While the latter item does involve an export of goods and services to the United States, there is, of course, no assurance that any possible future release of resources from such use would lead to a rise in commercial exports or make possible a further reduction in imports of equal magnitude. Even the present balance with the United States is maintained with the aid of import controls in many countries, and it is difficult to estimate the extent to which the pattern of trade might be changed by their elimination. The liberalization of trade with the United States in 1954 in a number of European countries was in part an attempt to probe the extent of such possible changes, but it is too early yet to determine its effects.

Some modification of restrictions in east-west trade took place during the period under review. The number of trade agreements with eastern European countries increased over the past two years, and the list of commodities for which such agreements were made expanded. Trade with several countries in Asia and Latin America took on greater importance in the first half of 1954. However, east-west trade still remains relatively small as compared with pre-war levels.

## The Rise in World Trade

World commercial trade in 1954 surpassed the all-time peak that had been reached in 1953. The value of commercial exports, measured in constant United States dollar prices, in the first three quarters of 1954 was about 7 per cent higher than in the same period of 1953 or 16 per cent above 1950. The rise in quantum of trade (table 45) was accompanied by a moderately declining level of export prices, so that the value in current prices

**Table 45. Indices of Quantum of Exports and Imports of Industrial and Primary Producing Countries, 1953 and 1954**

(1952 = 100)

| Area | Exports[a] | | | Imports | | |
|---|---|---|---|---|---|---|
| | 1953 Full year | January to September | | 1953 Full year | January to September | |
| | | 1953 | 1954 | | 1953 | 1954 |
| WORLD TOTAL | 105 | 102 | 109 | 103 | 102 | 108[b] |
| Total, industrial countries | 105 | 101 | 112 | 137 | 132 | 150 |
| United States | 94 | 94 | 96 | 105 | 107 | 98 |
| United Kingdom | 104 | 101 | 109 | 110 | 109 | 111 |
| Continental OEEC countries | 111 | 105 | 122 | 106 | 103 | 118 |
| Total, OEEC countries | 109 | 104 | 118 | 107 | 104 | 117 |
| Within OEEC | 113 | 107 | 122 | ... | ... | ... |
| With other countries | 107 | 101 | 113 | ... | ... | ... |
| Japan | 112 | 109 | 134 | 137 | 132 | 150 |
| Total, primary producing countries | 104 | 102 | 105 | 97 | 95 | 100[b] |
| Canada | 99 | 97 | 92 | 110 | 112 | 102 |
| Latin America | 111 | 110 | 112 | 93 | 90 | 102 |
| Oversea sterling area | 104 | 102 | 104 | 92 | 92 | 99 |

*Source:* Statistical Office of the United Nations and United Nations Bureau of Economic Affairs. The classification of countries in this table and that used throughout part II of this report is the same as in earlier reports. The term "industrial countries" refers to the United States, western Europe and Japan. Western Europe includes all countries which are members of the Organisation for European Economic Co-operation (OEEC): Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy and Trieste, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom. The term "primary producing countries" includes all other countries except eastern Europe and mainland China.

[a] Excluding United States exports of military goods.

[b] Preliminary.

showed a smaller rise; as compared with 1952, when export prices were about 8 per cent higher, there was only a very slight increase in the annual rate.

It is significant that 1954 should be characterized by an increasing volume of world exports and only moderately declining export prices, despite a contraction in United States output. While this led to a decline in exports to the United States both from Europe and from the primary producing countries, this drop was more than offset by a rise in trade elsewhere. Other things being equal, it might have been expected that a recession in output in the United States would have led not only to a reduction in its imports but also to secondary reductions in imports by the rest of the world. Such a multiplier effect might have been anticipated, owing both to the income and to the foreign exchange effects of the initial decline in exports. The countries experiencing the initial drop in exports—either in quantum or in price or in both—would normally tend to decrease their imports as well. In this manner the impact on export proceeds and income would be transmitted throughout the entire group of trading countries.

In this period, however, the fall in United States imports had little secondary repercussion. As already noted, unlike similar periods in the past, the 1954 recession in output did not lead to balance of payments difficulties for the rest of the world; instead, it was accompanied by rising gold and dollar reserves abroad, albeit at a lower rate than in the preceding year. In addition, its effect on the world level of economic activity was offset by a marked expansion of output in western Europe. There was accordingly a rise in the import demand of western Europe not only for goods from within western Europe but also for exports from the rest of the world, which more than offset the decline in import demand of the United States. The support thus given to export markets for primary products, together with increased short-term and medium-term credits granted by the United States and western Europe, enabled primary producing countries to increase their outlays for imports, although there was generally also a fall in the rate of accumulation of gold and foreign exchange. Most of the increase in demand was directed towards western Europe, whose export capacity has been greatly expanded. The rise in trade in the rest of the world was thus more than sufficient to offset the decline in exports to the United States. The resulting pattern of trade, by source and destination, measured in United States dollar values, is shown in table 46.

Exports of primary producers in the first nine months of 1954, in constant United States dollar prices, were 3 per cent higher than in the same period of 1953 and about 5 per cent above the average of 1952. Average export unit values were one per cent below the level of the preceding year and about 5 per cent below the average of 1952. Accordingly, the index of the dollar value of exports by primary producing countries has changed but little since 1952. As already indicated, the demand for exports of primary producers in the first three quarters of 1954 was generally affected by two conflicting forces, a decline in import demand of the United States and a rise in import demand of the other industrial countries. This difference in import demand was, however, less significant than might be assumed at first sight. In the case of foodstuffs, demand is related not so much to industrial production as to personal disposable income. Since personal income was sustained in the United States despite the decline in industrial production, food consumption was not reduced. While the volume of United States coffee and cocoa imports did decline, this was due to withholding of purchases resulting from extraordinarily large price increases rather than to a decline in consumer demand at constant prices. Apart from these two commodities, of which the value of imports rose sharply while the quantity fell, other United States food imports declined less than 3 per cent in value in the first three quarters of 1954. Significant decreases in import demand for food occurred in countries other than the United States; they were due primarily to a rise in output in the importing countries, although in some instances stocks of imported foodstuffs appear also to have been drawn down.

The demand for raw materials from primary producers was, of course, affected by the divergent trends in industrial production. In the first half of 1954 the value of United States imports from primary producers of commodities other than food fell by over 10 per cent as

Table 46. Value of World Exports by Source and Destination, 1953, First Half, and 1954, First Half

(Billions of United States dollars)

| Item and area | | Exports to | | | Total |
|---|---|---|---|---|---|
| | | United States | OEEC | Other[a] | |
| *Exports from:* | | | | | |
| *United States:*[b] | | | | | |
| 1953 | First half | | 1.33 | 4.52 | 5.85 |
| 1954 | First half | | 1.44 | 4.60 | 6.04 |
| *OEEC:* | | | | | |
| 1953 | First half | 1.04 | 6.53 | 5.35 | 12.93 |
| 1954 | First half | .88 | 7.07 | 5.98 | 13.93 |
| *Other:*[a] | | | | | |
| 1953 | First half | 4.31 | 6.19 | 4.55 | 15.04 |
| 1954 | First half | 4.06 | 6.44 | 4.78 | 15.28 |
| TOTAL:[a] | | | | | |
| 1953 | First half | 5.35 | 14.05 | 14.42 | 33.82 |
| 1954 | First half | 4.94 | 14.95 | 15.36 | 35.24 |

*Source:* Statistical Office of the United Nations.

[a] Excluding eastern Europe and mainland China.

[b] Excluding United States "special category" exports.

compared with a year earlier, while the corresponding value of western European imports increased by about 5 per cent. In view of the decline in prices of imported raw materials, the reduction in the quantum of such imports in the United States and the rise in Europe were probably of the same relative order of magnitude. There were, however, important differences among the major raw materials, which will be reviewed later.

Apart from the divergent changes in demand, there were variations in supply attributable both to differences in weather and to varying government policies with respect to production and prices. Despite the diversity of influences, most primary producing countries experienced an increase in the quantum of their exports. Important exceptions were Australia, Brazil, Canada, Pakistan, Taiwan, and Thailand, reflecting lower exports of cereals, sugar, coffee, jute and wool. Cotton exports also fell in Pakistan, owing to reduced output, but rose in Brazil.

The increase in quantum of exports of industrial countries in the first nine months of 1954 compared with the same period in 1953 was about 11 per cent, or nearly three times as much as for the primary producing countries. All of the industrial countries registered significant increases in the quantum of their exports, with the greatest increases—about 16 per cent—reported in continental western Europe.

Up to the early months of 1954, United States exports had been falling. The major factors contributing to this fall were the recession in economic activity in Canada and the good harvests of 1953/54 in most of the world. In the course of 1954, however, the continuing strength in the reserve position of the European countries in the face of the decline in United States imports encouraged them to liberalize their trade restrictions and in some cases to reduce their discrimination against the United States. Poor harvests in a number of countries in 1954/55 also contributed to a greater import demand for food and, in addition, the United States began to export significant quantities of its surplus agricultural commodities for payment in local currencies at competitive world market prices. United States exports thus were higher in 1954 than in the preceding year.

In the countries members of the Organisation for European Economic Co-operation (OEEC) there was, in addition to the rise in imports from the rest of the world, a large increase in exports to one another. The rise in imports into western Europe was associated with a striking growth in its economic activity. However, the increase in continental OEEC imports was significantly greater than the rise in industrial production, the difference reflecting in large part accumulation of inventories. The quantum of United Kingdom imports, however, rose less than 2 per cent from the first three quarters of 1953 to the same period in 1954, although the trend was significantly upwards in the fourth quarter. The small rise in United Kingdom imports in relation to industrial output was in marked contrast with developments in the preceding year, when imports rose about 10 per cent while manufacturing increased about 7 per cent. The change was due both to a relative shift in output from more to less import-intensive industries and to a drop in investment in inventories of certain foodstuffs and raw materials, partly associated with the transfer of purchases to private control.

Although the increase in exports of OEEC countries to one another was considerable, it was, nevertheless, only slightly larger than the increase in their exports to the rest of the world. This is especially striking when account is taken of the significant decline in exports to the United States and Canada in the first nine months of 1954 associated with the slackening of economic activity in those two countries. Indeed, the rise in western European exports to countries other than the United States and Canada appears to have been considerably greater than the increase in the quantum of exports to one another. Most of the increase in value of oversea sales of the United Kingdom went to the oversea sterling area while the increase in continental OEEC exports, although important in the oversea sterling area also, was greater to Latin America and to eastern Europe. The increase in exports to primary producers was due largely to the earlier recovery in their exports and their foreign reserves and to their relaxation of import restrictions in order to replenish inventories that had been run down in the preceding period. In part, it was also associated with an expansion of medium-term credit facilities for exports of capital goods and with other export incentives provided in a number of European countries.

Most of the increase in imports of the primary producers was already recorded by the second half of 1953 following relaxation of import restrictions that had been tightened earlier after the collapse in raw material prices. Inventories of raw materials had been run down, and consumption of imported finished industrial goods curtailed during the period of tightened restrictions in 1952/53, and the easing of such controls following the rebuilding of their international reserves led to a significant increase of buying in foreign markets. Imports of engineering products, which had fallen less than other goods, also recovered strongly as fixed capital investment expanded, and several exporting countries granted medium-term credits to promote such trade. In 1954 the rate of growth of imports slackened, partly because the increased harvests of 1953/54 reduced import requirements for food and partly because reserves of foreign exchange in a number of countries were declining sharply and it was necessary for them to restrict credit and tighten import controls once again.

The largest part of the increase in imports of primary producing countries in the first three quarters of 1954 was accounted for by Latin America and the oversea sterling area. In Latin America it was associated with the revival of Argentine exports, a sharp rise in coffee and cocoa prices and a favourable position in petroleum. In the oversea sterling area, Australia showed the largest increase in imports, following a rise in its export income and a consequent increase in its foreign reserves, which made a relaxation of trade controls possible. In the second half of 1954 this policy was reversed as export proceeds had declined in the meantime, and reserves were again run down. The oversea dependencies of continental Europe, whose imports had declined less than those of Latin America and the oversea sterling area in 1953, also showed a considerable rise in quantum in 1954, reaching a level in excess of the 1951 peak. The strength of this recovery was based largely on increased export earnings.

The changes in Canada's imports were quite distinct from those of other primary producers. In 1952/53, when primary producers were generally reducing their imports as a result of the earlier decline in export earnings, Canada was increasing its imports in line with its general economic expansion and growing capital imports from the United States. In the second half of 1953, however, Canada, like the United States, experienced a mild economic recession and its imports fell off; the level in the first nine months of 1954 was about 10 per cent below that of the corresponding period of 1953.

## Relative Stability in Terms of Trade

The rise in the volume of world trade was accompanied by little change in the global terms of trade between primary producing and industrial countries (see table 47). Export prices of both groups of countries have been declining moderately since mid-1952, but the terms of trade between them have remained on the average similar to those which prevailed in the first half of 1950. The decline in export unit values of industrial countries is accounted for very largely by the OEEC countries. Unit values also fell to some extent in Japan, but in that country most of the drop from the 1951 peak had already occurred by the end of 1952. Unit values in the United States, on the other hand, have been extraordinarily stable since the second half of 1952 and indeed have changed little since 1951; they shared neither in the rise of unit values in Europe in the course of 1951 nor in the decline after that period. Among the OEEC countries also, export unit values of the United Kingdom have been more stable than those for the continental countries, although they fluctuated more than those of the United States. A large part of the variation in movement of unit values among these countries is attributable to differences in commodity composition of exports. Continental OEEC exports are more heavily weighted than those of the United Kingdom by primary products, whose prices showed relatively large fluctuations during the past few years. While primary products are also a large part of United States exports, their prices were largely stabilized through United States Government measures. A contributing element in the drop in continental OEEC export unit values in 1954 may have been the decline

Table 47. Indices of Unit Value of Exports and Imports of Industrial and Primary Producing Countries, 1953 and 1954

(1952=100)

| Area | Exports[a] | | | Imports | | |
|---|---|---|---|---|---|---|
| | 1953 Full year | January to September | | 1953 Full year | January to September | |
| | | 1953 | 1954 | | 1953 | 1954 |
| WORLD TOTAL | 95 | 96 | 93 | 93 | 93 | 91 |
| Total, industrial countries | 94 | 95 | 92 | 92 | 92 | 90 |
| United States | 99 | 99 | 98 | 96 | 96 | 98 |
| United Kingdom | 97 | 97 | 95 | 88 | 89 | 87 |
| Continental OEEC countries | 92 | 92 | 88 | 92 | 92 | 88 |
| Total, OEEC countries | 93 | 94 | 90 | 91 | 92 | 88 |
| Japan | 89 | 88 | 89 | 87 | 87 | 84 |
| Total, primary producing countries | 96 | 96 | 95 | 94 | 95 | 92 |
| Canada | 97 | 97 | 95 | 98 | 98 | 99 |
| Latin America | 98 | 97 | 101 | 96 | 96 | 94 |
| Oversea sterling area | 95 | 96 | 93 | 93 | 93 | 91 |

*Source:* Statistical Office of the United Nations and United Nations Bureau of Economic Affairs. Calculated in United States dollars.

[a] Excluding United States exports of military goods.

in import unit values; significant increases in productivity accompanying the expansion of output generally offset the effect of increases in wages upon export prices.

That the decline in export prices of primary producing countries was negligible despite the contraction in United States output was due in large part to the offsetting effect of the rise in economic activity and import demand in western Europe. There were, however, also important price stabilizing factors at work in the United States, which kept the internal price level highly stable despite the contraction in output. Among those with most direct impact on prices were the farm support programme, the rise in money wage rates and, in the case of non-ferrous metals, the renewed stockpiling in 1954.

Despite the comparative stability in average prices of primary products, there was considerable diversity in changes of export unit values of the primary producing countries, more so than in the quantum of their exports. This is not surprising since the relatively low price elasticity of both demand and supply for primary products tends to produce considerably larger fluctuations in prices than in quantities of exports. Thus, small reductions in supply such as occurred in the case of cocoa may lead to substantial increases in price. Similarly, attempts to reduce inventories often require substantial price reductions if they are to succeed even on a modest scale.

Despite the decline in average export unit values in world trade, import unit values of the United States rose slightly in 1954. This was largely owing to the sharp rise in coffee and cocoa prices, which somewhat more than offset declines in prices of other imports generally. Since its export unit values fell slightly, its terms of trade deteriorated somewhat. In western Europe, import prices fell somewhat, though more on the continent than in the United Kingdom, and the terms of trade were virtually unchanged. There appears to have been some improvement in the terms of trade in the first half of 1954, but deterioration apparently set in towards the end of the year.

The moderate decline in export unit values of the industrial countries was reflected in an equally moderate decline in import unit values of the primary producers in the aggregate, the terms of trade with the industrial countries having improved slightly. The decline in the oversea sterling area was somewhat more limited than that of the dependencies of continental European countries, owing to the greater importance of the United Kingdom as a source of supply. Canada, whose trade is primarily with the United States, showed no drop at all; in mid-1954 its terms of trade were 4 to 5 per cent less favourable than a year earlier, although still more than 5 per cent above the 1950 level.

On the average the terms of trade of the industrial countries with the primary producers, after very considerable fluctuation, have become remarkably similar to those which prevailed prior to the outbreak of Korean hostilities. Even the United Kingdom, which had the most unfavourable change in its terms of trade during the 1950/51 boom, gradually regained this loss. The United States is a notable exception, its terms of trade having been continuously less favourable than in the first half of 1950; the decline in raw materials prices since mid-1951 has not been sufficient to restore its terms of trade to the pre-Korean level. The counterpart of this change is a slight improvement in the terms of trade of primary producers, notably in Latin America and the dependencies of continental OEEC countries. The oversea sterling area, which was the largest gainer during the 1950/51 boom, now has significantly less favourable terms of trade than prevailed before the upsurge in prices.

## The Shifting Commodity Composition of Trade

It is, as usual, difficult to discern any general trends in the widely discrepant movements in the commodity components of world trade. By 1953 the effect of the boom and collapse in raw materials prices upon exports of primary products had already been in large part spent, and comparative stability had been reached in markets for primary products (table 48). On the average, export receipts from primary products were about 15 per cent above 1950, with increases of primary producing countries relatively greater than those of industrial countries. The increases in unit values and in quantum each accounted for approximately half the rise in value. In general, exports of minerals showed the largest gains, both in quantum and in unit value. Agricultural raw materials, on the other hand, were generally in a very weak position: unit values were on the average no higher than in 1950 and the quantum of exports was approximately 5 per cent below the 1950 level. The textile fibres fared the worst in this group, the quantum being about 10 per cent below the 1950 level, and unit values about 5 per cent below. Foodstuffs occupied an intermediate position which was, however, more favourable than that for the average as a whole. The quantum and unit value indices (1950=100) of world exports of primary products in 1953 are set out below:

| | *Quantum* | *Unit value* |
|---|---|---|
| All primary products | 106 | 108 |
| Crude foods | 109 | 115 |
| Agricultural raw materials | 95 | 99 |
| Minerals[a] | 128 | 117 |

*Source:* Statistical Office of the United Nations.
[a] Fuels and metallic ores.

Table 48. Index of Primary Products' Prices in External Trade, 1950 to 1954
(1952=100)

| Period | Total, primary products | Food[a] | Raw materials | | |
|---|---|---|---|---|---|
| | | | Total | Agricultural | Mineral |
| 1950 First half | 81 | 82 | 81 | 81 | 80 |
| 1950 Second half | 98 | 90 | 102 | 108 | 88 |
| 1951 First half | 116 | 96 | 128 | 141 | 100 |
| 1951 Second half | 108 | 100 | 114 | 118 | 100 |
| 1953 First half | 96 | 101 | 93 | 92 | 92 |
| 1953 Second half | 96 | 104 | 91 | 90 | 94 |
| 1954 First half | 101 | 115 | 92 | 91 | 94 |
| 1954 Second half | 100 | 113 | 92 | 91 | 94 |

*Source:* Statistical Office of the United Nations. Calculated in United States dollars.
[a] Not processed.

The comparative stability in average primary product prices apparent in the data since 1953 is partly illusory, however, since there were very substantial changes in prices of individual commodities. These fluctuations were not unrelated to the economic forces generated by the Korean hostilities. From mid-1952 to mid-1954 there appears to have been some tendency towards partial readjustment in the commodity pattern of trade from the divergent trends of the preceding two years.

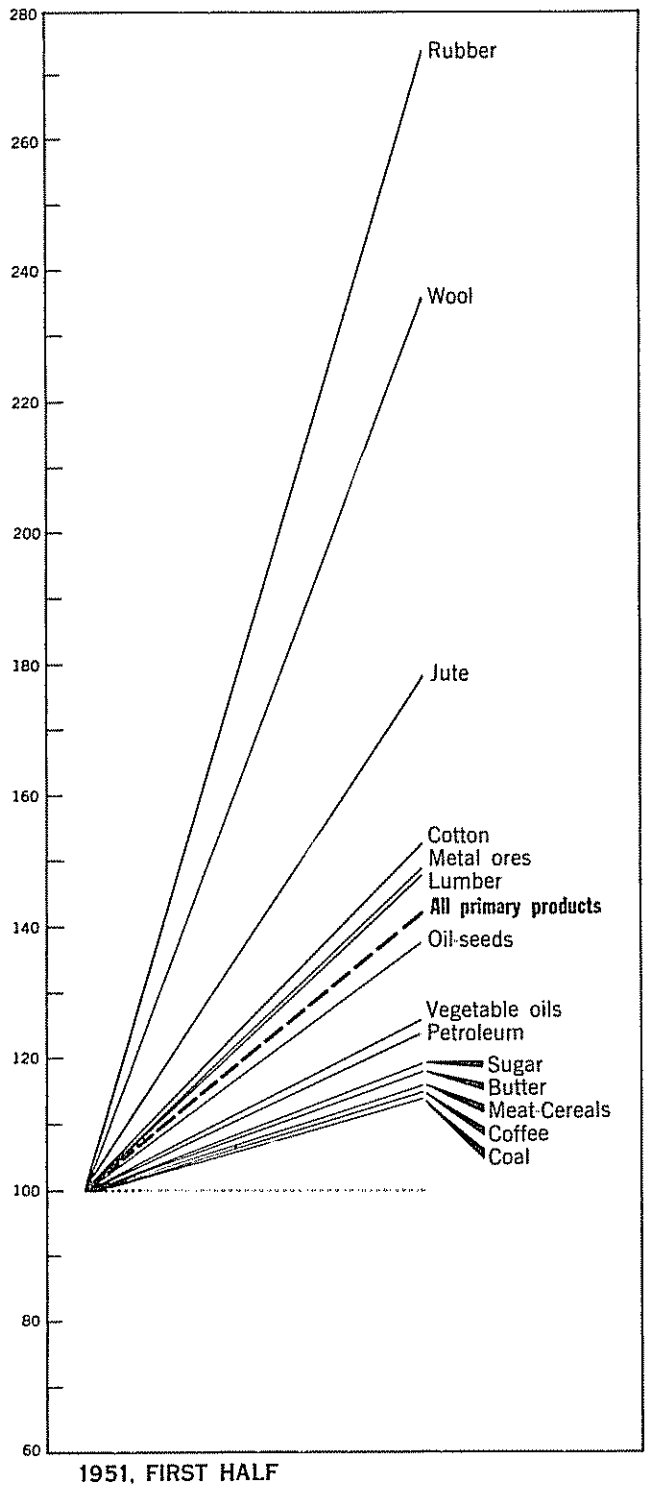
Declines in prices of staple foodstuffs (chart 2), particularly wheat, rice and sugar, reflected the considerable growth in production in relation to consumption over the past few years as a result of which shortages have been converted into surpluses. This has occurred despite the steady growth in world income over the same period. In wheat and rice, not only the exporting but also the importing countries, generally, experienced unusually good crops in 1953/54, so that exports fell, prices declined and stocks increased. Although the price declines for all three commodities were limited by national and international stabilization measures, the mounting stocks exerted considerable downward pressure on prices. Wheat prices levelled off at the end of 1954, owing to the sharply reduced harvests of 1954/55. Prices of other foods in international trade were not affected by the trend in staples, but, on the contrary, continued to rise in 1953/54. The demand for protein foods, fruits and vegetables, and beverages has risen more than that for staples, both because consumption is more elastic with respect to income and because governments have been increasingly relaxing import restrictions. In addition, the supply of these commodities has increased to a lesser extent than those of the staples, partly because governments have been more concerned with the promotion of staple crops which had been in scarce supply and constituted a heavy drain on their foreign exchange earnings and reserves. In 1953/54, a small reduction in cocoa output and expectations of a poor coffee crop in Brazil led to a very sharp rise in prices of these two commodities.

The market for some non-ferrous metals had already weakened in 1952, and for others turned soft early in 1953. As in the case of cereals, the decline was due largely to continued expansion in output during the preceding years, which had wiped out the deficit in supplies. The effect of rising output on prices was reinforced in 1952/53 by decreases in inventory accumulation in Europe associated with the slower rate of growth in economic activity. Early in 1953 the United States curtailed its stockpiling, and in 1953/54 the recession further limited demand for these metals. Partial recovery began in the course of 1954, however, while the demand for cereals was still declining. The rise in European industrial production partly offset the effect of the United States recession and, in addition, the United States resumed stockpiling purchases of a number of metals in an effort to stabilize prices. Strikes in copper mines in various parts of the world in the latter part of 1954 and early 1955 contributed to the recent upturn in copper prices.

While cereals and non-ferrous metals were giving up part of their earlier gains, agricultural raw materials began to recover moderately in 1953 after their collapse in 1951/52. Although rubber export prices continued to show weakness in the early part of 1954, they rose strongly in the second half of the year. Recovery in international prices of the fibres began, first in wool, then in jute, and more recently in cotton. While in 1954 wool and jute maintained approximately the levels they had reached by the end of 1953, cotton prices did not really begin to increase until the end of 1953. The upturn was associated with the expanded output of cotton textiles resulting from the increase in real incomes in Europe and the upsurge in Indian and Japanese exports of cotton piece-goods. Owing to earlier reduction of cotton stocks in non-dollar areas, recovery in non-dollar prices relative to those of the United States, and a lessening of discrimination against imports from the dollar area, the United States was able to increase its cotton exports significantly in 1954.

Chart 2. Price Indices of Selected Internationally Traded Primary Products, 1951 to 1954

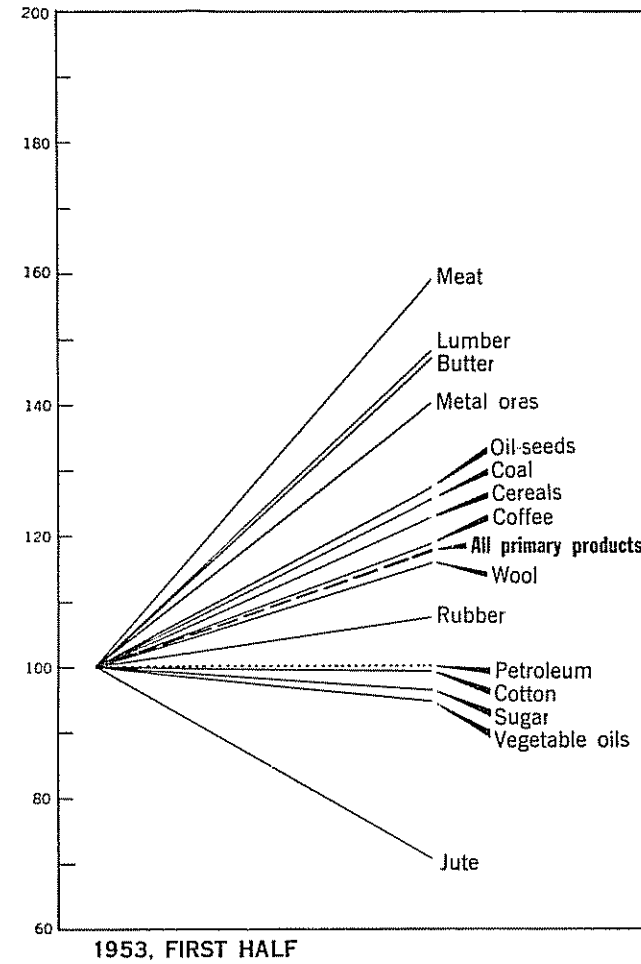
(Prices computed in United States dollars; 1950, first half=100)




The diverse fluctuations in imports of selected internationally traded commodities by the United States, the United Kingdom and continental OEEC countries are indicated in chart 3; the changing demand and supply position affecting trade in these and other commodities is reviewed at greater length in chapter 6.

There was also a significant change in the composition of trade in manufactures in 1954. Here a shift occurred between engineering products and other products; for the first time since the 1950/51 boom it was the non-engineering rather than the engineering products which led the rise in the value of exports of manufactures (see table 49). Exports of non-engineering products had fallen earlier and to a greater extent than machinery and metals manufactures after the 1950/51 boom; the value of exports of the latter group of items had been above the 1951 level and, *a fortiori*, above the 1950 level throughout the entire period. In the first

Chart 2 (*continued*)




*Source:* United Nations Bureau of Economic Affairs; based on data supplied by the Statistical Office of the United Nations.

nine months of 1954, however, increased exports, especially of chemicals and textiles, carried the total for non-engineering products about 9 per cent above the rate of exports in 1953, while machinery and metals increased only about 4 per cent. The greater degree of fluctuation in other manufactures than in engineering products is indicative of the marginal character of trade in industrial consumer goods as compared with investment goods in the post-war period. Imports of investment goods have received first priority in most countries as part of their effort to achieve a high rate of economic growth and development, while imports of industrial consumer goods have had to be adjusted in accordance with the balance of payments. While adverse changes in the balance of payments have led to severe curtailment of imports of consumer goods, improvements in the balance have generally led to considerable relaxation of controls.

Table 49. Exports of Manufactures from the United States and Western Europe, 1953 and 1954
(Billions of United States dollars)

| *Area and period* | *Total* | *Machinery, transport equipment and metals* | *Other manufactures* |
|---|---|---|---|
| *United States:* | | | |
| 1953 | 7.06 | 4.43 | 2.63 |
| 1954[a] | 7.33 | 4.55 | 2.79 |
| *United Kingdom:* | | | |
| 1953 | 5.73 | 3.07 | 2.66 |
| 1954[a] | 5.96 | 3.19 | 2.77 |
| *Continental OEEC:* | | | |
| 1953 | 11.86 | 5.80 | 6.06 |
| 1954[a] | 12.95 | 6.17 | 6.77 |
| TOTAL | | | |
| 1953 | 24.66 | 13.31 | 11.35 |
| 1954[a] | 26.24 | 13.89 | 12.33 |

*Source:* United Nations Bureau of Economic Affairs.
[a] January to September, at annual rate.

Chart 2 (*continued*)

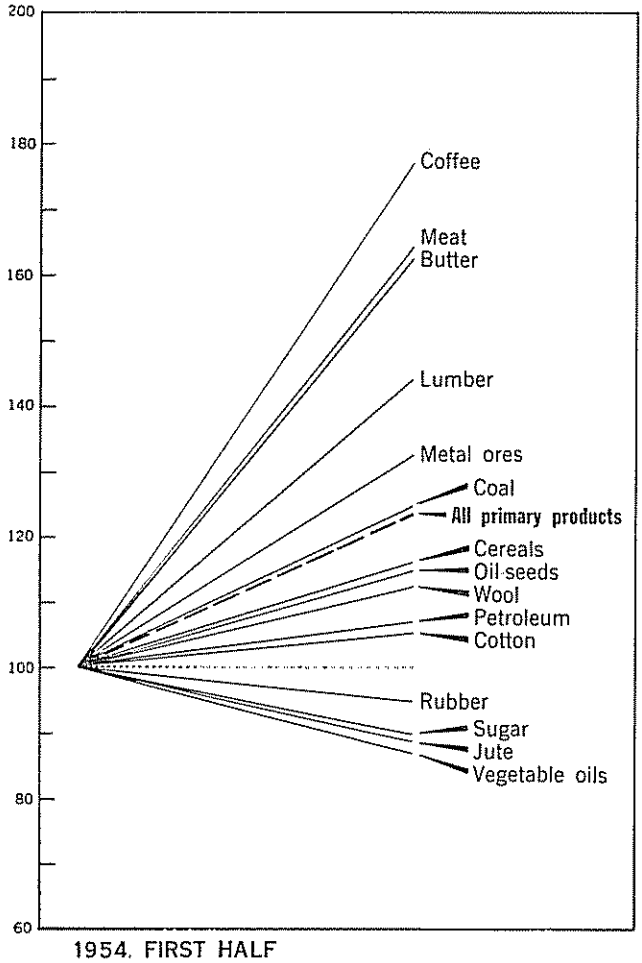



Chart 2 (*continued*)

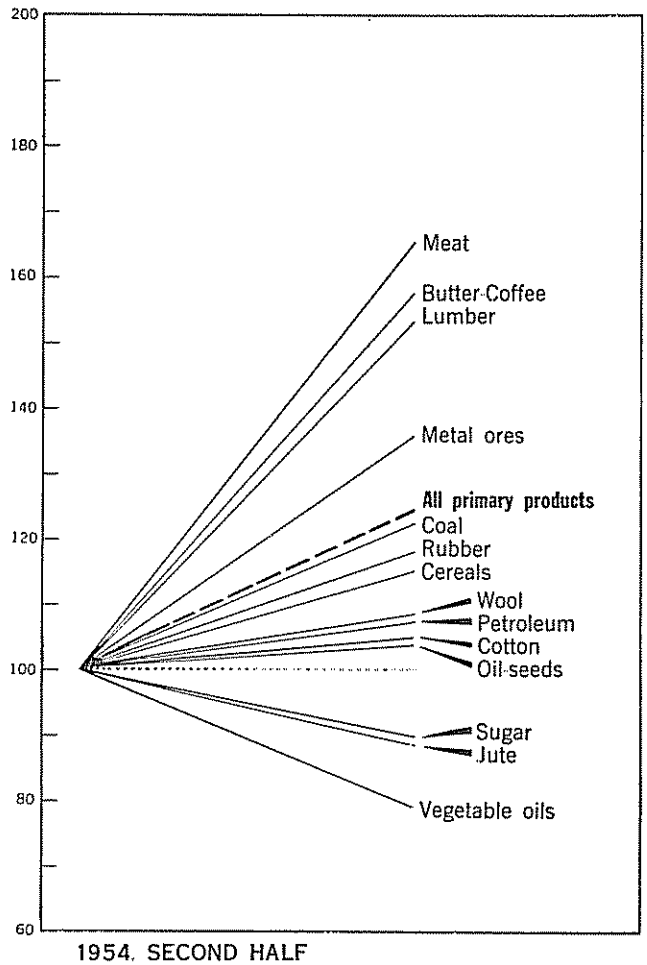
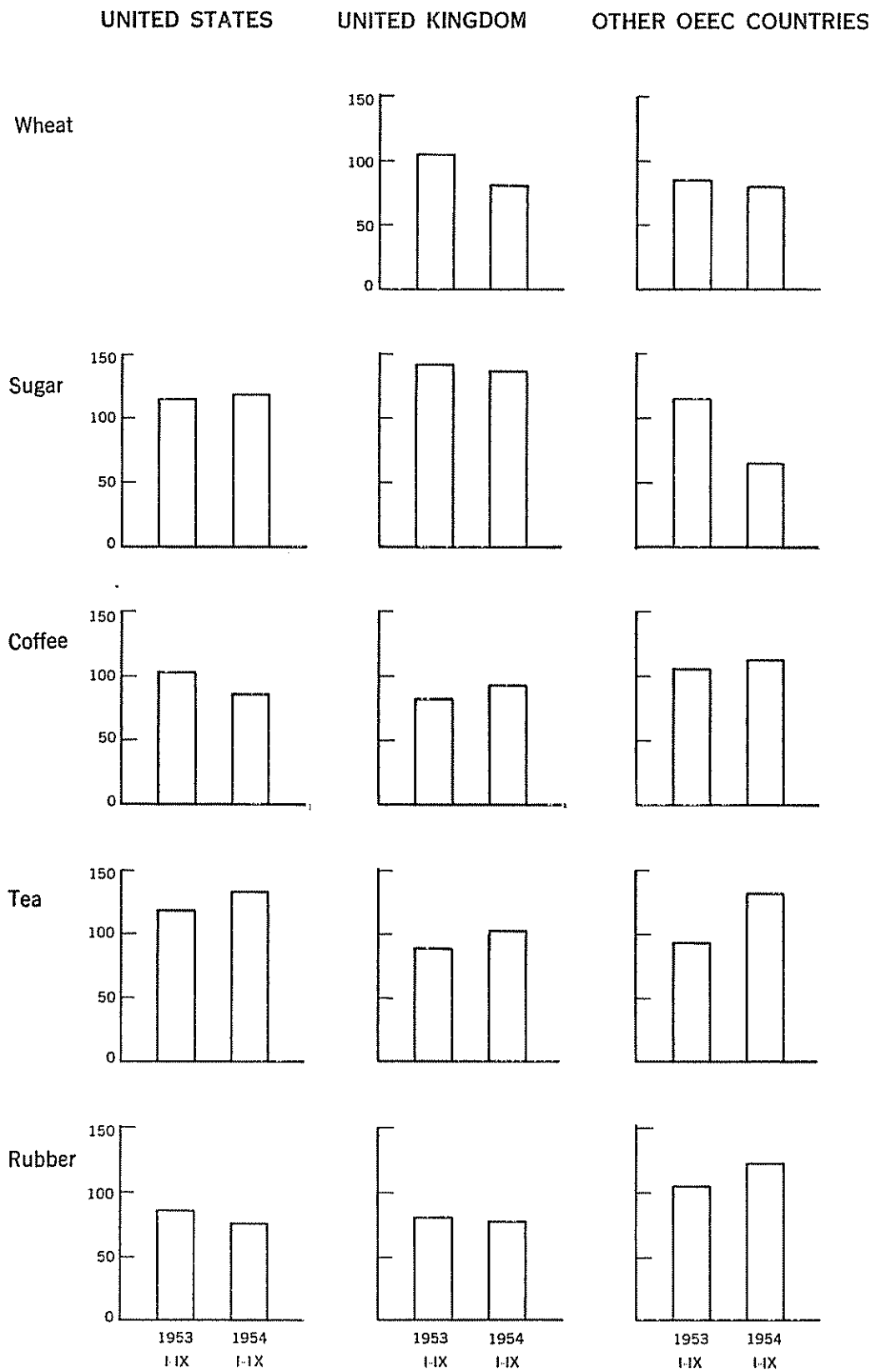
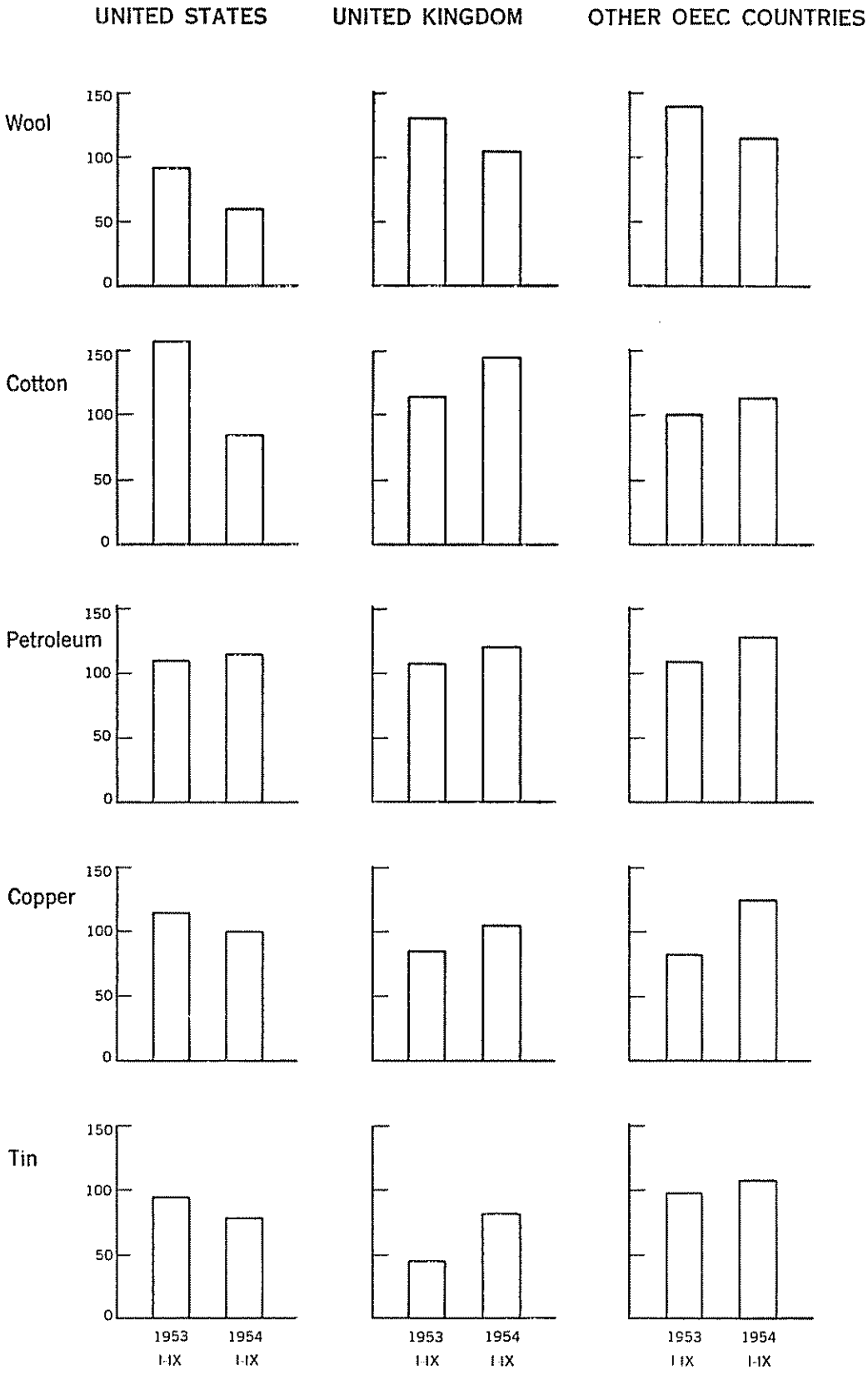


Chart 3. Volume of Imports of Selected Primary Products, United States and Western Europe, 1953 and 1954
(1952=100)




*Source:* United Nations Bureau of Economic Affairs ; based on *Commodity Trade Statistics*, published by the Statistical Office of the United Nations, and on national trade statistics.


UNITED STATES
UNITED KINGDOM
OTHER OEEC COUNTRIES
Wool
Cotton
Petroleum
Copper
Tin
150
100
50
0
1953
I-IX
1954
I-IX

## Changes in Trade Balances

The export balance of the United States, excluding its exports of military goods, rose again in 1954 after having fallen substantially in 1952 and 1953. This was to be expected in view of the relatively high rate of growth of economic activity in the rest of the world, which coincided with the moderate recession in the United States. The change was reinforced, however, both by reduced purchases for stockpiling in the United States and by relaxation of trade and exchange controls in many countries in transactions with the dollar area. Most of the increase in the United States export balance was with the non-dollar areas of the world. Its active balance with Canada fell, both exports and imports in trade with that country showing a drop.[1] Its export balance with the dollar countries of Latin America did show a rise but the increase was due solely to higher exports; United States imports from that area were also higher in dollar value.

Despite the rise in the United States export balance with the United Kingdom, the latter showed an improvement in its global trade balance in 1954, owing to a decrease in its import balance with the sterling area. For the year as a whole the total value of its exports increased while the value of its imports remained practically unchanged, though the volume was higher. At the turn of the year, its imports began to rise, however, and the Government felt obliged to take strong monetary measures at the beginning of 1955 to check the deterioration in its balance of payments. The combined trade balance of the continental OEEC countries deteriorated, even though the aggregate value of their exports rose substantially more than the value of United Kingdom or United States exports, because the increase in their imports was still larger.

Improvements in the trade balances of the United States and the United Kingdom were reflected primarily in decreases in the export balances of non-dollar Latin America and more especially of the oversea sterling area.[2] A substantial rise in imports occurred in both areas in the first nine months of 1954. In the oversea sterling area there was also a significant decline in the value of exports in this period, but in the last quarter of the year exports rose by about 10 per cent above the average for the three preceding quarters.

In contrast with these areas, Canada reduced its import balance in the first nine months of 1954, the reduction in its import balance with the United States more than offsetting the decline in its export balance with the rest of the world. The export balance of Latin American dollar countries in the first nine months of 1954 was virtually the same as a year earlier, with both exports and imports rising. Data on trade balances of the major trading areas through the first nine months of 1954 are shown in table 50.

[1] Based on data for eleven months of 1953 and 1954.

[2] The increase in the import balance of all primary producers was smaller than might have been expected from the rise in the export balance of the industrial countries. This was owing to inconsistencies in the statistics of world exports and imports arising from differences in timing, definition, coverage, conversion of values in local currencies into dollar values, and the inclusion of shipping costs in imports but not in exports.

Table 50. Exports, Imports and Trade Balances of[1] Primary Producing and Industrial Countries, by Areas, 1953 and 1954

(Billions of United States dollars)

| Country or group | Value of exports | | | Value of imports[a] | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| | | January to September | | | January to September | | | January to September | |
| | 1953 Full year | 1953 | 1954 | 1953 Full year | 1953 | 1954 | 1953 Full year | 1953 | 1954 |
| Total, industrial countries | 40.44 | 29.40 | 31.60 | 45.28 | 33.70 | 34.85 | −4.84 | −4.30 | −3.25 |
| United States[b] | 12.15 | 8.99 | 9.18 | 11.96 | 9.13 | 8.54 | 0.18 | −0.14 | 0.65 |
| United Kingdom | 7.23 | 5.29 | 5.62 | 9.07 | 6.82 | 6.81 | −1.83 | −1.53 | −1.19 |
| Continental OEEC countries | 19.43 | 13.94 | 15.39 | 21.27 | 15.59 | 17.16 | −1.84 | −1.65 | −1.77 |
| Japan | 1.27 | 0.92 | 1.14 | 2.41 | 1.75 | 1.91 | −1.14 | −0.83 | −0.77 |
| Total, primary producing countries | 29.74 | 21.92 | 22.18 | 30.42 | 22.50 | 23.18 | −0.69 | −0.58 | −1.00 |
| Canada | 4.24 | 3.15 | 2.94 | 4.90 | 3.72 | 3.44 | −0.66 | −0.57 | −0.50 |
| Total, Latin America | 7.52 | 5.57 | 5.85 | 6.49 | 4.67 | 5.29 | 1.03 | 0.90 | 0.56 |
| Dollar countries | 3.93 | 2.96 | 3.19 | 3.45 | 2.50 | 2.73 | 0.48 | 0.46 | 0.46 |
| Non-dollar countries | 3.58 | 2.61 | 2.66 | 3.04 | 2.17 | 2.56 | 0.55 | 0.44 | 0.10 |
| Oversea sterling area | 10.39 | 7.71 | 7.58 | 9.62 | 7.16 | 7.53 | 0.76 | 0.55 | 0.06 |
| Dependencies of continental western European countries | 2.76 | 2.00 | 2.13 | 3.51 | 2.57 | 2.74 | −0.74 | −0.57 | −0.61 |
| Other primary producing countries | 4.83 | 3.48 | 3.68 | 5.90 | 4.38 | 4.18 | −1.07 | −0.90 | −0.50 |

*Source:* United Nations Bureau of Economic Affairs.

[a] C.i.f. Imports of the United States, Canada and other countries which are reported on an f.o.b. basis have been converted to an arbitrary c.i.f. basis (f.o.b. +10 per cent) in order to make them more nearly comparable with data for other countries.

[b] Excluding exports of military goods.

pread between the trade balances valued in cur-·llar prices and in prices prevailing in the first f 1950 before the outbreak of Korean hostilities ined relatively narrow during 1954. It widened ewhat in the United States as a result of a further ght deterioration in terms of trade, but was reduced rtually to the vanishing point in the United Kingdom, here the terms of trade had been improving since the nd of 1951. As has already been noted, Latin America and the dependencies of continental European countries have been the chief beneficiaries of the changes in terms of trade: their trade balances were more favourable when measured in current prices than in constant prices (first half of 1950). The oversea sterling area, on the other hand, has consistently shown a less favourable trade balance in current than in constant prices since the collapse of its raw material prices in mid-1951 (see chart 4).

Despite the increase in import balances of the rest of the world with the United States in 1954, gold and dollar holdings abroad continued to rise, although at a lower rate than in the preceding year (see table 51). The net flow of gold and dollars from the United States was of about the same order of magnitude as United States foreign economic aid, with the increase in its trade balance being offset primarily by a greater outflow of capital. In part, this outflow both of portfolio investment and short-term capital, reflected liberal credit facilities in the United States, but in part, the short-term movements consisted of a heavy accumulation of claims against Brazil and, to a lesser extent, Colombia. The remaining part of the increase in reserves of the countries listed in table 51 was accounted for by newly mined gold, and by sales of gold by the Soviet Union.

As compared with the first half of 1950, there has been a substantial increase in liquidity—especially in the sterling area and continental western Europe—which has significantly reduced vulnerability to small shocks affecting trade balances. From June 1950 to June 1954 gold and dollar holdings of the world, excluding the United States, increased by over $6 billion. Most of this increase, however, went to western Europe and Canada, with continental OEEC countries accounting for about

Table 51. World Gold Reserves, Dollar and Sterling Assets,[a] 1950 to 1954
(Billions of United States dollars; 30 June of each year)

| Item and period | United States | United Kingdom | Continental OEEC countries | Japan | Canada | Latin America: Dollar countries[b] | Latin America: Non-dollar countries | Oversea sterling countries[c] | Oversea sterling dependencies | Total[d] |
|---|---|---|---|---|---|---|---|---|---|---|
| *Gold:* | | | | | | | | | | |
| 1950 | 24.33 | 1.70 | 3.77[e] | 0.13 | 0.51 | 0.90 | 0.79 | 0.57 | — | 33.30 |
| 1951 | 21.87 | 3.52 | 3.78[e] | 0.13 | 0.65 | 1.05 | 0.98 | 0.61 | — | 33.37 |
| 1952 | 23.53 | 1.42 | 4.21[e] | 0.12 | 0.88 | 0.94 | 0.88 | 0.58 | — | 33.42 |
| 1953 | 22.52 | 1.98 | 4.69[e] | 0.12[e] | 0.94 | 0.95[e] | 1.10[e] | 0.61[e] | — | 33.68 |
| 1954 | 22.03 | 2.55[e] | 5.25[e] | 0.13[e] | 1.03 | 0.82 | 1.02[e] | 0.63[e] | — | 34.15 |
| *Dollar balances (official and private):* | | | | | | | | | | |
| 1950 | | 0.91 | 1.99 | 0.34 | 0.98 | 0.81 | 0.54 | 0.22 | — | 6.62 |
| 1951 | | 0.62 | 1.99 | 0.34 | 1.33 | 0.89 | 0.76 | 0.23 | — | 7.33 |
| 1952 | | 0.79 | 2.31 | 0.73 | 1.50 | 1.05 | 0.44 | 0.24 | — | 8.30 |
| 1953 | | 0.91 | 2.87 | 0.89 | 1.12 | 1.23 | 0.53 | 0.30 | — | 9.09 |
| 1954 | | 0.99 | 3.80 | 0.62 | 1.32 | 1.40 | 0.51 | 0.29 | — | 10.14 |
| *Sterling balances:*[f] | | | | | | | | | | |
| 1950 | 0.03 | | 1.10 | 0.05 | 0.01 | 0.02[g] | 0.25 | 4.94 | 1.81 | 10.01[h] |
| 1951 | 0.11 | | 1.18 | 0.12 | 0.01 | 0.09 | 0.15 | 5.70 | 2.54 | 11.68 |
| 1952 | 0.04 | | 0.98 | 0.36 | 0.01 | 0.01 | 0.02 | 3.84 | 2.90 | 9.54 |
| 1953 | 0.03 | | 0.85 | 0.04 | 0.01 | 0.08 | 0.10 | 4.58 | 3.06 | 10.11 |
| 1954 | 0.08 | | 0.85 | 0.09 | 0.01 | 0.08 | 0.08 | 4.74 | 3.33 | 10.70 |
| TOTAL: | | | | | | | | | | |
| 1950 | 24.36 | 2.61 | 6.85 | 0.52 | 1.50 | 1.74 | 1.58 | 5.73 | 1.81 | 49.93 |
| 1951 | 21.98 | 4.14 | 6.96 | 0.59 | 1.98 | 2.03 | 1.89 | 6.54 | 2.54 | 52.37 |
| 1952 | 23.57 | 2.22 | 7.50 | 1.20 | 2.39 | 2.00 | 1.35 | 4.66 | 2.90 | 51.27 |
| 1953 | 22.55 | 2.89 | 8.41 | 1.06 | 2.06 | 2.26 | 1.73 | 5.49 | 3.06 | 52.88 |
| 1954 | 22.11 | 3.59 | 9.90 | 0.74 | 2.36 | 2.31 | 1.61 | 5.66 | 3.33 | 54.99 |

*Source:* Gold: International Monetary Fund, *International Financial Statistics* (Washington, D. C.); Dollar holdings: International Monetary Fund, *International Financial Statistics*, and "Short-term Liabilities to Foreigners" in Federal Reserve Board, *Federal Reserve Bulletin* (Washington, D. C.); Sterling balances: *United Kingdom Balance of Payments, 1946 to 1953*, Cmd 8976 and *United Kingdom Balance of Payments, 1946 to 1954*, Cmd 9291 (London).

[a] Excluding assets of international institutions.

[b] Including dollar holdings of western European dependencies in Western Hemisphere.

[c] Including dollar holdings of Hong Kong and sterling balances of Iceland.

[d] Including a number of countries not separately shown; excluding eastern Europe and mainland China.

[e] Estimated.

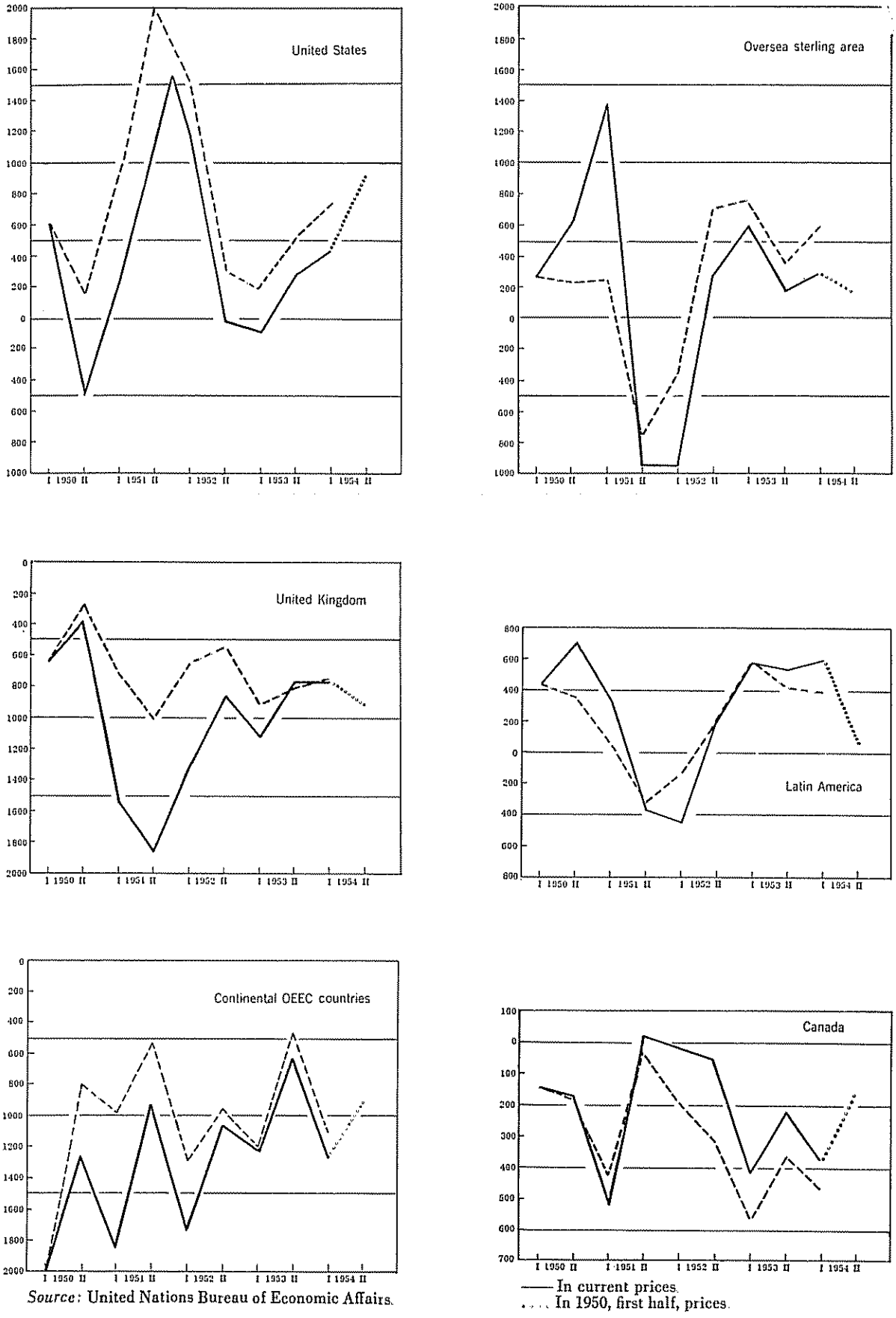
[f] Sterling balances of United States and Canada from national sources; all other sterling balances from United Kingdom sources.

[g] Sterling balances of "dollar area" as shown in United Kingdom sources, less balances of United States and Canada.

[h] Including sterling balances of eastern Europe.

Chart 4. Trade Balances of Industrial and Primary Producing Countries in Current Prices and in Prices of 1950, First Half, 1950 to 1954

(Millions of United States dollars)




*Source:* United Nations Bureau of Economic Affairs.

—— In current prices.
. . . . In 1950, first half, prices.

$3.3 billion, the United Kingdom about $850 million and Canada almost the same amount. The other primary producing areas increased their gold and dollar holdings by about 25 per cent, from $5.2 billion in June 1950 to $6.6 billion in June 1954. The sterling dependencies also increased their sterling balances by about $1.5 billion, but other countries reduced their sterling balances by about $650 million. Apart from Canada and the sterling dependencies, the increase in total foreign exchange reserves of the primary producing countries was under 6 per cent.

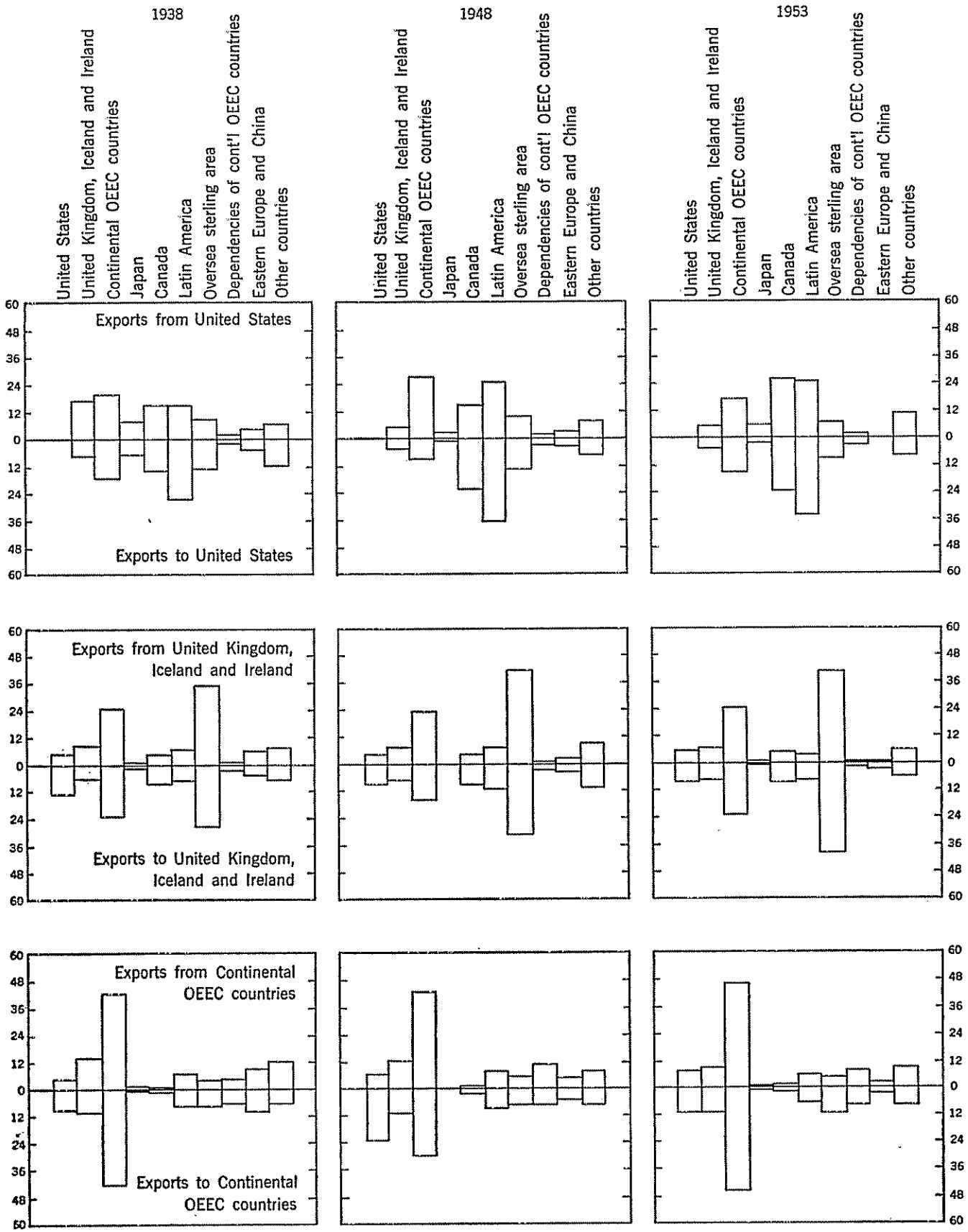
While the changes in trade balances in 1954 were not insignificant, they were not of such a magnitude as to reduce materially the degree of balance in world trade which had already been achieved just before the outbreak of Korean hostilities. As compared with the levels which prevailed in the first half of 1950, the export balance of the United States was reduced. While the import balance of the United Kingdom was somewhat higher, that country's trade was already in fairly close balance at the earlier date. The continental OEEC countries, on the other hand, whose trade was still highly unbalanced in the first half of 1950, reduced their import balances considerably by 1954. The improvement reflected the substantial expansion in productive capacity of the continent, notably of Germany, which had enlarged its exportable supplies and reduced its import requirements in relation to output. Changes among the primary producing countries were relatively small, with most of the deterioration in trade balances in relation to the first half of 1950 occurring in Canada and the dependencies of continental European countries, where they were financed by larger capital imports.

While the earlier post-war problem of imbalance in world trade has been reduced in recent years to more manageable proportions, the nature of the balance differs from that of the inter-war period in major respects. On the one hand, non-commercial items in the balance of payments—government expenditure and grants—play a much larger role in the financing of trade balances. On the other hand, a larger proportion of world trade is now self-balancing, that is, a smaller proportion is financed through net balances on service, capital and gold account. The sharp decline in the relative importance of investment income of the United Kingdom since the Second World War has necessitated a very considerable rise in the proportion of its trade that is self-balanced. The trade of the continental OEEC countries, after having been highly unbalanced in the post-war years to 1950 is now about in balance as it had been also during the inter-war period; in the aggregate their losses both in investment income and in terms of trade as compared to pre-war have been comparatively small. The counterpart of the decline in import balance of the United Kingdom has been a rise in imports of the primary producing countries in relation to their exports. In real terms the rise in imports in relation to exports has, of course, been even greater than in value terms.

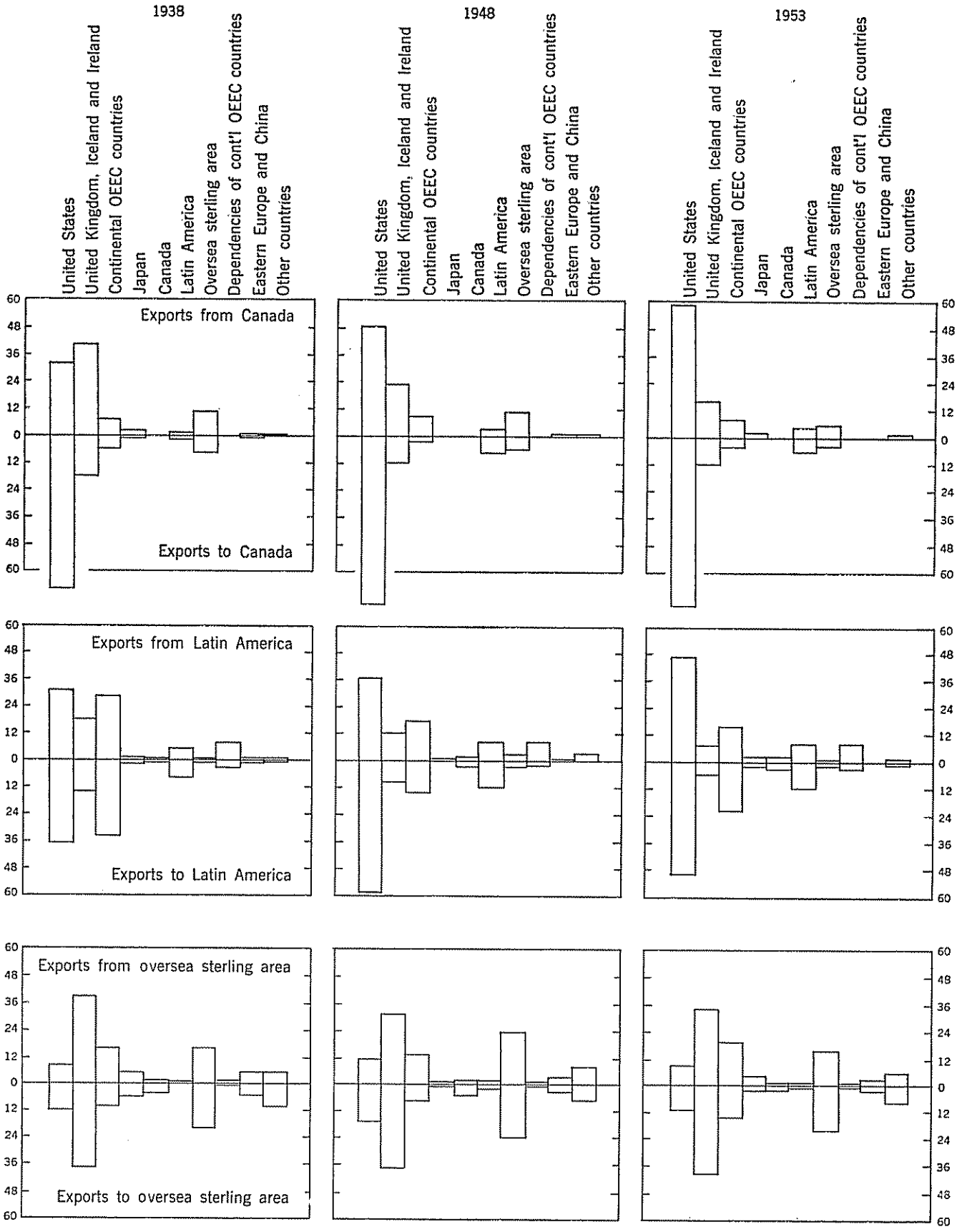
The rise in the proportion of trade that is self-balancing is largely accounted for by an increase in the share of trade that is bilaterally balanced between pairs of countries. The proportion of trade that is multilaterally balanced through the offsetting of debit balances with some areas against credit balances with others appears also to have risen from the low level to which it had fallen in the early post-war years. It is not possible to say, however, whether there has been an increase or a decrease in multilateral settlements on total current account since data on the flow of receipts and payments for services by areas are not available.

Whether or not the degree of multilateralism has changed significantly, there has evidently been a reinforcement of the tendency already visible in the nineteen thirties for trade to become more concentrated within certain monetary or political areas. As may be seen from chart 5, the trade of the United Kingdom with the oversea sterling area, the trade of the continental OEEC countries with each other and with their dependencies, and the trade of the United States with the rest of the dollar area have each risen significantly in relation to the respective total trade of each area. In view of the increase in regionalization of trade indicated in chart 5, it seems probable that a large proportion of multilateral settlements takes place within each of the currency areas, while the trade between currency areas tends to be more closely balanced.

Chart 5. Percentage Distribution of Exports by Source and by Destination, 1938, 1948 and 1953




*Source:* United Nations Bureau of Economic Affairs; based on *Direction of International Trade*, published by the Statistical Office of the United Nations.


1938
1948
1953
United States
United Kingdom, Iceland and Ireland
Continental OEEC countries
Japan
Canada
Latin America
Oversea sterling area
Dependencies of cont'l OEEC countries
Eastern Europe and China
Other countries
Exports from Canada
Exports to Canada
Exports from Latin America
Exports to Latin America
Exports from oversea sterling area
Exports to oversea sterling area
60
48
36
24
12
0
12
24
36
48
60

# Chapter 5

# INTERNATIONAL TRADE AND PAYMENTS OF THE UNITED STATES, WESTERN EUROPE AND JAPAN

## The Dollar Balance in 1954

The deficit of the rest of the world with the United States on commercial current and long-term capital account[1] rose from $1.8 billion in 1953 to $3.2 billion in 1954, thereby approaching the $3.5 billion reached in 1951. Nevertheless, the rest of the world was able to add $1.7 billion to its gold and dollar reserves as a result of transactions with the United States during 1954—a rate only half a billion dollars under that of the previous year.

The figures below set forth the principal changes in the United States balance of payments from 1953 to 1954, in terms of factors tending to raise or reduce the rate of accumulation of gold and dollar reserves by the rest of the world.

| | *Millions of dollars* |
|---|---|
| *Factors tending to reduce the rate:* | |
| Imports of non-military goods and services | −648 |
| Exports of non-military[a] goods and services (increase) | −630 |
| Government unilateral transfers (other than military) | −255 |
| Government net long-term capital outflow | −436 |
| Private net direct investment and remittances | −86 |
| TOTAL | −2,055 |
| *Factors tending to raise the rate:* | |
| Military expenditures abroad | 37 |
| Government short-term capital outflow | 108 |
| Private outflow of portfolio capital | 440 |
| Private outflow of short-term capital | 780 |
| TOTAL | 1,365 |
| Reduction in errors and omissions | 157 |
| *Net decrease in additions to gold and dollar reserves by other countries* | −533 |

[a] Including military goods and services paid for in cash rather than supplied in the form of aid. Exports of this type declined $17 million from 1953 to 1954.

Thus, the United States balance on commercial goods and services rose by nearly $1.3 billion in 1954, exports and imports contributing about equally to the result. At the same time the supply of dollars was reduced by approximately $800 million through declines in governmental grants and long-term loans and in private direct investment and remittances.

The financing of the increase in the deficit was made possible chiefly in two ways—through an increase in short-term and portfolio capital outflow of no less than $1.3 billion and a reduction of half a billion dollars, as already noted, from the high rate of accumulation of gold and dollar reserves in transactions with the United States in 1953. At the same time United States military expenditures abroad rose slightly, and there was a substantial fall, as provisionally estimated, in the unrecorded flow of dollars into the United States.

The decrease in imports was virtually confined to goods; service payments as a whole were steady, a rise in travel expenditures offsetting minor declines in other items. Imports of merchandise for consumption dropped 5 per cent in value from 1953 to 1954. This was the combined result of a rise of 3 per cent in import unit value and a decline in volume of 8 per cent, compared with a drop of 3 per cent in real national product and 7 per cent in manufacturing.

Notwithstanding an over-all increase in food consumption in the United States, the volume of imports of foodstuffs for consumption fell considerably. This was due to abnormal increases in the prices of cocoa and coffee in 1953/54 and expectations of a reversal in this trend, leading to a withholding of purchases. Despite the fall in import volume, however, the value of imports of foodstuffs was maintained in 1954 owing to the higher prices noted above.

Imports of finished manufactures in 1954 were at the same level as in 1953, both in volume and value, reflecting stability in the demand for newsprint, a virtual halt in the previous upward trend in the demand for machinery and vehicles, and a fall in imports of textiles.

Thus, the main burden of the decline in the value of imports was concentrated upon crude materials and, especially, semi-manufactures. As indicated below, the reduction in the volume of imports on private account of crude and semi-manufactured products was relatively

[1] Including goods and services (other than United States military aid exports and military expenditures), private remittances, private net direct investment and portfolio capital, and net government long-term loans.

moderate, a significant proportion of the drop being the result of a fall of about 10 per cent from 1953 to 1954 in purchases for the strategic stockpile.

Although manufacturing output rose from the first to the second half of 1954, and the rate of inventory liquidation was reduced, both the volume and value of imports dropped. Imports of certain raw materials, notably non-ferrous ores and metals, had been relatively high in the first half of 1954, and declined in the second half of the year. This, together with the sharp slump in the value of coffee imports, constituted the main reasons for the decline of $320 million in the value of imports of merchandise from Latin America from the first to the second half of 1954—and hence for the decline in total merchandise imports of nearly $240 million.

Of the total gain of $630 million in exports of goods and services from 1953 to 1954, $445 million represented merchandise; by far the most important item in the remainder was a rise of $136 million in income on foreign investment.

Deliveries of merchandise to Canada dropped about 9 per cent in value, owing to the slackening of economic activity in that country, but deliveries to the rest of the world rose about 8 per cent. This was due to higher production and incomes, especially in western Europe, the relaxing of controls on imports, not only in western Europe but in the oversea sterling area and South America, and the agricultural export promotion programme of the United States.

Much of the increase in exports in 1954 consisted of raw cotton, fats and oils, and certain other agricultural commodities, as a result of the decision of the United States Government to dispose of part of its agricultural surpluses by such means as selling the commodities at world market prices below the domestic support level, and accepting foreign currencies in payment. Expenditures by the Foreign Operations Administration for commodities shipped against payment in foreign currencies amounted to about $14 million in 1953, and about $215 million in 1954. Cotton exports were also facilitated by the elimination of excess inventories in other exporting areas in the previous year, and by special financing of shipments to Japan.

Other important increases in exports occurred in non-ferrous metals, owing to higher output and an increased rate of addition to inventories in engineering industries in western Europe. Exports of capital goods, especially machinery and machine tools, and of coal declined in 1954, owing to continued improvement in supplies in western Europe, the completion of tooling operations in United Kingdom defence industries and, especially, lower demand from Canada.

Despite lower sales to Canada, total exports of several consumer items, notably passenger cars, rose significantly in 1954. The easing of import restrictions in western Europe does not, however, seem to have materially affected imports of consumer goods other than passenger cars from the United States during 1954. As is shown below, the liberalization was primarily designed, in the first instance, to establish greater freedom for private business in securing raw materials on the most favourable terms.

United States exports declined a little more than seasonally from the first half to the third quarter of 1954 and then recovered much more than seasonally in the last quarter. The drop in the third quarter was due mainly to measures adopted in Japan and Mexico with the object of restoring a balance in their external transactions. The unusually large rise in the fourth quarter was due to a sharp increase in deliveries of such products as grain, coal and metals to western European countries as a result of their poor harvests in 1954 and the rapid rise in the output of their metal-using industries.

The large shifts in capital items from 1953 to 1954, set forth in the figures above, have already been noted. A large part of these changes was, however, due solely to transactions with Brazil. In 1953 the Export-Import Bank had lent $300 million to Brazil for the purpose of reducing short-term indebtedness to the United States. In 1954, when disbursements against this loan had already ceased, the United States again accumulated short-term and medium-term claims against Brazil. These changes accounted for nearly three-quarters of the decline in governmental net long-term capital outflow shown in the text table above, and for considerably more than one-third of the total increase in the outflow of private short-term and portfolio capital.

The other major element in the decline in governmental long-term capital outflow was the advance of $100 million to France in the third quarter of 1953—not repeated in 1954—against future deliveries under the offshore procurement programme. So far as France itself was concerned, this was more than offset by new payments by the United States for the support of forces maintained in Indochina, amounting to $321 million. The latter did not, however, prevent total grants to all countries, other than military transfers, from falling by $255 million in 1954. On the other hand, this decrease in grants may itself be regarded as having been offset in part by the rise of $37 million in military expenditures and of $108 million in governmental short-term capital outflow, consisting mainly of the foreign currency proceeds of sales of surplus agricultural products.

The remaining capital items consist of a decline in private direct investment and remittances much more than offset by a larger outflow of portfolio and short-term capital (other than to Brazil), facilitated by easy credit conditions in the United States, and expanding economic activity in other countries. A fall in the rate of debt retirement by western Europe, the financing by

## Table 52. Supply of Dollars by the United States and their Use by Other Countries, 1953 and 1954

(Millions of United States dollars)

| Item and period | Total | Canada | Latin America | European sterling countries[a] | Oversea sterling area | Continental western Europe[b] | Dependencies of continental Europe | Eastern Europe | All other countries | International institutions |
|---|---|---|---|---|---|---|---|---|---|---|
| **SUPPLY OF DOLLARS BY THE UNITED STATES** | | | | | | | | | | |
| *United States imports of goods and services:*[c] | | | | | | | | | | |
| 1953 First half | 7,082 | 1,409 | 2,227 | 560 | 699 | 1,255 | 184 | 22 | 716 | 10 |
| 1953 Second half | 6,846 | 1,539 | 1,976 | 573 | 567 | 1,292 | 197 | 17 | 650 | 35 |
| 1954 First half | 6,661 | 1,305 | 2,184 | 547 | 590 | 1,139 | 241 | 20 | 628 | 7 |
| 1954 Second half[d] | 6,619 | 1,551 | 1,862 | 559 | 534 | 1,254 | 196 | 24 | 604 | 35 |
| *United States government transactions:*[e] [f] | | | | | | | | | | |
| 1953 First half | 2,265 | 90 | 173 | 269 | 82 | 843 | 45 | −1 | 704 | 60 |
| 1953 Second half | 2,404 | 115 | 229 | 193 | 161 | 854 | 38 | 5 | 778 | 31 |
| 1954 First half | 1,946 | 90 | 49 | 226 | 71 | 826 | 28 | 3 | 636 | 17 |
| 1954 Second half[d] | 2,177 | 100 | 50 | 174 | 99 | 1,016 | 48 | 2 | 646 | 42 |
| *Private capital and donations (net):* | | | | | | | | | | |
| 1953 First half | 390 | 187 | 17 | −10 | 37 | 7 | — | 8 | 158 | −14 |
| 1953 Second half | 460 | 225 | −125 | 66 | 24 | 27 | 14 | 11 | 145 | 73 |
| 1954 First half | 935 | 385 | 154 | 26 | 29 | 71 | −11 | 9 | 177 | 95 |
| 1954 Second half[d] | 1,049 | 57 | 368 | 159 | 66 | 144 | −3 | 8 | 180 | 70 |
| *Total supply of dollars:* | | | | | | | | | | |
| 1953 First half | 9,737 | 1,686 | 2,417 | 819 | 818 | 2,105 | 229 | 29 | 1,578 | 56 |
| 1953 Second half | 9,710 | 1,879 | 2,080 | 832 | 752 | 2,173 | 249 | 33 | 1,573 | 139 |
| 1954 First half | 9,542 | 1,780 | 2,387 | 799 | 690 | 2,036 | 258 | 32 | 1,441 | 119 |
| 1954 Second half[d] | 9,845 | 1,708 | 2,280 | 892 | 699 | 2,414 | 241 | 34 | 1,430 | 147 |
| **USE OF DOLLARS BY OTHER COUNTRIES** | | | | | | | | | | |
| *United States exports of goods and services:*[f] | | | | | | | | | | |
| 1953 First half | 8,456 | 2,119 | 2,127 | 563 | 660 | 1,529 | 159 | 6 | 1,262 | 31 |
| 1953 Second half | 8,528 | 1,932 | 2,229 | 649 | 678 | 1,538 | 159 | 19 | 1,290 | 34 |
| 1954 First half | 8,636 | 1,921 | 2,233 | 561 | 678 | 1,731 | 160 | 9 | 1,302 | 41 |
| 1954 Second half[d] | 8,978 | 1,888 | 2,398 | 815 | 721 | 1,815 | 154 | 19 | 1,134 | 34 |
| *Increase in gold and dollar assets:*[g] | | | | | | | | | | |
| 1953 First half | 1,157 | −247 | 299 | 505 | 49 | 560 | 9 | −2 | −3 | −13 |
| 1953 Second half | 1,112 | 128 | −51 | −36 | 3 | 1,054 | −32 | — | −37 | 83 |
| 1954 First half | 746 | −33 | 167 | 382 | −22 | 465 | −29 | 3 | −191 | 4 |
| 1954 Second half[d] | 990 | 78 | −6 | −308 | −10 | 933 | −25 | −1 | 142 | 187 |
| *Multilateral settlements, and errors and omissions:*[h] | | | | | | | | | | |
| 1953 First half | 124 | −186 | −9 | −249 | 109 | 16 | 61 | 25 | 319 | 38 |
| 1953 Second half | 70 | −181 | −98 | 219 | 71 | −419 | 122 | 14 | 320 | 22 |
| 1954 First half | 160 | −108 | −13 | −144 | 34 | −160 | 127 | 20 | 330 | 74 |
| 1954 Second half[d] | −123 | −258 | −112 | 385 | −12 | −334 | 112 | 16 | 154 | −74 |

*Source:* United States Department of Commerce, *Survey of Current Business* (Washington, D.C.).

[a] Iceland, Ireland and the United Kingdom.

[b] Continental member countries in the Organisation for European Economic Co-operation (OEEC), Finland, Spain and Yugoslavia.

[c] Excluding military expenditures abroad.

[d] Preliminary data.

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

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

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

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

United States commercial banks of cotton exports to Japan under guarantee of the Export-Import Bank of Washington, and new flotations by the International Bank for Reconstruction and Development and by Australia contributed to the rise in the outflow of portfolio capital.

Apart from the accumulation of claims against Brazil, noted above, and a similar, though smaller, accumulation against Colombia, the rise in private short-term capital outflow in 1954 probably reflected, to a substantial degree, commercial credit accompanying the growth in exports. The extent to which the increase of $100 million in banking claims against the United Kingdom during 1954 may have been due to temporary circumstances is not yet clear.

There were some important shifts in multilateral settlements in dollars in 1954, reflected in the last item in table 52.[2] Smaller multilateral earnings of United States dollars accrued to Canada in the first half of 1954 in view of the reduction in the balance with western Europe resulting largely from lower shipments of grain; these receipts rose again, however, in the second half of 1954 with the resumption of a larger volume of grain exports to western Europe and possibly also on account of payments by the United Kingdom of interest and principal on previous Canadian loans. Dollar transfers to the United Kingdom by the oversea sterling area were lower in 1954, owing not only to the decreased value of sales to the United States of primary products, especially rubber, tin and wool, but also to larger imports from the United States as a result of a relaxation of import restrictions. The dependencies of continental western Europe, on the other hand, considerably increased their dollar transfers to the metropolitan countries because of the importance in their exports of such commodities as cocoa, coffee and certain minerals, imports of which by the United States increased in value.[3] Finally, the international institutions, which normally make net dollar payments to the rest of the world, showed net dollar receipts in the second half of 1954. This was due to repurchases of their currencies from the International Monetary Fund by France and the United Kingdom in the amount of $20 million and $112 million, respectively, and to a repayment by the Netherlands of $56 million to the International Bank for Reconstruction and Development.

To summarize, in 1954 the world was able to absorb, with less difficulty than had been anticipated, a rise of $1.3 billion in the United States balance on non-military goods and services as well as a reduction in government grants and long-term loans of over $350 million (apart from an almost equivalent decrease to Brazil alone) which was offset only to the extent of $150 million by higher oversea military expenditures and by increased United States Government holdings of foreign currencies acquired from the sale of agricultural surpluses. The main reason why this could occur without reducing the rate of accumulation of gold and dollar reserves by

[2] It was not possible at the time of writing to account for the unrecorded outflow suggested by the total errors and omissions item in the second half of 1954. The outflow is confined to the fourth quarter, the provisional data for which may be revised. There may, however, be some unexplained seasonal element in the outflow, since this item was also negative in the fourth quarters of 1949, 1950, 1951 and 1953.

[3] Continental western European creditor countries received $99 million at the beginning of July 1954 in part settlement of the United Kingdom's debt to the European Payments Union: this payment was, however, made in gold and is consequently not reflected in the United States balance of payments.

Table 53. United States Balance,[a] by Areas, 1950 to 1954
(Millions of United States dollars)

| *Area* | *1950* | *1951* | *1952* | *1953* | *1954* |
|---|---|---|---|---|---|
| Canada | −253 | 243 | 559 | 674 | 546 |
| Latin America | 141 | 707 | 250 | −305 | 340 |
| European sterling countries[b] | −23 | 471 | 39 | 132 | 256 |
| Oversea sterling area | −454 | −367 | −80 | −35 | 169 |
| Continental western Europe[c] | 1,029 | 1,625 | 1,003 | 565 | 1,225 |
| Dependencies of continental western Europe[d] | −29 | 17 | −41 | −72 | −109 |
| Eastern Europe | −110 | 44 | −31 | −28 | −30 |
| All other countries | 380 | 904 | 801 | 916 | 901 |
| International institutions | 22 | −159 | −101 | −39 | −130 |
| TOTAL | 703 | 3,485 | 2,399 | 1,808 | 3,168 |

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

[a] On account of goods and services (excluding military aid exports and military expenditures), private remittances, private net direct investment and portfolio capital, and net government long-term loans.

[b] Iceland, Ireland, United Kingdom.

[c] 1950 and 1951: continental OEEC countries only; 1952 to 1954: including also Finland, Spain and Yugoslavia (previously included with eastern Europe); including, throughout, the European Payments Union and the Bank for International Settlements.

[d] 1952 to 1954: including the Spanish dependencies (previously included with "all other countries").

the rest of the world much more than $500 million was that the outflow of private short-term and portfolio capital went up by the unprecedented amount of $1.2 billion. It must, however, be borne in mind that much of this increase reflected a shift from liquidation of claims against Brazil in 1953 to accumulation of claims in 1954, while the nature of the outflows to certain other countries, notably the United Kingdom, is not yet clear.

In table 53, data are given on the geographic distribution, during the past five years, of the United States balance on commercial current and long-term capital account—the balance which is financed primarily by government aid and changes in gold and dollar assets. It will be seen that the rise in the balance from 1953 to 1954 was concentrated in western Europe, the sterling area and Latin America, which had relaxed import restrictions against dollar goods during this period. Negative balances with the dependencies of continental western Europe and with international institutions increased, for reasons noted above. At the same time the active balance with Canada and with the rest of the world (including Japan) fell on account of a larger decline in exports than in imports.

Not merely did the total United States balance in 1954 approach that of 1951, but the regional distribution of the balance was remarkably similar. In both years, continental western Europe ran by far the largest deficit with the United States, and together with "all other countries" incurred two-thirds or more of the total deficit. The chief difference between the two years appears to have been the result of a continuing deterioration in the dollar balance of the oversea sterling area throughout the period—the opposite experience of the dependencies of continental western Europe which, by 1954, were able to contribute significantly to the dollar resources of the metropolitan countries. This contrast may be attributed partly to differences in the exportable commodities of the two areas, as previously noted, and partly to the fact that the independent members of the sterling area, other than the Union of South Africa, have been net drawers on the sterling area dollar pool since 1951.

### United States trade and payments in three recessions

It is of interest to consider why the United States recession of 1954 had a more limited effect on world trade and payments than the recessions of 1938 and 1949. In 1938, the United States recession resulted in a sharp increase in the balance with other countries, necessitating heavy drawings on their gold reserves. In 1949, though United States production fell much less than in 1938, there was a major dollar crisis. In 1954, on the other hand, a somewhat larger decline in national output than in 1949 (though still less than in 1938), instead of resulting in serious balance of payments difficulties in the rest of the world was accompanied by a lifting of restrictions on dollar imports by a number of western European countries.

The fall of 3 per cent in total output in the United States in 1954, in real terms, as shown in table 54, compares with declines of one per cent in 1949 and 5 per cent in 1938. Manufacturing dropped rather more than output as a whole in all three years—by 7 per cent in 1954, 6 per cent in 1949 and by 23 per cent in 1938. The extremely sharp decrease in manufacturing in 1938 reflects the magnitude of the shift in business inventories—equivalent, as shown in table 54, to no less than 4.5 per cent of the national output in 1937. Although inventory changes were likewise of great importance in 1949 and 1954, they were significantly smaller in relation to the national product. Similarly, fixed capital investment was much better maintained in the two post-war recessions than in 1938, though it may be noted that in both cases construction—the import content of which is probably low—was the most powerful sustaining force in this area.

Although, in 1954, a marked decrease in defence expenditures contributed materially to the over-all drop in demand, in 1938 and 1949 higher government outlays helped to offset the deflationary impulse emanating from the private domestic investment sector.

Of major significance in limiting the scope of all three recessions was a rise in the ratio of consumption

Table 54. United States: Gross National Product in Three Recessions

(Billions of United States dollars at 1947 prices)

| *Item* | *1937* | *1938* | *1948* | *1949* | *1953* | *1954* |
|---|---|---|---|---|---|---|
| Gross national product | 153.5 | 145.9 | 243.9 | 241.5 | 306.6 | 297.0 |
| Personal consumption expenditures | 111.5 | 109.8 | 168.0 | 172.3 | 196.7 | 197.1 |
| Government purchases of goods and services | 19.7 | 22.1 | 34.9 | 40.3 | 70.8 | 63.2 |
| Gross private domestic investment | 22.5 | 12.1 | 38.8 | 28.1 | 39.3 | 35.2 |
| Fixed capital | 16.8 | 13.4 | 33.8 | 31.5 | 38.7 | 38.2 |
| Business inventories | 5.7 | −1.2 | 5.1 | −3.5 | 0.6 | −3.0 |
| Net foreign investment | −0.2 | 1.9 | 2.1 | 0.8 | −0.3 | 1.4 |

*Source: Economic Report of the President* (Washington, D.C.), January 1955.

to national product. Both in 1949 and in 1954 not merely was the adverse effect of the recession on incomes markedly cushioned by the operation of systems of high progressive taxation, unemployment compensation and agricultural price supports, but tax rates themselves were reduced so that disposable personal incomes actually rose in real terms. Of more importance in 1938 was the well-known tendency for consumers to absorb the first shock of a fall in income by drawing upon savings, but this also provided support to the economy in 1949 and probably in 1954.

The international repercussions of the three recessions differed widely. It is true that in all three cases the maintenance or increase of foreign demand for United States goods at a time when United States imports were falling helped to stem the contraction in economic activity. Only in 1938, however, was this at all important in relation to United States total output and only in that year did the decline in United States demand have major deflationary repercussions elsewhere. In 1949 and 1954, on the other hand, the recessions occurred when output in the rest of the world was growing rapidly, so that declines in shipments to the United States could be offset by an increased volume of exchanges among other countries. The most important differences between the two post-war recessions, in so far as they affected the rest of the world, were twofold. In the first place, in the process of recovery from the war, and during the post-war expansion of output, the rest of the world had, by 1954, succeeded in greatly reducing its dependence upon the dollar area for imports, especially of certain primary products. Thus, in 1954 trade and exchange restrictions could be significantly relaxed without leading to unmanageable increases in dollar imports, while in 1949 restrictions had had to be tightened in support of precarious balance of payments positions. Furthermore, the 1949 recession occurred at a time when the margin provided by gold and dollar reserves for absorbing shocks to confidence had been reduced, in several of the important trading countries, to its lowest post-war level, whereas the recession of 1953 and 1954 began against a background of rapidly rising reserves in other countries, owing to the fact that dollar deficits had, for some time, fallen below the level of United States economic aid and other disbursements abroad.

Table 55. United States: Indices of Foreign Trade, 1938, 1949 and 1954

(Previous year = 100)

| *Item and year* | *Total* | *Crude materials* | *Crude foodstuffs* | *Manufactured foodstuffs* | *Semi-manufactures* | *Finished manufactures* |
|---|---|---|---|---|---|---|
| *Exports of domestic merchandise:*[a] | | | | | | |
| Quantum: | | | | | | |
| 1938 | 100 | 93 | 291 | 119 | 84 | 95 |
| 1949 | 103 | 126 | 120 | 85 | 104 | 98 |
| 1954 | 106 | 114 | 86 | 106 | 128 | 102 |
| Unit value: | | | | | | |
| 1938 | 93 | 88 | 82 | 86 | 88 | 99 |
| 1949 | 93 | 95 | 88 | 79 | 95 | 94 |
| 1954 | 99[b] | 102 | 90 | 101 | 100 | 99[b] |
| Value: | | | | | | |
| 1938 | 93 | 83 | 238 | 104 | 74 | 94 |
| 1949 | 95 | 120 | 106 | 68 | 99 | 92 |
| 1954 | 105 | 116 | 77 | 108 | 128 | 101 |
| *Imports for consumption:* | | | | | | |
| Quantum: | | | | | | |
| 1938 | 72 | 71 | 78 | 81 | 67 | 71 |
| 1949 | 98 | 90 | 109 | 107 | 95 | 98 |
| 1954 | 92 | 95 | 83 | 102 | 89 | 100 |
| Unit value: | | | | | | |
| 1938 | 89 | 84 | 81 | 88 | 91 | 107 |
| 1949 | 95 | 96 | 96 | 95 | 92 | 97 |
| 1954 | 103 | 97 | 121 | 99 | 97 | 100 |
| Value: | | | | | | |
| 1938 | 65 | 59 | 63 | 71 | 61 | 76 |
| 1949 | 93 | 87 | 105 | 102 | 87 | 95 |
| 1954 | 95 | 92 | 101 | 101 | 86 | 100 |

*Source:* United States Department of Commerce, *Foreign Trade of the United States, 1936–49* (Washington, D C., 1951); *Total Export and Import Trade of the United States, January–December 1954.*

[a] Non-military.

[b] Quotient of value and quantum indices.

### United States imports in 1938, 1949 and 1954

The value of United States imports for consumption dropped 35 per cent in 1938, 7 per cent in 1949 and 5 per cent in 1954, as shown in table 55. In all three years, the decline in the value of imports of raw materials (crude materials together with semi-manufactures) was significantly greater than that in total imports. In general, both the volume and the import prices of these goods were more sensitive to the recession than imports as a whole, owing to the concentration of production and inventory declines in the manufacturing sector of the economy. On the other hand, the value of imports of finished manufactures fell less than that of other imports. In 1938, this was due to a significant rise in import prices, while in the post-war years import prices were relatively stable. The stability in the volume of imports of finished manufactures in 1949 and 1954 was probably due to the fact that the trend in these imports was markedly upwards and that consumption increased in real terms despite the setback to output.

Greater diversity was experienced with respect to imports of foodstuffs, even though food consumption in the United States rose in real terms in all three periods. Imports of crude foodstuffs—unlike those of manufactured foodstuffs—dropped sharply in 1954 in real terms on account of a reduction in inventories induced by the expectation that the prices of cocoa and coffee would not hold at the levels to which they had risen. Although the quantum of imports declined, the value was maintained, as shown in table 55. In 1949, on the other hand, the rise in food consumption, accompanied by an improvement in the supply position abroad, led to an increase in the volume and the value of imports of both food groups, serving to offset much of the drop in other imports. Finally, the increase in food consumption in 1938 was accompanied by the recovery of domestic supplies in 1937 and 1938 from the drought of previous years, and coffee seems to have been the only major food import that rose in volume in 1938.

There were two important features of United States imports in 1954 which distinguish the recession of that year from those of 1938 and 1949. In the first place the volume of imports of raw materials (including semi-manufactures) on private account appears to have fallen much more moderately in relation to the decline in economic activity than in 1938 or 1949. The following figures relate indices of the volume of imports of crude materials and semi-manufactures for 1938, 1949 and 1954, based in each case upon the previous year, to corresponding indices of manufacturing:

| | *1938* | *1949* | *1954* |
|---|---|---|---|
| Manufacturing | 77 | 94 | 93 |
| Quantum of imports of crude materials and semi-manufactures | 69 | 92 | 92 |

It must be borne in mind that imports recorded in these figures include government imports for the strategic stockpile. While stockpiling expenditures rose from $160 million in 1948 to $459 million in 1949, such expenditures in 1954 fell approximately 10 per cent from the $733 million reported for 1953.[4] These stockpiling expenditures cannot be compared directly to changes in the values of imports in these periods, though their importance may be judged from the fact that imports of crude materials and semi-manufactures for consumption declined in value from $3,780 million in 1948 to $3,277 million in 1949 and from $5,291 million in 1953 to $4,722 million in 1954.

It is evident, therefore, that if the stockpiling expenditures noted above gave rise to roughly similar changes in government imports, the fall in the quantum of private imports in 1949 might well have exceeded 15 per cent. On the other hand, since stockpiling expenditures were reduced in 1954, the fall in the quantum of private imports must have been less than the 8 per cent decrease in total imports of the two raw material groups.

The reason for the lesser decline in private imports of raw materials in relation to manufacturing activity in 1954 than in 1949 is probably to be found largely in the fact that commodity prices had been falling prior to the onset of the recession in mid-1953, so that there had not been any major accumulation of inventories of imported raw materials requiring scaling down, except perhaps some of the metal inventories. It is true that falling industrial consumption caused sharp import declines in 1954 in the cases of raw wool and steel mill products: as in 1949, there was a relatively large drop in wool consumption, which bore much more heavily upon the imported than upon the domestic product, while imports of steel mill products in 1950 to 1953 had to a considerable extent reflected an abnormal level of domestic demand in relation to domestic output. There were other instances, however, such as rubber and iron ore, in which the impact of decreasing industrial consumption fell much more heavily upon the volume of domestic output than upon imports, owing to such factors as lower import prices.

The recessions of 1938 and 1949, on the other hand, had been preceded by periods of rising commodity prices and relatively heavy inventory accumulation. It was therefore not surprising that when output failed to advance in accordance with previous expectations, inventories of domestically produced and of imported raw materials should be cut sharply. In addition, the expectation of devaluation in 1949 appears to have

[4] Data for 1948 and 1949 in current prices from Organisation for European Economic Co-operation, *Statistics of National Product and Expenditure, 1938, 1947 to 1952* (Paris, 1954), page 239. Figure for 1953 at prices of 31 December 1953 from Executive Office of the President, *Stockpile Report to the Congress, July-December 1953* (Washington, D.C., 1954). Estimate of 10 per cent decline in 1954 obtained from the Department of Commerce.

caused some postponement of orders which may not have been fully offset in the fourth quarter of the year, after the devaluation had taken place.

The second major difference from previous recessions in the development of imports in 1954 was the rise in import unit value by 3 per cent, on the average, whereas there had been declines of 11 per cent in 1938 and 5 per cent in 1949, which combined with the drop in import quantum in depressing the value of imports in these two years.

It should be noted that while manufacturing in the United States was 7 per cent lower in 1954 than in 1953, the total output of all other countries[5] increased no less than 8 per cent. The decline in import demand in the United States was more than offset by higher import demand in other countries, which helped in maintaining the level of prices. This situation contrasted with that in 1938 when manufacturing activity outside the United States was unchanged from the previous year, and would, in fact, have shown a decline but for the advances recorded in Germany and Japan under the influence of rearmament.

On the other hand, the growth in output outside the United States cannot, in itself, account for the greater stability of prices in 1954 than in 1949. In 1949, the rise in output in the rest of the world sufficed to bring about an actual increase in world manufacturing activity,[5] whereas in 1954 world manufacturing was, on the average, maintained only at the 1953 level. What was important in this connexion was that the offsetting effect of the rise in import demand for primary products in the rest of the world, especially in western Europe, was greater in 1954 than in 1949 owing to a growth in the importance of western Europe in total world demand for such imports. The second main reason for the difference in price behaviour between 1949 and 1954 has already been observed above in the characteristics of price changes in the periods immediately preceding the two recessions.

Additional elements in the decline in prices in 1949 included the anticipation of devaluation, which induced importers to withhold purchases from the countries expected to devalue, as already noted. Moreover, special factors affecting the prices of cocoa and coffee, discussed in the following chapter, raised the average import unit value of imported crude foodstuffs in 1954 by no less than 21 per cent, whereas in 1948 and 1949 the recovery in world output from the effects of the war was forcing food prices down. Finally, the sharp drop in agricultural prices from 1948 to 1949 may have caused sympathetic movements in other commodities at that time. The corresponding decline in prices of agricultural products from 1953 to 1954 was moderate and did not provide a seriously depressing influence on other commodity prices.

In sum, therefore, although the fall in national output was slightly greater in 1954 than in 1949, and although imports on government account rose in 1949 and declined in 1954, the over-all drop in the value of imports in 1954 was slightly less, proportionally, than in 1949, and very much less than in 1938, when, however, the decrease in production was also much larger.

### Other elements in the supply of dollars

One of the outstanding differences between the structure of the United States balance of payments in pre-war and post-war years lies in the much smaller share of imports of goods in the total supply of dollars to the rest of the world since the Second World War. As indicated in table 56, imports of goods had accounted for

[5] Excluding eastern Europe and mainland China.

Table 56. The Supply and Use of Dollars in Three Recessions
(Millions of United States dollars)

| Item | 1937 | 1938 | 1948 | 1949 | 1953 | 1954 |
|---|---|---|---|---|---|---|
| *Supply of dollars by the United States:* | | | | | | |
| United States imports of goods[a] | 3,181 | 2,173 | 7,563 | 6,879 | 10,954 | 10,295 |
| United States imports of services[a b] | 1,009 | 806 | 1,722 | 1,926 | 2,707 | 2,735 |
| Private capital and donations | −146 | 85 | 1,585 | 1,076 | 850 | 1,984 |
| Government capital outflow | — | 1 | 1,024 | 652 | 220 | −108 |
| Other government disbursements[c] | 78 | 77 | 4,838 | 5,962 | 4,716 | 4,481 |
| Total supply of dollars | 4,122 | 3,142 | 16,732 | 16,495 | 19,447 | 19,387 |
| *Use of dollars by other countries:* | | | | | | |
| United States exports of goods[d] | 3,451 | 3,243 | 13,193 | 12,149 | 12,226 | 12,671 |
| United States exports of services[d] | 1,102 | 1,093 | 3,565 | 3,674 | 4,758 | 4,943 |
| Increase in gold and dollar assets[e] | −808 | −1,425 | −1,178 | −92 | 2,269 | 1,736 |
| Errors and omissions | 425 | 249 | 1,152 | 764 | 194 | 37 |

*Source: Balance of Payments of the United States, 1919–1953*; United States Department of Commerce, *Survey of Current Business*, September and December 1954 and March 1955.

[a] Excluding government military expenditures.

[b] Excluding government miscellaneous services.

[c] Including unilateral transfers (other than for military purposes), military expenditures and miscellaneous services.

[d] Excluding military aid exports.

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

77 per cent of the dollar supply in 1937, but this proportion was reduced to 45 per cent in 1948 and 57 per cent in 1953. The other principal components of the total, with the possible exception of private capital outflow, either have been somewhat less sensitive to recession than imports of goods, or have varied more or less independently of changes in economic activity so that whether they cushioned or accentuated the drop in dollar disbursements by the United States depended upon circumstances unrelated—or only distantly related—to the recession.

On the whole, imports of services have been relatively less sensitive to recession than imports of goods. It is true that payments for transport services did vary proportionally with imports of goods in 1938 and 1954, but in 1949 there was a rise in such payments owing to the offsetting effect of the rapid recovery in European merchant fleets after the war. Travel expenditures, on the other hand, tend to vary with personal income rather than with industrial production. Thus the rise in disposable personal income in 1949 and 1954 was accompanied by higher travel expenditures, while the sharpness of the decline in such expenditures in 1938 may be attributed almost as much to political uncertainties in Europe as to the decrease in disposable income. Other service elements in the supply of dollars have also tended to be less sensitive to a recession than industrial production and imports of goods.

Government disbursements, which were low before the war, but have been much higher since, have not been sensitive to recessions, either in stabilizing or destabilizing the total supply of dollars. In 1949, a decline in loans was more than offset by expanded grants (as well as by higher stockpiling expenditures which, however, are included with imports of goods in table 56). In 1954, on the other hand, the value of government disbursements declined relatively more than imports of goods.

The most volatile of the components of the dollar supply is the flow of private capital, which tended to moderate the effect of the 1938—and still more the 1954—recession on the dollar supply and to accentuate the difficulties of 1949. From 1931 to 1937 private capital had, on balance, been flowing back fairly continuously to the United States in relatively large amounts, owing to fears of depreciation and of the introduction of exchange controls abroad, or to political unrest and the danger of war. This inflow continued towards the end of 1938 and in 1939, but in the last quarter of 1937 and the first half of 1938, the inflow was reversed because the dollar was expected to depreciate, and this reversal helped to maintain the supply of dollars for the brief period of the recession.

The recessions of 1949 and 1954 were not, of course, accompanied by expectations of devaluation in the United States. On the contrary, from 1946 to 1948 other countries had been liquidating gold and dollar reserves so rapidly as to give rise to the fear that a drop in sales to the United States in 1949 would make devaluation unavoidable in a number of major trading countries; and this very expectation contributed to the difficulties of the situation by leading to short-term speculation against certain foreign currencies. There was a tendency for exporters in other countries to delay repatriation of the foreign exchange proceeds of their exports, and for importers to hasten payments for inward shipments. By contrast, in 1953 the rest of the world added nearly $2.3 billion to gold and dollar reserves as a result of transactions with the United States, and therefore a drop in dollar earnings of considerable magnitude could be absorbed without undue strain, even though individual countries might encounter difficulties. The necessary conditions of confidence thereby existed to make it possible for private capital outflow to rise very sharply; the increase was, in fact, sufficient to offset virtually all other elements of decline in the dollar supply. The nature of this increase in capital outflow has already been discussed above: it included a heavy accumulation of short-term debt by a few countries as well as flotations of securities in the United States by the International Bank for Reconstruction and Development and by Australia, and a flow of short-term funds to the United Kingdom.

### The use of dollars

Notwithstanding the decline in their dollar earnings, other countries relaxed their restrictions on imports from the United States in 1954 and raised the value of their purchases in that country. This contrasted with developments in 1949; although United States exports increased considerably in the first half of 1949 as shipments under the European Recovery Program reached their peak, there was a sharp decline in the second half of the year in response to severe import restrictions imposed in the sterling area and Latin America to safeguard their balances of payments. In 1938, the fall in the value of exports had been due entirely to price declines. The volume of exports would have dropped as well, owing to the reduction in economic activity in many other countries, but for the recovery of agriculture in the United States from the drought years and the consequent near-trebling of shipments of crude foodstuffs in 1938.

The most striking difference between 1954 and the other two recessions lies, perhaps, in the fact that the rest of the world continued to add to gold and dollar reserves at the rate of $1.7 billion a year as a result of transactions with the United States, instead of being compelled to liquidate reserves to meet heavy dollar deficits, as in 1938 and 1949. The contrast with 1949 does not emerge as clearly as it should in table 56, owing to the inclusion in the figure for the reduction in gold and dollar assets in 1949 of the post-devaluation

fourth quarter,[6] when much of the speculation of previous months was reversed, and the rest of the world was able to recover $389 million of the earlier losses in reserves.

### The position of the sterling area

An examination of changes in the total supply of dollars in the three recessions leads at once to the following question: if the total supply of dollars dropped little more in 1949 than in 1954, and very much less than in 1938, why was there a dollar crisis in 1949, but not in the other two years? Part of the answer to this question has already been given above, either directly or by implication. In 1938, new gold production and the gold and dollar reserves of other countries were sufficiently large, and the price of gold sufficiently high in relation to goods, to permit the losses entailed by the rise in the United States export balance to be absorbed, while in 1954 a similar increase in the balance simply resulted in reducing the rate at which gold and dollar reserves were being accumulated by other countries without eliminating such additions altogether. In 1949, on the other hand, the crisis was due to the fact that the unexpected losses in reserves resulting from the United States recession came at the end of a long period of liquidation.

Part of the answer, however, is also to be found in the special position of the sterling area. This is most easily seen in the following figures giving the percentage decline in the value of United States general imports of merchandise.

| | *From the sterling area* | *From other countries* |
|---|---|---|
| 1937 to 1938 | 48 | 33 |
| 1948 to 1949 | 17 | 5 |
| 1953 to 1954 | 11 | 6 |

In all three recessions the earnings of the sterling area from exports to the United States dropped much more than the earnings of other countries, so that in so far as balance of payments difficulties ensued, they tended to be concentrated in the sterling area. Indeed, the dollar crisis of 1949 was centred in the sterling area, and almost confined to it, though it did, of course, have serious consequences for other countries owing to the important position of the sterling area in world trade and payments. An examination of the data for 1948 and 1949 in table 56 suggests, in fact, that had the foreign trade effects of the 1949 recession been less concentrated, the problems encountered would have been much less serious. What gave the crisis of 1949 its particular severity was the focusing of the difficulties at a critically weak point in the world economy.

Imports from the sterling area were especially sensitive to the United States recessions primarily because imports of crude and semi-manufactured materials—which are considerably more sensitive to recessions than total imports—account for a much higher proportion of imports from the sterling area than from other countries, as is shown in the following figures giving the percentage share of crude and semi-manufactured materials[7] in the value of United States imports from three areas.[8]

| | *Sterling area* | *Continental OEEC* | *Other countries* |
|---|---|---|---|
| 1937 | 73 | 54 | 54 |
| 1948 | 70 | 57 | 58 |

This particular sensitivity to recessions of sterling area exports to the United States was, in 1949, aggravated by speculation against sterling, as a result of which losses of gold and dollar assets during the third quarter of 1949 reached an annual rate of more than $1.2 billion, compared with the total pooled gold and dollar reserve of the sterling area valued at just over $1.3 billion immediately before devaluation. The much smaller impact of the recession, and of speculation, upon the rest of the world is strikingly reflected in the fact that, excluding the sterling area, other countries as a whole were actually able to add more than $180 million to their gold and dollar reserves as a result of transactions with the United States during the first nine months of 1949—continental western Europe and dependencies showing a gain of $100 million and Latin America of nearly $170 million, while some losses occurred in a number of non-sterling countries in Asia.

It is, therefore, above all in the sterling area that the difference between the international repercussions of the recessions of 1949 and 1954 is to be sought. In table 57, data are presented concerning the balance of payments of the United States with the sterling area during the two post-war recessions. At first sight the balance in 1949 appears to show considerable improvement over 1948. Notwithstanding a 9 per cent reduction in payments to the sterling area for United States imports of goods and services, the total supply of dollars to the sterling area rose by over $300 million in 1949 owing to greatly increased economic aid by the United States. This, together with a decline in dollars required for payments to third countries and for unrecorded capital flow, made it possible to reduce the rate of decline in the gold and dollar reserves of the sterling area as a result of transactions with the United States by nearly $400 million. This illustrates quite forcibly the prime importance in the dollar crisis of 1949 of the low level of the sterling area gold and dollar reserve, which was unable

[6] Similar considerations apply to the item "errors and omissions". Major fluctuations in this item in the post-war period have frequently reflected changes in unrecorded speculative capital flow to the United States from other countries. From the fourth quarter of 1948 to the third quarter of 1949, this item rose continuously from an annual rate of some $550 million to a rate of nearly $1.6 billion. However, there appears to have been a substantial return flow of speculative capital in the fourth quarter of 1949.

[7] Including burlap and newsprint.

[8] Corresponding data for 1953 were not available at time of writing.

Table 57. United States: Balance of Payments with the Sterling Area, 1948, 1949, 1953 and 1954

(Millions of United States dollars)

| Item | 1948 First nine months | 1949 First nine months | 1953 First nine months | 1954 First nine months |
|---|---|---|---|---|
| United States imports of goods and services[a] | 1,405 | 1,272 | 1,855 | 1,699 |
| Private capital and donations | 104 | 183 | 63 | 110 |
| Government capital outflow | 276 | 126 | 33 | 11 |
| Other government disbursements[b] | 298 | 819 | 528 | 446 |
| Total supply of dollars | 2,083 | 2,400 | 2,479 | 2,266 |
| United States exports of goods and services[c] | 2,006 | 2,022 | 1,810 | 1,876 |
| Increase in gold and dollar assets[d] | −996 | −602 | 686 | 215 |
| Multilateral settlements, and errors and omissions[e] | 1,073 | 980 | −17 | 175 |

*Source:* United States Department of Commerce, *Balance of Payments of the United States, 1919–53*; *Survey of Current Business*, September and December 1954.

[a] Excluding military expenditures.

[b] Including military expenditures; excluding military aid.

[c] Excluding military aid exports.

[d] Minus sign indicates sale of gold or liquidation of dollar assets by the sterling area.

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

to withstand the additional and unexpected[9] drain of 1949, reduced though it was compared with 1948.

A contrary first impression, paradoxically enough, emerges from a comparison of 1953 and 1954. In the latter year the supply of dollars was lower—owing to a decline in United States imports of goods and services of the same order of magnitude as in 1949[10] and to a reduction in economic aid—and this, together with a rise in dollar payments to other areas, caused a marked slowing down in the rate of growth of the gold and dollar reserve.

This slowing down, however, not only was due to the fall in shipments to the United States and the decline in aid, but it also, to some extent, reflected the confidence of the sterling area countries in their ability to absorb the effects of the fall in the supply of dollars. Thus, while imports from the United States had had to be severely curtailed by these countries from mid-1949, in 1954 the tendency, except in one or two instances, was to relax restrictions not only on trade but also on service and capital payments. Furthermore, the transfers to other areas in 1954 are heavily weighted by repurchases of sterling area currencies from the International Monetary Fund which, together with other special payments, notably to creditor members of the European Payments Union, are suggestive of confidence in the strength of the sterling area dollar accounts.

The chief reason for the greater confidence of sterling countries in 1953 than in 1948 was, of course, the improvement which had occurred in the balance of the area as a whole with the United States. In 1948 there had been a deficit on account of current transactions in goods and services, other than military aid imports, equivalent to 30 per cent of the sterling area's imports; by 1953 this deficit had been eliminated. The 1953 balance had been achieved partly through a large expansion in shipments to the United States and partly through a decline in imports. The reduction in the sterling area's dependence on the United States is clearly shown by the fact that the value of United States exports of merchandise to the area fell 25 per cent from 1948 to 1953 while the value of sterling area imports from all sources rose about 7 per cent in terms of dollars. This was due to the recovery and expansion of output in the sterling area, as well as in other countries outside the dollar area, making it possible in some cases to lower imports and in others to replace imports from the dollar area by imports from other areas. In addition, the sterling area gold and dollar reserve was significantly higher at the end of 1953 than at the end of 1948 in relation to imports both from the rest of the world and from the dollar area alone.[11]

To summarize: the repercussions of the United States recession of 1954 upon world trade and payments were much milder than in 1938 or 1949. Compared with 1938, the declines in production and imports in the United States were much more moderate in 1954; and while import prices slumped sharply in 1938, they increased slightly, on the average, in 1954. In any case, imports of goods constituted a smaller proportion of

[9] According to the *Economic Survey for 1950*, Cmd. 7915 (London, 1950), the three principal unexpected elements in the situation were the fall in exports to the United States, higher dollar imports by the oversea sterling area than anticipated and intensified speculation against sterling. The dollar imports of the oversea sterling area were cut sharply in the third quarter of 1949 by means of import restrictions, but the decline in shipments to the United States and the speculation continued.

[10] The value of United States imports of merchandise dropped less in 1954 than in 1949. However, United States imports of services had increased significantly in 1949 as United Kingdom service facilities continued their recovery, but remained roughly stable in 1954.

[11] This may be seen from the following data for 1948 and 1953, respectively (in millions of United States dollars): sterling area gold and dollar reserves at end of year, 1,856 and 2,518; value of sterling area imports from non-sterling world, 9,527 and 9,598; value of sterling area imports from dollar area, 3,756 and 3,158.

the total supply of dollars to other countries in 1954, the remaining elements in the supply being either less sensitive to recessions or determined by factors unrelated to the level of economic activity. Consequently, the supply of dollars, which had fallen by about a quarter from 1937 to 1938, declined only slightly in 1954. Thus, while other countries had to draw heavily upon gold reserves to finance a greatly increased import balance with the United States in 1938, in 1954 they were able to continue adding to gold and dollar reserves, albeit at a slower rate than in 1953.

Compared with 1949, on the other hand, the drop in manufacturing in the United States in 1954 was of a similar order of magnitude, though the decline in total output was somewhat greater. In both years—unlike 1938—the fall in United States import demand was more than offset by higher demand elsewhere, so that world imports rose in real terms. The critical differences between the two post-war recessions were associated with the recovery and expansion of economic activity from 1948 to 1953 in the rest of the world. This made it possible for dollar deficits to be greatly reduced through the rehabilitation of trade among non-dollar countries, and for gold and dollar reserves to be rebuilt to levels providing a larger measure of protection against sudden disturbances. This was particularly important in the sterling area, which is more sensitive than the rest of the world to United States recessions, and where the low level of reserves was a primary factor in the dollar crisis of 1949. Whereas the setback in United States economic activity in 1949 gave rise to heavy and unexpected drawings on gold and dollar reserves in the sterling area, the effect of the 1954 recession was only to reduce the rate of inflow of dollars into the sterling area. A particularly striking indication of the difference between the situations in 1949 and 1954 is provided by the fact that while in 1949 private short-term speculation against sterling aggravated the situation, in 1954 confidence in the general stability of world trade and payments was sufficiently strong to permit a relatively heavy outflow of private short-term funds to the United Kingdom, as well as to other countries.

## Balance of Payments of Western Europe and Japan

Preliminary data on the balance of payments of western Europe,[12] shown in table 58, suggest that the balance which western Europe had achieved in commercial transactions with the rest of the world in 1953

[12] Except where otherwise indicated, "western Europe" refers to the countries which are members of the Organisation for European Economic Co-operation (OEEC): Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy and Trieste, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom.

Table 58. Balance of Payments of OEEC Countries, 1952 to 1954

(Billions of United States dollars)[a]

| Item | 1952 Full year | 1953[b] Full year | 1954[c] First half |
|---|---|---|---|
| Goods and services: | | | |
| Exports, f.o.b. | 14.2 | 13.7 | 7.3 |
| Imports, f.o.b.[d] | −14.9 | −14.1 | −7.7 |
| Trade balance | −0.7 | −0.4 | −0.4 |
| United States military expenditures | 0.7 | 1.2 | 0.7 |
| Other services[d] | 0.5 | 0.5 | 0.5 |
| Total, goods and services | 0.5 | 1.3 | 0.8 |
| Private donations | 0.2 | 0.3 | 0.1 |
| Private capital | −0.1 | −0.2 | −0.4 |
| Miscellaneous official donations and capital | −1.0 | −0.8 | −0.4 |
| Net errors and omissions | 0.3 | 0.2 | 0.2 |
| CUMULATIVE BALANCE | −0.1 | 0.8 | 0.3 |
| Economic aid:[d] | | | |
| Grants and credits received | 1.6 | 1.0 | 0.6 |
| Aid extended by United Kingdom | −0.1 | −0.1 | −0.1 |
| Total, economic aid | 1.5 | 0.9 | 0.5 |
| Monetary movements: | | | |
| International Monetary Fund sales of sterling | — | −0.1 | — |
| United Kingdom sterling liabilities | −0.8 | 0.7 | 0.3 |
| United States dollar holdings (increase−) | −0.8 | −1.0 | −0.7 |
| Other short-term capital | — | 0.1 | — |
| Monetary gold (increase−) | 0.2 | −1.4 | −0.4 |
| Total, monetary movements | −1.4 | −1.7 | −0.8 |

*Source*: International Monetary Fund.

[a] Minus sign indicates debit; figures without signs are credits.

[b] Preliminary.

[c] Based on preliminary and partly incomplete data.

[d] Excluding imports of military goods and services provided under aid programmes, and the corresponding grants, amounting to $2.4 billion in 1952, $3.7 billion in 1953 and $1.3 billion in the first half of 1954.

Table 59. Trade Balances of Western Europe and Japan, 1953 and 1954
(Millions of United States dollars)

| Country | 1953 | | 1954 | |
|---|---|---|---|---|
| | First half | Second half | First half | Second half |
| Austria | −37 | 29 | 3 | −46 |
| Belgium-Luxembourg | −67 | −88 | −145 | −99 |
| Denmark | −53 | −60 | −97 | −117 |
| France | −140 | −13 | −128 | 102 |
| Germany, western | 209 | 404 | 350 | 310 |
| Greece | −88 | −74 | −98 | −80 |
| Iceland | −12 | −13 | −7 | −10 |
| Ireland | −103 | −89 | −115 | −66 |
| Italy | −546 | −368 | −455 | −309 |
| Netherlands | −99 | −124 | −184 | −261 |
| Norway | −218 | −186 | −204 | −232 |
| Portugal | −51 | −62 | −41 | −58 |
| Sweden | −104 | 5 | −116 | −72 |
| Switzerland | 8 | 17 | −52 | −23 |
| Turkey | −40 | −96 | −94 | −50 |
| United Kingdom | −1,071 | −764 | −768 | −922 |
| TOTAL, OEEC COUNTRIES | −2,412 | −1,482 | −2,151 | −1,933 |
| Japan[a] | −557 | −578 | −692 | −77 |

*Source:* Statistical Office of the United Nations. Exports, f.o.b., less imports, c.i.f.

[a] Excluding special procurement.

was approximately maintained in the first half of 1954, at a substantially higher level of total trade. Excluding military goods and services received in the form of aid from the United States, the external surplus of western Europe on account of goods and services rose from $0.5 billion in 1952 to $1.3 billion in 1953 and an annual rate of $1.6 billion in the first half of 1954. These surpluses were, however, the counterpart of approximately equivalent expenditures in western Europe by the United States armed forces, so that imports and exports of civilian goods and services were about in balance both in 1953 and in the first half of 1954.

However, examination of the trade balances of western European countries, shown in table 59, indicates a moderate deterioration in their combined balance from 1953 to 1954, the increase in the deficit from the second half of 1953 to the second half of 1954 being larger than the reduction in the deficit from the first half of 1953 to the first half of 1954.

A setback in the external balance of western Europe might have been expected in 1954 owing to the rise in economic activity in that area that accompanied the recession in Canada and the United States. As indicated in the preceding chapter, such a setback might have resulted in part from a fall in sales to Canada and the United States, but also—and probably of more importance in the case of western Europe—from a decline in shipments to other areas which were encountering difficulties in marketing their products in North America.

In the event, the repercussions of the recession in Canada and the United States were much more moderate than had been feared, for reasons examined in general in the preceding section. So far as western Europe was concerned, the deterioration in the balance with North America was initially small. While exports fell from the first half of 1953 to the first half of 1954, imports of dollar goods were also lower as a result of a reduction in imports of grain, which was only partly offset by the liberalization of dollar imports by such countries as Belgium-Luxembourg, western Germany, the Netherlands and the United Kingdom. As shown below, programmes of liberalization were largely confined in the first instance to imports of the foodstuffs and raw materials from the dollar area which were already subject to the least severe restrictions, at any rate in practice.

The small adverse movement in the balance on trade account with North America in the first half of 1954 was far outweighed by the rise in the balance with the rest of the world. Moreover, there were no secondary effects of the fall in income in Canada and the United States upon the trade of western European countries. Western Europe helped to increase the foreign exchange resources at the disposal of primary producing countries by raising both its imports and, as indicated below, its outflow of capital. Thus imports from the rest of the world, excluding Canada and the United States, increased 6 per cent in value from the first half of 1953 to the first half of 1954; inasmuch as import unit values declined at least 5 per cent and probably more, this implies a rise in import volume of 12 per cent or more. This was due to acceleration in economic activity in western Europe which was accompanied, except in Denmark, Sweden

and the United Kingdom, by a higher rate of investment (or lower rate of disinvestment) in inventories than in 1953.

The larger foreign exchange resources available to the primary producing countries enabled them in turn to increase their imports from western Europe. Thus, while the volume of exports by western Europe to the rest of the world rose some 13 per cent from the first half of 1953 to the first half of 1954, the increase in volume, excluding Canada and the United States, was probably as much as 20 per cent.

The substantial increase in western Europe's trade deficit from the second half of 1953 to the second half of 1954 was the result of developments affecting both exports and imports. While exports to Canada and the United States showed lesser declines than in the first half of the year, owing to the partial recovery in output in those countries, the rate of increase in shipments to the rest of the world dropped; at the same time imports rose significantly, especially from the dollar area.

Oversea export volume reached a seasonal peak in the fourth quarter of 1953, 16 per cent above the level of the fourth quarter of 1952; thereafter the momentum of the export expansion, though still considerable, slackened to some extent. This was to be expected in view of the fact that prominent among the areas taking larger quantities of exports from western Europe in the second half of 1953 and the first half of 1954 were the independent oversea sterling countries and South America, where the relaxation of import controls late in 1952 and during 1953 was accompanied by a wave of restocking. As inventories of imported goods were replenished in these countries, and as, in some cases, renewed balance of payments difficulties began to appear, it was natural that the rapid rise in western European exports should slacken to some extent. In addition, the very large rates of increase in exports to eastern Europe recorded in the first half of 1954, in relation to the corresponding period of 1953, reflected the initial impact of new trade agreements, and these rates of increase do not appear to have been maintained in the latter part of 1954.

Thus, although western Germany continued to show large increases in exports in the latter part of 1954, the expansion was more and more concentrated in trade with western Europe rather than overseas; the United Kingdom, the growth of whose exports had depended much more on higher demand from the oversea sterling area, encountered a slowing down in exports at the end of 1954, even after allowance for the effects of a dock strike.

The imports of western Europe from other areas rose approximately 7 per cent both in volume and in value from the second half of 1953 to the second half of 1954. The salient factors in the rise were the growth in output and incomes and a poor grain harvest in several countries. The advance in output in the engineering industries was particularly important, and tight supply conditions developed in the coal and steel industries. Thus, the second half of 1954 saw a considerable recovery in western Europe's purchases from North America of grain, coal and steel mill products. This was over and above the significant upturn in dollar imports of raw cotton, other agricultural goods and non-ferrous metals, which had begun in the first half of the year and continued in the second half. Reduction in imports of these same commodities had accounted for much of the improvement in the dollar balance of western Europe in 1953.

Thus, while the dollar area supplied little more than a quarter of western Europe's imports from the rest of the world in 1953, it accounted for one-half of the rise in such imports from the second half of 1953 to the second half of 1954. The dollar area also accounted for three-quarters of the deterioration in western Europe's trade balance in the second half of 1954.

Both export and import unit value indices of western Europe as a whole were stable during the first half of 1954 at a level some 2 to 3 per cent below the average for 1953. Both indices had been declining continuously since the beginning of 1952—rapidly during 1952 and more slowly during 1953. In 1954, the drop in the import index was halted while the export unit value index continued to fall sluggishly. Thus there was a slight deterioration in terms of trade in the course of the year.

As in 1952 and 1953, the deficit of western Europe on account of trade was more than outweighed by net earnings on service account. Of special importance was a rise in United States military expenditures in western Europe, from $0.7 billion in 1952 to $1.2 billion in 1953 and an annual rate of $1.4 billion in the first half of 1954. Even excluding these earnings, however, western Europe was in balance on the combined goods and services accounts in the first half of 1954, as in 1953. Net earnings from shipping services seem to have been maintained or increased as a result of the larger volume of traffic handled, especially with distant ports in South America and Australasia. Net earnings from tourism and from other services have probably also continued to increase.

The expansion in western Europe's exports in 1954 was accompanied by a growth not only in the usual short-term commercial credits, but also in medium-term and long-term credit advances accompanying particularly large-scale installations of plant and equipment. In fact, competition has developed between a number of leading industrial countries in the provision of medium-term credit facilities for financing exports of capital goods. In addition, several countries liberalized regulations governing capital transfers abroad. These developments resulted in a substantial growth in the outflow of

capital from western Europe in the first half of 1954, as indicated in table 58, especially from the United Kingdom and western Germany. The increase in the gross capital outflow was, however, partially offset by the reduction of clearing claims against bilateral agreement countries by western Germany and by the inflow of funds into the United Kingdom in connexion with the reopening of commodity markets and the expectation of progress towards currency convertibility. The latter inflow may have been reversed at, or shortly after, the turn of the year, when there was a setback in the balance of payments.

Notwithstanding the larger outflow of capital, and a further reduction in economic aid from the United States, the surplus of western Europe sufficed to permit the addition of $1.6 billion to gold and dollar reserves in 1954. The decline in the rate of increase of the reserves compared with 1953 was due mainly to the deterioration in the commercial balance with the dollar area.

### The European Payments Union

The sum of gross surpluses and deficits of members with the European Payments Union (EPU) declined from 1953 to 1954, as shown in table 60, continuing the trend since 1951. This further movement in the direction of a greater average degree of balance in transactions among members of the union occurred despite an increase of approximately 10 per cent in the value of trade cleared through the machinery of the union from 1953 to 1954. On the other hand, the concentration of surpluses in one country—western Germany—was even greater in 1954 than in the previous years, though the absolute amount of western Germany's surplus fell slightly.

One of the most important features of the development of western Europe's imports in recent periods has been the greater absolute and relative significance of western European sources of supply in the total. Thus, while the total volume of imports by western Europe rose 7 per cent from 1952 to 1953 and 11 per cent from 1953 to 1954, the volume of trade among European countries increased 13 per cent in both years. The greater relative gain during 1953 was probably due to the widespread progress in liberalization of trade from the end of 1952 to mid-1953, whereas from mid-1953 to the end of 1954 the only important additional advances in this direction were those in Austria, France and the United Kingdom. In addition, the process of substitution for imports from North America, which had also contributed to the relative gain in trade within Europe in 1953, was halted and in several countries was reversed in 1954.

It might have been expected that the reduction in discrimination against imports from the dollar area by several countries would, other things being equal, have tended to increase the average degree of imbalance in the European Payments Union. Since the countries concerned were generally those with relatively strong balances of payments, any tendency to replace imports from the European Payments Union area by imports from the dollar area would, to that extent, have led to a rise in the surpluses of creditor members of the union. That this did not happen was due to several causes. In

**Table 60. Surpluses and Deficits[a] in the European Payments Union, 1951 to 1954**

(Millions of units of account)[b]

| *Country or monetary area*[c] | *1951* | *1952* | *1953* | *1954* |
|---|---|---|---|---|
| Austria | −93.2 | 21.8 | 79.2 | 8.1 |
| Belgium-Luxembourg | 595.5 | 149.4 | −41.5 | −31.7 |
| Denmark | 8.0 | 6.8 | −44.7 | −97.7 |
| France | −413.1 | −421.7 | −299.5 | −30.2 |
| Germany, western | 405.0 | 330.8 | 434.9 | 416.2 |
| Greece | −114.8 | −42.3 | −27.5 | −67.1 |
| Iceland | −5.2 | −4.0 | −6.6 | −3.8 |
| Italy | 225.7 | −93.0 | −260.0 | −190.4 |
| Netherlands | 57.8 | 316.5 | 68.5 | 13.1 |
| Norway | −18.5 | −6.5 | −88.4 | −63.0 |
| Portugal | 59.7 | −31.8 | −11.6 | −32.8 |
| Sweden | 193.0 | 28.7 | 3.5 | −122.6 |
| Switzerland | 153.8 | 41.3 | 125.5 | 82.1 |
| Turkey | −105.9 | −117.7 | −31.3 | −59.4 |
| United Kingdom | −948.0 | −178.3 | 99.5 | 179.3 |
| TOTAL SURPLUSES AND DEFICITS | ±1,698.5 | ±895.3 | ±811.1 | ±698.8 |

*Source:* Press releases of the European Payments Union.

[a] Equivalent to annual sum of monthly net positions with the union.

[b] Equivalent to United States dollars.

[c] Ireland and Trieste are included in the monetary areas of the United Kingdom and Italy, respectively. All dependent and associated territories are included with the respective metropolitan countries. The United Kingdom entry includes the independent members of the sterling area.

the first place, certain of the creditor countries stepped up the rate of accumulation of inventories of imported goods in 1954 so that their export balances were reduced. Second, the lifting of discrimination against dollar goods, in so far as it influenced the trade of 1954, mainly affected foodstuffs and raw materials with only limited possibilities for replacement from European sources of supply. Finally, several of the creditor countries—notably the largest creditor, western Germany—liberalized service payments and capital transfers significantly in 1954. Western Germany's imports from the dollar area did increase more than imports from members of the European Payments Union in 1954; since its exports to the union rose more than its imports, its export balance with the union increased substantially. However, the over-all balance with the union declined slightly, owing to resumed service on the foreign debt and repatriation of principal as well as some increase, probably, in private capital outflow accommodating exports. Nevertheless, the rise in western Germany's share of total gross surpluses from 54 per cent in 1953 to nearly 60 per cent in 1954, and the fact that part of the payments in connexion with the foreign debt included substantial arrears from 1953, indicate that the problems raised by western Germany's persistent surplus in the union have not yet approached a solution.

The United Kingdom net surplus with the European Payments Union was higher in 1954 than in 1953, but this was not due to any substitution of United States goods for imports from members of the union; on the contrary, imports from western Europe of the United Kingdom and oversea sterling area alike rose considerably more than exports. This change was, however, more than offset by larger sales of dollar goods to western Europe and by capital movements. The latter included an advance repayment on a loan to the Netherlands and transfers from western Germany under the debt agreement, as well as short-term movements probably connected with the revival of commodity markets in the United Kingdom and the expectation that a measure of sterling convertibility would be introduced.

At the other extreme, the largest debtor country—France—succeeded in reducing its deficit materially in 1954, and was actually in surplus in the union in the last quarter of the year. The chief factors in the improvement in the French balance of payments position in 1954 are considered below. Here it may be noted that the improvement enabled France to restore to a large degree the liberalization of imports which had been abandoned in 1952. Although temporary compensatory taxes were levied on newly freed imports, these did not prevent such imports from rising much more than imports as a whole.[13]

A number of measures were adopted at mid-1954 to provide for the effective functioning of the European Payments Union after 30 June 1954. The principal problem which had arisen was that several creditor countries, particularly Austria and western Germany, had cumulative accounting positions far in excess of their quotas, as a result of which these countries had to grant credit to other members of the union on a scale well beyond that which they considered desirable. On the other hand, the borrowing facilities remaining to debtors within their quotas at 30 June 1954 were very limited, or, in several cases, had been completely exhausted. To meet this situation steps were taken to provide for the consolidation and repayment of outstanding debts incurred within the framework of the union; to establish new credit facilities corresponding to the repayments thus made; and to simplify the procedures of the union.[14]

### Developments in particular countries

While, for western Europe as a whole, the balance of trade declined by about $200 million from 1953 to 1954, the three largest trading countries—France, western Germany and the United Kingdom—as well as Italy, each recorded improvements in their balances, totalling approximately $500 million. Consequently, the remaining western European countries, most of whose trade is with western Europe and North America (which likewise increased its merchandise balance with them in 1954) experienced a fairly extensive setback in their balances of trade. In relatively few cases, however, did this give rise to acute balance of payments difficulties by the end of the year 1954. Thus the only countries reporting lower gold and dollar reserves at the end of 1954 than a year earlier were Belgium-Luxembourg, Denmark, Norway and Turkey, as shown in table 61, and of these only the latter three countries could be regarded as having encountered significant difficulties. Japan also faced a serious problem of external balance in this period, though the situation eased markedly in the second half of 1954. Despite the slight reduction in the United Kingdom trade deficit from 1953 to 1954, if these two years are considered as a whole, deterioration set in towards the end of 1954.

Before examining the nature of the balance of payments difficulties experienced in a number of countries, some consideration may be given to developments in the rest of western Europe. While the rise in industrial activity in France, western Germany and Italy in 1954 was in line with the average for western Europe as

[13] While total imports rose 5 per cent in value from the third quarter of 1953 to the third quarter of 1954 and imports from the EPU area (excluding the franc area) were unchanged, imports of newly liberalized commodities subjected to taxes of 10 and 15 per cent increased nearly 40 per cent. See Assemblée Nationale, *Rapport fait au nom de la Commission des Finances sur le projet de loi de finances (no. 9419) pour l'exercice 1955* (Paris, 1954), page 113.

[14] The details of these arrangements are discussed in the *Fourth Annual Report* of the Managing Board of the European Payments Union (OEEC document C(54)234, Paris), September 1954.

a whole, or greater, all three countries recorded improved balances of trade, as shown in table 59.

In the case of France, the economic expansion of 1954 represented a recovery from the recession of the previous year. Manufacturing increased about 10 per cent—approximately the same rate as for western Europe as a whole. Similarly, the rise of 5 per cent in the net output of agriculture in France in 1953/54 was about the same as for all western European countries as a group, and the 1954 harvest was still larger.[15] The volume of imports, however, increased only 8 per cent in 1954 as against 11 per cent for the whole of western Europe, while the 16 per cent expansion in exports was substantially higher than the average of 11 per cent for western Europe, as shown in table 62. The consequent improvement in the real balance of trade sufficed to outweigh the effects of the deterioration in terms of trade resulting from a greater fall in export than in import prices. The improvement was, moreover, concentrated in transactions with countries outside the franc area, imports from which rose only 7 per cent in volume from 1953 to 1954 while exports increased 22 per cent. Thus, the active balance with the franc area was reduced in 1954 together with the deficit with the rest of the world.

The relatively small expansion in imports, despite the relaxation of import restrictions, reflected the high level of such imports in 1953, when there had been a slight increase over the previous year notwithstanding the recession, partly owing to speculation by importers.[16] The gain in exports, especially to foreign

Table 61. Gold Reserves and Dollar Holdings of Western Europe and Japan, 1952 to 1954

(Millions of United States dollars)[a]

| *Country* | *1952* | *1953* | *1954* |
|---|---|---|---|
| Austria | 143 | 238 | 329 |
| Belgium-Luxembourg | 828 | 906 | 878 |
| Denmark | 101 | 127 | 102 |
| France | 916 | 1,007 | 1,288 |
| Germany, western | 691 | 1,225 | 1,998 |
| Greece | 57 | 111 | 124 |
| Italy | 655 | 812 | 925 |
| Netherlands | 747 | 980 | 1,045 |
| Norway | 160 | 171 | 148 |
| Portugal | 343 | 433 | 520 |
| Sweden | 275 | 335 | 406 |
| Switzerland | 2,053 | 2,133 | 2,185 |
| Turkey | 151 | 157 | 152 |
| Continental OEEC countries | 7,120 | 8,635 | 10,100 |
| Ireland[b] | 18 | 18 | 18 |
| United Kingdom | 2,318 | 3,009 | 3,189 |
| TOTAL, OEEC COUNTRIES[c] | 9,456 | 11,662 | 13,307 |
| Japan | 936 | 958 | 858 |

*Source:* International Monetary Fund, *International Financial Statistics* (Washington, D.C.); Federal Reserve System, *Federal Reserve Bulletin* (Washington, D.C.).

[a] End-of-year data.

[b] Gold only.

[c] Excluding Iceland and dollar holdings of Ireland.

[15] The volume of agricultural output was larger in 1954/55, even after allowance for some deterioration in quality.

[16] In the first half of 1953 there appears to have been an expectation of devaluation or of still tighter import controls, resulting from the continuing external deficit of France. For a discussion of this point, see *World Economic Report, 1952-53*, pages 112 and 113.

Table 62. Indices of Volume of Exports and Imports of OEEC Countries, Japan and the United States, 1953 and 1954

(1952=100)

| *Country* | *Exports* | | *Imports* | |
|---|---|---|---|---|
| | *1953* | *1954*[a] | *1953* | *1954*[a] |
| Austria | 134 | 163 | 96 | 132 |
| Belgium-Luxembourg | 109 | 122[b] | 104 | 116[b] |
| Denmark | 110 | 121 | 115 | 139 |
| France | 105 | 122 | 101 | 109 |
| Germany, western | 117 | 145 | 113 | 142 |
| Ireland | 114 | 118 | 113 | 113 |
| Italy | 106 | 114 | 108 | 111 |
| Netherlands | 114 | 134 | 119 | 150 |
| Norway | 102 | 118 | 110 | 126 |
| Sweden | 108 | 118 | 99 | 113 |
| Switzerland | 112 | 114 | 104 | 120 |
| Turkey | 121 | 115 | 99 | 100 |
| United Kingdom | 103 | 109 | 109 | 110 |
| TOTAL, OEEC COUNTRIES[c] | 110 | 122 | 107 | 119 |
| United States[d] | 94 | 99 | 105 | 97 |
| Japan | 112 | 146 | 137 | 141 |

*Source:* Statistical Office of the United Nations.

[a] Preliminary.

[b] Quotient of value and unit value indices.

[c] Data from Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series I (Paris), February 1955.

[d] Exports exclude military shipments.

countries, was proportionally very large in agricultural products owing to good harvests in 1953 and 1954. Moreover, most of the principal commodity groups contributed to the expansion. The value of aid provided to exporters by the Government in 1954, by such means as the remission of taxation, probably represented over 8 per cent of the value of exports to foreign countries, compared with 5 per cent in 1953.

The current transactions of the franc area with the rest of the world had moved into surplus by the second half of 1953 because of higher expenditures in France by United States armed forces and the virtual elimination of the deficit of the oversea territories. In 1954, the current surplus increased further, and in addition aid from the United States rose to nearly $450 million from $300 million in 1953, owing to large-scale receipts in connexion with Indochina. As a result, France was one of the few countries able to add even more to its gold and dollar reserves in 1954 than in 1953—$281 million in 1954 as against only $91 million in the previous year—despite accelerating repayments on dollar loans.

Manufacturing activity rose 9 per cent in 1954 in Italy, but agricultural output dropped materially as a result of adverse weather. However, lower food imports following the excellent harvest of 1953 enabled Italy to maintain the value of total imports approximately unchanged from 1953 to 1954 while exports rose with the advance in economic activity in western Europe and the easing of import restrictions in France and the United Kingdom, which had affected Italy with especial severity. United States military expenditures in Italy also increased, so that the reduction in the Italian deficit on current account which had occurred from 1952 to 1953 continued further in 1954.

Belgium-Luxembourg, western Germany, the Netherlands and Switzerland had all been in substantial surplus on current account in 1952, and the latter three countries likewise recorded relatively large surpluses in 1953; a sharp deterioration in terms of trade in Belgium-Luxembourg caused the balance of that area to move into deficit in 1953. These surpluses mainly took the form of growing credit balances in the European Payments Union, only half of which were settled in convertible currency; in the case of western Germany heavy surpluses were also built up in the clearings with bilateral agreement countries. All these countries liberalized their imports significantly between the end of 1952 and mid-1953 and maintained the new rate of liberalization during the rest of 1953 and in 1954. In addition, the Benelux countries virtually eliminated discrimination against imports from the United States, while western Germany moved in this direction. Swiss import policy towards the dollar area had been liberal throughout the post-war period. The effect of the dollar liberalization programmes is considered below.

In all these countries except Belgium-Luxembourg imports in 1954 rose more than the average for western Europe, probably reflecting a substantial rise in investment in inventories of imported goods, especially in the engineering industries. Although increases in exports from 1953 to 1954 were also substantial, only in western Germany did their value rise more than that of imports and even there the active balance of trade in 1954 appears to have been reduced compared with the second half of 1953.

Special conditions have tended to inflate the foreign trade of western Germany and the Netherlands from time to time, owing to favourable opportunities for transit trade of an unusual character. Thus, for example, the existence of a free market in Brazilian cruzeiros in western Germany made it possible for western Germany to engage in substantial and unaccustomed transit trade in coffee, and probably also in other commodities —both imported from and exported to Brazil. The emergence of discounts in the free markets for other currencies, notably sterling, has resulted in similarly exceptional increases in transit trade on occasions. Both western Germany and the Netherlands have also made considerable use of incentives of various kinds for promoting exports, some of which have also tended to expand transit trade.

While western Germany was the only one of the five countries now under consideration in which the rise in imports in 1954 was not accompanied by some deterioration in the trade balance, the over-all balance in western Germany on current and capital accounts probably did decline. This was due to the resumption by western Germany of obligations in respect of past debts and the liberalization of transfers both of service payments and on capital account, as well as to the payment of subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development.

In spite of such transfers and of increases in trade deficits with the dollar area, these countries were able to add to their gold and dollar reserves in 1954. This was due to a considerable extent to special gold and dollar settlements at mid-1954 to creditors by debtor countries in the European Payments Union, covering part of the cumulative credits outstanding. Additional elements in the particularly rapid rate of accumulation of gold and dollar reserves by western Germany in 1954—at an even faster rate, in fact, than in 1953—were current receipts in connexion with its large active balance with the European Payments Union and heavy expenditures by United States armed forces in western Germany. The fall in western Germany's balance of payments surplus from 1953 to 1954 was consequently reflected in a reduction in the holdings of currencies other than dollars—including holdings built up under clearing agreements in 1952 and 1953.

### Actual and potential balance of payments difficulties

It was noted above that among the countries experiencing balance of payments difficulties during the period under review were Denmark, Japan and Turkey. In another group of countries—Norway, Sweden and the United Kingdom—while no actual difficulties were experienced during this period, the situation at the end of 1954 gave rise to some concern. In Norway, there was a slight increase in the deficit on current account in 1954, instead of the reduction which had been anticipated, while in the United Kingdom there was a deterioration in the current balance in the second half of 1954 and the first quarter of 1955. Although Sweden's external accounts were approximately in balance in 1954 at a high level of trade liberalization, there had been some reduction in the current balance by comparison with 1953, and a further slight deterioration was expected by the Government for 1955.

The conditions prevailing in each of these countries varied widely, as was to be expected, and in particular the timing of adverse developments differed considerably from country to country. Thus Japan was losing foreign exchange reserves rapidly at the end of 1953 and the first half of 1954, but had regained most of its losses by the time the United Kingdom experienced a sharp drain on its reserves early in 1955. Similarly, the peak of imports by Japan and Turkey appears to have occurred at the end of 1953 or in the first half of 1954, imports in the second half of 1954 falling below those of the corresponding period of 1953. In Denmark, Norway and Sweden, on the other hand, the rise in imports continued fairly steadily in the second half of 1954, while in the United Kingdom imports were relatively low throughout most of 1954 and did not begin to move upwards sharply until the turn of the year. Throughout the following discussion, therefore, the differences in the phasing of events in the various countries must be borne in mind.

Subject to the observations above, certain common characteristics of developments in these countries may be noted. In all instances there was a sharp rise in imports accompanying higher levels of industrial production and consumption. Except in Norway and Sweden, part of the increase in imports resulted from unfavourable weather conditions; these affected the grain harvest in Japan in 1953, and in Denmark, Turkey and the United Kingdom in 1954. Thus, Japan was compelled to purchase much larger quantities of grain abroad in the first half of 1954, and the United Kingdom in the second half of the year and early in 1955. In Turkey, notwithstanding a substantial carry-over from the previous harvest, supply difficulties developed in 1954 owing to a drought, which led to the withholding of grain by farmers from the government purchasing agency in the expectation of price increases. While wheat exports in the first half of 1954 were actually 75 per cent higher in volume than in the first half of 1953, by the latter part of the year the Turkish Government negotiated an agreement with the United States for the import of 500,000 tons of grain[17] so as to curb speculation in grain. The poor harvest of 1954 did not prevent Swedish grain exports from rising above the level of 1953, but stocks were run down. Finally, in Denmark, poor grazing conditions, together with a rise in the number of farm animals, necessitated much higher imports of feed, which, together with food grains, accounted for nearly 40 per cent of the rise in imports in 1954.

An additional element in the rise in imports was the expanded demand for consumer goods resulting from higher incomes and the liberalization of imports. This was particularly important in Denmark and Sweden, where there were large increases in imports of passenger cars. In most of these countries there were also significant increases in imports of metals and manufactures, and, except in the United Kingdom, of capital goods; in Norway, the rise in imports of ships was equivalent to much more than the total increase in the deficit on current account.

In Japan and Turkey, there was probably a considerable element of speculative purchasing by importers in anticipation that restrictions which would lead to shortages or higher prices would later be imposed.

Only in Turkey were the difficulties in the balance of payments due to any extent to a decline in exports; this resulted not only from the fall in supplies of wheat but also from higher prices demanded for exported raw cotton and tobacco. However, the exports of the United Kingdom rose appreciably less than the average for western Europe in 1954, reaching a level only 4 per cent above that of 1950 in real terms. In no case, moreover, was an adverse movement in terms of trade of primary importance in the situation, though there was some deterioration in Sweden, the United Kingdom and, especially, in Turkey, as shown in table 63.

While Japanese exports continued to rise both in 1953 and, much more rapidly, in 1954, they were for some time hampered by import restrictions in the sterling area, which, however, were progressively relaxed during 1954. There was also a reduction in special procurement by United States armed forces, whose expenditures in Japan in 1953 were equivalent to nearly two-thirds of receipts from commercial exports of goods.

The volume of exports of Denmark, Norway and Sweden in 1954 was in each case some 10 per cent or

[17] The agreement provided for 100,000 tons of wheat to be bartered against Turkish chrome ore, the remainder of the shipments of wheat and feed grains being financed by the United States Foreign Operations Administration and Commodity Credit Corporation; Turkish lira proceeds were to be used for defence support, economic development and to meet United States obligations.

Table 63. Indices of Export and Import Unit Values[a] and Terms of Trade of OEEC Countries, Japan and the United States, 1953 and 1954

(1952=100)

| Country | Exports | | Imports | | Terms of trade | |
|---|---|---|---|---|---|---|
| | 1953 | 1954[b] | 1953 | 1954[b] | 1953 | 1954[b] |
| Austria | 91 | 90 | 108 | 103 | 84 | 87 |
| Belgium-Luxembourg | 84 | 77 | 95 | 90 | 88 | 86 |
| Denmark | 95 | 94 | 90 | 87 | 106 | 108 |
| France | 94 | 89 | 91 | 89 | 103 | 100 |
| Germany, western | 94 | 90 | 87 | 84 | 108 | 107 |
| Ireland | 101 | 99 | 94 | 95 | 107 | 104 |
| Italy | 95 | 99 | 91 | 91 | 104 | 109 |
| Netherlands | 89 | 85 | 89 | 84 | 100 | 101 |
| Norway | 87 | 87 | 95 | 93 | 92 | 94 |
| Sweden | 87 | 86 | 91 | 91 | 96 | 94 |
| Switzerland | 98 | 97 | 93 | 92 | 105 | 105 |
| Turkey | 90 | 87 | 97 | 100 | 93 | 87 |
| United Kingdom | 97 | 95 | 88 | 88 | 110 | 108 |
| TOTAL, OEEC COUNTRIES[c] | 93 | 90 | 90 | 88 | 103 | 102 |
| United States | 100 | 99 | 96 | 98 | 104 | 101 |
| Japan | 89 | 88 | 87 | 84 | 102 | 105 |

*Source:* Statistical Office of the United Nations.

[a] Calculated in terms of national currencies, except in dollars for Japan and for OEEC countries as a whole.

[b] Preliminary.

[c] Data from Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series I, February 1955.

more higher than in 1953. In Denmark the rise would have sufficed to cover all except the unusual increase in imports of feed and passenger cars. In Norway and Sweden there were substantial gains in exports of pulp and paper products, but the Norwegian expansion reflected in part an exceptional catch of fish. Swedish exports of ships, notably to Norway, rose sharply, financed largely by credit.

In several of the countries under consideration the deterioration in the external balance was probably intensified by speculative capital movements, though the extent of such movements is impossible to determine with any precision. In the case of the United Kingdom, where there was some liberalization of capital transfers during 1954, adverse developments on capital account at the turn of the year may have reflected, among other factors, a reversal of the movement into sterling early in 1954, which had occurred under the influence of the reopening of commodity markets and the expectation, at that time, of the early introduction of a measure of sterling convertibility. Again, it is probable that some element of speculative capital outflow accompanied the rumours of devaluation prevalent in Denmark early in 1954.

A special difficulty facing Denmark, and to a lesser extent Norway and Sweden, was the inadequacy of the margin provided by foreign exchange reserves to absorb significant swings in the balance of payments, even if such swings were of only short duration. As may be seen from the following figures, the value of Denmark's gold and dollar holdings at the end of 1953 represented a much smaller percentage of the value of its imports during 1953 than was the case in other western European countries—excluding those which are members of wider currency areas.

| | Percentage | | Percentage |
|---|---|---|---|
| Switzerland | 181 | Turkey | 30 |
| Austria | 44 | Sweden | 21 |
| Greece | 38 | Norway | 19 |
| Italy | 34 | Denmark | 13 |
| Germany, western | 32 | | |

Other things being equal, therefore, it was necessary for Denmark to watch small shifts in its foreign balance much more carefully than some of the other countries listed above. It is noteworthy that Sweden, with a somewhat higher ratio of dollar reserves to imports than Denmark, resorted to borrowing on the Swiss market during 1954 to reinforce its gold and dollar reserves.

All the above countries took measures to deal with the problem of restoring or maintaining an external balance, though, since the balance of payments position of Sweden was still relatively strong, the various restraints placed on the growth of demand in that country may be regarded as designed primarily to maintain internal stability rather than as necessitated by any immediate threat to foreign accounts. Measures taken by various countries included the tightening of credit and the raising of interest rates in Japan from October 1953 onwards, in Norway in February 1954[18] and again

[18] Measures taken early in 1954 did not include raising interest rates.

in February 1955, in Denmark in June 1954, in Sweden in October 1954 and in the United Kingdom in January and February 1955. The United Kingdom and Denmark also limited consumer credit. The intention of cutting or deferring public expenditures was announced in Denmark, Japan and Sweden. In Denmark, indirect taxes were raised and special incentives to private saving were provided, while in Sweden a 10 per cent tax on sales of motorcars and motorcycles was restored. In Norway, a number of measures were adopted early in 1954 to restrict private fixed capital investment, and even more restrictive measures were adopted early in 1955; in Sweden, the 12 per cent levy on new investment expenditure which had expired at the end of 1953 was restored in February 1955. Japan and Turkey tightened direct import restrictions, a measure which was, however, of doubtful effectiveness;[19] though there was no general retreat from a policy of liberal imports in Denmark, the import of motorcars and motorcycles was restricted.

In the second half of 1954 there was a rapid recovery in the Japanese balance of payments. This was due to higher commercial exports resulting from the relaxation of import restrictions by the sterling area and from the use of special methods of export promotion. The latter included, apart from barter trade, a system of linking import allocations with exports in such a manner as to make it possible for exporters to lower their prices and compensate themselves from high profits on the sale of import goods in short supply.[20] At the same time the rise in imports was checked, and imports showed an actual decline from the second half of 1953 to the second half of 1954. This was due partly to lower food import requirements resulting from the improved harvest of 1954. In addition, there was a reaction against the speculative inventory accumulation of 1953 because of a marked slackening in the rate of advance of output and a tightening in import credit facilities. Other factors contributing to the easing of Japanese balance of payments difficulties were a rise in foreign import credits and special assistance by the United States in the form of cotton loans and sales of surplus grain against Japanese currency. By the end of 1954, Japan's gold and foreign exchange reserves had risen nearly $300 million from the low point reached at the end of May, thus recovering almost four-fifths of the losses since the end of 1952. It was, however, not clear how far the improvement depended upon unusual methods of foreign trading and on such temporary factors as the trimming of raw material inventories in Japan on the one hand, and, on the other, the replenishment of inventories of finished textiles in the sterling area.

In the United Kingdom, the active balance on current account (excluding defence aid) for 1954 as a whole was almost unchanged from the previous year, but there was a moderate deficit in the second half of 1954 compared with substantial surpluses in the two previous half-years; the deficit probably increased further in the first quarter of 1955, and there was a significant loss in gold and dollar reserves.

Although the real gross national product increased 4 per cent from 1953 to 1954 and manufacturing 7 per cent, the volume of retained imports rose only 2 per cent. In the previous year, a similar growth in manufacturing and a smaller rise in output as a whole had been accompanied by a 10 per cent advance in the volume of retained imports. Part of the difference in the movement of imports in the two years was due to the fact that inventories of foodstuffs were built up substantially in 1953, and then reduced somewhat in 1954 with the return of trade from the Government to private hands. Non-food imports, which rose only 4 per cent in volume in 1954 as against 9 per cent in 1953, were affected by the much greater increase from 1952 to 1953 in the output of industries using a relatively high volume of imports than occurred from 1953 to 1954. Thus, in 1953 textile production increased 15 per cent—more than any other major industrial group—while leather goods were not far behind; the import content of these products is relatively high. In 1954, on the other hand, production in these industries increased only 1 to 2 per cent, on the average, whereas the metal and engineering industries, where activity had lagged behind the average in 1953 and where output has a lower import content, moved ahead more rapidly. Moreover, the growth in domestic steel-making capacity enabled the United Kingdom to lower still further its imports of steel in 1954, while the completion of tooling operations for the defence programme made it possible for imports of machine tools to be sharply reduced. For all these reasons, the imports of the United Kingdom rose much less than those of other western European countries in 1954, as shown in table 62.

Meanwhile the increase in United Kingdom exports owed much to the building up of inventories by other countries, such as western Germany, the Netherlands and, especially, Australia and New Zealand, where import restrictions were relaxed. In fact, the rise in the value of exports to these four countries from 1953 to 1954 amounted to over $300 million (of which Australia alone accounted for $183 million) compared with an increase of $350 million to all destinations outside North America. However, the expansion in exports, which was vigorous at the end of 1953 and early in 1954, slackened appreciably in the course of 1954, as shown in the following indices of the volume of

[19] In Japan, importers did not fully take up the reduced import allocations made available by the authorities from April to September 1954, owing to a reaction against the previous building up of inventories of imported goods, while, in Turkey, imports continued to rise to a peak in May 1954, more than a year after the suspension of the liberalization of imports from OEEC countries in April 1953.

[20] It was announced that this system had been abolished from 1 October 1954.

United Kingdom exports and re-exports (corresponding quarter of the preceding year = 100):

| | 1953 | 1954 |
|---|---|---|
| First quarter | 87 | 109 |
| Second quarter | 103 | 108 |
| Third quarter | 112 | 106 |
| Fourth quarter | 110 | 98 |

Although shipments in the fourth quarter of 1954 were affected to some extent by a dock strike, it seems likely that the rate of increase in exports continued to slacken. The United Kingdom in 1954 continued to lose ground to western Germany in a number of key markets in western Europe, Latin America and even to some extent in the sterling area; India and Japan likewise seem to have gained in relation to the United Kingdom in several cotton textile markets both outside and within the sterling area.

While exports tended to level off at the end of 1954 as demand in some of the main export markets slackened, the United Kingdom's own import demands were rising, encouraged, moreover, by a tendency for the prices of primary products to harden. Some of the most important increases early in 1955 were in foodstuffs, non-ferrous metals and coal—the latter because coal output had once again fallen behind that of manufacturing as a whole. The situation was somewhat aggravated by a deterioration in terms of trade in the course of 1954 and by a fall in free market rates for sterling, rendering "commodity shunting" of sterling area goods, and other forms of speculation against sterling, profitable. In order to limit discounts on sterling in free markets, the authorities responsible for the Exchange Equalization Account were authorized by the Government "to use wider discretion" in operating in such markets.

### Liberalization of imports from the dollar area

A number of western European countries freed part of their imports from the dollar area from quantitative controls during the period under review, or administered their licensing systems more leniently. In several countries these measures were regarded as a means of testing the volume of pent-up demand for dollar goods and of preparing to restore the convertibility of their currencies.

The following list shows the countries undertaking these measures during 1954, and the proportions of liberalization attained. In addition to the countries listed, Greece abolished quantitative controls on most imports from all areas, with the exception of certain luxury products, following the devaluation of April 1953. Switzerland, of course, had had a liberal import régime throughout the post-war period.

| | Base period | Proportion of liberalization [a] | Effective date |
|---|---|---|---|
| Benelux area [b] | 1948 | 87 per cent | June 1954 |
| Denmark | 1953 | 38 per cent | December 1954[c] |
| Germany, western | 1953 | 40 per cent | February 1954 |
| | 1952 | Two-thirds | November 1954 |
| Italy | 1953 | 24 per cent | August 1954 |
| Sweden | 1953 | 45 per cent | October 1954 |
| United Kingdom | 1953 | One-half | ... |

[a] For the Benelux area and Sweden, the proportions are based on the value of total imports in the stated year; for Denmark, western Germany and the United Kingdom, on the value of imports from the dollar area; and for Italy, on the value of imports from the United States (the corresponding percentage for imports from Canada was 38).

[b] Belgium, Luxembourg and the Netherlands. Proportion applies to area as a whole.

[c] Licence requirements for the liberalized commodities were not formally removed until February 1955, but licences were granted freely for these goods from mid-December 1954.

The Benelux countries established a common list of commodities which could be imported freely from dollar sources, effective in June 1954, and could move without restriction within the Benelux area; discrimination against imports from the dollar area seems to have been virtually eliminated. In the United Kingdom liberalization was largely connected with the reopening of commodity markets, and traders were permitted to re-export commodities purchased for dollars, against payment in sterling, except in the cases of cocoa, coffee, cotton and grains.

It is difficult to gauge the effects of these measures. Apart from the fact that the time which has elapsed since they were introduced is relatively short, there were pronounced fluctuations in United States shipments to western Europe during 1954 owing to a variety of developments, the effects of which cannot easily be separated out. In addition there is a major statistical obstacle: while United States exports to western Europe, f.o.b., rose 17 per cent in value from 1953 to 1954, the corresponding increase from the import side, c.i.f., was little more than 10 per cent. Part of the discrepancy appears to be caused by the time lag between the recording of exports and imports, because of time taken in the transport of goods, and part may be attributed to the fact that transit trade in United States goods is not recorded in Netherlands imports.[21] For these reasons considerable caution has to be exercised in interpreting the data.

In Belgium-Luxembourg imports from the United States declined nearly one-third in 1953 and then rose only 6 per cent in 1954, while the imports of Greece

[21] Thus, allowing a time lag of two months, United States exports to western Europe from November 1953 to October 1954 increased only 10 per cent in relation to the previous twelve months. Further, United States exports f.o.b. to the Netherlands alone rose 63 per cent in this period while Netherlands imports, c.i.f., increased only 42 per cent from 1953 to 1954. Moreover, the absolute value of United States exports, f.o.b., to the Netherlands from November 1953 to October 1954 was $395 million while Netherlands imports, c.i.f., from the United States in 1954 were valued at $336 million. The discrepancy between United States exports and Netherlands imports seems to be particularly great in the fats and oils group

declined in both years. Belgium-Luxembourg had, of course, been following a relatively liberal import policy in practice for some time prior to the measures of 1953 and 1954, and it was consequently not expected that formal lifting of restrictions would produce marked changes. Imports of foodstuffs by Greece dropped in the second half of 1953 and during 1954 owing to the rise in domestic output; meanwhile the share of the United States in non-food imports continued to decline so that the ending of discrimination does not appear to have brought about any great shift from existing trends in the geographic pattern of imports.

Imports from the United States by the United Kingdom, western Germany and the Netherlands rose 11 per cent, 35 per cent and 42 per cent, respectively, from 1953 to 1954. It is difficult to compare the extent of liberalization in these three countries, because the percentages given in the text table above are based on different years, and the average degree of liberalization applicable to the year 1954 as a whole is uncertain in each case. Available information does suggest that the Netherlands went further than the other two countries in its programme of liberalization. However, the relative magnitudes of the above increases in imports may reflect factors other than the extent of liberalization undertaken; in particular, the rate of inventory investment increased very sharply in the Netherlands and somewhat less in western Germany, while in the United Kingdom stocks of imported commodities declined in 1954, in real terms, whereas there had been a sizable increase in such stocks in the previous year.

It might have been expected that the relaxation of restrictions against imports of dollar goods by these three countries would have resulted in a greater diversification of dollar imports. In fact, however, the increment to imports of dollar goods in 1954 appears to have been highly concentrated in a relatively few foodstuffs and raw materials.

Thus all three countries reported substantial increases in imports of raw cotton, fats and oils, metals (mainly non-ferrous) and industrial chemicals; on the other hand, there were decreases in imports of grain for the year as a whole, despite an upward trend in such imports at the end of the year. In the case of raw cotton, the decline in available supplies in other producing areas, as well as price considerations, resulted in a shifting of purchases back to the United States in 1954 and away from the other countries which had supplied a larger share of requirements, partly from accumulated stocks, in the previous year. Again, the surplus disposal programme of the United States Government, previously noted, probably accounts for the exceptional increase in shipments of fats and oils. The advance in imports of metals and industrial chemicals was associated with higher output in the industries consuming these goods and the building up of inventories, especially in western Germany and the Netherlands. In addition, for the Netherlands and the United Kingdom, there was a rise in coal imports as a result of the failure of domestic coal production to expand in line with industrial demand.

In the case of the United Kingdom, the increase in the value of imports of the commodities listed above exceeded the over-all rise in the value of imports from the United States, since other imports, especially grains, dropped. The share of these commodities in the increase in Netherlands imports, other than grain, was 77 per cent; excluding coal and grain for western Germany (since imports of United States coal as well as of grain declined in 1954) the corresponding percentage was 87.[22]

These developments may probably be attributed to two causes. In the first place, it seems that the short-term factors noted above in relation to each commodity group were of greater influence in affecting the structure of imports in 1954 than was liberalization, the consequences of which have to be viewed over a longer period. Second, it seems probable that the initial aim of liberalization, at any rate in the cases of western Germany and the United Kingdom and possibly even in the Netherlands, was to provide industry with free access to the most favourable sources of supply, irrespective of currency area, and, for the time being, to continue to limit imports which would compete with domestic output.

[22] The commodities listed accounted for 29 per cent of the United Kingdom's imports of goods other than grain from the United States in 1953, and for 44 per cent of the imports of the Netherlands; excluding coal as well as grain, the corresponding share for western Germany was 51 per cent.

# Chapter 6

# INTERNATIONAL TRADE AND PAYMENTS OF PRIMARY PRODUCING COUNTRIES

## Exports

The quantum of exports of primary producing countries[1] has been recovering steadily from the sharp contraction of the second half of 1951. Exports in the first nine months of 1954 were about 3 per cent higher than in the same period of 1953, and somewhat above the peak that had been reached in the first half of 1951. Changes in export prices for various commodities approximately offset each other so that on the average export unit values were about the same in 1954 as in 1953 (see chart 6).

The increase in the quantum of exports of primary producers in 1954 was accounted for mainly by a rise in exports to western Europe, which more than offset a decline in exports to the United States. Exports of primary producers to one another appear not to have changed much in value, but in view of some reduction in unit values, probably increased to some extent in quantum. An element in the rise in exports of several countries, both of Latin America and the oversea sterling area, was an increase in demand of eastern Europe and the Union of Soviet Socialist Republics. An abnormally high Japanese demand for wheat and rice, resulting from its poor harvest in 1953, benefited certain grain exporters, but imports of some raw materials were limited by a slackening in the rate of increase of economic activity.

Higher exports of raw materials, especially of petroleum, non-ferrous metals and oil-seeds, were largely responsible for the rise in the quantum of exports. Food exports generally fell, the decline being most significant in the case of cereals and sugar. Although higher output contributed significantly to the rise in exports, the increase was facilitated in many instances by the disposal of surplus stocks in exporting countries. Even in the case of jute, exports of which fell, sales were made from stocks since output fell much more than exports. Inventory liquidation had already been an important factor in exports in 1953; the supply of wool for export was, in fact, lower in 1954 because Argentina and Uruguay disposed of their surplus stocks in 1953. Surplus disposal of non-ferrous metals also began earlier, but it continued to be an important factor in exports in 1954. For some commodities, however, notably for the oils and oil-seeds, the process did not get under way until 1954. Generally, in instances in which countries attempting to support prices accounted for a large proportion of world sales, a relatively long period elapsed before inventory liquidation was begun. On the whole, countries in Latin America were able or willing to finance inventories for a longer period than those in Asia or the Middle East. Details of trade in major primary products are discussed below.

The apparent stability in average export unit values in the first three quarters of 1954 compared with the corresponding period of 1953 was the net result of declines in prices of many primary products, which were offset by considerably increased prices of a few commodities, notably coffee, cocoa and tea. The reductions in prices resulted in part from efforts to liquidate surplus stocks. Countries which previously had withheld stocks rather than sell at world prices cut prices to competitive levels. While the cuts in prices often involved losses in income to private exporters, in many cases they were absorbed by governments through such measures as subsidies, reductions in export taxes or more favourable exchange rates. Importing countries generally took the opportunity afforded by price cuts in raw materials to accumulate substantial inventories.

The small increase in total export receipts of primary producing countries in the first three quarters of 1954 was the net result of substantial declines in a comparatively few countries, which were more than offset by small increases over a fairly wide front.

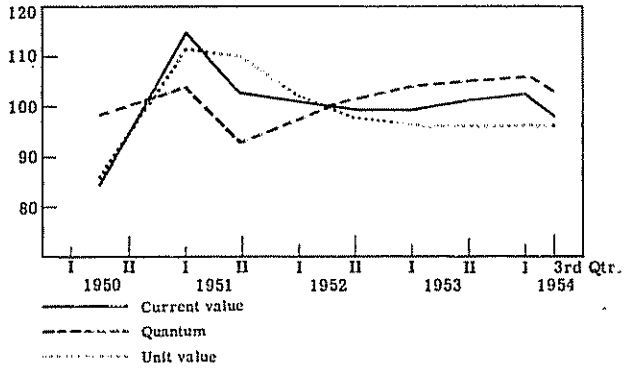
Canadian export receipts declined as a result of a sharp fall in quantities and prices of wheat exports. In the oversea sterling area, Australian exports of wheat, wool and meat fell, causing a sharp reduction in the country's total export receipts. Although Pakistan succeeded in liquidating its accumulated inventories of cotton and jute, a cut in output led to lower export receipts despite higher prices. Hong Kong was adversely affected by a decline in exports to mainland China. Like those of Singapore, its exports to Indonesia also fell sharply as the latter country reduced its imports by way of the entrepôt trade of these British

[1] Including countries of Asia (except Japan and mainland China), Africa, Latin America and Oceania; and Canada, Finland, Spain and Yugoslavia.

colonies. Offsetting these declines in the export earnings of the oversea sterling area were higher receipts from the tea exports of Ceylon and India, larger exports of petroleum from Middle East sterling countries and increased earnings from coffee and cocoa exports by the British West African dependencies. Exports of cotton and jute manufactures from India also increased considerably.

**Chart 6. Indices of Current Value, Quantum and Unit Value[a] of Exports of Primary Producing Countries, 1950 to 1954**

(1952=100)




*Source:* United Nations Department of Economic Affairs; based on data supplied by the Statistical Office of the United Nations.

[a] Calculated in United States dollars.

In Latin America export earnings of the dollar countries rose in the aggregate, as higher receipts from petroleum and coffee exports more than offset lower earnings from sugar exports. The major exports of the Latin American non-dollar countries, with the possible exception of meat and wool, were affected in 1954 by offsetting changes in quantum and average unit values. Brazil experienced a fall in coffee exports to the United States when, anticipating a poor crop, it raised coffee prices sharply early in 1954. On the other hand, the countries of the group disposed of linseed oil, cotton, wheat and copper by means of substantial price cuts.

Among other primary producers, Indonesia increased its exports of rubber, tin, tea and copra, and its receipts rose about 4 per cent. The Philippines exported substantially larger quantities of sugar and copra, but earnings rose only moderately owing to lower export unit values. Thailand, on the other hand, was adversely affected by reduced exports of rice and by lower rubber and tin prices. Taiwan experienced a sharp fall in earnings as a result of reduced sugar exports. The non-sterling countries in the Middle East gained from higher petroleum exports, while a smaller volume of exports reduced earnings from cotton despite higher prices. Among the European primary producers, Yugoslavia and Finland significantly increased their export receipts, the former from grain and the latter from wood products.

### Commodity composition of exports

*Selected foodstuffs*

From a peak level of over 28 million tons in 1951/52, world exports of wheat fell by about 2.5 million tons in 1952/53 and again by more than 3 million tons in 1953/54, as grain output in importing countries increased. Production in exporting countries, however, was at record heights in 1952/53 (see table 64), and despite some decline in output in 1953/54 their stocks of wheat accumulated at an extraordinary rate; they doubled during 1952/53 and again rose substantially in 1953/54. Under the pressure of these mounting stocks, free market wheat prices in 1953/54 fell substantially below the maximum levels established by the International Wheat Agreement in 1953. The decline in international trade in wheat in 1953/54 was largely due to the rise in grain production in the major importing countries of both western Europe and Asia. Italy, the United Kingdom and Yugoslavia had larger wheat crops, and India overcame the serious deficiency in cereals which had previously compelled it to import both rice and wheat on a large scale. Partially offsetting the increase in Indian output, however, were the smaller harvests of both grains in Japan and of wheat in Pakistan. An additional factor contributing to the decline in wheat trade was the shift in some importing countries from inventory accumulation in 1952/53 to inventory liquidation in 1953/54, undertaken partly in expectation of further reductions in wheat prices. The Government of the United Kingdom had accumulated stocks in 1952/53 before the transfer of wheat trade to private channels in 1953/54.

While total wheat exports fell, several countries, notably Argentina, France, Sweden and Turkey, succeeded in increasing their sales. The European exporting countries all had substantially better crops in 1953/54 and were able to replace a part of oversea exports to Europe. The rise in Argentine exports represented a recovery from the abnormally low levels to which they had fallen in the preceding two years, as a result of the 1951/52 crop failure and delay in shipping the increased crop available in 1952/53. The greater part of Argentine exports in 1953/54 went to Brazil, western Germany and Japan under trade agreements. With exports of these four countries rising in 1953/54 while total imports were declining, the result was a very sharp fall in exports of three major suppliers—the United States, Canada and Australia. United States exports fell both in 1952/53 and 1953/54, the level in the latter year being over 50 per cent below the record level of nearly 13 million tons in 1951/52. Australia and Canada, after having increased their exports in 1952/53, when United States sales were already falling, experienced a reduction of over one-fourth in 1953/54.

In the latter half of 1954, wheat prices continued lower. Despite very sizable reduction in the 1954/55

Table 64. Indices of Production and Volume of Exports of Selected Foodstuffs from Major Exporting Countries,[a] 1953 and 1954

(1952=100)

| Commodity and country | Production | | Exports | |
|---|---|---|---|---|
| | 1953 | 1954 | 1953 | 1954 |
| *Wheat:* | | | | |
| Argentina | 363 | 295 | 3,694 | 4,462 |
| Australia | 122 | 124 | 121 | 91 |
| Canada | 124 | 111 | 87 | 65 |
| United States | 132 | 119 | 66 | 55 |
| *Rice:* | | | | |
| Burma | 105 | 100 | 77 | 115 |
| Indochina | 101 | 98 | 86 | 162 |
| Thailand | 90 | 112 | 95 | 70 |
| United States | 105 | 115 | 88 | 70 |
| *Meat:* | | | | |
| Argentina | 103 | 109 | 114 | 125 |
| Australia | 112 | 115 | 133 | 115 |
| New Zealand | 100 | 97 | 85 | 90 |
| Uruguay | 97 | .. | 97 | 111 |
| *Sugar:* | | | | |
| Australia | 127 | 169 | 302 | 270 |
| China: Taiwan | 164 | 119 | 190 | 113 |
| Cuba | 71 | 68 | 110 | 83 |
| Philippines | 106 | 127 | 99 | 108 |
| *Coffee:* | | | | |
| Brazil | 104 | 103 | 98 | 69 |
| Colombia | 95 | 103 | 132 | 115 |
| French West Africa | 95 | 133 | 79 | 132 |
| Mexico | 124 | 112 | 140 | 131 |
| *Cocoa:* | | | | |
| Brazil | 91 | 115 | 182 | 202 |
| French West Africa | 136 | 121 | 149 | 117 |
| Gold Coast | 117 | 100 | 112 | 101 |
| Nigeria | 101 | 90 | 91 | 86 |
| *Tea:* | | | | |
| Ceylon | 108 | 116 | 107 | 114 |
| India | 99 | 104 | 121 | 109 |
| Indonesia | 98 | 125 | 91 | 126 |
| Pakistan | 105 | 105 | 105 | 93 |

*Source:* United Nations Bureau of Economic Affairs, based on data from publications of the Food and Agriculture Organization of the United Nations and from national and commodity publications.

[a] Production indices relate to crop years ending in the years stated at head of column (1951/52=100) except for meat and tea, for which data are on calendar year basis (1952=100). All export indices are on calendar year basis (1952=100). Indices for 1954 relating to meat production and to exports of all commodities are preliminary, and are often based on less than twelve months' data.

harvests in such major exporting countries as Canada and the United States, and also in Turkey, the carry-over from previous crops still left available supplies very much above current requirements. In western Europe import requirements increased owing to uneven harvests; in some countries the average quality of wheat was also low. However, the decline in Asian wheat demand has continued, and despite substantial price cuts in mid-1954, the quantity of wheat exported in the second half of 1954 by the major exporters was well below that of the corresponding period of 1953.

Total exports of rice, like those of wheat, declined in 1953 and probably fell somewhat further in 1954. The 1953 decline was due to higher output in importing countries. Import demand continued to fall in a number of countries in 1954, but the poor harvest of 1953 in Japan necessitated a considerable increase in imports in 1954, especially in the first half of the year. In addition, there was a special purchase by India for addition to stocks. The generally higher level of output in importing countries has been due to favourable weather conditions and to government assistance in expansion of rice cultivation. It has permitted the abolition of rationing in India, Malaya and Hong Kong during the period under review. India, which earlier had been a leading importer of rice, was able during

1953 to reduce both rice and wheat imports substantially, and in 1954 it abolished its controls over food grains. Burma's early adjustment of prices to the new supply-demand situation facilitated a substantially enlarged volume of rice exports during 1954, both to Japan and to India. The increased exports to the latter country were under an agreement covering the shipment of 900,000 tons at prices one-fifth below the 1953 level. Thailand's exports of rice, however, fell by more than one-quarter in 1954.

Sugar has been a surplus commodity since 1951/52, when Cuba had a record crop. In an attempt to maintain export prices, Cuba limited production and withdrew about 1.7 million tons into a reserve to be disposed of over a period of several years. Since sugar output was expanding in other parts of the world under the stimulus of price guarantees contained in various agreements, and the pressure to curtail imports from the dollar area, the successive cuts in Cuban production have not solved the problem. Free market prices for sugar have continued to fall. Until 1954 the rise in world production was accompanied by a higher volume of world exports, albeit only at generally lower export prices. In 1953 the increase in exports to Europe not only raised consumption but also helped to build up inventories; this was especially important in the United Kingdom, where the agreement to purchase a million tons from Cuba at reduced prices facilitated the derationing of sugar in September 1953. Since stocks were higher, the larger European sugar crop of 1953/54 led to a significant reduction in import needs. With free market sugar prices continuing at a depressed level, the signatories to the International Sugar Agreement decided to effect the maximum cut of 20 per cent in basic export tonnage allocations. Cuba's exports of raw sugar fell over one million tons during 1954. Exports of sugar from Taiwan, which had increased by some 90 per cent from 1952 to 1953, fell sharply in 1954, but remained above the 1952 level. Philippine exports rose, however, owing to its special agreement with the United States.

Exports of meat, unlike those of cereals and sugar, continued high in both 1953 and 1954. In 1953 when the four major exporters (see table 64) increased the quantity of their meat exports by 5 per cent, imports of the United Kingdom rose substantially for both consumption and inventories. In 1954 its imports declined, though consumption continued to rise owing to higher production and to drawing down of stocks. This decline was associated with a fall in exports from Australia; however, exports of Argentina and Uruguay rose as a result of the entry of the Soviet Union into their markets for livestock products in 1954. Close to one-fifth of Argentina's meat exports, by value, was taken by the Soviet Union in the first half of the year.

The sharp rise in coffee prices from mid-1953 to mid-1954, which occurred despite a slight increase in production in this period, was one of the most striking developments in the export markets of primary producers. One element in this price rise was increased demand for coffee in Europe, as reflected especially in the imports of western Germany. A more important factor, however, was the widespread belief that frost in Brazil in 1953 would greatly curtail output and exports of coffee. Actually, there was only a small decline in Brazilian output in 1953/54, and the decrease was offset by higher production in Africa and elsewhere. In the meantime, however, expectation of shortages and of rising prices encouraged heavy buying at the end of 1953 and early in 1954. United States imports dropped in the second half of 1954, but exporters in some countries delayed reductions in prices. While the volume of exports of other countries generally increased, exports of Brazil fell by close to 30 per cent. In August 1954, Brazil, concerned with the decline in its foreign exchange proceeds, modified its regulations by granting a more favourable exchange rate on coffee exports for dollars.[2] A noteworthy feature of trade in coffee in the past few years has been the shift of United States imports from Brazil to other sources of supply; whereas United States importers obtained nearly one-half of their coffee requirements from Brazil in 1952, in 1954 they bought close to two-thirds elsewhere. This has been a major element in the balance of payments difficulties experienced by Brazil during the period. Prices continued weak as the 1954/55 crop began coming to market; at the beginning of 1955, prices were on a level with those of early 1954. It is estimated that the 1954/55 crop will be virtually as large as in 1953/54, with increases in other Latin American countries and Africa offsetting a decline of over 5 per cent in Brazilian output.

Tea exporting countries in south-eastern Asia benefited from a sharp rise in tea prices in 1954. Unlike coffee prices, those for tea continued advancing throughout the year, and the rise was so large as to lead India and Ceylon once more to increase their export duties on this commodity. The increases in price from the low levels of 1952 stemmed from the failure of output to keep pace with rising demand during 1953 and 1954. Floods in India in the late summer of 1954 delayed the distribution of the new crop. The continued rise in consumption in the United Kingdom, which was a major element in the higher level of import demand, was associated with the derationing of tea. Imports, however, also appear to have risen in the other principal consuming countries.

Developments in cocoa were rather similar to those in coffee. Increased consumption and low inventories, together with a slight decline in output, led to a rise

[2] At first, exporters were permitted to exchange 20 per cent of their dollar proceeds at the free market rate, which was considerably higher than the official rate. Subsequently, there was a return to the fixed bonus method used in 1953, but the bonus was increased.

in prices of over 50 per cent between September 1953 and August 1954. The decline in production was largely accounted for by an exceptionally poor crop in the Gold Coast — the major exporting country. While Nigeria also had a smaller crop, production in Brazil increased. United States imports dropped as a result of higher prices, and in the latter part of 1954 prices began to fall from the previous peak. Contributing to this decline were the increased crops available in Brazil and the introduction of exchange incentives for exports of cocoa; in the second half of 1954 the quantum of Brazilian cocoa exports rose close to one-third above that of the corresponding period of 1953.

*Selected raw materials*

Cotton and wool exports moved in opposite directions in 1954; whereas the volume of wool exports fell, cotton exports rose significantly. The rise in demand for cotton was associated mainly with the increased cotton textile production in western Europe. The demand for

Table 65. Indices of Production and Volume of Exports of Selected Raw Materials from Major Exporting Countries,[a] 1953 and 1954

(1952=100)

| Commodity and country | Production | | Exports | |
|---|---|---|---|---|
| | 1953 | 1954 | 1953 | 1954 |
| *Wool:* | | | | |
| Argentina | 97 | 95 | 149 | 92 |
| Australia | 119 | 115 | 104 | 93 |
| Union of South Africa | 108 | 111 | 95 | 101 |
| Uruguay | 101 | 108 | 174 | 116 |
| *Cotton:* | | | | |
| Brazil | 82 | 73 | 496 | 1,101 |
| Egypt | 123 | 88 | 128 | 107 |
| Pakistan | 117 | 91 | 115 | 58 |
| United States | 100 | 108 | 69 | 102 |
| *Jute:* | | | | |
| Pakistan | 108 | 40 | 117 | 106 |
| *Rubber:* | | | | |
| Africa | 105 | 114 | 105 | 114 |
| Ceylon | 102 | 97 | 108 | 101 |
| Indonesia[b] | 92 | 99 | 90 | 93 |
| Malaya[b] | 98 | 100 | 100 | 100 |
| *Oils and oil-seeds:* | | | | |
| Argentina (linseed) | 186 | 131 | 334 | 698 |
| Nigeria (ground-nuts) | 103 | 104 | 126 | 166 |
| Philippines (copra) | 91 | 100 | 90 | 117 |
| United States (total) | 105 | 114 | 67 | 237 |
| *Copper:* | | | | |
| Belgian Congo | 104 | 109 | 102 | 110 |
| Chile | 88 | 88 | 83 | 91 |
| Northern Rhodesia | 116 | 122 | 105 | 113 |
| United States | 100 | 90 | 63 | 124 |
| *Tin:*[c] | | | | |
| Belgian Congo | 111 | 93 | 120 | 94 |
| Bolivia | 109 | 90 | 109 | 90 |
| Indonesia | 97 | 102 | 95 | 98 |
| Malaya | 99 | 107 | 96 | 110 |
| *Crude petroleum:* | | | | |
| Iraq | 151 | 162 | 156 | 170 |
| Kuwait | 115 | 127 | 115 | 127 |
| Saudi Arabia | 102 | 115 | 98 | 112 |
| Venezuela | 98 | 105 | 92 | 99 |

*Source:* United Nations Bureau of Economic Affairs.

[a] Production indices for wool, cotton, and oils and oil-seeds relate to crop years ending in the years stated at head of column (1951/52=100). All other production indices and all export indices relate to calendar years (1952=100). Indices for 1954 are preliminary; export indices for oils and oil-seeds, copper and crude petroleum are often based on less than twelve months' data.

[b] Net exports.

[c] Production relates to concentrates; exports to concentrates and metal.

wool, on the other hand, declined not only in the United States, where wool consumption fell sharply, but also in western Europe. There the decline was due both to the failure of woollen textile output to maintain the rate of advance of the previous year, and to lower investment in private and governmental inventories of wool, notably in the United Kingdom.

The decline in demand for wool in 1954 led to only a moderate change in prices because supplies were also smaller. Current production was at approximately the same level in 1953/54 as in the previous year, but exportable supplies had been supplemented in 1952/53 through the liquidation of substantial inventories built up earlier in Latin America, at a time when exporters had withdrawn from the market rather than reduce prices to competitive levels. Particularly sharp declines in exports — of over one-third from the 1953 level — occurred in Argentina and Uruguay (see table 65); some efforts were made to maintain prices in 1954, and an increase in inventories resulted. In the sterling area countries, where wool is sold at free auction, the fall in the volume of wool exports in 1954 was relatively small. Prices of sterling area wool, however, fell significantly in the second half of 1954. A drop in exports to the United States, the United Kingdom and Japan in 1953/54 was partly balanced by higher shipments to eastern Europe and the Soviet Union; the latter areas accounted for about 8 per cent of Australia's wool exports in this period. Part of the fall in Australian exports in the latter part of 1954 was due to dock strikes.

World cotton consumption appears to have attained a post-war peak in 1954, and on balance the rate of inventory liquidation declined in importing countries. The resulting increase in import requirements was met by a considerable expansion of exports from Brazil and the United States. Brazil's exports more than doubled in 1954 while those of the United States were nearly 50 per cent greater than in 1953. The United States experienced a very sharp decline in exports in 1953, when other exporters, primarily Egypt and Pakistan, succeeded in increasing their exports by various measures, including price concessions and barter transactions. Although Brazil's exports in 1953 rose to nearly five times the 1952 level, its unsold stocks of cotton were still high compared with earlier years, owing to the fact that its cotton had been withdrawn from the market in 1952 because of reduced world prices. After restricting output in 1953/54, Brazil appears to have been able to dispose of a large part of these stocks in 1954 by reducing the dollar price of its cotton and by negotiation of various agreements. The increase in United States exports in 1954 was greatly facilitated by various government measures, including grants benefiting, among others, France, western Germany and Italy; loans to Japan guaranteed by the Export-Import Bank of Washington; and acceptance of payment in local currencies. Despite rising exports, however, stocks continued to increase in the United States, since the 1953/54 crop had been of record proportions, owing to a very high yield. On the other hand, the exports of Egypt and, particularly, Pakistan, fell considerably in 1954; output in these countries had been cut back in 1953/54 owing either to lower prices or to government acreage restrictions.

The volume of jute exports fell nearly 10 per cent in 1954, but there was a rise in jute prices. The fall in demand for jute appeared to be due partly to changes in inventory accumulation in importing countries, but demand in 1953 had also been inflated by abnormal requirements for flood control in western Europe. Imports of western Europe had risen by about 40 per cent in 1953 but they fell by nearly 20 per cent in the first nine months of 1954. Another part of the fall in exports represented the continuation of the trend in recent years of declining deliveries to India. Despite the drop in demand in 1954, prices rose because Pakistan had imposed rigid curbs on jute production in 1953/54 as a result of the growing accumulation of stocks as well as the need to increase acreage for food crops, of which there was a serious deficit. The actual reduction in acreage was even greater than planned, owing to the favourable ratio of rice prices to jute prices. The output of jute in 1953/54 fell by over 60 per cent, and Pakistan was thus able to dispose of the greater part of the jute surplus.

The export volume and the price of rubber recovered in 1954 from the downward trend which had been characteristic of the three preceding years. Of importance in the earlier fall in prices had been the tapering off in purchases for the United States strategic stockpile. As the price of natural rubber became increasingly more favourable, consumption of natural rubber in the United States rose in relation to synthetic rubber, the price of which remained fixed.[3] By early 1954, cutbacks in world production and increasing consumption had resulted in some stabilization of natural rubber prices. In other countries, which account for two-thirds of natural rubber consumption, the upward trend in use continued throughout 1954. Rising prices had a marked effect on production. Whereas rubber production declined about 4 per cent in 1953 and fell further in the first half of 1954, in the second half of the year it was expanded by one-fifth in relation to the preceding half-year. The expansion in rubber exports was concentrated in Indonesia and Thailand; Malayan net exports remained virtually stationary. Well over one-half of Ceylon's rubber exports continued to be exported to mainland China under the terms of a five-year general trade agreement signed late in 1952; prices under this agreement have been fixed on an annual basis.

[3] This relative shift in consumption in favour of natural rubber ceased, however, in the latter part of 1954, after its price began to rise.

Trade in vegetable oils and oil-seeds expanded materially in 1954, as a result of generally rising incomes and industrial production in Europe and of a tendency in some importing countries to replenish inventories at attractive prices. A policy of liquidation of surplus stocks in exporting countries has provided part of the increased supplies. United States exports of all vegetable oils and oil-seeds were three to four times as great in 1954; Argentina doubled its linseed exports, and by the end of the year its stocks were for the most part liquidated. With respect to several oil producing crops, increased supplies for export also became available as a result of gains in production. Exports of groundnuts and palm kernels from Africa increased in 1954, as a result of higher output and improved handling facilities. There were also substantial increases in exports of copra from the Far East, primarily from the Philippines where output recovered from the low level to which typhoons and disease had reduced the crop in 1952/53.

The volume of international trade in non-ferrous metals increased in the first nine months of 1954 as compared with the same period of 1953, a reduction in import demand in the United States being offset by higher demand elsewhere, notably in western Europe. Average prices of the metals had declined sharply in 1953 owing to the rise in world output accompanied by a fall in west European demand. This decline in prices, coupled with a surge in output of western Europe's engineering industries, prompted western European countries to raise their purchases considerably, both for current consumption and for stocks. Increases in the volume of imports of western Europe from the first nine months of 1953 to the corresponding period of 1954 ranged from about 10 per cent in aluminium and tin to about 35 to 40 per cent in copper, lead and zinc. These increases outweighed declines in United States import volume of 13 per cent in copper, 18 per cent in tin and as much as 40 per cent in zinc.

The volume of United States imports of copper from Chile fell despite an agreement early in 1954 for the transfer of some 100,000 short tons of Chilean copper to the United States stockpile. Northern Rhodesia experienced an even sharper reduction in earnings from exports to the United States at this time. This was, however, a fall from an exceptionally high level since its exports to the United States had risen close to 150 per cent in 1953 when Chilean prices in sales to the United States had been above world market levels. However, both of these countries, together with all other leading exporters, increased their exports to western Europe, the major importer of copper.

Towards the end of 1954 and early in 1955, United Kingdom copper prices rose sharply. While western Europe's demand remained high, demand in the United States recovered with the upturn in manufacturing. Meanwhile, world output of copper was virtually unchanged from 1953 to 1954, partly owing to strikes, and stocks in exporting countries had been greatly reduced. United Kingdom prices in the last quarter of 1954 rose to a level 17 per cent above that of the corresponding quarter of 1953. In contrast, tin prices fell off somewhat towards the end of 1954, after an upward movement earlier in the year.

The demand for petroleum products has been rising steadily in relation to industrial production and income. Despite the lower level of United States economic activity, its consumption of petroleum products increased in 1954 by 2 per cent. In western Europe the use of petroleum continued to rise at a more rapid pace, and in the first half of 1954 consumption was more than one-fifth above the 1952 level. The increase in this area, which is of greater relevance to the export earnings of oversea suppliers, primarily those in the Middle East, resulted from increased industrial activity, continuing substitution of petroleum for other forms of energy and steadily growing gasoline consumption. With the expanding capacity of domestic refineries in western Europe, there have been further increases in imports of crude oil. Apart from the effects of an upward revision of prices in mid-1953, exporters in the Middle East had benefited from an increase of 17 per cent in their shipments of crude petroleum in 1953, and further sizable gains were recorded in 1954. The rapid rise in 1953 had been largely the result of increased exports from Iraq, facilitated by newly completed pipelines. Kuwait, which in 1952 had substantially increased its shipments to help make good the reduction in exports of Iran, further increased its exports in 1953, by 15 per cent, and again in 1954,[4] by about 10 per cent. In Saudi Arabia, where exports had remained unchanged in 1953, they rose about one-seventh in 1954.[4] At the end of the year, exports of refined products from Iran were being resumed as a result of an agreement between Iran and an international consortium of producers.

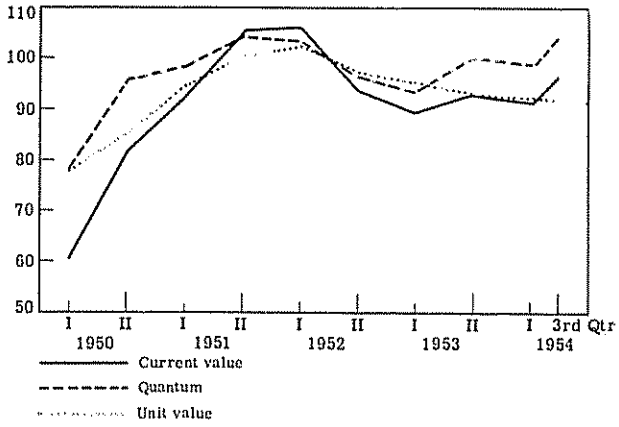
The other major producing area, Latin America, has felt the influence of the declining rate of increase in United States consumption of petroleum products which has characterized the past few years. Its output of crude petroleum in 1954 was only about 5 per cent above the 1952 level. Venezuela's export earnings, however, rose by close to one-sixth in 1954, owing to higher shipments of petroleum products and to the effect upon 1954 earnings of the increase in prices in mid-1953. Export receipts of the Netherlands Antilles also resumed their upward trend in 1954, following the first post-war decline in earnings in 1953.

[4] Based on data for eleven months, at an annual rate.

## Imports

The quantum of imports of primary producers recovered sharply in the second half of 1953, and continued to rise in 1954, after having fallen considerably in 1952/53 (see chart 7). In the first nine months of 1954 the quantum was about 5 per cent above the level of the same period of 1953, and there appears to have been a further increase in the last quarter of the year. The rise in imports was made possible principally by an increase in exports of primary producing countries; though export proceeds were only little higher than in 1953, the increase in purchasing power in relation to imports was enhanced by the decline in import unit values. Since the terms of trade of primary producing countries changed relatively little from 1953 to 1954, the increase in the real value of export proceeds in terms of imports was of the same order as the rise in quantum of exports. Contributing to higher imports in some countries was a larger inflow of capital, particularly in the form of increased short-term accommodations, and more liberal medium-term credit facilities granted by industrial countries for financing installations of capital goods.

Chart 7. Indices of Current Value, Quantum and Unit Value[a] of Imports of Primary Producing Countries, 1950 to 1954
(1952=100)




*Source:* United Nations Bureau of Economic Affairs.
[a] Calculated in United States dollars.

The decline in import unit values of primary producing countries, which had begun in mid-1952, continued through 1953 and 1954 but the rate was very much reduced in the latter year. During the first nine months of 1954 the level of import unit values was on the average about 3 per cent lower than in the corresponding period of 1953, but the decline had already taken place by the end of 1953. In general, the lower unit values reflected moderate declines in prices of industrial commodities coupled with a greater drop in grain prices.

Although the rise in quantum of imports in 1954 was very widely shared, there were striking differences, not only in magnitude but also in timing of the upturn; whereas the increase was still gathering momentum in the second half of 1954 in many countries, in others imports were already seriously curtailed. These differences were only partly correlated with current developments in export earnings; to a considerable extent they reflected varying time lags in the adjustment of imports to export earnings. These depended both on the commodity composition of imports and on the import policies of individual countries. In general, changes in imports of essential foods depended more on domestic supplies than on the course of export earnings. Changes in imports of industrial consumer goods were significantly affected by import controls in many countries; the alternate tightening and relaxation of such controls frequently produced a delayed, but considerably magnified, response of consumer goods imports to export earnings. Imports of capital goods, however, could be adjusted less rapidly to changes in export earnings, owing to the relatively long planning and production periods that are generally required for investment projects.

Canadian imports followed a pattern different from that of the primary producing countries as a group. Its imports had risen almost continuously until late in 1953, as a result of the rapid rate of growth of its economy and the high rate of United States direct investment in Canada. In 1953/54, however, when imports of other primary producers were rising, its imports declined in quantum owing to a recession in income and production. With the upturn at the end of 1954, imports began to rise once again. The rise in the quantum of imports of primary producers, excluding Canada, in the first three quarters of 1954 compared with the same period of 1953, was about 8 per cent. The increase appears to have been maintained in the fourth quarter, despite the sharp downturn which occurred in a number of major importing countries.

A large part of the rise in imports of oversea sterling area countries in 1954 was accounted for by Australia. That country had liberalized import quotas early in 1953, primarily to replenish stocks of consumer goods and materials required in the construction and manufacturing industries. It further relaxed its import restrictions in the second half of 1953 and early in 1954, concurrent with a rise in real income and a sizable expansion in consumer expenditure and fixed investment. By the second half of 1954, however, Australia was again confronted by a sharp contraction in foreign exchange reserves owing to the rapidity of its import expansion and a fall in its export receipts; in the third

quarter of 1954 tighter import quotas were reimposed, which began to affect imports in the last quarter of the year, and further restrictions were added early in 1955. For the year as a whole, Australian imports were up 29 per cent in dollar value.

Imports rose more moderately in the rest of the oversea sterling area. The increase reflected the rise in exports of the area and the relaxation of import restrictions in several of the independent countries. The Union of South Africa relaxed import quotas in the latter part of 1953 and early in 1954, and New Zealand liberalized its controls in the first half of 1954. India's imports had declined in the first half of 1954, owing to reduced imports of food grains and cotton, made possible by larger domestic supplies. A special purchase of rice for inventories in the fourth quarter of 1954, under an agreement with Burma, raised the volume of Indian imports for the year as a whole above the level for 1953. The reduced need for wheat imports from dollar area countries led to a relaxation of restrictions on dollar imports in 1954 and again early in 1955. Significant exceptions to the rise in imports of the oversea sterling area countries were the declines in Ceylon and Pakistan, largely as a result of lower food imports. In the second half of 1954 and early in 1955, Pakistan announced some relaxation of controls on imports of industrial consumer goods, and imports began to rise. Imports in the sterling area dependencies generally continued to rise, except in Hong Kong, where there were declines both in imports of food for home consumption and in entrepôt trade with mainland China and Indonesia.

The quantum of Latin American imports increased more than 10 per cent in the first three quarters of 1954, compared with the corresponding period of 1953. By mid-1954, however, many of the countries attempted to curb imports by restricting credit or by tightening import and exchange controls. Although imports rose somewhat more in the non-dollar than in the dollar countries as a group, individual countries showed considerable diversity in import policies and in the pattern of imports. Among the non-dollar countries, Peru had already reduced imports in the first half of 1954, following depreciation of the exchange rate and a marked decline in foreign exchange reserves. Restriction of credit to the private sector in the first half of 1954 was supplemented by a reduction in public expenditure for development projects; in addition a drop in United States direct investment curtailed imports of capital goods. In the second half of 1954, the decline in exchange reserves appeared to have been checked.

Argentine imports rose in 1953/54 concurrent with the recovery in export earnings and the relaxation of some of the restrictive policies relating to credit and public expenditure which had been adopted in the previous year. In the second half of 1954, however, efforts were again made to reduce imports as export earnings fell, reflecting both lower prices and the fact that earnings had earlier been augmented by the liquidation of exportable surpluses. The improvement in export earnings in Brazil permitted a rapid expansion in imports in 1953/54 from earlier low levels. However, the allocation of exchange through sales at auction in amounts which proved to be excessive in relation to actual export earnings led, in 1954, to a fall in foreign exchange reserves, and Brazil then sought new foreign credits. After mid-1954 foreign exchange offered for auction was sharply reduced, and credit restrictions were tightened.

The expansion in imports of the dollar countries in 1954 reflected a substantial increase in Colombia and more moderate increases in Venezuela and the Central American countries. Colombia cut its imports early in 1955, however, as a result of a drop in export receipts, partly by means of outright prohibition of certain imports and partly by higher import duties. In contrast to these countries, Cuba and Mexico had lower imports in 1954. Mexico, following a deterioration in its foreign exchange reserves early in 1954, devalued the peso. The substantial decline in Mexican imports in the second half of the year resulted not only from devaluation but also from an improved harvest.

The dependencies of continental OEEC countries increased their imports in 1954 as their export earnings rose and their imports of capital were maintained. The changes in imports of the other primary producing countries were quite heterogeneous. In the Far East, Taiwan and the Philippines increased their imports, the latter as a result of the rise in exports. Indonesia, however, had a lower volume of imports, as a result both of lower import requirements for food, and of a curtailment of textile exports by Japan to Indonesia. In the Middle East, Egypt's imports were reduced in 1954, but they began to move sharply upwards in the second half of the year. As a result of the improvement in its foreign exchange position and a further release of blocked sterling, Egypt lifted all special restrictions on its imports from the sterling area in July 1954. In Finland, the recovery of output, largely in response to increased external demand for wood and wood products (especially pulp), contributed in 1954 to a considerable expansion in incomes and in imports.

### Commodity composition of imports

The expansion in the imports of primary producing countries in 1954 was accompanied by some shifts in the relative importance of various commodities. There was a sharp decline in grain imports, offset only in part by higher imports of other foodstuffs. The rise in imports was, therefore, concentrated in non-food items. There was a moderate increase in imports of capital equipment, especially in categories of goods required for public investment projects. The share of industrial consumer goods in non-food imports rose somewhat in the first half of 1954 and then declined in the second

half. This probably reflects the fact that import and exchange controls are used in many primary producing countries to ensure maximum availability of foreign exchange resources for imports of raw materials and capital equipment. Thus, import fluctuations become concentrated in consumer items, for which heavy pent-up demand tends to result from the enforcement of restrictions and to be dissipated subsequently as restrictions are relaxed. In the present instance, the easing of import restrictions by many primary producing countries during 1953 led to a rebuilding of inventories of industrial consumer goods in the latter months of that year and during the first half of 1954. By the second half of 1954, demand for these goods had slackened, but in some cases the reappearance of balance of payments difficulties necessitated a renewed tightening of import controls. However, restrictions on imports of consumer goods do not appear to have been relaxed in 1953 in Latin America to the same degree as in other primary producing countries, so that imports of capital goods probably rose more than imports of consumer goods from 1953 to 1954. In several other countries, moreover, restrictions were not relaxed until about the middle of 1954, and their effect on imports became visible only towards the end of the year.

The fall in grain imports was largely due to favourable harvests in 1953/54 in several importing countries, notably India and Indonesia, and to the recovery of production in certain other countries, for example Pakistan and Yugoslavia, which had resorted to food imports because of poor crops in earlier periods. Only in Spain did a poor harvest in 1953 necessitate higher imports of grain in the first nine months of 1954, as shown in table 66. While wheat imports by India virtually ceased in 1954, there was a large increase in rice imports (see table 67), particularly in the second half of the year, following an agreement with Burma for bulk purchases for inventory at reduced prices. In Egypt and Pakistan the decline in imports was in part made possible by a shift in acreage from the production of textile fibres, prices of which had dropped considerably, to grain.

The increase in imports of textiles by primary producing countries from the first half of 1953 to the first half of 1954 was much greater than the rise in total imports. Canadian imports dropped on account of the recession in that country, and Latin American imports rose little since restrictions on textile imports were not relaxed appreciably. In other primary producing coun-

Table 66. Imports of Wheat and Wheat Flour by Primary Producing Countries, 1951 to 1954

(Thousands of metric tons)

| *Area and country* | *1951 Full year* | *1952 Full year* | *1953 Full year* | *1953 Nine months* | *1954 Nine months* |
|---|---|---|---|---|---|
| ALL PRIMARY PRODUCING COUNTRIES | 10,440 | 10,062 | 10,063 | 8,183 | 5,019 |
| *Selected Latin American countries:* | | | | | |
| Brazil | 1,304 | 1,239 | 1,315 | 1,047 | 731 |
| Cuba | 215 | 213 | 192 | 151 | 143 |
| Mexico | 382 | 474 | 244 | 188 | 71 |
| Peru | 204 | 252 | 264 | 189 | 157 |
| Venezuela | 177 | 169 | 190 | 133 | 153 |
| *Selected oversea sterling area countries:* | | | | | |
| British West Indies | 191 | 230 | 182 | 138 | 158 |
| Ceylon | 311 | 276 | 368 | 291 | 196 |
| Hong Kong | 59 | 66 | 50 | 37 | 46 |
| India | 3,322 | 2,251 | 1,578 | 1,573 | 137 |
| Malaya and Singapore | 226 | 192 | 199 | 143 | 147 |
| New Zealand | 157 | 241 | 200 | 159 | 155 |
| Pakistan | — | 191 | 1,132 | 854 | 37 |
| Union of South Africa | 154 | 215 | 250 | 250 | 117 |
| *Other countries:* | | | | | |
| Egypt | 872 | 745 | 471 | 433 | 43 |
| Finland | 38 | 42 | — | — | 4 |
| French Africa | 219 | 208 | 21 | 17 | 5 |
| Indonesia | 188 | 198 | 180 | 131 | 112 |
| Korea, southern | 34 | 89 | 166 | 164 | 103 |
| Lebanon and Syria | 225 | 142 | 105 | 104 | 21 |
| Philippines | 246 | 252 | 247 | 184 | 188 |
| Spain | 164 | 73 | 378 | 273 | 441 |
| Yugoslavia | 107 | 399 | 551 | 551 | 509 |

*Source:* United Nations Food and Agriculture Organization, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome). Data from export statistics of four major wheat exporters: Argentina, Australia, Canada and the United States.

Table 67. Imports of Rice by Primary Producing Countries, 1951 to 1954

(Thousands of metric tons)

| Country | 1951 Full year | 1952 Full year | 1953 Full year | 1953 Nine months | 1954 Nine months |
|---|---|---|---|---|---|
| All primary producers | 3,666 | 3,356 | 2,699 | 2,181 | 1,583 |
| Ceylon | 413 | 358 | 410 | 311 | 197 |
| Hong Kong | 209 | 208 | 304 | 281 | 87 |
| India | 783 | 704 | 221 | 209 | 343 |
| Indonesia | 500 | 630 | 330 | 266 | 216 |
| Korea, southern | 116 | 158 | 250 | 227 | 41 |
| Malaya and Singapore | 511 | 529 | 538 | 452 | 194 |
| Philippines | 111 | 63 | — | — | 1 |

*Source:* United Nations Food and Agriculture Organization, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome).

tries as a whole, however, the value of imports of textiles rose 15 per cent or more in the first half of 1954. The relaxation of import restrictions by Australia and New Zealand accounted for most of the increase in imports of textiles from western Europe. Elsewhere, the additional textile imports were mainly from India and Japan, which shipped substantially larger quantities of cotton textiles not only to Australia but to other oversea sterling area countries. This development was made possible in the case of Japan by the lifting of restrictions on Japanese imports. Australia, Indonesia and Pakistan together took 60 per cent of the entire increase in cotton textile shipments by the eight major exporting countries[5] from the first half of 1953 to the first half of 1954, though these three countries had accounted for little more than 11 per cent of the total of such exports in the earlier period (see table 68). At the same time, trade in rayon and synthetic fabrics continued the strong upward trend notable since the end of the Second World War, and there were appreciable increases in imports of these goods in southern and south-eastern Asia, in particular, as well as in the African dependencies.

Table 68. Exports of Cotton Piece-Goods from Major Exporting Countries to Primary Producing Countries, 1953 and 1954

(Thousands of metric tons)

| Area | 1953 Full year | 1953 First half | 1954 First half |
|---|---|---|---|
| Independent sterling area | 72.0 | 31.0 | 51.4 |
| Australia | 17.7 | 5.6 | 13.5 |
| Pakistan[a] | 0.6 | 0.3 | 7.9 |
| Union of South Africa | 18.3 | 9.3 | 11.0 |
| United Kingdom dependencies | 76.3 | 36.8 | 40.3 |
| Gold Coast | 13.1 | 3.3 | 3.1 |
| Malaya | 12.9 | 6.8 | 4.5 |
| Nigeria | 16.6 | 8.1 | 7.6 |
| Latin America | 19.5 | 10.0 | 10.3 |
| French dependencies | 39.1 | 19.0 | 17.1 |
| Indonesia | 43.5 | 15.8 | 24.4 |
| Other countries[b] | 77.3 | 38.2 | 45.7 |
| TOTAL | 327.7 | 150.8 | 189.2 |

*Source:* United Nations Bureau of Economic Affairs, based on national trade statistics of the following exporting countries: France, western Germany, India, Italy, Japan, Netherlands, United Kingdom and United States.

[a] Excluding land trade with India.

[b] Excluding Canada.

Large increases by most areas in imports of chemicals seem to be in part associated with consumer requirements. For example, there were large gains in imports of dyeing and tanning materials, pharmaceutical goods and detergents and chemicals required for the production of artificial fibres. Much higher imports of these goods were recorded by Latin American countries as well as in other areas. However, there were also important increases in imports of basic chemical compounds with extensive industrial and consumer uses.

Among imports of other consumer goods, particularly large increases in shipments of passenger vehicles were recorded by Australia and New Zealand from the United Kingdom, by the French oversea territories from France and by a large number of countries from western Germany. Here, again, there was a sharp drop in Canadian imports, while the imports of Latin America from its principal supplier, the United States, rose only slightly in the first half of 1954.

Preliminary data for the second half of 1954 suggest a considerable slowing down in imports of industrial consumer goods by primary producing countries. There appears, in fact, to have been a significant decline in imports of textiles from western European countries, though imports from Japan continued to rise.[6] Apart from the substitution of Japanese for western European goods in the sterling area, these developments were probably due to the completion of the process of inventory replenishment in the countries whose imports had previously been subject to restrictions. In addition, Japan curtailed its exports of textiles to Indonesia as a result of an accumulation of commercial debt by that

[5] France, western Germany, India, Italy, Netherlands, Japan, the United Kingdom and the United States.

[6] A slight decline in deliveries of cotton piece-goods from Japan appears to have been more than offset by higher shipments of rayon fabrics.

country, and to Pakistan, as a result of difficulties in the operation of the trade agreement.

There was a moderate increase in imports of capital goods by primary producing countries in 1954 following the general decrease in 1953. This drop in 1953 largely reflected an earlier fall in export earnings when the raw material boom of 1950/51 had subsided. Not merely had expectations been adversely affected by this development, but declines in foreign exchange reserves had in some countries necessitated restrictions on imports of capital goods as well as consumer goods. The gradual recovery in the real value of export earnings in terms of purchasing power over imports during 1953 and 1954 and, in some cases, the release of foreign exchange resources resulting from reductions in food import requirements, made it possible for imports of capital goods to rise once more in 1954, in part to compensate for previous delays in reaching investment targets. Additional factors in the 1954 expansion were probably the receipt of medium-term credits to finance capital goods imports by a number of countries and a shortening of the lag between orders and deliveries in certain of the supplying countries, particularly western Germany and the United States.

The largest increase in imports of capital goods was recorded by Australia, but there were also substantial gains in Argentina, Brazil and Indonesia, following the cuts imposed in 1953. In the latter three countries, as well as in India, the expansion derived to an important extent from the further development of power facilities, necessitating higher imports of generating equipment. A number of Latin American countries also had considerably higher imports of railway and other transport equipment. Other countries, including Pakistan, the Union of South Africa and the sterling area dependencies, likewise imported larger quantities of transport equipment. These advances in imports of power and transport equipment were probably linked in many cases with the furtherance of public investment programmes.

On the whole, imports of other types of industrial and agricultural equipment appear to have increased less than power and transport equipment. An exception to this is to be found in a very large expansion in imports of iron and steel products by Argentina and Brazil from Japan under barter agreements. A number of other countries also increased their imports of iron and steel products from western Europe. In the Union of South Africa, moreover, imports of agricultural equipment were higher, and the increases in the capital goods imports of Australia and Pakistan covered a wide range of goods. There were also some significant increases in imports of industrial machinery by Middle East countries, including shipments from western Germany to Israel under the reparations agreement between these two countries.

In some primary producing countries imports of capital goods did not increase in 1954. The completion of various investment projects in a number of French dependencies in 1953 had led to a reduction in capital goods imports in that year, and these were stabilized at the lower level in 1954. In a few Latin American countries, notably Chile and Peru, declines in export earnings and anti-inflationary domestic policies slowed down development programmes, and several United States investment projects were completed; imports of capital equipment consequently dropped considerably. Finally, Canadian imports of capital equipment, as of other goods, declined in 1954 owing to the recession in that country.

## Balance of Payments

The trade of primary producing countries in 1954 left the group as a whole with an import balance of approximately $1.1 billion, $500 million larger than in 1953 (see table 69). A large part of the passive balance in 1954 was accounted for by the third quarter when imports exceeded exports by $700 million; a substantial increase in exports in the fourth quarter reduced the passive balance in the period October to December to only $100 million. Most of the deterioration in the aggregate trade balance of primary producing countries from 1953 to 1954 was accounted for by Latin American non-dollar countries and a number of independent countries in the oversea sterling area. These countries had relaxed import restrictions in the latter part of 1953 and in 1954 after a period, beginning in 1952, when balance of payments difficulties had forced them to restrict imports severely. At the same time the balances of a number of countries, notably of Canada, of a few Middle East and Far East non-sterling countries and of the African dependencies of the United Kingdom became less passive or more active. Canada's import balance in 1954 was reduced in the face of falling exports as a result of a slackening in demand for imports associated with the recession in that country in the first half of the year.

In the oversea sterling area, Australia alone experienced, between 1953 and 1954, a $700 million deterioration in its balance, owing to a 30 per cent increase in imports while exports declined. The balances of Burma, New Zealand and Pakistan also deteriorated, though to a smaller extent.

In Latin America, Brazil's active balance in 1953 was turned into a passive one in 1954 as imports increased considerably more than exports; the pattern of change in Uruguay was similar to that in Brazil; Chile also reduced its export balance in 1954. Peru and Argen-

Table 69. Selected Items[a] in the Balance of Payments of Primary Producing Countries, 1952 to 1954

(Billions of United States dollars)

| Item | 1952 Full year | 1953 Full year | 1954 First half | 1954 Second half[b] |
|---|---|---|---|---|
| Exports | 29.7 | 29.7 | 14.9 | 15.2 |
| Imports (c.i.f.) | 33.2 | 30.3 | 15.2 | 16.0 |
| BALANCE | −3.5 | −0.6 | −0.3 | −0.8 |
| Private service payments | −2.4 | −2.3 | −1.2 | −1.3 |
| To the United States | −1.3 | −1.3 | −0.7 | −0.8 |
| To the United Kingdom | −1.1 | −1.0 | −0.5 | −0.5 |
| Government service payments and grants | 2.0 | 2.0 | 0.9 | 0.7 |
| From the United States | 1.4 | 1.6 | 0.7 | 0.5 |
| From the United Kingdom | 0.5 | 0.4 | 0.2 | 0.2 |
| Capital flows | 1.7 | 1.4 | 1.2 | 1.1 |
| From the United States, private, long-term | 0.9 | 0.6 | 0.6 | 0.3 |
| From the United States, private, short-term | 0.1 | −0.2 | 0.1 | 0.3 |
| From the United States Government | 0.3 | 0.4 | — | 0.1 |
| From the United Kingdom, total | 0.3 | 0.4 | 0.4 | 0.3 |
| From the International Bank for Reconstruction and Development | 0.2 | 0.2 | 0.1 | 0.1 |
| Change in reserves (increase −) | 0.6 | −1.2 | −0.4 | −0.1 |
| Gold reserves | 0.1 | −0.1 | 0.1 | — |
| United States dollar assets | −0.3 | −0.1 | −0.2 | −0.2 |
| Sterling assets | 0.9 | −1.0 | −0.3 | 0.1 |

*Source:* United Nations Bureau of Economic Affairs.

[a] Major items not taken into account were transactions on service account (other than transportation included in c.i.f. imports) and capital account with continental western Europe; the net flow of long-term capital from primary producing countries (chiefly important in the case of Canada); gold production in primary producing countries; and earnings on transportation account by primary producing countries

[b] Preliminary.

tina, however, improved their balances to some extent. There was also some decline from 1953 to 1954 in the export balance of Latin American dollar countries. Until mid-1954 rising exports had more than offset the increase in their imports and their active balance had been at a higher level than in 1953. In the second half of the year, however, exports declined while imports continued to rise, with the result that the total export balance was sharply reduced. Changes in the balances of Colombia and Venezuela in the latter part of 1954 largely accounted for this deterioration in the aggregate.

### CAPITAL FLOW TO PRIMARY PRODUCING COUNTRIES

The flow of United States capital to primary producing countries rose from somewhat more than $800 million in 1953 to $1.3 billion in 1954. Private capital increased more than the total—from $450 million to $1.2 billion—but this increase was entirely accounted for by short-term funds and portfolio investments, largely medium-term credits of one year or more. Private direct investment was somewhat lower in 1954 than in 1953 (see table 70).

The decline in private direct investment occurred in the second half of the year; in the first half the flow of such capital was at a substantially higher rate than in 1953. In that year net foreign investment of the United States had been reduced by repayment to parent companies of advances made earlier to subsidiaries in countries with balance of payments difficulties. In the first half of 1954 there was a general cessation in this return flow of capital to the United States, especially from manufacturing industries in Brazil and elsewhere in Latin America, and from Australia. There was also increased investment in the first half of 1954 in the petroleum industry in Canada, Latin America and the Middle East and some increase in United States investment in manufacturing in Canada despite a recession in that country. On the other hand, United States investment in mining in Canada, Chile, Peru and Venezuela declined as projects in these countries neared completion.

Total United States portfolio investments rose sharply in the first half of 1954, chiefly as a result of increased borrowing by Canadians who sought to benefit from lower United States interest rates. During the second half of the year the movement was reversed as credit became cheaper in Canada, but on the other hand increased medium-term credits were granted by United States banks to Latin American countries, notably Brazil.[7]

Renewed balance of payments difficulties, especially in Brazil, are reflected in the very substantial increase in the outflow of short-term funds. In 1953 Brazil had repaid short-term credits and commercial arrears with

[7] In addition, a large part of the rise in portfolio investment (table 70) resulted from cotton loans granted by commercial banks to Japan, under guarantee of the Export-Import Bank.

Table 70. Capital Flow from the United States to Primary Producing Countries, 1952 to 1954

(Millions of United States dollars)

| Item and period | Canada | Latin America | Oversea sterling area | Other countries[a] | Total |
|---|---|---|---|---|---|
| TOTAL: | | | | | |
| 1952 | 431 | 483 | 179 | 137 | 1,230 |
| 1953 | 412 | 183 | 66 | 168 | 829 |
| 1954 First half | 379 | 138 | 29 | 125 | 671 |
| 1954 Second half | 65 | 365 | 77 | 149 | 656 |
| *Private capital:* | | | | | |
| Direct investment: | | | | | |
| 1952 | 480 | 277 | 85 | 97 | 939 |
| 1953 | 413 | 93 | 64 | 104 | 674 |
| 1954 First half | 242 | 79 | 22 | 63 | 406 |
| 1954 Second half | 170 | −9 | 27 | 56 | 244 |
| Other private long-term capital: | | | | | |
| 1952 | −30 | −34 | — | −11 | −75 |
| 1953 | 8 | −33 | −42 | 35 | −32 |
| 1954 First half | 130 | — | −15 | 55 | 170 |
| 1954 Second half | −127 | 94 | −7 | 39 | −1 |
| Short-term capital: | | | | | |
| 1952 | −25 | 175 | −34 | −57 | 59 |
| 1953 | −13 | −222 | 2 | 42 | −191 |
| 1954 First half | 14 | 49 | 7 | −8 | 62 |
| 1954 Second half | 18 | 259 | 32 | 22 | 331 |
| *Government loans:* | | | | | |
| 1952 | 6 | 65 | 128 | 108 | 307 |
| 1953 | 4 | 345 | 42 | −13 | 378 |
| 1954 First half | −7 | 10 | 15 | 15 | 33 |
| 1954 Second half | 4 | 21 | 25 | 32 | 82 |

*Source:* United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), March 1955 and *Balance of Payments of the United States, 1919–53* (Washington, D.C.).

[a] Including Japan.

the aid of a $300 million Export-Import Bank loan, which had given rise to a net inflow into the United States of over $200 million of short-term funds. The position was reversed in 1954, as short-term credits were again granted to finance exports.

There appears to have been a marked increase in net capital outflow from the United Kingdom in 1954, the investment and borrowing account of its balance of payments showing a rise in the net outflow to primary producing countries from the equivalent of a little over $400 million in 1953 to $700 million in 1954.[8] As in the past, the greater part of United Kingdom capital went to the oversea sterling area, which received nearly $750 million in 1954, $350 million more than in 1953. This increased outflow of capital may reflect to some extent the Government's policy of encouraging investment in the sterling area. However, it may also have been associated with lags in payments for sharply rising exports to countries like Australia. There was a substantial increase in the inflow of private United Kingdom capital into that country and into the Union of South Africa in 1954, and a number of colonial and Commonwealth loans floated in the London market late in 1953, as well as a United Kingdom Government loan of £10 million to Pakistan, were disbursed in 1954. Although firm figures are not available, qualitative evidence suggests that private investment in British dependencies was also substantial in 1954.

While the net capital flow from the United Kingdom to most primary producing areas rose from 1953 to 1954,[9] in the case of Latin American non-dollar countries there was an increased flow of capital to the United Kingdom in 1954. A large part of this flow was accounted for by short-term capital, primarily representing Brazil's repayment of commercial debts to the United Kingdom.

The total flow of capital from sources other than the United Kingdom and the United States cannot be ascertained with any degree of certainty. Metropolitan France continued to finance the development programme of its dependencies; together with other transfers the amounts involved must have been at least equal

[8] It should be noted that the capital account of the United Kingdom balance of payments includes an unknown element of errors and omissions.

[9] In addition to the capital outflow from the United Kingdom shown in table 69, there was an increased flow of United Kingdom capital to Canada, which amounted to £49 million in 1954. This was the result of an easing of restrictions on United Kingdom investments in non-sterling countries.

to the passive balance of the French dependent overseas territories, amounting to some $300 million in the first half of 1954, about the same as the half-yearly average in 1953.

Banks in a number of western European countries and Japan gave medium-term credits to primary producing countries on an increasing scale in 1954, and a number of governments made agreements providing for medium-term credits to finance trade in capital goods. These included Japanese agreements with Argentina and Iran involving credits of $50 million and $16.5 million, respectively, a German credit of $60 million and a French credit of about $14 million to Iran, and French and Netherlands credits to Indonesia of $34.3 and $6.6 million respectively.

Repayment of commercial debts to continental western Europe gave rise in 1954 to an outflow of short-term funds from primary producing countries. Western Germany alone reduced its credit position on clearing account with primary producing countries in the first nine months of the year by about $60 million.

### Changes in gold reserves and foreign exchange assets

The increase from 1953 to 1954 in the passive balance was reflected in smaller additions to gold and foreign exchange reserves of primary producing countries. In the first half of 1953 the previous year's loss of reserves of some $600 million had been made good and a further $400 million had been added. Accumulation was at a reduced rate in the third and fourth quarters of the year. In the first half of 1954 reserves increased by only $400 million (see table 71) and in the second half less than $100 million was added.

A large part of the $400 million increase in international reserves of primary producing countries in the first half of 1954 was in the form of sterling balances and occurred in the oversea sterling area. During that period dollar holdings increased more moderately in the aggregate, reflecting chiefly an increase in Latin American dollar countries, especially in Colombia. Gold reserves declined on balance, owing to a sharp fall in the holdings of a few countries, mainly Mexico and Indonesia. The $100 million rise in reserves in the second half of the year was accounted for by a $250 million rise in Canada, chiefly in the form of dollar holdings, which was partly offset by a net loss in the reserves of the rest of the primary producing countries taken together.

In the oversea sterling area both independent countries and dependencies generally increased their reserves in the first half of 1954, the former chiefly as a result of increased capital inflow and enhanced gold production in the Union of South Africa; the much larger increase in sterling assets of United Kingdom dependencies, on the other hand, was closely related to their increased active trade balance. In the second half of the year, only the dependencies continued to accumulate reserves while those of the independent countries were drawn down. At this time Australia alone lost nearly $200 million of its official reserves.

Latin American gold and foreign exchange assets in the first half of 1954 increased in the aggregate only moderately. The deterioration in the trade balance of the non-dollar countries caused their reserves to decline; Brazil's balance of payments continued to be under pressure owing to its obligation to repay short-term external debts, especially to western Europe, so that despite new United States short-term credits and the cessation of the previous year's outflow of private long-term capital its reserves fell sharply until mid-1954. The decline in the reserves of Chile and Peru,

Table 71. Changes in Gold and Foreign Exchange Reserves of Primary Producing Countries, 1950 to 1954

(Billions of United States dollars)

| *Period and area* | *At end of period* | *Change during period* | | | |
|---|---|---|---|---|---|
| | | *Gold* | *Dollars* | *Sterling* | *Total* |
| 30 June 1950 | 15.1 | | | | |
| 30 June 1953 | 17.5 | 1.0 | 1.0 | 0.4 | 2.4 |
| 31 December 1953 | 17.7 | −0.2 | 0.2 | 0.2 | 0.2 |
| 30 June 1954 | 18.1 | −0.1 | 0.2 | 0.3 | 0.4 |
| Canada | 2.4 | — | — | — | 0.1 |
| Latin America | 3.9 | −0.1 | 0.2 | — | 0.1 |
| Oversea sterling area | 9.0 | — | — | 0.3 | 0.3 |
| Other | 2.8 | — | — | — | — |
| 31 December 1954 | 18.2 | — | 0.2 | −0.1 | 0.1 |
| Canada | 2.6 | — | 0.2 | — | 0.3 |
| Latin America | 3.8 | — | — | −0.1 | −0.1 |
| Oversea sterling area | 8.8 | −0.1 | — | — | −0.2 |
| Other | 3.0 | — | 0.1 | — | 0.1 |

*Source:* United Nations Bureau of Economic Affairs.

the latter possibly associated with a speculative capital outflow, appears to have been checked in the second half of 1954. The decline in the reserves of other non-dollar countries continued, however. Reserves of the dollar countries taken together increased by less than $60 million in the first half of 1954, despite the substantial active trade balance of the group. Special circumstances in Mexico, which lost over $140 million—60 per cent of its official reserves—in a matter of six months, largely account for the failure of the group's reserves to increase more substantially. In the second half of the year several of the dollar countries, including Colombia and Venezuela, were forced to draw upon their external reserves as export balances declined sharply. Among other countries, Indonesia made good, in the second half of 1954, its loss of reserves in the first half, while the Philippines, after increasing reserves in the first half of 1954, reduced them to below the December 1953 level in the latter part of the year.

# Chapter 7

# INTERNATIONAL TRADE OF EASTERN EUROPE AND MAINLAND CHINA

## Trade with the Rest of the World

The total dollar value of the trade of eastern Europe[1] and mainland China with the rest of the world, which had declined in 1952 and in the first half of 1953, rose thereafter. In 1954 the value of imports and of exports was still lower than in 1951, but the quantum of trade may have been as high as in that year, owing to the fall in prices since that time. It does not appear, however, that the level of 1948 was regained. The increase in trade in 1954 was accounted for entirely by the eastern European countries, their imports rising more than exports. The trade of mainland China, on the other hand, fell from 1953 to 1954, though it rose from the first to the second half of the latter year.

The expansion of imports in the Soviet Union followed the announcement of a shift in economic policy in that country in the middle of 1953, which was, however, again changed early in 1955. The new policy envisaged in 1953 was to be directed towards greater emphasis than previously on the production and supply of consumer goods. Its counterpart in foreign trade involved a rise in imports of consumer goods and of raw materials for the production of consumer goods, and increased commercial exchanges with the countries of the west.

The Soviet Union raised its imports by about two-thirds from the first to the second half of 1953, and again by about one-third in the first half of 1954, but in the second half of the year there was a decrease. The increase in the second half of 1953 came largely from western Europe and Finland, but in the first half of 1954 it was derived entirely from non-European sources (see table 72). The decline in the second half of the year involved imports from both European and non-European sources. The rise in aggregate imports of the other eastern European countries from western countries began much more slowly but it was still continuing in the second half of 1954. While most of their increased imports came from western Europe, there was likewise a significant growth in purchases from non-European countries. Also, some of the Soviet Union's imports from non-European sources were destined for re-export to the rest of eastern Europe.

The rise in exports to western countries, both from the Soviet Union and from the rest of eastern Europe, was considerably smaller than the increase in the flow in the other direction. In the case of the Soviet Union, this resulted from the fact that its exports to non-European countries were small in comparison with the substantially increased imports from these countries. In the rest of eastern Europe, however, it was due to the small increase in exports in relation to imports in its trade with western Europe and Finland.

The value of exports to eastern Europe from western European countries other than Finland averaged over one-fourth higher in 1954 than in 1953;[2] the increase in exports from Finland, with whom trade had already been more fully developed, was relatively small. Significant increases were recorded by Denmark, France, western Germany, the Netherlands, Turkey and the United Kingdom. The increase was smaller in dollar value for the Soviet Union than for the rest of eastern Europe.

Eastern European exports to western Europe and Finland increased in 1954 by about one-eighth over the 1953 level. The major part of the increase was accounted for by the Soviet Union; its exports rose about one-fourth, or as much as the increase in its imports. Exports of the other eastern European countries to western Europe and Finland rose only moderately. Particularly large increases in imports were recorded in France, western Germany and Italy, whereas countries such as Austria, the Netherlands and the United Kingdom showed no increase over the 1953 level.

Finland continued to hold its predominant position in east-west trade. While the value of its trade with the Soviet Union in 1954 differed little from that in 1953, its trade with other eastern European countries increased in both directions. Various triangular arrangements with countries in eastern Europe provided, as in previous years, for the offsetting of the Finnish export

[1] "Eastern Europe" here includes Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Soviet Union. A more complete study of the trade of the Soviet Union and other eastern European countries, containing also provisional estimates of changes in their trade as compared with pre-war levels, is to be found in *Economic Survey of Europe in 1954*, issued by the Economic Commission for Europe (United Nations publication 1955 II E 2), chapter 5

[2] In the latter half of 1954, fifteen nations, including the United States, announced modifications in their strategic controls over exports to eastern Europe, the effects of which it is yet too early to ascertain.

## Table 72. Trade of Eastern Europe and Mainland China with the Rest of the World, 1953 and 1954

(Millions of United States dollars)

| Reporting area[a] and period | Imports from USSR | Exports to USSR | Imports from Other eastern European countries | Exports to Other eastern European countries | Imports from Mainland China[b] | Exports to Mainland China[b] | Imports from Eastern Europe and mainland China | Exports to Eastern Europe and mainland China |
|---|---|---|---|---|---|---|---|---|
| TOTAL[c]: | | | | | | | | |
| 1953 First half | 140 | 150 | 340 | 300 | 220 | 160 | 700 | 620 |
| 1953 Second half | 250 | 260 | 380 | 320 | 210 | 110 | 830 | 690 |
| 1954 First half | 190 | 330 | 360 | 360 | 180 | 130 | 720 | 830 |
| *United States and Canada:* | | | | | | | | |
| 1953 First half | 6 | — | 16 | 1 | 5 | — | 27 | 1 |
| 1953 Second half | 6 | — | 13 | 1 | 5 | — | 24 | 1 |
| 1954 First half | 6 | 3 | 15 | 1 | 2 | — | 23 | 4 |
| 1954 Second half | 6 | 2 | 18 | 6 | — | — | 24 | 8 |
| *Western Europe:* | | | | | | | | |
| 1953 First half | 66 | 59 | 237 | 221 | 64 | 59 | 367 | 339 |
| 1953 Second half | 176 | 131 | 247 | 235 | 64 | 36 | 487 | 402 |
| 1954 First half | 125[d] | 140 | 231 | 265 | 45 | 36 | 401 | 441 |
| 1954 Second half | 205 | 117 | 277 | 278 | 52 | 46 | 534 | 441 |
| *Finland:* | | | | | | | | |
| 1953 First half | 48 | 63 | 37 | 13 | — | 1 | 85 | 77 |
| 1953 Second half | 42 | 82 | 54 | 15 | 2 | 4 | 98 | 101 |
| 1954 First half | 37 | 74 | 44 | 18 | 2 | 1 | 83 | 93 |
| 1954 Second half | 51 | 73 | 55 | 19 | — | 6 | 106 | 98 |
| *Oversea sterling area:* | | | | | | | | |
| 1953 First half | 1 | 20 | 13 | 27 | 132 | 97 | 146 | 144 |
| 1953 Second half | 2 | 31 | 16 | 33 | 111 | 66 | 129 | 130 |
| 1954 First half | 2 | 60 | 17 | 24 | 91 | 76 | 110 | 160 |
| 1954 Second half | 2 | 1 | 11 | 19 | 101 | 76 | 114 | 96 |
| *Other areas[c]:* | | | | | | | | |
| 1953 First half | 16 | 12 | 36 | 38 | 23 | 7 | 75 | 57 |
| 1953 Second half | 21 | 13 | 46 | 37 | 28 | 8 | 95 | 58 |
| 1954 First half | 16 | 56 | 54 | 56 | 35 | 16 | 105 | 128 |

*Source:* Based on data in *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development.

[a] Imports are c.i.f., and exports are f.o.b., in the reporting area.

[b] Trade with Taiwan is included in trade with mainland China for those reporting countries where available statistics do not permit its exclusion; the countries that report their trade with Taiwan separately, however, account for the bulk of Taiwan's trade.

[c] Owing to incomplete reporting, figures are approximate only; estimates are rounded to nearest $10 million.

[d] Adjusted to exclude French imports of gold valued at $36 million.

[e] Owing to incomplete reporting, figures are approximate only.

balance with the Soviet Union by an import balance with other countries in the group. There was also a Russian payment in gold to Finland in 1954.

In addition to the rise in trade shown in table 72 there was an increase of over 70 per cent in trade between eastern and western Germany, with imports of eastern Germany rising more than its exports.

Eastern Europe made special efforts to expand trade with the primary producing countries outside Europe, but as noted above, the increase in imports from these countries in 1954 was significantly larger than in exports. The rise was especially notable in trade with Argentina, which had scarcely participated in east-west trade in recent years. In the first six months of 1954 the Soviet Union became its fourth largest market, preceded only by the United Kingdom, the United States and western Germany. In addition, Argentine exports to other eastern European countries in the first half of 1954 rose to nearly three times the level in the first half of 1953. A sizable increase also occurred in imports of the Soviet Union from Australia in 1953/54, but in the second half of 1954 this trade ceased.

A new development in recent trade agreements of eastern European countries with some of the underdeveloped primary producing countries has been that the former arranged to provide exports of capital equipment in return for imports of primary products, and, in some cases, also to provide credits and technical assistance. Agreements on these lines were signed by the Soviet Union with Argentina covering Soviet deliveries of industrial equipment on credit, and with India for the construction and equipping of a steel mill. Similar agreements for the export of industrial equipment were also made by Czechoslovakia and eastern Germany. In return for these exports of capital goods, the eastern European countries contracted for imports consisting

primarily of food and tobacco, and raw materials for light industry—particularly textile fibres and hides.

The rise in the volume of imports of eastern Europe from western countries was accompanied by a significant relative shift in commodity composition from machinery and metals to other manufactures, raw materials and foodstuffs. As may be seen from table 73, whereas imports of machinery and metals from OEEC countries and the United States fell significantly, imports of other manufactures, of raw materials and of foodstuffs in the first nine months of 1954 were each greater than the respective totals for the full year 1953. While imports of metals and metal manufactures fell in both the Soviet Union and other eastern European countries, imports of machinery and transport equipment rose in the Soviet Union but fell substantially in other countries of eastern Europe. The increased imports in the Soviet Union included, for the first time, purchases of fishing trawlers and refrigerated vessels and machinery for producing consumer goods.

In imports of foodstuffs the increase was especially significant in livestock products, and in countries other than the Soviet Union in cereals also. The Soviet Union was estimated to have become the third largest meat importer in the world in 1954, next to the United Kingdom and the United States. Part of the increase in its imports, both of meat and of butter, was intended, however, to relieve shortages in other countries of eastern Europe.

Eastern Europe purchased increased quantities of wool; the United Kingdom in particular increased its exports of imported wools in 1954. Egypt's exports of cotton to the Soviet Union ceased until the last month of 1954, when there was a substantial shipment; its cotton exports to other parts of eastern Europe rose in 1954. Re-exports of rubber from the United Kingdom to the Soviet Union, which had totalled about 88,000 tons in 1952, fell to 27,000 tons in 1953 and to only 400 tons in 1954. There were no direct exports to the Union of Soviet Socialist Republics from Malaya, Indonesia or Ceylon, either in 1953 or in 1954. The Soviet Union appears to have obtained its supplies primarily from mainland China under an agreement whereby the latter was to re-export to the Soviet Union 45 per cent of its imports from south-eastern Asia.

Exports of foodstuffs, especially from countries other than the Soviet Union, fell significantly in 1954. As imports of foodstuffs rose substantially at the same time, eastern Europe apparently became for the first time a net importer of foodstuffs during the first nine months of 1954. Exports of coal and coke from Poland also continued to fall in 1954; its trade with Sweden,

Table 73. Composition of Trade of Eastern Europe and Mainland China with the United States and OEEC Countries,[a] 1953 and 1954

(Millions of United States dollars)

| Item | 1953 Full year | | | 1954 First nine months | | |
|---|---|---|---|---|---|---|
| | USSR | Other eastern European countries | Mainland China | USSR | Other eastern European countries[b] | Mainland China |
| *Exports of United States and OEEC countries:* | | | | | | |
| Total | 166 | 428 | 95 | 171 | 381 | 42 |
| Foodstuffs | 62 | 80 | — | 55 | 114 | — |
| Raw materials | 22 | 90 | 11 | 23 | 94 | 7 |
| Manufactured goods | 82 | 258 | 84 | 93 | 173 | 35 |
| Base metals and metal manufactures | 21 | 91 | 21 | 10 | 33 | 4 |
| Machinery and transport equipment | 39 | 92 | 11 | 50 | 50 | 5 |
| *Imports of United States and OEEC countries:* | | | | | | |
| Total | 254 | 489 | 136 | 225 | 384 | 63 |
| Foodstuffs | 72 | 174 | 27 | 44 | 109 | 16 |
| Cereals | 56 | 35 | 3 | 33 | 28 | — |
| Raw materials | 141 | 174 | 100 | 146 | 146 | 40 |
| Fuel | 23 | 112 | — | 33 | 82 | — |
| Manufactured goods | 41 | 141 | 9 | 35 | 129 | 7 |

*Source:* Based on *Commodity Trade Statistics*, published by the Statistical Office of the United Nations.

[a] Excluding re-exports of the reporting areas. This exclusion, which is particularly significant for re-exports from the United Kingdom, and the incomplete classification of commodity trade statistics by destination of exports and provenance of imports, account for the difference between the value of total trade in this table and the corresponding figures that may be derived from table 72.

[b] Including the trade of Switzerland with the Soviet Union. In 1953 Swiss exports to that country were $3 million and imports from the Soviet Union were $4 million.

consisting largely of the exchange of Polish coal for Swedish iron ore, decreased considerably as a result of difficulties in the operation of their trade agreement. Offsetting these declines were continued increases in exports of timber and, more especially, of petroleum. Exports of engineering products from eastern Europe to under-developed countries rose, while at the same time the area's imports of these products from western Europe fell. In addition to its other exports, the Soviet Union sold large quantities of precious metals in London and other European markets to pay for its import balance in 1954.

Mainland China's exports to countries other than eastern Europe, except Japan, dropped significantly in 1954; Japan purchased larger quantities of soya beans, other kinds of beans, oil-seeds and cashmere wool. Imports of mainland China, on the other hand, were about the same in 1954 as in 1953, although the distribution by source of supply was considerably altered. In 1954 the dollar value of Hong Kong's exports to mainland China was about 70 per cent of the value in the previous year. Ceylon had moved into second place after Hong Kong in 1953 as the principal supplier of exports to mainland China. In accordance with a trade agreement signed with mainland China in October 1952, Ceylon's exports of rubber increased from 30,000 tons in 1952 to 58,000 tons in 1953 and 46,000 tons in 1954. As China received no imports either from Malaya or Indonesia, its total imports of rubber remained substantially below the level of 1950 and early 1951. Switzerland, which in 1953 was the third principal supplier of mainland China, was replaced by Pakistan in 1954 when the latter country resumed its exports of cotton to mainland China. Japan's exports to mainland China also increased, but remained small in value.

Whereas the restrictions on exports of capital goods to eastern Europe were modified, there were no changes with regard to exports to mainland China. After some increase in exports of capital goods to that country in the first half of 1953, shipments from European countries decreased. The only relaxations announced by Japan have not resulted in exports of any sizable quantities of machinery. Mainland China, for its part, has not shifted towards large-scale purchases of consumer goods, for which it had provided an extensive market for Japan in the period before the Second World War.

## Trade within the Group and Total Trade

In 1953,[3] the total trade of the Soviet Union, eastern Europe and mainland China continued to expand, but the rise was generally confined to trade within the group. Only two countries, Bulgaria and Romania, increased their shares of the total trade with countries outside the group; all others showed a continuation of the trend towards tightening of economic ties among countries within the group.[4]

Polish trade, which fell between 1951 and 1952, was practically unchanged in 1953, the increase in trade within the group being insufficient to do more than offset the decline in trade with the rest of the world. Czechoslovak trade did little more than recover from its small decline of 1952, and the Hungarian expansion was relatively modest. On the other hand, in 1953 eastern Germany increased its trade by 30 per cent[5] and Bulgaria by 27 per cent over the previous year (see table 74). In the case of eastern Germany, the increase in trade was partly due to a substantial increase in imports during the latter half of the year, both from within the group and outside, financed in part by special credits granted by the Soviet Union.

Soviet trade increased from a total of 18 billion roubles in 1951 to 23 billion roubles in 1953, and continued to expand in the first half of 1954, when it reached a level 30 per cent above that of the same period of 1953.[6] At current prices, the 1953 level of trade represented a tenfold increase over the 1938 level of 2.1 billion roubles, but "if account is taken of the rise of

Table 74. Indices of Foreign Trade of Eastern European Countries, the Soviet Union and Mainland China, 1952 and 1953

| Country | *1952* (*1948 = 100*) | *1953* (*1948 = 100*) | *1953* (*1952 = 100*) |
|---|---|---|---|
| Albania | 143 | 162 | 113 |
| Bulgaria | 124 | 158 | 127 |
| Czechoslovakia | 119 | 124 | 107 |
| Germany, eastern | ... | ... | 130 |
| Hungary | 270 | 293 | 108 |
| Poland | 153 | 153 | 100 |
| Romania | 230 | 267 | 118 |
| USSR | ... | 225 | 111 |
| Mainland China | ... | ... | 136 |

*Source:* For USSR: *Planovoe Khozyaistvo* (Moscow), 1954, No. 4, and *Kommunist* (Moscow), No. 15, October 1954; for eastern Germany: *Die Wirtschaft* (Berlin), No. 36, September 1954; for mainland China: *Vneshnyaya Torgovlya* (Moscow), 1954, No. 10; for all other countries: *Vneshnyaya Torgovlya*, 1954, No. 11.

[3] Data on total 1954 trade and trade within the group were generally not available at the time of writing.

[4] *Kommunist* (Moscow), No. 15, October 1954.

[5] The indices for eastern German trade published in the *World Economic Report, 1952-53* were derived from an official series on a 1947 base. *Die Wirtschaft* (Berlin), 3 September 1954, gave a revised series on a 1950 base, as follows:

| | *1951* | *1952* | *1953* |
|---|---|---|---|
| Total trade | 138 | 158 | 204 |
| Trade with other members of the group | 159 | 179 | 239 |
| Trade with countries outside the group | 99 | 118 | 136 |

Reports on the fulfilment of plans for the first, second and third quarters of 1954 indicated further increases in foreign trade.

[6] *Kommunist*, No. 15, October 1954.

prices on the world market, then the trade turnover of the Soviet Union in 1953 was almost four times as high as the pre-war level in comparable prices".[7]

As in previous years, approximately 80 per cent of the Soviet Union's trade was with other members of the group. Trade with the Soviet Union comprised more than half the total trade of Albania, Bulgaria, mainland China and Romania, about half that of eastern Germany and approximately one-third of the foreign trade of Czechoslovakia, Hungary and Poland.[8]

In 1953, it was stated that trade of mainland China had increased 36 per cent since 1952. Later, it was reported that this trade had risen a further 14 per cent between 1953 and 1954. Mainland China is the principal trading partner of the Soviet Union, which in 1954 granted a new long-term credit of 520 million roubles; 400 million roubles of this were to be used for purchase of equipment from the Soviet Union.[9]

The share of mainland China's total trade with members of the group grew from 72 per cent to 75 per cent from 1952 to 1953. Its trade with the Soviet Union more than doubled between 1950 and 1953, while that with other countries of eastern Europe, and particularly eastern Germany, has been expanding at a higher rate. Imports of machinery and equipment from these countries quadrupled between 1952 and 1953.[10]

In the latter half of 1953, there was increasing emphasis upon developing trade in consumer goods among the members of the group. Eastern Germany and Czechoslovakia both concluded supplementary agreements with their trading partners in the group to obtain additional supplies of foodstuffs and raw materials for light industry, eastern Germany utilizing for this purpose its emergency credit of 485 million roubles granted by the Soviet Union, and Czechoslovakia paying with additional exports of manufactured goods.[11] In the first half of 1954, Czechoslovakia increased its trade by 8 per cent above the level of the same period of 1953, and its imports of foodstuffs and raw materials for light industry were higher than in 1953.[12]

Official statements stressed the need to promote exports in order to increase imports of consumer goods and to co-ordinate production among the members of the group in order to benefit from the division of labour. Previously such division of labour had been confined to heavy industry and particularly to engineering industry, but co-ordination was now to be extended also to light industry, notably consumer goods. In the second half of 1954 agreements for co-ordination of certain light industries were concluded between Czechoslovakia and Hungary, Czechoslovakia and eastern Germany, and Hungary and eastern Germany, while similar discussions were taking place at the end of the year between Bulgaria and Czechoslovakia. It is not clear to what extent these developments may be affected by the changes in economic policy announced early in 1955.

Notwithstanding the emphasis placed for a time upon production of, and trade in, consumer goods in 1953/54, trade within the group remained heavily concentrated upon machinery, equipment and industrial raw materials, with foodstuffs occupying an important place in the trade of certain countries. Czechoslovakia and eastern Germany continued to be dependent upon imports from the Soviet Union for a considerable portion of the grain they consumed, and one of the reasons given for the expansion of Soviet grain production was that "the country must have bread grain surpluses to increase exports, the needs for which are growing".[13] The Soviet Union also supplied a major share of eastern Europe's requirements of iron ore, cotton and wool. For example, 80 per cent of Poland's needs for raw cotton in 1953 were met from the Soviet Union.[14]

In 1953 the Soviet Union exported to other members of the group machinery and equipment worth between $550 million and $600 million.[15] More than half of the output of the machine-building industry in eastern Germany was exported, and in the 1954 plan for trade with the Soviet Union, 80 per cent of eastern German exports were to consist of machinery, the remainder including optical and precision instruments, paper, books, periodicals.[16] Machinery and equipment constituted 40 per cent of Poland's imports in 1953, while industrial equipment and means of transport made up 12 per cent of its exports.[17] In the plan for 1954, the volume of these exports was to increase further; on the other hand, the absolute quantity of exports of coal and coke—though still a very important export commodity—was to be smaller than in 1953,[18] despite a planned increase in mine output.[19] Machinery and equipment accounted for 40 per cent of Czechoslovakia's exports.[20]

Two changes have occurred recently in the commercial trade among the members of the group. One was the cancellation on 1 January 1954 of eastern German reparations payments to the Soviet Union; the

[7] L. Bol'shakov, "Questions of the Growth of Soviet Foreign Trade" in *Planovoe Khozyaistvo* (Moscow), 1954, No. 4, page 80. The Economic Commission for Europe estimates that if comparison is made with the pre-war volume of trade for the present area of the Soviet Union the increase in 1953 is about threefold.

[8] *Vneshnyaya Torgovlya*, 1954, No. 11.

[9] *Pravda*, 13 November 1954.

[10] *Vneshnyaya Torgovlya*, 1954, No. 10, page 12.

[11] *Kommunist*, No. 15, October 1954.

[12] *Czechoslovak Economic Bulletin*, No. 288 (Prague), September 1954.

[13] *Pravda* (Moscow), 6 March 1954.

[14] *Ibid*, 12 July 1954.

[15] Economic Commission for Europe, *Étude sur la Situation Économique de l'Europe en 1954* (United Nations publication 1955.II.E.2).

[16] *Vneshnyaya Torgovlya*, 1954, No. 10.

[17] *Ibid*, 1954, No. 11.

[18] *Ibid*, 1954, No. 7.

[19] Press office of the Polish Embassy in London, *Polish Facts and Figures*, 29 May 1954.

[20] *Vneshnyaya Torgovlya*, 1954, No. 11.

other was the sale to the countries concerned of Soviet shares in joint companies in Bulgaria, Hungary, Romania (except Sovrompetrol, which owns the Romanian petroleum industry) and mainland China, and the return, without payment, of thirty-three Soviet companies in eastern Germany.

# INDEX

# INDEX