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FOREWORD

This report represents part II of the *World Economic Survey, 1963*. As indicated in the Foreword to part I, "Trade and Development: Trends, Needs and Policies" (Sales No.:64.II.C.1), it consists of three chapters and an annex dealing with recent developments in the world economy. Chapter 1 analyses the situation in the industrially advanced private enterprise countries. Chapter 2 reviews current trends in the countries that are heavily dependent on the export of primary commodities. Chapter 3 provides an account of recent changes in the centrally planned economies. The three chapters follow an introduction which draws attention to some of the salient features of the current situation. The annex presents a summary of the current primary commodity situation.

Most of the analysis is concerned with the calendar year 1963; chapters 1 and 2 conclude with brief assessments of the outlook for 1964. These discussions of outlook draw to a large extent on the replies of Governments to a questionnaire on economic trends, problems and policies circulated by the Secretary-General in November 1963.

Like part I, part II of the *World Economic Survey, 1963* was prepared in the Department of Economic and Social Affairs by the Bureau of General Economic Research and Policies.

EXPLANATORY NOTES

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, except as indicated

A full stop (.) is used to indicate decimals

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

A slash (/) indicates a crop year or financial year, e.g., 1960/61

Use of a hyphen (-) between dates representing years, e.g., 1961-1963, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

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

Certain abbreviations have been used: CMEA for Council of Mutual Economic Assistance; EEC for European Economic Community; EFTA for European Free Trade Association; IDA for International Development Association; IFC for International Finance Corporation; IMF for International Monetary Fund. "Rhodesia and Nyasaland" stands for the Federation of Rhodesia and Nyasaland.

The Republic of South Africa is so designated even where the material covers the period prior to 31 May 1961, when the country was known as the Union of South Africa.

Where statistical presentation has rendered it necessary, the term "Federation of Malaya" has been used to indicate that data refer only to those parts of Malaysia formerly so designated; "South Africa" has been used to designate the Republic of South Africa, South West Africa and the High Commission territories of Basutoland, Bechuanaland and Swaziland; and "UAR" the United Arab Republic.

The *Survey* is generally based on information available to the Secretariat as of May 1964.

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

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INTRODUCTION

Changes in production and internal balance

World economic growth continued at a fairly vigorous pace in 1963 and the early months of 1964. The expansion in production between 1962 and 1963 was probably more widespread among countries and more uniform among the major regions than in previous years. The average increase in the gross national product in the industrialized market economies was about 4 per cent while the average increase in gross domestic product in the primary exporting countries and in national income in the centrally planned economies was slightly greater—probably nearer 5 per cent. In both the industrial market economies and the centrally planned economies of Europe rates of growth in 1963 were more modest than in the previous year but nevertheless they still represent significant gains. The primary producing countries as a whole benefited from the strengthening of world commodity markets and from better terms of trade.

In general, the principal component of the increase in production was manufacturing output. Measured by a value-added index, this rose by between 5 and 6 per cent in the industrial countries and the primary exporting countries, and measured by gross output, by about 7 per cent in the centrally planned countries. These rates represent a slight slowing down in the industrial countries, a slight acceleration in the primary exporting countries and a rather sharper deceleration in the centrally planned countries.

In contrast to the relatively high rate of growth in manufacturing, primary production tended to lag. Preliminary estimates suggest that, outside of mainland China, world production of the major primary commodities entering international trade was only about 2 per cent above the 1962 level—a rate of increase about half of that registered in the previous interval. Outside the centrally planned countries, world mining production increased by about 3 per cent, sustained by a 5 per cent gain in petroleum. Partly as a result of unfavourable weather—particularly in the Eurasian region—world production of basic food-stuffs was no greater in 1963 than in 1962 and, while the output of tobacco and apparel fibres registered a moderate increase, the output of natural rubber and the principal vegetable oils was down.

The poor agricultural out-turn of many countries was one of the factors contributing to a further expansion in international trade. The widespread rise in incomes and in import demand was another. The over-all volume of world exports was almost 8 per cent higher in 1963 than in 1962 and as prices had firmed appreciably, the increase in value was even higher. The external sector was thus a major stimulant of activity in 1963.

Another dynamic element of demand in the industrial countries was consumer spending on dwellings and motor-cars and, to a less extent, other durable goods. In contrast, business expenditure on fixed capital tended to lag. There was also a tendency for investment to slow down in the centrally planned countries. This was in part one of the consequences of the severe winter which disrupted construction over a wide area; but it was also associated with more strenuous efforts to lessen the various imbalances in the process of capital formation that had emerged in previous years.

The rise in commodity prices had its chief impact on the primary exporting countries. The downward drift of their terms of trade was reversed early in 1963 and in the course of the year the purchasing power of their exports rose by about 4 per cent. As a result, their combined national income probably increased somewhat more than the 4 to 5 per cent by which the volume of their real gross product expanded.

The reversal of the long downward trend in primary commodity prices was triggered by the failure of agricultural production to increase in a number of leading importing and exporting countries. But the price rise was widespread, affecting most of the major commodities moving in international trade, and it was indicative not only of the essentially transitory effect of bad weather but also of a more significant improvement in the balance between production and consumption. Slow-growing demand had caught up with the capacity to produce, built up during the early post-war years of reconstruction and then enlarged in many instances during the period of Korean hostilities and generally in excess of current requirements ever since the mid-nineteen fifties.

While 1963 thus saw a distinct improvement in the balance between demand and capacity in the case

of primary products at the international level, there was little tendency for other sources of imbalance to be lessened. Indeed, the rise in commodity prices served to exacerbate the inflationary pressures that had begun to mount in some countries. In the industrial regions, these inflationary pressures were most troublesome in Italy, though they also began rising more rapidly in France and the Netherlands.

The result was a differential rate of increase of wages and prices in member countries of the European Economic Community (EEC). In a situation of generally full employment and occasional strain on the labour market, these differences gave rise to additional movement of workers both from outside the Community and between members. One consequence of this was a breakdown of the incomes policy practised in the Netherlands, Dutch wage levels having got out of line with those in neighbouring countries. The spread of inflationary forces caused the Council of Ministers to tackle the question of co-ordinating the disinflationary measures being put into operation in member countries, and in April 1964, a joint programme was recommended that involves a much closer alignment of economic policy in general and financial and fiscal measures in particular.

In contrast to the tight employment situation prevailing in the EEC and most of the other industrial countries of western Europe, the United States continued to suffer from the opposite form of imbalance. Notwithstanding the vigorous growth of demand throughout 1963, resources were not fully utilized. Though the utilization rate of industrial capacity improved in the course of the year, it remained below optimum or preferred levels. And, more troublesome, the continued growth of the economy had very little impact on the level of unemployment: this was shown more clearly to be a recalcitrant structural problem.

Structural difficulties were in evidence in the centrally planned region also: in most countries, 1963 failed to yield any resolution of the internal imbalances that have been causing increasing concern in recent years. In physical terms, these imbalances have resulted in surpluses of some consumer items and shortages of others, and, within productive enterprises, in the accumulation of excess stocks on the one hand and bottle-necks caused by the inadequacy of the flow of particular raw materials and intermediate products on the other.

The process of adapting methods of planning and management to the more intricate requirements implicit in economic diversification and growth continued in all the countries of the region. There was a distinct tendency to increase the degree of autonomy of individual enterprises and of associations

of enterprises. And, in conjunction with this, further attempts were made to extend the role of profit as an indicator of performance.

These moves also penetrated into the field of new investment. Some of the bottle-necks reflected over-extension of the resources committed to capital formation, and the resultant decline in the ratio of completions to starts among investment projects tended to retard the growth in useful capacity and to raise costs. Partly as a result of this, it became increasingly difficult to sustain the high rates of capital formation achieved in earlier years. Added to the fortuitous set-back occasioned by the weather, the change in priorities involved in the effort to speed up completions and effect changes in the structure of industry resulted in some deceleration in the rate of increase in investment. These adjustments were widespread among the centrally planned economies; in combination with the imbalances it was designed to correct, the reorganization was partly responsible for the slowing down in the rate of economic growth, and in Czechoslovakia, where the co-ordination of planned works presented particular difficulties, there was an absolute reduction in industrial output.

Also contributing to the over-all slowing down in growth were the disappointing returns from agriculture in 1962 and 1963, especially in the Soviet Union where the external sector was also affected. Though precipitated by immediate climatic factors, the difficulties were of a longer-run nature: they represent another case of structural imbalance, and efforts to raise the productivity of agriculture were greatly intensified in several of the centrally planned economies. In the Soviet Union a massive increase has been planned in the resources devoted directly and indirectly to agriculture: this involves the promotion of more intensive farming and very large investments in the capacity to produce farm machinery, fertilizers and pesticides, and other farm chemicals.

Weakness in the agricultural sector was also a feature in a number of the primary exporting countries in 1963. This was most notable and most serious in some of the more populous countries. In Brazil production was no higher in 1963 than in 1962, while in India and Pakistan it was actually lower. In Indonesia production recovered in 1963, but only to the 1961 level. In these, as well as in a number of other developing countries, the growth of agriculture is barely keeping pace with the expansion in population.

In several of the developing countries—including Brazil and Indonesia—the lag in agriculture has also contributed to a more general imbalance between

supply and demand. This was accentuated in 1963 by further accretions to both public and private credit. As a result, there was a widespread acceleration in the wage-price spiral, and the number of countries registering a major increase—of a fourth or more—in the cost of living in the course of the year was significantly greater than in 1962. Infla-

tionary pressures of this severity are also rooted in structural rigidities affecting both the organization of production and the institutions governing the flow of money. The generally more favourable external conditions in 1963 tended to reveal more clearly some of these internal obstacles to more rapid economic development.

Changes in inter-regional trade and external balance

The vigorous growth in international trade which has characterized most of the post-war period continued in 1963. Between the recession of 1958 and 1962, total exports (other than those of the centrally planned economies) had risen by an average of just under 7 per cent a year in value and just over 7 per cent in volume. Between 1962 and 1963 the increase was about 8 per cent in volume and 9 per cent in value, and all evidence points to the maintenance of these rates in the early months of 1964. The value of exports from Eastern Europe and the Soviet Union, which had been rising even faster than this—by an average of almost 12 per cent a year between 1958 and 1962—dropped back to between 7 and 8 per cent in 1963.

As indicated above, the expansion in 1963 reflects in part the continuing upswing in economic activity in the industrial countries. The re-emergence of inflationary pressures in some countries and differences in price experience added to demand on the world market: between 1962 and 1963 imports into

France rose by about 16 per cent and into Italy by about 24 per cent. Adverse climatic conditions—particularly the very severe winter of 1962/63—also served to stimulate international trade: the rise in the demand for fuel was accelerated and, as a result of relatively poor harvests over wide areas in Europe, the Soviet Union and Japan, an appreciably higher proportion of demand was transferred to the world market.

This switch in demand contributed to one of the most notable features of the 1963 situation, namely, the sharp reversal in the price index of primary commodities moving in international trade. The downward trend, which had persisted since 1957, flattened out in the second half of 1962, and the average of the index for 1963 was 6 per cent above the 1962 figure, restoring it to the 1958 level. This movement in prices had a significant effect on the foreign exchange earnings of the primary exporting countries, not only North America and Oceania—which met most of the increase in requirements

Table 1. World Exports: Distribution of Increment between 1962 and 1963^a
(Billions of dollars, f.o.b.)

Region of origin	World	Industrial market economies ^b	Centrally planned economies ^c	Exports to	
				Primary exporting countries	
				Total ^d	Developing countries ^e
World	12.14	8.73	1.30	2.06	1.46
Industrial market economies ^b ..	7.97	6.22	0.20	1.54	1.05
Centrally planned economies ^c ..	1.28	0.30	0.90	0.10	0.10
Primary exporting countries ^d ..	2.88	2.19	0.24	0.45	0.34
Developing countries ^e	2.27	1.86	0.09	0.32	0.27

SOURCE: Based on data from the Statistical Office of the United Nations Secretariat.

^a Preliminary; based in some countries on less than twelve months' returns. The distributed part of the increment excludes special category exports and exports whose destination could not be determined. Also excluded is the trade between the Federal Republic of Germany and Eastern Germany and intra-trade among the centrally planned economies of Asia.

^b North America, western Europe and Japan (In subsequent parts of this *Survey*, western Europe is divided into three components—the

industrial market economies of EEC and the European Free Trade Association (EFTA), discussed in chapter 1, the primary exporting countries of Greece, Ireland, Portugal, Spain and Turkey, discussed in chapter 2, and Yugoslavia, discussed as a centrally planned economy in chapter 3).

^c Mainland China, eastern Europe, Mongolia, North Korea, North Viet-Nam and the Soviet Union.

^d Rest of the world.

^e Primary exporting countries, less Australia, New Zealand and South Africa.

for temperate food-stuffs—but also a great majority of the less developed countries, the unit value of whose exports was also reversed in trend.

The value of world trade in 1963 was about \$153 billion—about \$12 billion, or almost 9 per cent, above the 1962 figure. All regions participated in this expansion, but almost two-thirds—\$8 billion—was accounted for by the industrial market economies of North America, western Europe and Japan. Of this \$8 billion increase more than three-fourths represents increased trade among the industrial market economies (*see* table 1). Exports from the centrally planned countries of eastern Europe, the Soviet Union and mainland China rose by about \$1.3 billion (between 7 and 8 per cent above the 1962 level), and here too the bulk of the increase (70 per cent or more) was in intra-trade. The primary exporting countries which make up the rest of the world shipped about \$2.9 billion more than in 1962—an increase of between 8 and 9 per cent—

but in this case the expansion was very largely (about three-fourths) in exports to the industrial market economies: intra-trade grew by less than 6 per cent and contributed less than a sixth of the total increment. This was also true of the developing countries as a group: less than an eighth of the expansion in their combined exports was accounted for by trade among the developing countries themselves.

The vigorous expansion in the exports of the developing countries in 1963 helped to raise the average rate of growth registered in export earnings in the early years of the Development Decade above the 3 per cent per year achieved in the period 1960-1962. Even so, the average 1960-1963 rate of between 4 and 5 per cent a year was well below those attained in the other regions—between 6 and 7 per cent a year in the industrial market economies and between 7 and 8 per cent a year in the centrally planned economies (*see* table 2).

Table 2. World Trade: Expansion by Major Region, 1960-1963

(Value in billions of dollars; indices, 1960 = 100)

Region of origin	Exports to				
	World	Industrial countries	Centrally planned economies	Primary exporting countries	
				Total	Developing countries
World					
1960 value	127.51	77.06	15.01	32.98	28.53
Index					
1961	105	106	103	101	103
1962	110	113	110	102	104
1963*	120	125	119	108	109
Industrial countries					
1960 value	81.23	52.40	2.82	24.08	20.62
Index					
1961	106	108	105	99	101
1962	111	116	114	97	98
1963*	121	128	121	104	104
Centrally planned economies					
1960 value	15.02	2.79	10.84	1.29	1.26
Index					
1961	104	106	99	138	139
1962	115	111	107	164	166
1963*	124	122	116	172	174
Primary exporting countries					
1960 value	31.26	21.87	1.36	7.53	6.58
Index					
1961	102	101	127	101	102
1962	107	107	122	105	106
1963*	116	117	139	111	111
Developing countries					
1960 value	27.34	19.02	1.22	6.70	5.96
Index					
1961	101	100	121	101	102
1962	106	106	122	105	106
1963*	114	116	129	110	111

Source: Based on data from the Statistical Office of the United Nations Secretariat.

Note: For definition of regions and coverage, *see* table 1.

* Preliminary; based, in some countries, on less than twelve months' returns.

A corollary to this lag in the export earnings of the developing countries has been an even slower growth in their imports. In the period 1960-1963 world exports to the developing countries increased at between 2 and 3 per cent per year, compared with growth rates of 6 per cent a year in exports to the centrally planned economies and almost 8 per cent a year in exports to the industrial market economies. Shipments from the industrial countries to the developing countries increased by over 5 per cent between 1962 and 1963. They were \$770 million higher in 1963 than in 1960. Trade among the developing countries themselves rose by little more than 3 per cent a year in this period. The most dynamic element in the trade of the developing countries was the flow of goods from the centrally planned economies: this increased relatively little between 1962 and 1963, but in 1963 it was 75 per cent—almost \$1 billion—greater than in 1960. Despite this expansion, however, the centrally planned economies provided the developing countries with only about 5 per cent of their imports in 1963.

The most dramatic expansion in trade during these early years of the Development Decade has been among the industrial market economies. As indicated above, this rose by over \$6 billion (10 per cent) between 1962 and 1963, and by over 8 per cent a year in the period 1960-1963; in absolute terms this represents an increment of \$14.5 billion in three years. By far the greater part of this expansion—over three-fourths—occurred within western Europe and almost 40 per cent within the European Economic Community. Though some of the stimuli that had encouraged trade with EEC countries in the first part of the period disappeared when it became clear early in 1963 that the membership of the Community was unlikely soon to increase, trade with and within the EEC did not slacken in 1963. Indeed, the rise in import demand in the wake of poor harvests and the emergence of inflationary pressures in some countries were reflected in a further substantial increase in trade. Between 1962 and 1963 exports to the EEC rose by almost 9 per cent from North America, about 11 per cent from EFTA, over 17 per cent from within the Community and over 20 per cent from Japan. Exports to the Community from the less developed countries also increased sharply—by about 11 per cent.

In a year of general trade expansion, the number of significant inter-regional flows that contracted was relatively small. Perhaps most noteworthy was a decline in the movement of goods to Latin America and a decline in exports from Latin America to the centrally planned economies, reflecting in part a reduction in sugar shipments from Cuba. EFTA countries imported less from Asia than they had in 1962

—from mainland China and Japan as well as from southern and south-eastern Asia. There was also a decline in the trade of mainland China with the other centrally planned regions as well as with North America, whence Canadian wheat shipments were below the record 1962 figure. Trade between North America and West Asia was also below the 1962 level. West Asia also received less from eastern Europe and the Soviet Union, while western Europe exported less to the Soviet Union.

For the rest, expansion was almost universal (*see table 3*). This was particularly notable among the primary exporting regions which had not shared fully in the growth of trade in previous years. In some regions—Africa, southern and south-eastern Asia and Oceania, for example—the increase in export proceeds between 1962 and 1963 exceeded the increase in the two preceding years. This acceleration was largely a price effect: the growth in volume continued, but with the reversal in the previous downward trend in primary commodity prices it was enhanced—instead of being offset—by the movement in unit value.

By and large, the expansion in trade being so general, payment imbalances caused somewhat less strain in 1963 than in most recent years. Nevertheless, there were a number of cases in which—because of a disproportionate rise in imports, or a lag in exports, or an outflow of capital—balance of payments pressures emerged or continued to be the occasion of concern.

As a result of the sharp increase in exports there was a significant improvement in the balance of payments of Canada and, to a less extent, the United States. In the United States, the improvement was largely in the second half of the year: seasonally adjusted, the deficit dropped to \$0.5 billion from \$2.2 billion in the first half. And, although the deficit on “a regular transactions basis” was somewhat smaller in 1963 than in 1962, the over-all deficit, including special government transactions, was larger.

Among the other industrial countries, the only serious deterioration in external equilibrium was that occurring in Italy. Here, a longer-run upward trend in the propensity to import—reflecting the rise in real incomes—was greatly accentuated in 1963 by the acceleration that took place in the rate of increase in prices and wages. And the resultant jump in the trade deficit was accompanied by a substantial outflow of private capital, subjecting the lira to considerable strain.

Domestic inflation contributed to a deterioration in the trade balance in several other countries—notably France—but, in general, reserves were ample to accommodate the change. Indeed, a greater meas-

Table 3. World Exports: Regional Network, 1962 and 1963^a

Region of origin	World	North America ^b	Western Europe	Japan	Eastern Europe	USSR	Main-land China ^c	Latin America ^d	Africa ^e	West Asia ^f	Southern and south-eastern Asia ^g	Oceania ^h	Other under-developed areas ⁱ
North America^b													
1963													
Total (billions of dollars) ..	29.4												
Regional distribution (percentage)	100.0	26.1	28.6	6.7	0.6	0.5	0.3	11.4	3.6	1.9	9.0	2.1	1.6
Index (1960=100)													
1962	105	107	99	106	79	48	1,512	93	124	117	116	99	111
1963	113	113	107	130	101	336	1,066	92	128	113	137	107	125
European Economic Community^j													
1963													
Total (billions of dollars) ..	37.6												
Regional distribution (percentage)	100.0	7.6	68.8	1.0	1.9	1.0	0.3	4.0	8.0	2.2	3.0	0.8	0.8
Index (1960=100)													
1962	115	109	126	149	115	123	46	105	82	94	93	89	115
1963	126	113	142	172	122	90	49	96	92	101	99	94	114
European Free Trade Association^m													
1963													
Total (billions of dollars) ..	21.8												
Regional distribution (percentage)	100.0	10.6	55.4	1.1	2.5	1.4	0.2	3.7	8.8	3.1	6.3	5.1	1.9
Index (1960=100)													
1962	110	102	121	155	129	130	30	95	95	104	96	89	96
1963	119	105	135	180	130	145	39	88	110	110	102	94	94
Japan													
1963													
Total (billions of dollars) ..	5.4												
Regional distribution (percentage)	100.0	30.2	13.1	—	0.4	2.9	1.3	5.8	8.7	3.3	29.5	3.7	1.0
Index (1960=100)													
1962	121	125	145	—	464	249	477	115	95	110	112	99	111
1963	134	134	150	—	586	264	740	115	134	130	123	120	139
Eastern Europe^a													
1963													
Total (billions of dollars) ..	9.7												
Regional distribution (percentage)	100.0	0.8	17.5	0.2	30.5	41.0	1.4	1.9	2.2	1.1	2.3	0.1	—
Index (1960=100)													
1962	118	117	114	155	123	125	33	136	129	152	141	87	100
1963	131	118	124	187	139	141	33	151	136	145	155	94	100

Table 3 (continued)

Region of origin	World	North America ^b	Western Europe ^c	Japan	Eastern Europe ^d	USSR ^e	Main-land China ^f	Latin America ^g	Africa ^h	West Asia ⁱ	Southern and south-eastern Asia ^j	Oceania ^k	Other under-developed areas ^l
Oceania^k													
1963													
Total (billions of dollars) ..	3.7												
Regional distribution (percentage)	100.0	14.5	41.2	14.2	1.0	1.4	5.8	0.5	1.4	1.0	7.7	6.0	3.6
Index (1960 = 100)													
1962	112	161	99	123	61	87	306	107	114	73	120	98	109
1963	132	185	104	155	72	145	643	92	110	90	150	135	145
Outer Europe^p													
1963													
Total (billions of dollars) ..	2.0												
Regional distribution (percentage)	100.0	12.3	64.3	0.6	3.5	1.2	—	4.6	7.2	1.3	1.0	0.5	0.4
Index (1960 = 100)													
1962	109	112	111	62	127	69	33	117	94	110	147	121	63
1963	118	135	118	67	165	82	67	129	98	108	105	105	104
Other under-developed areas^l													
1963													
Total (billions of dollars) ..	1.7												
Regional distribution (percentage)	100.0	36.1	39.0	1.9	0.1	—	—	6.3	4.8	0.2	1.0	2.8	7.3
Index (1960 = 100)													
1962	109	118	102	118	283	400	—	87	145	103	224	124	114
1963	113	118	109	131	183	300	—	71	154	103	185	106	119

SOURCE: Based on data from the Statistical Office of the United Nations Secretariat.

^a Measured f.o.b.; distributed figures exclude special category exports and imports whose destination could not be determined; data for 1963 are preliminary, based in some countries on less than twelve months' returns.

^b Canada and United States.

^c EEC, EFTA and Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

^d Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland, Romania.

^e Including Mongolia, North Korea and North Viet-Nam, but excluding inter-trade among these countries.

^f Twenty republics.

^g Continent and associated islands.

^h Aden, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Persian Gulf

sheikdoms and Syria.

ⁱ Burma, Cambodia, Ceylon, China (Taiwan), Federation of Malaya, Hong Kong, India, Indonesia, Pakistan, Philippines, Republic of Korea, Republic of Viet-Nam and Thailand.

^j Australia and New Zealand.

^k Chiefly the federation of the West Indies.

^l Belgium-Luxembourg, France, Federal Republic of Germany (excluding exports to Eastern Germany), Italy and Netherlands.

^m Austria, Denmark, Norway, Portugal, Sweden, Switzerland and United Kingdom.

ⁿ Albania, Bulgaria, Czechoslovakia, Eastern Germany (excluding exports to Federal Republic of Germany), Hungary, Poland, Romania and Yugoslavia.

^o Aden, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Persian Gulf sheikdoms, Syria and Turkey.

^p Greece, Ireland, Portugal and Spain.

ure of concern was occasioned by the obverse problem, namely, the resumption of the process of reserve accumulation in the Federal Republic of Germany.

Apart from the weakness of the lira and the strength of the Deutsche mark, the principal problem carried into 1964 was the continued vulnerability of the United Kingdom—and, to a somewhat less extent, Japan—on external account. With maintenance of their rates of economic growth heavily dependent upon these countries' capacity to finance the necessary imports, special significance attaches to their ability to increase their export earnings and hence to restrain the rise in prices in order to keep exports competitive.

Among the centrally planned economies, the main factor affecting the state of external equilibrium was the poor out-turn of agriculture: this tended to reduce exportable supplies and in some countries to increase import requirements. In order to finance larger imports of food-stuffs, several countries had to restrain their purchases of other goods, even industrial raw materials. Though the main impact of the wheat transactions with North America did not fall in 1963, the Soviet Union increased its imports considerably more than its exports: its over-all trade surplus was reduced and its deficit with countries outside the centrally planned group increased. One consequence of this was a substantially larger outflow of gold than in 1962.

Among the primary exporting countries, the rise in import expenditure—still affected in many cases by controls imposed in previous years—lagged well behind the upswing in export earnings, and the result was a sizeable and fairly widespread increase in liquidity. The combined trade deficit of the developing countries was smaller in 1963 than in any year since 1954: the surpluses registered in the mineral and plantation economies almost offset the deficits registered in the rest of these countries.

Not all the primary exporting countries were able to add to their reserves in 1963. Some of the countries suffering from acute internal disequilibrium reflected this fact in their external accounts. Brazil, Indonesia and Uruguay, for example, lost reserves and sought adjustment by devaluing their currencies. Reserves were also drawn down in the Republic of Korea, where domestic prices rose very rapidly during the year, and in New Zealand, Syria and Turkey where inflationary pressures were less overt. Some countries—Morocco, for example—lost reserves mainly because of a continuing outflow of private capital. In others, imbalance developed largely because of difficulties experienced in expanding exports. Ceylon, Nigeria and the Sudan were in this category and they all lost reserves in 1963. But many other developing countries in this position maintained their external equilibrium by holding down imports, though some were aided by the favourable turn in many primary product prices.

For economic growth to continue at a satisfactory rate, imports will have to be increased. Such an increase got under way in the course of 1963 in many of the developing countries; for it to be sustained, world demand for their export products will have to rise at an adequate pace. The margin of safety achieved under the generally favourable market conditions of 1963 is a small one in relation to longer-term growth needs. The problem of how to ensure an adequate rate of expansion of the external purchasing power of the developing countries was the central theme of the United Nations Conference on Trade and Development held in March-June 1964.¹

¹ An assessment of the needs and an analysis of some of the possible ways of achieving the necessary growth in foreign exchange receipts constitute the topic dealt with in part I of the present *Survey*, which brings together a number of papers presented to the Conference.

Chapter 1

RECENT TRENDS IN INDUSTRIAL COUNTRIES

The development of demand and production in the industrial group of countries during 1963 was quite favourable, especially when viewed against the background of the slackening tendencies that had emerged towards the end of 1962.

In North America there was a sharp upswing in industrial production in the first half of the year, and the upward trend continued throughout 1963 (see chart 1-1). After a slight dip between 1961 and 1962, agricultural production also rose to a new high, reflecting bumper crops in Canada.

In western Europe, the growth of industrial production in 1963 generally fell somewhat short of ex-

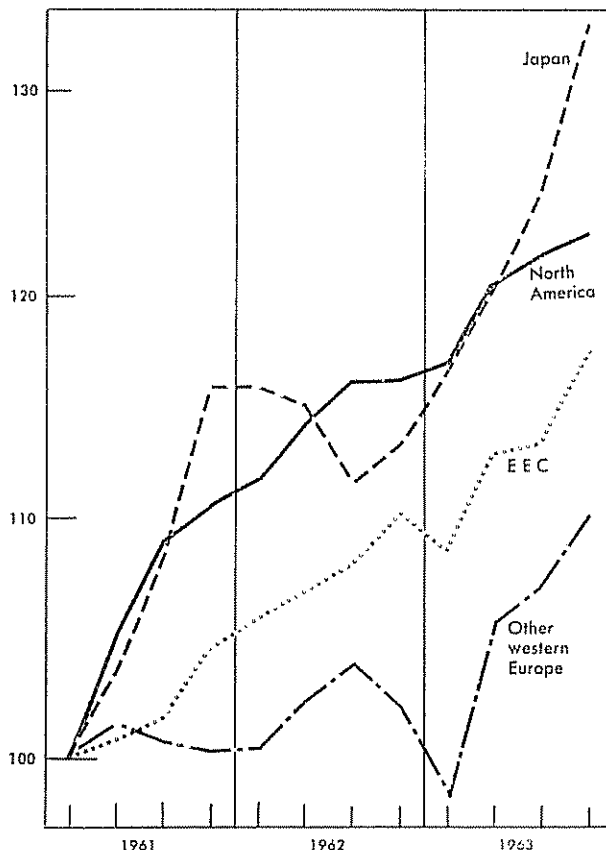
pectations at the end of 1962: the winter was a severe one over much of the area and prolonged unfavourable weather delayed the realization of building plans and depressed output in related industries. The poor weather also held back the increase in agricultural production and in some countries actually brought about a fall in primary output. However, in the course of the spring and summer months, most lines of production picked up momentum.

In Japan, the retrenchment policy which had been applied for balance of payments reasons at the end of 1961 was relaxed towards the end of 1962. As a result, 1963 was characterized by renewed expansion.

Between 1962 and 1963 the gross national product increased by about 4 per cent both in North America and in western Europe (see table 1-1). In the case of North America, this represents a decline in the rate of growth since the rate of expansion between 1961 and 1962 was measured from the low level of production at the depth of the preceding recession in early 1961. In western Europe there was a sharp contrast between the European Economic Community (EEC) and the other industrial countries. In the member countries of the EEC there was a genuine if only slight slackening in the growth rate. Among the other western European countries, on the other hand, there was some acceleration of output in 1963; this was due in the main to renewed expansion in the United Kingdom, which, by way of higher import demand, tended to stimulate production elsewhere.

The expansion of demand and output in the industrial countries in 1963 was fairly well balanced among the various components of gross national product. Perhaps the most significant weakness in total demand was the relatively low or falling rate of investment in new productive capacity, especially in the manufacturing sector and particularly in western Europe. In most countries the expansion of industrial output continued without any general evidence of strain on available resources. In France and Italy, however, and to some extent in the Netherlands, developments in prices and costs revealed the building up of inflationary pressures, and in the course of the year these threatened to spread

Chart 1-1. Industrial Countries: Indices of Industrial Production, by Region, 1961-1963^a
(Seasonally adjusted; ratio scale; first quarter 1961=100)



SOURCE: See table 1-5.

^a For country coverage, see tables 1-2 and 1-5.

Table 1-1. North America and Western Europe: Gross National Product and its Major Components, by Region, 1961-1963

(At constant prices and 1962 exchange rates; percentage change from preceding year)

Region and year ^a	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories ^b
					Exports	Imports	
<i>North America</i>							
1961	2	2	5	-2	3	1	0.3
1962	6	5	7	8	6	6	1.0
1963	4	4	4	5	7	4	0.8
<i>European Economic Community</i>							
1961	5	6	6	9	6	9	1.4
1962	5	6	7	6	6	11	1.3
1963	4	5	4	4	8	11	1.0
<i>Other western Europe</i>							
1961	4	3	4	9	3	1	1.4
1962	2	3	4	1	4	4	0.7
1963	4	4	4	2	6	4	0.4

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from European Economic Community, Statistical Office of the European Communities, *General Statistical Bulletin*, No.

12, 1963 (Brussels); and official national sources.

^a For country coverage, see tables 1-2 and 1-5.

^b At current prices, as percentage of gross national product at current prices.

to other EEC countries. In almost all western European countries, moreover, investment demand was concentrated to a considerable extent on the building sector; the strain to which this industry was subjected was manifested in a shortage of labour and a rise in costs.

In the external sector, perhaps the most important tendency during 1963 was towards greater balance through a further reduction in the basic United States deficit. Where there was a deterioration in the balance of trade, the possession of ample reserves provided an opportunity to remedy the disequilibrium without recourse to external restrictions. This was the case most notably in Italy, which, as a result of an upsurge of imports and an outflow of capital, experienced balance of payments difficulties for the first time in several years. Where reserves were

less adequate—as in Japan and the United Kingdom—expansion at home came under a more immediate threat from an adverse turn in the external sector. The Federal Republic of Germany, after two years of equilibrium on external account, began accumulating reserves again in 1963.

Balance of payments developments during 1963, resulting as they did in the simultaneous tightening of the foreign exchange position of several industrial countries, focused increasing attention on questions of general liquidity. With the rapid expansion of world trade on the one hand and the continuing efforts of the United States to narrow its over-all deficit and slow down—and ultimately reverse—the outflow of reserves on the other, the machinery for creating and distributing international credit has become the object of renewed examination.

Steady growth in North America

DOMESTIC DEVELOPMENTS IN 1963

In North America, 1963 was the third year of the current economic expansion. Industrial production, which had increased little during the latter half of 1962, rose fairly steadily through most of the year. By May 1964 the expansion had reached its thirty-ninth month and still showed no immediate signs of levelling off. Though in most industries utilization rates remained appreciably below the level preferred by producers, manufacturing capacity was being used more intensively than before. However,

the rate of growth of production had not been sufficient to bring about a significant reduction in the level of unemployment, which remained relatively high. On external account, moreover, neither Canada nor the United States had overcome their balance of payments difficulties, though a considerable improvement in the course of 1963 raised hopes for the eventual elimination of chronic deficits.

In the middle of 1963, industrial production in the *United States* was slowed down by a sharp reduction in steel production following the removal

of a strike threat by a wage settlement in the industry. The ensuing pause in the expansion of industrial output lasted for most of the second half of the year but had less effect on gross national product than a similar period of stagnation a year earlier. Growth in the gross national product actually accelerated slightly during 1963.

The advance in total output was fairly well balanced, with all major components of demand contributing to the rise in gross national product (*see* table 1-2). As in the two preceding years, the increase in output was accompanied by only a comparatively slight rise in prices.

Total consumer purchases increased at approximately the same rate as disposable personal income, though expenditure on durable goods rose more rapidly. About half of the increase in purchases of durables represented expenditure on automobiles and parts. Including imports, new car sales were slightly higher than during the previous record year, 1955. Demand for household appliances and furniture advanced strongly in the latter half of 1963, partly as a result of a high rate of home building in preceding months. Demand for non-durable goods and for services rose more or less in line with their long-run growth trends.

The advance in private residential construction in 1963 was based largely on multiple dwellings. As

has been the case in every year since 1959, apartment construction rose vigorously, whereas construction of one-family houses remained virtually stationary at the level attained in late 1960. By 1963, multi-family housing starts had risen to 36 per cent of total starts, compared to only 13 per cent during the nineteen fifties. The reasons for the shift towards multi-family buildings are not completely clear, although a faster rise in replacement demand for apartments than for houses, urban renewal schemes and an increase in the proportion of households without children have been important factors.

The strength of consumer durables sales and residential construction during 1963 is attributable in part to the continued availability of consumer and mortgage credit on easy terms. A slight tightening of money markets in the latter half of the year—motivated, as in the case of most monetary policy measures in 1963, mainly by balance of payments considerations—had little effect on credit terms or on actual borrowing for housing and consumption purposes.

Private non-residential construction, which has moved up irregularly in recent years, rose sharply in the second half of 1963. The increase was largest in business construction. Public building continued the gradual advance which started early in 1960. Expenditures for highways, which tend to fluctuate

Table 1-2. North America: Change in Real Gross National Product and its Components in 1961, 1962 and 1963

Item	Percentage change between fourth quarters in					
	Canada			United States		
	1961	1962	1963	1961	1962	1963
Final demand ^a	6	4	6	4	5	4
Personal consumption	3	4	5	4	4	3
Durable goods	3	9	12	6	8	5
Non-durable goods	3	4	2	3	3	2
Services	4	2	6	3	5	3
Gross private fixed investment	1	2	9	4	6	7
Residential construction	5	4	13	10	3	10
Other construction	8	-9	8	-1	2	3
Producers' durable equipment	-7	12	6	1	11	8
Government purchases of goods and services	6	-2	-1	8	5	3
Trade in goods and services						
Exports	12	4	13	2	3	13
Imports	6	-4	10	9	5	5
Changes in inventories ^b	0.6	1.3	1.0	1.3	0.7	0.9
Non-farm ^b	1.8	0.4	0.9	1.3	0.6	0.8
Farm ^b	-1.2	0.9	0.2	0.1	0.1	0.1
Gross national product	5	4	5	6	4	4

SOURCE: Canada, Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, Fourth Quarter and Preliminary Annual, 1963* (Ottawa, 1964); United States Department of Commerce, *Survey of Current Business* (Washington, D.C.).

^a The term "final demand" is used here to denote gross national product less changes in inventories.

^b At current prices, as percentage of gross national product at current prices.

widely, rose by about 10 per cent between the fourth quarter of 1962 and the fourth quarter of 1963 or twice as fast as in the previous year. Investment in producers' durable equipment expanded vigorously but somewhat less than in 1962.

Though operating rates improved somewhat during the year, expenditures by corporations for plant and equipment were restrained by the continued existence of excess capacity. Investment programmes emphasized replacement and rationalization rather than expansion. On the other hand, investment was stimulated by the new depreciation guide-lines issued in the middle of 1962 as well as by the investment incentive tax law approved later in that year. These measures were retroactive to fiscal 1962, but 1963 was the first year in which they could be taken into account by enterprises in their investment decisions. The net effect of the measures was to raise the cash flow to corporations—in the form of undistributed profits and capital consumption allowances—by \$2.5 billion or 6 per cent above the 1962 level and to increase the after-tax rate of return on new investment projects.¹

In the course of 1963 inventories increased somewhat as a proportion of gross national product. For the year as a whole, however, inventory sales ratios were generally lower than in 1962 (*see* table 1-1). Because in recent years ample productive capacity has assured prompt deliveries and generally stable prices, incentives to build up large stocks have been lacking. Improved inventory and distribution techniques have also enabled enterprises to conduct business with smaller stocks than previously.

The rise in output during 1963 brought about a moderate increase in employment. The labour force

grew considerably more than in 1962, however, and the increase in employment was insufficient to reduce the comparatively high rate of unemployment prevailing at the beginning of the year. In manufacturing industries there was a further extension of the work week and a sustained rise in output per man-hour. As can be seen from table 1-3, these two factors contributed to an appreciable increase in manufacturing production with a rise in employment of little more than one per cent.

As in earlier phases of the upswing, average hourly earnings in manufacturing rose no more than output per man-hour. This has resulted in continuing stability in unit labour costs, which is unusual during the third year of a cyclical expansion. It is estimated that total wage and salary costs per unit of output, including the cost of fringe benefits, were no higher in late 1963 than in mid-1960 or in the summer of 1957.

Largely because of the stability in unit labour costs, the competitive position of United States producers continued to improve, both in their home market and abroad. Wholesale prices of farm products fell by almost 2 per cent. Industrial wholesale prices were unchanged compared to 1962 but became firmer towards the end of the year, particularly for metals and some metal products. As in the two preceding years, consumer prices went up by slightly more than one per cent. Although 1963 was a year of strong demand for consumer durables, the average prices of both cars and household appliances were lower than in the year before.

The price/wage guide-posts set forth in the *Economic Report of the President* in January 1962 may have contributed to the stability in prices and costs by assuring business and labour that the Federal Government would bring to bear the pressure of public

¹ *Economic Report of the President* (Washington, D.C., January 1964), page 46.

Table 1-3. North America: Employment, Production, Earnings and Prices, 1961-1963

Item	Canada			United States		
	1961	1962	1963	1961	1962	1963
Unemployment as percentage of civilian labour force	7.1	5.9	5.5	6.7	5.6	5.7
<i>Percentage change from preceding year</i>						
Total civilian employment	1.6	2.8	2.4	0.2	1.8	1.4
Manufacturing production	2.8	7.3	6.0	0.9	7.6	5.5
Output per man-hour in manufacturing	2.5	3.3	2.5	2.6	5.4	3.1
Hourly earnings in manufacturing	2.8	2.7	4.3	2.7	3.0	2.9
Wholesale prices of finished manufactured goods	0.9	1.8	2.1	0.2	0.1	—
Consumer prices	0.9	1.2	1.8	1.1	1.2	1.2

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Canada, Dominion Bureau of Statistics, *Canadian Statistical Review* (Ottawa); United States Department of Commerce, *Survey of Current Business* and United States Department of Labor, *Monthly Labor Review* (Washington, D.C.).

opinion on price and wage increases it considered inflationary. While a major factor in the over-all stability of prices and wages has probably been the availability of under-utilized capacity, the official stand against indiscriminate increases undoubtedly helped to curtail rises based on a favourable market position.

In *Canada* the economy was stimulated during 1963 by a sharp rise in agricultural production and exports. Farm output was about 8 per cent above the previous highest level, in 1962. Most of this gain was accounted for by a record wheat crop, but output of other grains was also higher, and dairy production was well maintained. Developments in agriculture and exports were in part interlinked: the bumper wheat harvest coincided with substantially enlarged market outlets abroad. Imports increased less than exports, so that there was a larger trade surplus than in the year before. Mainly because of cut-backs in expenditure on defence and smaller claims in connexion with unemployment benefits, federal purchases of goods and services were lower than in 1962, and this helped to reduce aggregate excess demand. Changes in other components of gross national product paralleled closely those in the United States.

A steady increase in personal consumption contributed to the sustained growth of total demand. As in the United States, consumer expenditure rose approximately as much as private disposable income, with hardly any change in the saving ratio. Car sales moved up sharply for the second consecutive year, and outlays for other consumer durables also expanded significantly. There was a notable increase in residential construction during 1963, reflecting a major rise in apartment and row-house building. The business component of fixed investment was also higher, whereas some slowing down was evident in the trend of public and institutional investment. In the case of public investment, the slackening was confined to federal outlays; provincial and municipal government purchases of goods and services continued to move upwards in the course of the year. There was some further building up of inventories but the expansion remained small and of relatively little importance in the over-all increase in output.

Monetary restraints imposed at the time of the 1962 foreign exchange crisis were progressively relaxed in the closing months of that year and during the spring of 1963; by May 1963 credit conditions were as easy as they had been in early 1962 prior to the exchange crisis. In the second half of the year, however, following the tightening of credit in the United States, interest rates rose appreciably.

Employment continued to expand during 1963 and unemployment contracted despite a considerable ac-

celeration in the rate of growth of the labour force. In manufacturing this appears to have been reflected in a smaller rise in output per man-hour than in 1962. While the average price of crude products showed only a moderate rise, both wholesale prices of finished goods and consumer prices increased more than in the preceding year.

THE PRINCIPAL ELEMENTS IN THE 1961-1964 EXPANSION

The present upswing in the *United States* differs in several respects from the two preceding expansions—those of 1954-1957 and 1958-1960. It has been characterized by more persistent and more uniform growth in the various components of demand. Between early 1961 and the end of 1963 the current expansion had surpassed the brief 1958-1960 recovery in both extent and duration and had achieved in its first eleven quarters a somewhat greater increase in real output than that achieved in the thirteen quarters of the 1954-1957 expansion. Most of the greater strength of the present upswing has originated in three components of final demand: federal purchases of goods and services, residential construction and expenditure on durable consumer goods.

From the first quarter of 1961 to the fourth quarter of 1963 federal purchases rose by 16 per cent and accounted for 10 per cent of the total increase in gross national product. As can be seen from table 1-4, this contrasts sharply with their decline in the course of the 1954-1957 upswing, which was largely a result of cut-backs in defence expenditure after the Korean conflict. The rise after 1960 also contrasts with developments during the 1958-1960 upswing when, after an initial rise, expenditures were reduced continuously. The increase in the years 1961-1963 occurred mainly in outlays for defence and space programmes.

Residential construction has risen fairly continuously since the beginning of 1961, whereas in the preceding expansions there was a decline after a vigorous but short-lived spurt of activity. From the first quarter of 1961 to the fourth quarter of 1963 the increase amounted to 34 per cent, accounting for 8 per cent of the total increase in gross national product.

In the current upswing, the major factor in the rise in personal consumption expenditures—11 per cent at constant prices over the three years—was a steady increase in the demand for automobiles. Between the first quarter of 1961 and the fourth quarter of 1963 consumer expenditure on new cars and parts increased by as much as 48 per cent, with hardly any change in average prices. Purchases of other consumer durables tend to show smaller cyc-

Table 1-4. North America: Distribution of Total Change in Gross National Product in the Last Three Expansions
(Seasonally adjusted at constant prices)

Item	Canada			United States		
	Percentage distribution of change between			Percentage distribution of change between		
	Second quarter 1954 and third quarter 1957	First quarter 1958 and second quarter 1960	First quarter 1961 and fourth quarter 1963	Second quarter 1954 and third quarter 1957	First quarter 1958 and second quarter 1960	First quarter 1961 and fourth quarter 1963
<i>Personal consumption</i>						
Durable goods	4	7	14	13	16	16
Non-durable goods and services	52	88	37	58	46	34
<i>Government purchases of goods and services</i>						
Federal	11	-20*	-6*	-11	-1	10
State or provincial and local		28*	6*	9	7	8
Residential construction ..	3	-16	5	1	6	8
Business fixed investment ^b	33	-19	8	12	7	11
Changes in inventories ..	10	58	12	10	17	13
Exports-imports	-13	-31	18	8	1	—
Gross national product ..	100 ^c	100 ^c	100 ^c	100	100	100

SOURCE: Canada, Dominion Bureau of Statistics, *National Accounts, Income and Expenditure*; United States Department of Commerce, *Survey of Current Business*.

* Breakdown into federal and other government purchases is known only at current prices.

The percentage shares have been assumed to be the same at constant as at current prices.

^b Non-residential construction and producers' durable equipment.

^c Including a residual error not shown separately.

lical fluctuations, and in this period they rose only moderately.

Up to the end of 1963, business fixed investment, state and local government outlays and consumer expenditure on other items than cars had contributed about as much to the current upswing as in the comparable 1954-1957 expansion. In the case of business fixed investment, however, the uptrend was considerably stronger during 1963 than during the corresponding stage of the 1954-1957 expansion. Inventory investment has been remarkably stable during the present upswing. The ratio of stocks to sales has fluctuated within narrower limits than in previous expansions and, in contrast to the 1954-1957 expansion, the rise in aggregate production has received no stimulus from abroad.

In *Canada*, the course of demand and production has tended in recent years to resemble very closely that followed in the United States. Perhaps the most significant difference has been in the role played by the external sector: in Canada changes in imports and exports have had a much greater impact. If the influence of fluctuations in the trade balance and in farm inventories is disregarded, the distribution of changes in the various components of gross national product in 1961-1963 was again fairly similar to the corresponding changes in the United States. In contrast to developments in the United States, however, between the first quarter of 1961 and the fourth quarter of 1963 purchases of goods and services by the federal authorities in Canada probably exerted a contractionary effect on total demand.

Continued but less stable growth in western Europe and Japan

DOMESTIC DEVELOPMENTS IN 1963

In western Europe, economic activity expanded further in 1963. Except in Austria and the United Kingdom (where there was some acceleration) and Denmark and Finland (where there was deceleration), the increase in industrial production was much the same between 1962 and 1963 as it had been between 1961 and 1962. The gross national product

registered a further appreciable gain in all the major countries: the rise in 1963 was somewhat lower than in 1962 in Denmark and France, somewhat higher in Austria, Norway and the United Kingdom (*see* table 1-5).

This expansion was achieved despite the fact that chance factors, such as unfavourable weather at the beginning of the year, resulted in appreciable pro-

Table 1-5. Western Europe and Japan: Industrial Production and Gross National Product, by Country, 1961-1963^a

(Percentage change from preceding year)

Country and item	1961	1962	1963
EUROPEAN ECONOMIC COMMUNITY			
<i>Belgium</i>			
Industrial production	5	6	6
Gross national product	3	4	4
<i>France</i>			
Industrial production	5	5	5
Gross national product	4	6	4
<i>Germany (Federal Republic of)</i>			
Industrial production	6	5	4
Gross national product ^b	5	4	3
<i>Italy</i>			
Industrial production	11	10	9
Gross national product	8	6	5
<i>Netherlands</i>			
Industrial production	2	6	5
Gross national product	3	3	4
OTHER WESTERN EUROPE			
<i>Austria</i>			
Industrial production	4	3	5
Gross national product	5	2	4
<i>Denmark</i>			
Industrial production	4	7	—
Gross national product	6	5	2
<i>Finland</i>			
Industrial production	11	6	3
Gross national product	7	3	3
<i>Norway</i>			
Industrial production	7	4	5
Gross national product	6	3	5
<i>Sweden</i>			
Industrial production	4	2	2
Gross national product	6	4	3
<i>United Kingdom</i>			
Industrial production	1	1	3
Gross national product	3	1	4
JAPAN			
Industrial production	19	8	9
Gross national product ^c	16	7	8

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Organisation for Economic Co-operation and Development, *General Statistical Bulletin* (Paris); European Economic Community, Statistical Office of the European Communities, *General Statistical Bulletin*, No. 12, 1963; and official national sources.

^a Industrial production covers mining and engineering, manufacturing, gas, electricity and water. Gross national product is at constant prices.

^b Including West Berlin.

^c Fiscal years starting on 1 April of years indicated.

duction losses, some of which—particularly in agriculture—could not be recovered later. Causing more concern than fortuitous phenomena, however, were widespread signs of structural weakness in demand and production. In the course of 1963 a growing disequilibrium between domestic demand and available productive resources appeared in several coun-

tries, particularly in France and Italy, while only a few countries moved towards greater internal balance.

External demand made a considerably larger contribution to the over-all expansion than in the two preceding years, whereas fixed investment, the most important domestic impellent of economic expansion, increased less than gross national product in a number of countries and in western Europe as a whole. In early 1964, moreover, predictions for further expansion were based largely on prospects of a continued upswing in North America and increased import demand in the primary exporting countries rather than on expectations of self-sustaining growth within the area. Thus, aside from chance factors, the expansion in western Europe—already four years old—maintained its momentum in 1963 but became rather more vulnerable to internal disturbances and more dependent on the vigour of external demand.²

In member countries of the *European Economic Community*, economic growth was generally well maintained. In Belgium and the Netherlands the gross national product grew slightly more between 1962 and 1963 than in the two previous intervals; in France the rate of increase dropped back to the 1960-1961 figure; in the Federal Republic of Germany and in Italy, however, there was some further deceleration.

Agricultural production developed less favourably in all EEC countries. In France it actually fell off 5 per cent after having increased 10 per cent in the year before, a decline which largely accounted for the lower rate of increase in gross national product. Industrial output, which rose again at the 1961-1962 rate in Belgium, France and the Netherlands, increased at a distinctly lower rate in the Federal Republic of Germany and Italy.

Exports of goods and services expanded at a higher rate between 1962 and 1963 than in the previous interval in all EEC countries except Italy, where the rate of increase slackened considerably (*see* table 1-6). The tendency for the growth of domestic fixed capital formation to fall off was reversed in Belgium and the Netherlands but continued in the other member countries through most of the year. In Italy and the Netherlands, a vigorous upswing in internal demand took the form of an acceleration in the rate of growth of personal consumption and a considerably higher rise in imports than exports. In France, personal consumption rose slightly less than in the preceding year but more than gross national product, and imports went up significantly more than exports. In the Federal Re-

² For details on the 1958-1962 upswing in western Europe, see *World Economic Survey, 1962*, part II (Sales No. 63.II.C.2), pages 7 to 9.

Table 1-6. Western Europe and Japan: Gross National Product and its Main Components, by Country, 1961-1963
(At constant prices; percentage change from preceding year)

Country and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories ^a
					Exports	Imports	
EUROPEAN ECONOMIC COMMUNITY							
<i>Belgium</i>							
1961	3	3	1	3	8	7	0.7
1962	4	4	6	2	9	8	0.5
1963	4	4	6	5	11	13	0.6
<i>France</i>							
1961	4	6	3	10	6	7	0.9
1962	6	7	2	7	3	11	1.5
1963	4	6	2	6	6	10	1.1
<i>Germany (Federal Republic of)^b</i>							
1961	5	7	8	9	3	8	1.8
1962	4	6	12	5	4	11	1.2
1963	3	3	6	2	10	8	1.2
<i>Italy</i>							
1961	8	8	5	12	16	15	1.3
1962	6	7	5	9	12	15	1.1
1963	5	9	5	6	6	21	0.9
<i>Netherlands</i>							
1961	3	5	4	6	4	7	2.9
1962	3	4	6	4	7	7	1.3
1963	4	6	3	6	7	10	0.9
OTHER WESTERN EUROPE							
<i>Austria</i>							
1961	5	6	3	8	5	4	4.2°
1962	2	6	1	-2	9	6	2.0°
1963	4	5	5	1	9	4	1.5°
<i>Denmark</i>							
1961	6	7	7	11	4	4	1.5
1962	5	7	7	8	5	13	2.3
1963	2	—	6	-2	11	—	0.1
<i>Finland</i>							
1961	7	7	6	10	6	8	1.8°
1962	3	4	7	—	7	6	1.0°
1963	3	4	5	—	1	-2	...
<i>Norway</i>							
1961	6	6	6	11	7	10	1.6
1962	3	3	8	7	5	7	0.2
1963	5	4	7	6	11	10	-0.9
<i>Sweden</i>							
1961	6	6	5	6	4	1	1.7
1962	4	4	6	3	8	6	1.0
1963	3	4	5	3	7	7	-0.2
<i>United Kingdom</i>							
1961	3	2	4	9	2	-1	1.1
1962	1	2	3	-1	3	1	0.4
1963	4	4	3	1	4	3	0.5
JAPAN ^d							
1961	16	8	4	31	6	29	8.7
1962	7	9	11	11	18	—	4.0
1963	8	8	10	11	13	28	5.8

SOURCE: See table 1-1.

^a At current prices, as percentage of gross national product at current prices.

^b Including West Berlin.

^c Including a statistical discrepancy.

^d Fiscal years starting on 1 April of years indicated.

public of Germany, a fall in the rate of growth of domestic demand resulted in an improvement in the current account of the balance of payments. There was no change in the rate of increase of public consumption in Belgium, France and Italy and there was a slackening in the Federal Republic of Germany and the Netherlands.

Largely as a result of a sharp decline in the Federal Republic of Germany, the year-to-year growth rate of gross fixed investment in the EEC as a whole, which had been 9 per cent in 1961 and 6 per cent in 1962, declined further to 4 per cent in 1963. Industrial investment was particularly sluggish, as shown in table 1-7. The trend changed in the course of the year, however, and a limited revival set in after the first quarter. It appears that the decline in profit margins that has occurred in the EEC countries in recent years slowed down during 1963. In the Federal Republic of Germany this was largely because of an appreciable slackening in the rate at which wage costs per unit of output had been increasing. In France and Italy, where wage costs continued to rise, prices also went up rapidly, lessening in many instances the downward pressure on profit margins. Here, moreover, the expansion of personal consumption stimulated investment in the consumer goods industries. In Belgium, the Federal Republic of Germany, and the Netherlands, a pick-up in external demand from the second quarter onwards had the same effect on export industries. As in previous years, industrial investment aimed mainly at rationalization to offset the shortage of manpower and the rise in wage costs. In part as a consequence of this, investment in equipment generally rose more vigorously than investment in building and construction. The decline in the rate of growth of industrial investment in most EEC countries should be seen against the background of the very high rates achieved in the earlier years of the present upswing. In the Federal Republic of Germany, for instance, a constant level of gross investment in industry during 1963 would have resulted in an estimated 6 to 7 per cent addition to productive capacity.

Housing construction developed within the limits set by shortages of skilled labour and bottle-necks in the supply of machinery and materials. In the Netherlands, however, a considerable acceleration in building output was achieved mainly through increased input of labour, which was made possible by greater than average increases in wages. Investment by general government, though expanding more than other fixed capital formation, generally showed a lower rate of increase than in 1962. Between 1962 and 1963 the expansion of personal consumption in the EEC as a whole surpassed the growth of investment for the first time in ten years. The rise in consumer expenditure was based on a continued

Table 1-7. Western Europe and Japan: Gross Domestic Fixed Investment and its Main Components, 1961-1963

(At constant prices; percentage change from preceding year)

Country and year	Total	Housing	Industry	General government ^a
EUROPEAN ECONOMIC COMMUNITY				
<i>Belgium</i>				
1961	3	5	8	-2
1962	2	-3	4	13
1963	5	-3	9	10
<i>France</i>				
1961	10	6	9	15
1962	7	4	7	13
1963	6	7	4	13
<i>Germany (Federal Republic of)^b</i>				
1961	9	10	11	13
1962	5	2	—	14
1963	2	-1	-4	10
<i>Italy</i>				
1961	12	9	22	5
1962	9	14	9	-8
1963	6	8	7	-3
<i>Netherlands</i>				
1961	6	-1	13	16
1962	4	-6	8	10
1963	6	6	5	5
OTHER WESTERN EUROPE				
<i>Finland</i>				
1961	10	17	...	9
1962	—	14	...	-2
1963	—	3	...	7
<i>Norway</i>				
1961	11	8	16	1
1962	7	3	10	10
1963	6	2	2	11
<i>Sweden</i>				
1961	6	9	-2	2
1962	3	7	5	10
1963	3	6	4	19
<i>United Kingdom</i>				
1961	9	6	17	18
1962	-1	3	-8	15
1963	1	2	-10	5
JAPAN^c				
1961	31	25	27	23
1962	11	23	-4	32
1963	11	18	-8	26

SOURCE: See table 1-1.

^a Excluding government enterprises.

^b Including West Berlin.

^c Fiscal years starting on 1 April of years indicated.

rapid increase in personal disposable income. In the Federal Republic of Germany, however, a slowing down in the rate of growth in wages and salaries, combined with a substantially higher saving ratio, resulted in a smaller rise in consumption than previously. In contrast to earlier developments, outlays on durables increased hardly at all (see table 1-8).

Table 1-8. Western Europe and Japan: Personal Consumption and its Main Components, 1961-1963

(At constant prices; percentage change from preceding year)

Country and year	Total	Food	Clothing	Dwelling	Durables	
					Household goods	Passenger cars ^a
EUROPEAN ECONOMIC COMMUNITY						
Belgium						
1961	3	4	3	1	3	4
1962	4	2	3	—	6	9
1963	4	7	5	...	7	19
France						
1961	6	4	6	...	10	13
1962	7	4	7	8	11	28
1963	6	4	7	7	...	41
Germany (Federal Republic of) ^b						
1961	7	6	8	14	6	11
1962	6	3	4	18	3	11
1963	3	1	1	8	—1	2
Italy						
1961	8	7	4	3	14	29
1962	7	5	7	3	16	29
1963	9	7	6	3	25	44
Netherlands						
1961	5	5	7	2	3	19
1962	4	4	3	2	11	20
1963	6	4	8	2	...	25
OTHER WESTERN EUROPE						
Austria						
1961	6	4	8	...	...	1
1962	6	4	7	...	...	7
1963	5	4	3	...	...	5
Denmark						
1961	7	6	10	4	8	16
1962	7	3	7	4	9	28
1963	—	4	1	5	—5	—22
Finland						
1961	7	7	12	3	21	18
1962	4	5	5	4	11	48
1963	4	5	—6	3	—2	27
Norway						
1961	6	3	4	3	6	41
1962	3	3	6	5	5	—4
1963	4	3	5	6	6	13
Sweden						
1961	6	3	8	4	11	10
1962	4	3	2	4	—	10
1963	4	7	6	6	7	16
United Kingdom						
1961	2	3	2	1	—	—8
1962	2	—	—1	2	1	6
1963	4	1	4	2	6	29
JAPAN						
1961	8	3	13	15	...	49
1962	9	1	5	11	...	15
1963	8	2	8	7	...	—5 ^c

SOURCE: See table 1-1.

^a Registration of new passenger cars.^b Total consumption and expenditures on

dwelling, including West Berlin.

^c Ratio of January-July 1963 to January-July 1962.

Table 1-9. Western Europe and Japan:
Employment and Unemployment, 1961-1963
(Annual averages)

Country and year	Total civilian employment (percentage change from preceding year)	Unemployment ^a (percentage)
EUROPEAN ECONOMIC COMMUNITY		
<i>Belgium</i>		
1961	1	4.2
1962	2	3.3
1963	1	2.7
<i>France</i>		
1961	1	1.1
1962	1	1.0
1963	2	0.9
<i>Germany (Federal Republic of)</i>		
1961	1	0.8
1962	1	0.7
1963	1	0.8
<i>Italy</i>		
1961	1	3.5
1962	—	3.1
1963	3	2.5
<i>Netherlands</i>		
1961	2	0.9
1962	2	0.8
1963	2	0.9
OTHER WESTERN EUROPE		
<i>Austria</i>		
1961	2	2.7
1962	1	2.7
1963	—	2.9
<i>Denmark</i>		
1961 .....	...	3.9
1962 .....	...	3.3
1963 .....	...	4.3
<i>Finland</i>		
1961	—	1.2
1962	1	1.2
1963	—	1.5
<i>Norway</i>		
1961	2	1.2
1962	1	1.4
1963	1	1.7
<i>Sweden</i>		
1961	1	1.2
1962	1	1.3
1963	1	1.4
<i>United Kingdom</i>		
1961	1	1.6
1962	1	2.1
1963	—	2.6
JAPAN		
1961	1	1.0
1962	1	0.9
1963	1	0.9

SOURCE: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; and official national sources.

^a Generally the ratio of registered applicants for work or surveyed unemployed to the civilian labour force available for hire. Unemployment percentages are not comparable between countries owing to differences in definition.

Other EEC countries registered further considerable increases in consumption, most notably in durable goods, particularly cars.

Employment in the EEC countries continued to be determined by the availability of additional manpower. Only in Italy was there an appreciable increase in total civilian employment (*see* table 1-9). In the other countries, as in preceding years, an inflow of workers from abroad played an important part in the labour market. In the Federal Republic of Germany, foreign workers made up almost 4 per cent of total paid employment in September 1963. In France and the Netherlands the supply of labour was increased by reductions in the period of military service. In most countries the rise in employment was greatest in building and construction and in the service sectors. In industry, on the other hand, employment changed little; in the Federal Republic of Germany, indeed, it actually contracted.

Belgium and Italy experienced a further decline in the unemployment rate. In the other countries unemployment continued to be very low. In France, where it had risen considerably in the autumn of 1962 following the repatriation of Europeans from Algeria, there was a continuous decrease throughout 1963.

Contrary to expectations at the beginning of the year, the uptrend in prices became stronger in EEC countries in 1963 (*see* table 1-10). The only exception was the Federal Republic of Germany, where the rate of increase in most price indices slowed down until the end of the summer. The increase in industrial prices was mainly a result of a continued rise in costs. As shown in table 1-11, hourly earnings in manufacturing increased at a higher rate than output per man-hour in all countries but the Federal Republic of Germany. However, a firmer trend in prices of imported primary commodities and a persistent rise in prices of building materials also contributed to the increase in costs in 1963. The rise in consumer prices was chiefly a result of increases in the prices of various domestic food items following poor crops in the whole EEC area.

In the Netherlands the maintenance of wage and price stability has in recent years become increasingly difficult because of the higher wage level in other EEC countries, particularly the Federal Republic of Germany. These wage differentials have resulted in a growing volume of worker emigration, which has increased the tightness in the domestic labour market. Towards the end of 1963, trade unions and employers' organizations agreed upon wage increases which, with government approval, were to go into effect in 1964. Intended in part to bring Dutch wages more into line with those in neighbouring EEC countries, these increases were much greater than foreseen only a short time earlier.

Table 1-10. Western Europe and Japan: Price Indices, 1961-1963

(Annual averages; percentage change from preceding year)

Country and year	Import prices of raw materials	Wholesale prices of building materials	Wholesale prices of finished manufactured goods	Consumer goods
EUROPEAN ECONOMIC COMMUNITY				
<i>Belgium</i>				
1961	—	—	—1	1
1962	-3	3	-2	1
1963	1	4	2	2
<i>France</i>				
1961	-2	4	3	3
1962	-5	5	1	5
1963	2	6	3	5
<i>Germany (Federal Republic of)</i>				
1961	-2	3	3	3
1962	-4	3	3	3
1963	-2	2	1	3
<i>Italy</i>				
1961	1	5	1	2
1962	-7	1	2	5
1963	-4	11	3	7
<i>Netherlands</i>				
1961	-1	4	—	2
1962	1	7	—	3
1963	2	2	2	4
OTHER WESTERN EUROPE				
<i>Austria</i>				
1961 .....	...	3	...	4
1962 .....	...	2	...	4
1963 .....	...	4	...	3
<i>Denmark</i>				
1961	-2	7	2	4
1962	-5	5	3	8
1963	—	3	1	5
<i>Finland</i>				
1961	-2	1	1	2
1962	-2	1	3	5
1963	1	1	4	5
<i>Norway</i>				
1961	-1	6	2	2
1962	-2	3	2	5
1963	-1	1	1	3
<i>Sweden</i>				
1961	—	4	3	2
1962	—	4	3	5
1963	2	4	3	3
<i>United Kingdom</i>				
1961	-1	3	3	3
1962	-4	3	1	4
1963	1	1	1	2
JAPAN				
1961	-5	7	7	5
1962	-1	—	-1	7
1963	-1	-1	1	8

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from official national sources.

In September—the cost of living index having risen by 4 per cent since the beginning of the year—the French Government adopted a stabilization programme which drastically limited freedom of price formation. This was in the nature of a stopgap measure and towards the end of 1963 and early 1964 it was followed by an increase in the bank rate from 3.5 to 4 per cent and reductions in several customs duties. In Italy, a disinflationary policy was also adopted; perhaps most important potentially was a decision to effect a 10 per cent reduction in the budget deficit. In the latter half of 1963 and early 1964, the Governments of Belgium, the Federal Republic of Germany and the Netherlands also undertook a variety of mildly deflationary measures. These included changes in monetary and credit policy—among them upward adjustments in the bank rate—as well as measures aimed at increasing supply and curbing demand. These measures were partly precautionary in character, especially in the Federal Republic.

In April 1964 the Council of Ministers of the EEC recommended a ten-point programme to halt inflation in member countries. The Governments committed themselves to stabilize prices and production costs without limiting the freedom of foreign trade. They agreed to hold the growth of government spending below 5 per cent a year and to finance any increase exceeding 5 per cent by higher taxes. They undertook to restrain the demand for building and to maintain or tighten the restrictions on credit then in being and seek the co-operation of labour and management in holding wage increases within the limits of production growth.³

Among the *other western European countries* growth rates were generally modest in 1963 (see table 1-5). The rate of increase in production accelerated in Austria, Norway and the United Kingdom, while in Sweden some loss of momentum in the first half of the year gave way to recovery in subsequent months. There was a sharp decline in the rate of growth of Danish industrial production and gross national product, largely as a result of deflationary measures taken by the Government in order to safeguard the balance of payments. In Finland the rise in production was larger than forecast at the end of 1962, chiefly because foreign demand rose more strongly than expected.

In the United Kingdom, year-to-year changes give an incomplete picture of the advance in production

³ More generally, the Council of Ministers approved a number of measures designed to strengthen, through appropriate institutions, monetary and financial co-operation among member countries. A committee is to be created to co-ordinate economic policies. See European Economic Community Commission, *European Community*, No. 71, May 1964 (Washington, D.C.).

Table 1-11. Western Europe and Japan: Hourly Earnings and Output per Man-hour in Manufacturing, 1961-1963^a

(Percentage change from preceding year)

Country and year	Hourly earnings	Output per man-hour
EUROPEAN ECONOMIC COMMUNITY		
<i>France</i>		
1961	8 ^b	4
1962	8 ^b	5
1963	9 ^b	4
<i>Germany (Federal Republic of)</i>		
1961	11	4
1962	11	3
1963	7	9
<i>Italy</i>		
1961	5	6
1962	15	8
1963	21	4
<i>Netherlands</i>		
1961	5	7
1962	10	4
1963	9	3
OTHER WESTERN EUROPE		
<i>Austria</i>		
1961	9	3
1962	8	3
1963	5	6
<i>Finland</i>		
1961	8	5
1962	6	7
1963	7	1
<i>Norway</i>		
1961	7	7
1962	9	1
1963	5	6
<i>Sweden</i>		
1961	9	-1 ^c
1962	7	2 ^c
1963	9	4 ^c
<i>United Kingdom</i>		
1961	6	1
1962	4	1
1963	5	3
JAPAN		
1961	12	10
1962	10	3
1963	10	6

SOURCE: See table 1-10.

^a The figures are not comparable between countries owing to differences in definitions and coverage.

^b Wage rates.

^c Output per man.

and employment during 1963. At the beginning of the year the effects of the exceptionally hard winter were superimposed on a previously existing state of under-employment of resources in the wake of a decline in demand in late 1962. The Government's policy in the latter months of that year had been directed towards stimulating demand. Under fiscal

and monetary stimuli the economy expanded rapidly in 1963. The 1963 budget involved tax reductions amounting to £269 million, which buoyed consumer demand as well as producers' projections of probable future demand. By the end of 1963 much of the slack had been taken up, and the main problem had become one of moderating the expansion to a rate that could be sustained in the long run. The increase in activity during the year was reflected in a sharp rise in the amount of overtime worked. In the course of the year, real personal disposable income rose about 5 per cent while unemployment fell by a half per cent (to 2 per cent) and in December 1963 it was still falling (on a seasonally adjusted basis). At this stage, however, further expansion was threatened by a tendency for incomes to grow faster than output and by a related fall in the surplus on the current account of the balance of payments. Continued economic growth appeared to depend increasingly on the country's ability to expand its exports. In February 1964 the bank rate was raised from 4 per cent, where it had been since January 1963, to 5 per cent. The move was intended mainly to slow down domestic expansion now that the slack had been taken up, but also to counteract the effects on short-term capital movements of earlier increases in interest rates in other countries.

In the summer of 1962 economic policy in Denmark began to restrain internal demand. Initially, this entailed tightening fiscal and monetary conditions and restricting building activity. Between the second quarter of 1962 and the second quarter of 1963 the cost of living index rose about 8 per cent. In the spring of 1963 the Government and the leading economic groups adopted an over-all plan for holding back increases in incomes and prices. Future expansion in wages and salaries on the one hand and in profits and dividends on the other was to be confined within narrow limits, in the case of wages to not more than one per cent during the ensuing year. Simultaneously, a price stop was introduced. These measures were instrumental in halting the rise in prices, and the cost of living levelled out in the second half of the year. In the autumn, stability having been regained, the price stop was repealed and the bank rate lowered from 6.5 to 6 per cent.

Among the other European Free Trade Association (EFTA) countries, Norway achieved the highest rate of increase in gross national product as well as in gross domestic fixed capital formation and—together with Denmark—the most vigorous rise in exports. In the remaining countries, aggregate demand continued to draw much of its strength from a further—and generally quite high—increase in exports. Fixed investment remained sluggish and, as was the case in EEC countries, the principal contribution came from investments by public au-

thorities; industrial investment developed less favourably.

The course of personal disposable income and personal consumption paralleled closely developments in aggregate production. As can be seen from table 1-8, the rise in consumer expenditure was quite evenly distributed among its major components, though outlays on passenger cars rose sharply in most of these countries.

Averaged over the year as a whole, civilian employment registered hardly any increase over 1962, while the rate of unemployment was appreciably higher. This reflected the generally slack state of the economy at the beginning of the year. As 1963 advanced, employment picked up and unemployment declined. The rise in prices and wage costs was only slightly lower in other western European countries than in EEC member countries. Developments in prices were largely governed by the same general factors as in the EEC.

Following the stabilization period after the 1961 balance of payments crisis,⁴ *Japan* entered a stage of less rapid but more balanced growth. As a result of a substantial increase in all categories of demand, the year-to-year rise in output was slightly larger for the fiscal year beginning April 1963 than for the preceding fiscal year. The equilibrium of domestic expansion was, however, disturbed by a worsening in the trade balance in the wake of rising demand for imports both of raw materials—for stock as well as for current use—and of consumer goods, facilitated by further trade liberalization measures and by the need to import additional quantities of cereals to supplement a relatively poor domestic out-turn.

Despite bad weather conditions, however, agricultural production was not far short of the record level in 1962. During the stabilization period, industrial production reached its lowest point in the fourth quarter of the calendar year 1962; one year later the seasonally adjusted index of industrial production was 18 per cent higher, the largest increases having occurred in investment goods and durable consumer goods. Despite a considerable increase in corporate incomes and profits in 1963, the decline in industrial investment continued (*see* table 1-7). Nevertheless, the increase in total investment between 1962 and 1963 was virtually the same as in the previous interval; this reflects a high rate of expansion in outlays for residential building and in the government and service sectors. During the year, aggregate demand again tended to rise faster than available supply. Inflationary tendencies were aggravated by the poor domestic wheat harvest and a rise in prices of several imported primary commodities. The rise in prices, particularly consumer prices, tended to accelerate despite a marked slow-down in the rate of increase of wages. In the light of the favourable export prospects at the end of 1963, the imbalance between supply and demand in the course of the year appeared to be of a transitory rather than permanent character. Nevertheless, the rise in exports continued to lag somewhat behind the rise in imports—a situation that has characterized the initial stages of previous accelerations. And in the first quarter of 1964 the adverse trade balance combined with strains in the money market forced the authorities to reintroduce monetary controls on a limited basis.

Foreign trade and balance of payments⁵

TRADE EXPANSION: DIRECTION AND COMPOSITION

During 1963 the industrial group of countries experienced a significant acceleration in exports. In value terms, the proportionate rise in exports between 1962 and 1963 was of similar magnitude in the principal regions—8 per cent in North America, 9 per cent in the European Free Trade Association, 10 per cent in the European Economic Community and 11 per cent in *Japan* (*see* table 1-12).

The greatest expansion, both absolute and relative, was in trade among the industrial countries themselves. This was most marked in western Europe: intra-trade increased by an eighth in the case of

EFTA and by a sixth in the case of EEC, but North America, EFTA and *Japan* all registered a sharper rise in shipments to the EEC than to other areas. *Japan* was the only industrial region to register a higher rate of growth to the primary exporting countries and to the centrally planned countries than to other industrial regions. In the case of western Europe, however, the increase of almost 6 per cent recorded between 1962 and 1963 in sales to the primary exporting regions represented a sharp reversal of the downward movement of the two preceding years.

Changes in unit values were small during 1963. Between 1962 and 1963, import prices for the industrial countries as a group—being influenced more by developments on primary commodity markets—rose slightly more than export prices, bringing to a

⁴ See *World Economic Survey, 1962*, part II, page 15.

⁵ See also the section on inter-regional trade flows in the Introduction to this report.

Table 1-12. Industrial Countries: Changes in the Value of Trade between Major Regions, 1961-1963
(Percentage change from preceding year)

Exporting region and year	Area of destination						
	World	Industrial countries ^a				Primary exporting countries ^b	Centrally planned economies ^c
		Total ^a	North America	European Economic Community	European Free Trade Association		
<i>Industrial countries^a</i>							
1961	5	7	-1	12	5	—	7
1962	5	7	10	11	4	-1	8
1963	9	10	5	14	7	7	5
<i>North America</i>							
1961	2	1	—	4	-11	—	^d
1962	3	1	7	—	-2	5	^d
1963	8	8	6	8	7	6	^d
<i>European Economic Community</i>							
1961	9	12	—	16	10	-1	-1
1962	6	10	8	14	4	-8	6
1963	10	12	4	17	6	5	-7
<i>European Free Trade Association</i>							
1961	5	8	-4	11	9	-2	4
1962	5	8	7	11	6	-3	9
1963	9	10	3	11	13	6	6
<i>Japan</i>							
1961	5	1	-3	22	6	5	^d
1962	16	29	29	28	32	3	^d
1963	11	6	7	22	-13	15	^d

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from the Statistical Office of the United Nations.

^a Component areas plus Japan.

^b Africa, Asia (excluding Japan and main-

land China), Latin America and Oceania.

^c Eastern Europe (excluding Yugoslavia), Union of Soviet Socialist Republics and mainland China.

^d Trade small in absolute terms.

halt the improvement in the group's terms of trade that had been under way since 1957.

In the *United States*, exports of goods rose by 7 per cent in value. About 40 per cent of the increase was accounted for by agricultural products, shipments of which were stimulated by poor harvests in other parts of the world, particularly in Europe. About 10 per cent of the total rise in exports consisted of fuels, mostly coal to EEC countries. Deliveries of other non-agricultural materials also increased significantly. Thus, the expansion of exports between 1962 and 1963 was dominated by primary products, whereas in 1961 and 1962 the gains had been concentrated in finished manufactured goods. In absolute terms, the bulk of the increment in shipments went to the developing countries of Africa and Asia, to the EEC countries and to Japan; exports to Australia, Canada and South Africa rose more than the average, but shipments to Latin America failed to expand through most of the year.

Part of the rise in exports can be ascribed to the progressive tying of foreign aid to purchases in the United States.⁹ But the increase is also related to the strengthening of the competitive position of United States industry. As mentioned earlier, prices and wage costs have remained stable in the United States in recent years, whereas they have risen in most European countries and in Japan (*see* table 1-13).

Imports of goods expanded by 5 per cent between 1962 and 1963—appreciably less than the expansion in exports. The increase was fairly evenly distributed between the principal supplier countries. The largest relative rise was in manufactured consumer goods, particularly motor-cars.

In *Canada* the value of exports in 1963 was 11 per cent higher than in 1962 and, with imports only 6 per cent higher, a large surplus was realized on

⁹ See *World Economic Survey, 1962*, part II, page 26.

Table 1-13. Industrial Countries: Wage Cost per Unit of Output in Manufacturing, 1961-1963
(Percentage change from preceding year)

Item	1961	1962	1963
NORTH AMERICA			
Canada	—	-1	2
United States	—	-2	—
EUROPEAN ECONOMIC COMMUNITY			
France	3	4	5
Germany (Federal Republic of)	7	6	3
Italy	-1	6	7
Netherlands	3	4	3
OTHER WESTERN EUROPE			
Austria	7	5	—
Finland	2	3	3
Norway	—	8	5
Sweden	7	5	5
United Kingdom	5	3	1
JAPAN	1	7	4

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from official national sources.

merchandise account. A considerable part—about 30 per cent—of the expansion in exports of goods in 1963 was accounted for by increased shipments of wheat. On the import side, purchases of car parts, farm machinery and a number of producer goods increased substantially.

During most of 1963, shipments from the EEC to non-member countries were unfavourably affected by the dominance of personal consumption in world demand, as more than 60 per cent of the EEC's merchandise exports consist of machinery and semi-manufactures. This relatively low level of world demand for capital and intermediate goods may have had a restraining effect on EEC exports to non-member countries even greater than that occasioned by the loss of competitiveness referred to above.⁷ EEC exports to associated overseas countries speeded up considerably in 1963 after having declined by 19 per cent between 1961 and 1962. Sales to the other African countries and to Asia also improved somewhat; as in the case of North America, however, deliveries to Latin America receded throughout the year.

Like its exports, imports into the EEC also increased more than in the preceding year. In the wake of the vigorous expansion of consumption, the rise was largest in respect of manufactured consumer goods. Partly as a consequence of the severe winter and of labour strikes in French collieries, there was also a sharp rise in imports of fuels to replenish depleted stocks. Towards the end of 1963, imports

of investment goods showed signs of picking up in response to the acceleration in economic activity that had taken place in the course of the year.

The rate of growth of EEC imports from developing countries was no higher than it had been in the preceding interval: a distinct drop in Algerian sales to France went a long way towards offsetting expansion in imports from other developing countries. Imports from both North America and EFTA countries rose briskly, but less than trade among member countries. The increase in this EEC intra-trade consisted to a considerable extent of a flow of imports into France and Italy, accelerating as a result of excess demand in those countries, and encouraged to some extent by unilateral tariff reductions undertaken to counteract inflation. Another general cut in internal tariffs—made on 1 July 1963—also served to stimulate trade among member countries. Much of the increase in intra-trade was in the form of finished goods, but movement of fuels and chemicals was also significantly greater in 1963.

United Kingdom exports expanded rapidly throughout 1963 and for the year as a whole were 8 per cent higher in value than in 1962. Sales to the EEC rose considerably more than this but shipments to North America were slightly lower than in 1962. Imports also rose steadily through 1963. One of the main features of the year was the rapid rise in imports of industrial materials, associated with the expansion of manufacturing production and with a shift from decumulation of stocks in the first half of the year to accumulation in the second half. For 1963 as a whole, however, the volume of basic materials imported was no greater than in 1955, whereas imports of food had increased by an eighth, semi-manufactures by a third, fuels by 60 per cent and finished manufactures almost threefold.

Among other EFTA countries, mildly deflationary policies pursued in Austria and Denmark contributed to an appreciably greater increase in exports than in imports, and a consequent improvement in the trade balance. In Finland, exports and imports changed little between 1962 and 1963, whereas both trade flows increased vigorously in Norway and Sweden. In all three of these countries there was a particularly sharp rise in exports of forest products and metals, whereas deliveries of engineering products showed little tendency to increase. As in the case of intra-EEC trade, trade among the EFTA countries themselves was spurred by reductions in their internal customs duties; these took place in November 1962 and again at the end of 1963.

CHANGES IN THE BALANCE OF PAYMENTS

The balance of trade of the industrial countries as a group deteriorated further between 1962 and

⁷ European Economic Community Commission, *The Economic Situation in the Community* (Brussels), December 1963, page 11.

1963; however, the increase in the deficit—about \$1.0 billion, measuring exports f.o.b. and imports c.i.f.—was considerably less than in the preceding year. The change in the aggregate balance was the net result of an improvement of about \$0.9 billion in North America and large increases in the deficits in the EEC and Japan—amounting to about \$1.2 billion and \$0.6 billion, respectively—with hardly any change in the combined passive balance of EFTA member countries. By contrast, official foreign exchange reserves in industrial countries went up by almost \$1.7 billion (*see* table 1-14). This large increase was comparable to that which occurred in 1961 when the balance of trade of the industrial countries was much less passive. The source of the gain in 1963 is not wholly clear. There was virtually no increase in the liquidity represented by the International Monetary Fund (IMF) gold tranche of the countries in question; the increase was more or less equally divided between gold and foreign exchange, and it accrued to the countries of western Europe other than Italy, Sweden and the United Kingdom whose reserve position deteriorated.

Table 1-14. Industrial Countries: Balance of Trade and Changes in Official Gold and Foreign Exchange Reserves, by Region, 1961-1963
(Millions of dollars)

Area and year	Balance of trade ^a	Change in total official reserves ^b
<i>Industrial countries^c</i>		
1961	-1,428	1,799
1962	-3,382	-23
1963	-4,394	1,696
<i>North America^d</i>		
1961	4,035	-319
1962	3,061	-1,262
1963	3,919	-321
<i>European Economic Community</i>		
1961	151	2,140
1962	-1,560	387
1963	-2,802	1,534
<i>European Free Trade Association</i>		
1961	-4,039	261
1962	-4,163	496
1963	-4,227	447
<i>Japan</i>		
1961	-1,575	-283
1962	-720	356
1963	-1,284	36

SOURCE: Based on International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

^a Exports f.o.b. minus imports c.i.f.

^b Official gold and foreign exchange reserves plus IMF gold tranche position.

^c Sum of data for component areas.

^d Exports exclude military aid. Import data, originally reported f.o.b., adjusted to include an estimated allowance for freight and insurance.

The gold component of the increase is accounted for in part by a rise in outflow from the centrally planned countries, financing a larger volume of imports. It also reflects a decline in the proportion of new gold production—which itself registered another slight increase—moving into non-monetary uses, particularly hoarding. This in turn reflects a reduction in the amount of speculative holding since the setting up, at the end of 1961, of a gold pool designed to check fluctuations in the price of gold.⁸ Compared with increases of between \$0.3 and \$0.5 billion a year in the world gold reserve (held officially, outside the centrally planned countries) in the period 1960-1962, the increase in 1963 amounted to about \$0.75 billion, most of which accrued to the industrial countries.

The reserve position of *Canada*, which had deteriorated sharply in the first half of 1962, having recovered in the second half of 1962, registered a further, though small, improvement in 1963. This was the result of a considerable increase in the export surplus between 1962 and 1963, notwithstanding a slight rise in the deficit with the United States. The aggregate deficit on other current accounts was practically the same in 1963 as in 1962, while net inflows of both long-term and short-term capital were somewhat smaller. Nevertheless, the expansion in exports was large enough to effect a significant improvement in the balance of payments as a whole in the course of the year.

In the *United States* the balance of foreign transactions improved sharply between the first half and the second half of 1963: while the deficit in the first half amounted to \$2.2 billion, seasonally adjusted, the second half deficit was only \$0.5 billion. For the year as a whole the over-all balance showed some deterioration, but the balance on "a regular transactions basis"—that is, excluding special government transactions on capital account—improved somewhat between 1962 and 1963.

The excess of exports over imports resulted in a \$0.6 billion increase in the trade surplus (*see* table 1-15). Because of deterioration in most other items, however, the deficit on current and long-term capital account rose by about \$1 billion and this was only partly offset by an improvement in net unrecorded transactions. (Net recorded short-term capital exports remained virtually unchanged.) Net military expenditures abroad and income on foreign investments continued the favourable trend of recent years.

⁸ The pool consists of informal selling and buying arrangements, conducted in London, with the Bank of England acting as an agent for the central banks of participating countries. The operations of the gold pool have contributed to stability in the gold market by lessening speculative demand, with the result that more gold has moved into official reserves than would otherwise have been the case. *See* Bank of England, *Quarterly Bulletin* (London), March 1964.

Table 1-15. United States: Balance of Payments,
1961-1963
(Billions of dollars)

Item	1961	1962	1963
Exports of goods ^a	19.9	20.5	21.9
Imports of goods	-14.5	-16.1	-17.0
Balance of trade ^a	5.4	4.3	4.9
Military expenditures, net	-2.5	-2.4	-2.2
Income on investment abroad	3.7	4.3	4.6
Miscellaneous services, net	-2.3	-2.3	-2.6
Government grants and changes in capital assets, net	-2.8	-3.0	-3.6
Changes in government non-liquid liabilities ^b	0.1	0.9	0.4
Private direct and long-term portfolio investment, net	-2.0	-2.5	-3.1
Balance on current and long-term capital account	-0.4	-0.6	-1.6
Recorded private short-term investments, net	-1.3	-0.6	-0.6
Unrecorded transactions, net	-0.6	-1.0	-0.5
TOTAL BALANCE ^c	-2.4	-2.2	-2.7

SOURCE: United States Department of Commerce, *Survey of Current Business*, March 1963 and March 1964.

^a Excluding military aid and exports in connexion with such aid.

^b Sale of non-marketable government obligations, foreign commitments for military purposes and net transfer of non-marketable securities to international organizations as part of United States capital subscriptions pending their need for cash funds.

^c Financed by reduction in gold and convertible currencies and increased liquid liabilities.

All other major items on long-term capital account contributed to the over-all deficit. However, a substantial part of the deterioration in these items was of a transitory nature, representing a fall in advance repayments of debts by foreign countries and in advances on military exports.

The favourable development of the balance of payments in the course of 1963 reflected, in part, the operation of specific measures adopted by the United States Government and foreign authorities. Some of the policies instituted by the United States earlier contributed to the improvement during 1963; these policies included export promotion, export credit and export insurance programmes, curtailment of government military and civilian spending abroad, the elimination of tax inducements to investment in other developed countries and the maintenance of an interest rate structure designed to discourage outflows of short-term capital without hampering domestic expansion. Following the worsening in the balance of payments at the end of 1962 and further deterioration in the first half of 1963, additional steps were taken in July 1963 to deal with the problem. The discount rate of the Federal Reserve System was

raised from 3 to 3.5 per cent. The maximum rates payable on time deposits with a maturity of three to twelve months was also increased, in order to enable banks to continue competing effectively for domestic and foreign funds. Simultaneously, the President proposed the enactment of an interest equalization tax to be made effective as of the date of the proposal. The tax would impose on foreign sellers of new or outstanding foreign stocks or bonds (with certain exceptions) the equivalent of one percentage point of additional interest costs. The proposal, though not immediately enacted, served to reduce sales of foreign securities in the latter half of 1963.⁹

An additional step taken in July 1963 was the arrangement of a stand-by credit from the International Monetary Fund as part of the continuing effort to reduce foreign purchases of gold. The dollar holdings of the IMF were approaching 75 per cent of the United States quota, beyond which dollars could not be accepted from countries other than the United States. The first drawing of foreign currencies under the stand-by arrangement was made in February 1964. To facilitate repayments to the IMF of other members holding dollars, the United States started selling to them, for dollars, the borrowed foreign currencies. This was the first United States drawing from the IMF; it had a broad significance as a visible indication that the United States is prepared to make appropriate use of the Fund.

The Federal Reserve System continued to support the balance of payments through the network of reciprocal currency agreements—the so-called swap arrangements—that had been instituted among central banks in the previous year. From the first use of the swap lines in March 1962 to the end of February 1963, total drawings by the participating central banks amounted to \$1.6 billion and repayments to \$1.3 billion. During 1963 the peak net debtor position of the Federal Reserve System under these arrangements amounted to \$0.3 billion. The Federal Reserve also continued to operate in foreign exchange markets in New York and abroad on behalf of the United States Treasury.

Among EEC countries, there were marked differences in trading results in 1963. The balance of trade deteriorated seriously in Italy and quite considerably in France; Belgium and the Netherlands experienced a moderate increase in merchandise deficits, while the Federal Republic of Germany increased its

⁹ In the longer run, the effect of such a tax on the outflow of United States funds would appear to be less certain. Because of the availability of funds and the facilities of the New York financial market, foreign demand for capital may not be markedly affected by the tax. Furthermore, the proposed legislation would grant exemption on new issues to Canada, which has been one of the major borrowing countries. At the end of May 1964, the proposal had not yet been made into law.

surplus from \$1.0 to \$1.6 billion. Much of the rise in the French and Italian deficits grew out of trade with other member countries of the EEC, particularly the Federal Republic of Germany. In 1963 France and Italy took 20 per cent of the exports of the Federal Republic, but as much as 44 per cent of the considerable increase in exports between 1962 and 1963. In the first half of the year—that is, before the stabilization measures in France and Italy were introduced—the share of these two countries in the increase in German exports was as high as 57 per cent.¹⁰

Changes in the balance on services account were generally small. The balance of capital transactions improved, however, and it was this that was mainly responsible for a further increase in external reserves in Belgium, France and the Netherlands. Only in Italy did external liquidity decline: in the course of 1963 there was a sharp deterioration not only in official reserves but also in the foreign exchange position of commercial banks.

To counteract the weakening of the lira, the Italian Government, in March 1964, obtained credits from the United States and a number of European banks to an amount of \$1.0 billion and made a drawing of \$225 million from the IMF. More than half of the billion-dollar credit was in the form of swap arrangements effected—through the machinery referred to above—between the Bank of Italy on the one hand

and the United States Treasury and European central banks on the other.

Faced with the opposite problem in the Federal Republic of Germany, the Deutsche Bundesbank, in March 1964—with a view to preventing the influx of foreign money and reducing the bank's short-term foreign liabilities—fixed minimum reserves to be maintained against liabilities to non-residents and introduced limitations on interest payments on non-resident credit balances, with certain exceptions.

In *EFTA countries*, changes in trade balances and in official exchange reserves were small, both individually and for the group as a whole. Except in Sweden and the United Kingdom, liquidity increased in the course of 1963. The gain was most notable in Denmark where the trade deficit declined in response to the Government's disinflationary policies. During the first quarter of 1963, following the breakdown of negotiations regarding the United Kingdom's entry into the EEC and the limitation of the exchange guarantee under the European Monetary Agreement, there were heavy withdrawals from sterling. In this period United Kingdom reserves were supported by advances from overseas central banks totalling \$250 million. These advances were repaid in the second quarter, and official reserves were only slightly smaller (about \$160 million or 5 per cent) at the end of the year than at the beginning.

Current situation and outlook¹¹

The outlook for 1964 is a generally favourable one in the industrial countries: almost without exception growth is expected to be at least as rapid as in 1963, though some of the imbalances that emerged or were accentuated in 1963 may constitute impediments, making it necessary in some cases to restrain the expansion in domestic demand.

In *Canada*, expectations are for sustained growth in 1964. Forces contributing to a continued advance in final demand are rising personal incomes, an estimated 8 per cent increase in capital spending (private and public) and strong export demand both in the United States and in major overseas markets.

In the *United States*, production and demand are expected to grow in 1964 at an accelerating rate. Gross national product is estimated to rise about 5 per cent above the 1963 level, compared to an increase of 3.8 per cent in 1963. Demand for motor-

cars and housing should continue at high levels in 1964, but they cannot be expected to provide fresh impetus to expansion. At the end of 1963, a substantial thrust in fixed investment by business was also considered unlikely. Developments in the early months of 1964, however, have brought about upward revisions in forecasts concerning corporate capital outlays during the year as a whole: according to a private survey,¹² companies raised their estimates of the 1963-1964 increase in capital spending from 4 per cent in October 1963 to 12 per cent in April 1964. The increase in projected spending reflects in part the fact that the gap between actual and preferred operating rates had narrowed in 1963: manufacturers were operating at about 85 per cent of capacity at the end of the year compared to 83 per cent at the end of the two preceding years. In the first quarter of 1964 investment was appreciably above the corresponding figure in 1963, and further increases in investment are expected in subsequent

¹⁰ Federal Republic of Germany, Deutsche Bundesbank, *Monthly Report* (Frankfurt), January 1964, page 32.

¹¹ Based in part on replies of Governments to the United Nations questionnaire of November 1963 on economic trends, problems and policies.

¹² "Business' Plans for New Plants and Equipment, 1964-1967", *17th Annual McGraw-Hill Survey* (New York), April 1964.

quarters, although at lower rates than in the first quarter.

A major source of optimism in the private sector has been the reduction of tax liabilities provided for in the Revenue Act of 1964. Personal and corporate income taxes are estimated to fall by \$7.5 billion in 1964 and by \$11.5 billion in subsequent years, based on 1963 income levels. Including the \$2.5 billion reduction in business tax liabilities introduced in 1962, the total annual reduction in federal income taxes amounts to over \$14 billion for a full year.¹³

State and local government purchases of goods and services are likely to rise at about the same rate as in 1963. Federal expenditures, on the other hand, are scheduled to increase less than in recent years. The low inventory/sales ratios in the manufacturing sector at the end of 1963 make threats to the expansion from downward adjustments of business inventories unlikely. On the contrary, a higher rate of inventory accumulation in 1964 may make a small contribution to the growth of gross national product. In the first quarter of 1964, however, both federal expenditures and inventory investment rose less than forecast earlier.

Favourable developments in the United States economy as a whole, and in the industrial sector in particular, are expected to show in a lower rate of unemployment in 1964. The balance of payments may benefit from a further increase in the relative competitiveness of United States producers resulting from higher production at a maintained level of prices. Furthermore, the measures undertaken by the Administration in July 1963 in order to limit the deficit are almost certain to exert an equilibrating influence in 1964.

All western European countries expect continued expansion in production, employment and incomes during 1964. Among the *EEC countries*, the Federal Republic of Germany and the Netherlands foresee an acceleration in the rate of growth, while in Belgium, France and Italy, the rise in gross national product is predicted to be of the same order as in 1963. The expectations for continued expansion are based in large measure on prospects of a further increase in exports. All *EEC countries* estimate that the rise in total exports—that is, including intra-*EEC* trade—will be substantially higher than the rise in gross national product. This is unlikely to be reflected in the balance of trade, however, for imports will probably go up considerably more than exports in Italy and the Netherlands and approximately as much as exports in the other *EEC countries*.

¹³ United States Department of Commerce, *Survey of Current Business*, March 1964.

Gross domestic fixed investment is generally expected to increase somewhat faster than total production, but only in the Federal Republic of Germany and the Netherlands is it expected to increase significantly faster than in the preceding year. Personal consumption is likely to rise in line with the expansion in the gross product in Belgium, France and the Federal Republic of Germany, and in Italy and the Netherlands, more rapidly than the gross product even if not faster than in 1963. As a part of their anti-inflationary policy, public authorities plan to keep the rise in their current expenditure within narrow limits.

The labour market will probably continue to be strained in 1964 in all *EEC countries*, partly because of an impending decline in the rate of natural increase in the economically active population. In these circumstances the recruitment of foreign labour is likely to be at least sustained and the proportion of foreign workers no less than in recent years. The price trend is expected to continue upwards despite the slowdown in the rate of increase of prices in France and—to a less extent—in Italy. In the Netherlands, indeed, the large increases in wages arranged in the autumn of 1963 are likely to occasion some acceleration in the rise of prices in the course of 1964.

In *other western European countries* and Japan, economic growth during 1964 is expected to continue at about the rate achieved in the closing months of 1963. This would mean a significant rise in the year-to-year rate of increase in Denmark, Sweden and the United Kingdom. In the United Kingdom, gross domestic fixed investment, which increased little between 1962 and 1963, is expected to rise more than 10 per cent between 1963 and 1964. In that country, as well as in Japan, the main threat to sustained expansion is the tendency for the trade balance to deteriorate faster than foreign exchange reserves will permit. Thus, for these two countries, economic prospects in 1964 are heavily dependent on the course of external demand. This is also the case in Finland, where no internal source of demand seems likely to be strong enough to counteract a possible shortfall in the expected volume of exports.

As in the *EEC countries*, the labour market will probably remain tight in all these countries. The combination of low rates of unemployment and a favourable trend in production is likely to ensure that the upward pressure on wages and salaries will continue unabated. The expected rise in incomes, together with a level of primary product prices appreciably higher than that prevailing in the past two years, is generally expected to result in a further—though probably moderate—advance in the over-all price level.

Chapter 2

RECENT TRENDS IN PRIMARY EXPORTING COUNTRIES

For most primary exporting countries the dynamic element in the economic situation in 1963 operated through the export sector. The increase in demand on the world market for many primary commodities (described in the annex to this *Survey*) was reflected in a rise in both the volume and the unit value of the produce shipped from the primary exporting countries. As the resultant increase in export earnings was not translated forthwith into higher import expenditure, the immediate result was an appreciable and fairly widespread gain in liquidity.

On the domestic front, production expanded rather more between 1962 and 1963 than it had in the previous year when it had been influenced by relatively poor agricultural returns in a number of countries. In many cases increased activity in the export sector acted as a stimulant on other industries. As foreign exchange was generally less of a limiting

factor than it had been in the three preceding years, bottle-necks occasioned by import control were fewer and less inhibiting to local manufacturing and investment. As a result, some of the primary exporting countries—especially the more developed among them—experienced an upsurge that contrasted sharply with the restraint that had characterized the previous two years. To those developing countries in which monetary demand has been greatly out of balance with available resources in recent years, on the other hand, 1963 brought little relief: in several of them the wage/price spiral exerted a depressing effect on productivity and output, and foreign exchange earnings did not rise sufficiently to provide a significant increment to total supplies. Hence, while the year was one of widespread improvement in the state of external equilibrium, the basic internal problems of accelerating the pace of economic development were not noticeably lessened.

Changes in external balance

In 1963, for the third successive year, the merchandise balance of the primary exporting countries registered a significant improvement. In 1960 export earnings fell almost \$5 billion short of import expenditure (measured c.i.f.); by 1963 the deficit had dropped to about \$3.5 billion and exports paid for about 92 per cent of imports, compared with 87 per cent in 1960.

Between 1960 and 1963 exports grew twice as fast as imports. The expansion in exports was based largely on a steady increase in volume: in 1961 and 1962 this was moderated by declining prices, in 1963 it was accentuated by rising prices. Imports also increased steadily in volume, though at a significantly lower rate, and they were affected by price changes similar to those affecting exports, though also to a much smaller degree.

In 1961 the improvement in merchandise account was offset to a considerable extent by a decline in net receipts of capital and non-trade earnings. In 1962 the full amount of the merchandise improvement was reflected in the international liquidity of the primary exporting countries as a group. In 1963

the external reserves of the primary exporting countries—including their International Monetary Fund (IMF) gold tranche positions as well as gold and convertible currencies—rose about twice as much as the trade deficit was reduced, reflecting gains on capital account and in net “invisible” transactions.

Though these aggregate changes conceal many divergences in the external accounts of individual countries—most notably the rather wide swings that occurred in some of the major trading countries—1963 was a year in which developments were more than usually homogeneous. The rise in the prices of primary commodities was widespread and the result was a very general increase in export earnings: the proportion of countries experiencing a reduction was only about a half of that of 1962 and a third of that of 1961. The gain in liquidity was similarly widespread, the proportion reporting a reduction in total reserves showing virtually the same decline over the three years. In 1963 only an eighth of the primary exporting countries failed to increase their export earnings and only a fifth failed to improve their liquidity.

EXPORT EARNINGS

The volume of goods shipped from the primary exporting countries registered an increase of about 6 per cent between 1962 and 1963. Instead of being offset in part by a decline in price, as a similar expansion was in 1962, this increase was enhanced by a price rise in 1963. In the aggregate, export earnings advanced by almost 9 per cent.

The expansion in export volume between 1962 and 1963 was fairly widespread: increases of 7 per cent or more were registered in Africa, West Asia and southern and south-eastern Asia, while Outer Europe (Greece, Ireland, Portugal and Spain) and Oceania exported about 5 per cent more than in 1962. The lagging region in 1963 was Latin America, where the expansion was less than 2 per cent (*see* table 2-1).

Over the first three years of the Development Decade, the developing countries have increased the volume of their exports by an average just over 5 per cent per year. This rate was exceeded in West Asia (8 per cent) and in Africa (6 per cent). In Latin America, however, the rate of growth fell slightly short of 4 per cent a year. Among the other primary exporting regions, Oceania and southern and south-eastern Asia registered the average rate of increase of rather over 5 per cent a year, but in Outer Europe, the upsurge in exports that was set off by the devaluation of the peseta by Spain in 1959 was followed by a slackening off, and the average rate of growth for the period 1960-1963 was only about 3 per cent a year.

While in the first two years of the Decade the

expansion in export volume was offset in part by reductions in price, in 1963 it was enhanced by price increases. As indicated in the Introduction to this *Survey*, these increases were widespread, so that in no region was the average unit value of exports lower in 1963 than in 1962 (*see* table 2-2).

The gains from price increases were least in Asia. The posted price of crude petroleum in the Persian Gulf remained unchanged and this exercised a strong stabilizing influence in West Asia, while in southern and south-eastern Asia, advances in the prices of sugar, tobacco, tin and palm products were largely neutralized by declines in the prices of rubber, jute and tea. The unit value of exports from Africa and Latin America was about 3 per cent above the 1962 level and this helped to raise the average for the developing countries as a group to about 2 per cent. Largely as a result of the upswing in the prices of temperate farm products (including wool and olive oil), the gains in the other primary exporting regions were appreciably greater. In Oceania there was an advance of almost 10 per cent, raising the unit value of exports to the highest level since 1957.

The combined effect of these volume and price increases was a general and vigorous advance in export earnings (*see* table 2-3). It was least in the western hemisphere where lags in Colombia, the Dominican Republic, Haiti and the Netherlands Antilles held back the expansion to about 4 per cent.¹ It was greatest in Oceania where larger vol-

¹ Absence of official data has made it necessary to base the figures for a number of countries—including Algeria, Cuba, Iran and some of the petroleum exporters of the Persian Gulf—partly on estimates derived from the trade returns of partner countries

Table 2-1. Primary Exporting Regions: Indices of Export and Import Quantum, 1960-1963
(1960=100)

Region	Export quantum			Import quantum		
	1961	1962	1963 ^a	1961	1962	1963 ^a
Primary exporting countries	106	112	119	104	107	111
Latin America ^b	102	111	113	105	109	105
Africa ^c	107	112	122	98	94	101
Outer Europe ^d	107	106	111	123	141	165
West Asia ^e	107	119	128	107	110	116
Southern and south-eastern Asia ^f	105	110	119	104	109	110
Oceania ^g	113	113	119	91	93	102
Developing countries ^h	105	112	119	104	106	107

SOURCE: Based on data from the Statistical Office of the United Nations Secretariat

^a Preliminary; based, in some countries, on less than twelve months' returns.

^b Twenty republics.

^c Continent and associated islands.

^d Greece, Ireland, Portugal, Spain.

^e Aden, Bahrain, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Muscat and Oman,

Neutral Zone, Qatar, Saudi Arabia, Syria, Turkey, Yemen.

^f Burma, Cambodia, Ceylon, China (Taiwan), Federation of Malaya, Hong Kong, India, Indonesia, Laos, Pakistan, Philippines, Republic of Korea, Republic of Viet-Nam, Thailand

^g Australia, New Zealand.

^h Latin America, Africa (other than South Africa), West Asia (other than Turkey) and southern and south-eastern Asia.

Table 2-2. Changes in Unit Values of Exports and Imports, 1960-1963
(1960 = 100)

Region ^a or country group	Unit value of exports			Unit value of imports			Terms of trade		
	1961	1962	1963 ^b	1961	1962	1963 ^b	1961	1962	1963 ^b
Primary exporting countries ..	96	95	98	99	99	100	97	96	98
Latin America	98	96	99	100	99	99	98	97	101
Africa	96	95	98	100	101	103	96	94	95
Outer Europe	98	102	104	100	99	100	98	102	104
West Asia	98	98	98	98	100	102	100	98	96
Southern and south-eastern Asia	94	91	92	98	97	98	96	94	94
Oceania	99	101	110	103	101	103	96	100	107
Developing countries	97	95	97	99	98	99	98	96	98

SOURCE: Based on data from the Statistical Office of the United Nations Secretariat.

^a As defined in table 2-1.

^b Preliminary; based, in some countries, on less than twelve months' data.

umes and higher prices for sugar, wool, lead, zinc and butter combined to raise earnings by over a sixth. There was also a major expansion in the export earnings of southern and south-eastern Asia where the principal contribution came from higher sugar and copra prices and a larger volume of manufactured goods. Only slightly less was the rise in African export proceeds: under the influence of higher prices for sisal, cocoa, olive oil, palm kernels and maize and a tremendous increase in shipments of petroleum from Libya, they were between 9 and 10 per cent higher in 1963 than in 1962. The rise in the value of exports from West Asia (about 5 per cent) and Outer Europe (about 8 per cent) was based largely on the further growth in petroleum volumes, a recovery in trade in Ireland and increases in tobacco from Greece, citrus and diamonds from Israel and cork, wine and manufactures from Portugal.

The wide spread of the recent upswing in exports is illustrated by the rapid decline in the proportion of primary exporting countries experiencing a reduction in earnings relative to the preceding year: this was over 40 per cent in 1961, but down to 21 per cent in 1962 and only 15 per cent in 1963. The proportion of total proceeds accounted for by the countries registering a reduction declined even faster—from 40 per cent to 17 per cent and then in 1963 to only 11 per cent (*see* table 2-4). Conversely, the proportion of primary exporting countries recording an expansion in earnings of over 10 per cent from one year to the next more or less doubled between 1961 and 1963, as did the proportion earning over 20 per cent more (from a tenth in 1961 to a fifth in 1963) and the proportion earning over 30 per cent more (from 6 per cent to 13 per cent).

IMPORT EXPENDITURE

Among the developing countries the impact of the improvement in export earnings in 1963 was limited very largely to their liquidity. Though there was a

distinct tendency for imports to expand in the course of the year—most of the increase over 1962 rates occurred in the second half of the year—for 1963 as a whole the volume of imports was only about one per cent above the 1962 level and the value less than 2 per cent higher. This represents a lower rate of growth than in the previous interval.

The main element in the lag was Latin America whose imports were about 4 per cent less in volume in 1963 than in 1962 (*see* table 2-1). There was only a small increase (less than 2 per cent) in the volume of imports into southern and south-eastern Asia, but purchases by West Asia and Africa registered a greater increase and, in the aggregate, imports into the developing countries of Africa and Asia were up rather less than 4 per cent in volume and rather more than 4 per cent in value, import prices having risen slightly in 1963 (*see* table 2-2).

In contrast to this slow growth in imports among the developing countries, there was a considerable upsurge in imports into the more advanced of the primary exporting countries. The two countries of Oceania imported about 10 per cent more in 1963 than in 1962, the four outer European countries increased their purchases by about a sixth and imports into South Africa were up by over a fifth. Among them, these seven countries accounted for over two-thirds of the \$2 billion by which the imports of the primary exporting countries increased between 1962 and 1963.

In the case of South Africa and Oceania these large increases did no more than make up for lack of growth in the two previous years; only in Outer Europe did the increase represent the continuation of a vigorous upward trend, which carried their import expenditure in 1963 to almost two-thirds above the 1960 level (*see* table 2-3). Among the other primary exporting regions, the Development Decade has not so far been marked by any acceleration in the growth of imports. In the case of Latin

America, Africa and Oceania, indeed, the real per capita level of imports was lower in 1963 than in 1960, while in southern and south-eastern Asia it had only just been maintained. In general, this reflects the restraints laid on imports at the time of the widespread balance of payments crises of 1958-1959.

Notwithstanding the slow growth in imports during this period, the proportion of primary exporting countries actually registering a cut-back, compared with the preceding year, has declined steadily: it was about 35 per cent in 1961, 29 per cent in 1962 and only 21 per cent in 1963. There has been a corresponding rise in the proportion of countries registering a year-to-year increase of more than 10 per cent in imports—from about a fourth in 1961 to about a third in 1963 (*see* table 2-4).

TERMS OF TRADE

With export prices up almost 3 per cent and import prices only fractionally higher, the terms of trade of the primary exporting countries improved by rather more than 2 per cent between 1962 and 1963 (*see* table 2-2). With their export prices up slightly less and their import prices slightly more, the developing countries recorded an improvement of rather less than 2 per cent in their terms of trade.

The gain was greatest in the case of Oceania where the improvement that commenced in 1962 continued, offsetting about half of the deterioration that had occurred since 1957. There was also a sharp improvement (almost 4 per cent) in Latin America, though this left the terms of trade still about 2 per cent less favourable than in 1958. Smaller gains were recorded in Outer Europe and in Africa and southern and south-eastern Asia. West Asia was the

only region to experience a further deterioration in terms of trade: here the unit cost of imports rose most and there was no offsetting rise in the average price received for exports.

The effect of changes in primary commodity prices was most in evidence in the case of the sugar exporters, particularly those—such as China (Taiwan)—that sold the bulk of their exports on the free market. The only other group to register a comparable improvement in the terms of trade was that of sisal-exporting countries—most notably those of East Africa where export unit values were sharply higher.

In Argentina, Australia and New Zealand average export unit values were about an eighth above the 1962 level, and there were smaller rises in other countries selling temperate farm produce, notably Uruguay and, to a slightly less extent, South Africa. Greece and Turkey experienced a sharp improvement in their terms of trade as a result of a recovery in tobacco prices and this factor also helped to raise export prices in the Federation of Rhodesia and Nyasaland in the face of stable copper prices.

Slightly higher prices for extra-long-staple cotton were largely responsible for an improvement in the terms of trade of Syria and the United Arab Republic. They also contributed to an improvement in Peru, but here the major role was played by other exports, particularly sugar, lead and zinc. Shorter-staple cotton was generally lower in price in 1963 and this decline, together with that of jute, caused an appreciable deterioration in the terms of trade of Pakistan.

There was little change in the combined terms of trade of the coffee exporting countries: *arabica* coffees were generally lower in price, *robusta* coffees

Table 2-3. Primary Exporting Regions: Indices of Value of Exports and Imports, 1960-1963

Region ^a or country group	Exports, f.o.b.				Imports, c.i.f.			
	Value, 1960 (billions of dollars)	Index of value (1960=100)			Value, 1960 (billions of dollars)	Index of value (1960=100)		
		1961	1962	1963 ^b		1961	1962	1963 ^b
Primary exporting countries	33.5	102	107	115	37.9	103	106	110
Latin America	8.6	101	107	112	8.2	103	107	103
West Indies ^c	1.3	109	109	113	1.8	107	115	111
Outer Europe	1.7	103	107	116	2.6	123	139	164
Africa	6.5	103	106	116	8.0	99	96	103
West Asia	4.8	104	117	123	3.8	106	109	119
Southern and south-eastern Asia	7.8	98	99	108	10.0	101	105	109
Oceania	2.8	111	112	131	3.5	94	95	105
Developing countries	27.4	101	106	114	30.0	103	105	106

SOURCE: Based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics* and International Monetary Fund, *International Financial Statistics*, (Washington, D.C.).

^a As defined in table 2-1.

^b Preliminary; based, for some countries, on less than twelve months' data.

^c Barbados, British Guiana, British Honduras, Guadeloupe, Jamaica, Martinique, Netherlands Antilles, Surinam, Trinidad and Tobago.

Table 2-4. Primary Exporting Countries:^a Distribution of Changes in Exports and Imports, 1961-1963

Index (preceding year=100)	Exports						Imports					
	Number of countries			Export receipts (billions of dollars, f.o.b.)			Number of countries			Import expenditure (billions of dollars, c.i.f.)		
	1961	1962	1963 ^b	1961	1962	1963 ^b	1961	1962	1963 ^b	1961	1962	1963 ^b
Less than 90	10	9	4	3.5	2.7	1.1	10	7	7	4.0	3.7	3.4
Less than 95	19	9	7	6.2	2.8	2.1	14	13	11	7.0	6.5	4.7
Less than 100	34	18	13	13.0	5.8	4.2	27	22	16	15.9	9.8	8.8
100 or more	50	66	71	19.2	28.0	32.6	48	56	61	19.2	26.3	29.0
More than 105	33	41	55	12.8	15.3	22.4	33	38	44	13.5	14.0	23.2
More than 110	21	27	41	7.7	9.3	17.4	19	22	26	9.1	7.7	14.1
More than 120	8	10	17	1.7	2.3	3.5	7	9	9	3.8	3.6	6.3
More than 130	5	6	11	0.3	0.5	2.2	4	5	1	2.6	2.5	0.6
TOTAL	84	84	84	32.2	33.8	36.8	77	77	77	35.1	36.0	37.8

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*.

^a Listed in ascending order of export index for 1963 (1962=100), the countries included are: Brunei, Sarawak (exports only), Madagascar, Iran, Senegal, Haiti, Ghana, Netherlands Antilles, Ceylon, Colombia, Turkey, Sudan, Spain, Laos (exports only), Indonesia, Burma, Peru, Venezuela, Honduras, Dominican Republic, Sabah (exports only), Chile, Singapore, Thailand, Federation of Malaya, Bolivia, Aden, South Africa, Mexico, Pakistan, Kuwait (exports only), Jordan, Martinique, Federation of Rhodesia and Nyasaland, Cyprus, Nigeria, Saudi Arabia (exports only), Uruguay, Tunisia, Trinidad, Costa Rica,

Guadeloupe, Iraq, Mozambique, Morocco, Brazil, Algeria (exports only), Surinam, Ethiopia, Argentina, Jamaica, Angola, Panama, Portugal, Ireland, Syria, El Salvador, Kenya, Hong Kong, New Zealand, India, Réunion, Cameroon, Greece, Ecuador, Ivory Coast, Australia, Paraguay, Nicaragua, Tanganyika, Israel, Equatorial Africa (comprising the Customs Union of the Central African Republic, Chad, the Congo (Brazzaville) and Gabon), United Arab Republic, Philippines, Mauritius, Uganda, Sierra Leone, Guatemala, Republic of Viet-Nam, China (Taiwan), Cambodia, Barbados, Republic of Korea, Libya.

^b Preliminary; estimated, for some countries, on the basis of less than twelve months' trade.

substantially higher. In Colombia there was a slight worsening, but in a number of other *arabica* producers higher cocoa prices raised average export unit values somewhat above the 1962 level, while in some of the *robusta* producers of Africa—Angola, the Ivory Coast, Uganda, for example—there was a distinct improvement in the terms of trade.

The rubber producing countries were for the most part saved from any deterioration in their terms of trade by a rise in the prices of other exports, notably palm products and, to a less extent, tin. The combined terms of trade of the rice exporters were also relatively stable: export unit values were down in Thailand but up in Burma. There was a similar difference in the case of tea: unit values were up in India and down in Ceylon. In the former the effect was offset by lower jute prices, in the latter by higher copra prices, so that the terms of trade showed no great change. The petroleum producers also enjoyed stable export unit values: the discounts that were still being widely offered were borne by the companies and did not affect the level of posted prices.

THE BALANCE OF PAYMENTS

With export earnings significantly higher in almost all the primary exporting countries and import expenditure registering only a moderate increase, the combined balance of trade of these countries

showed a dramatic improvement. After exceeding \$4.6 billion in each of the first three years of the Development Decade, the merchandise deficit (exports, f.o.b. minus imports, c.i.f.) dropped sharply to about \$3.5 billion in 1963. The improvement was common to all the primary exporting regions with the exception of Outer Europe where the trade deficit recorded a further substantial increase. In the primary exporting regions other than Outer Europe, the deficit—which had totalled about \$4 billion in 1960—dropped in successive years by \$0.3, \$0.8 and \$1.7 billion to less than \$1.3 billion in 1963.

The developing countries, which had run a combined trade deficit of over \$2 billion a year in the period 1960-1962, were nearer to balance in 1963 than in any year since 1954 when beverage crop prices were at record levels. In 1963, price gains were more diffused and for the first time for many years the surplus achieved by the mineral and plantation economies went most of the way to offsetting the deficit registered in the rest of Latin America, Africa and southern and south-eastern Asia. In each of these regions the combined passive balance was the smallest so far achieved in the nineteen sixties (see table 2-5).

Countries in surplus on merchandise account included not only the petroleum exporters but also Argentina, the Dominican Republic and Ecuador and some of the smaller countries in Latin America, as

Table 2-5. Primary Exporting Countries: Balance of Trade and Changes in Liquidity, by Region, 1960-1963
(Millions of dollars)

Region	Balance of trade ^a			Change in total reserves ^b			Net change in other balance of payments items		
	1960	1961	1962	1960	1961	1962	1960	1961	1962
Primary exporting countries ^d	-4,855	-5,053	-4,660	-244	105	370	4,611	5,158	5,030
Developing countries ^d	-2,700	-3,100	-2,300	-55	-680	-265	2,645	2,420	2,035
Selected countries in Latin America ^e	237	123	567	30	-118	-373	-207	-241	-940
Excluding Venezuela	-1,007	-1,198	-931	145	-90	-375	1,152	1,108	556
West Indies ^f	-58	-39	-42	-2	7	-2	56	46	40
Africa ^g	-957	-951	-831	-296	-239	217	661	712	1,048
Excluding South Africa	-514	-771	-647	-97	-363	-38	417	408	609
Outer Europe ^h	-888	-1,431	-1,779	338	289	312	1,226	1,720	2,091
West Asia ⁱ	-269	-283	13	70	29	143	339	312	130
Southern and south-eastern Asia ^j	-1,932	-2,160	-2,379	130	-179	-65	2,062	1,981	2,314
Oceania ^k	-686	-180	-161	-387	381	73	299	561	234
Total	-4,553	-4,921	-4,612	-117	170	305	4,436	5,091	4,917
Excluding Outer Europe	-3,665	-3,490	-2,833	-455	-119	-7	3,210	3,371	2,826
Excluding Outer Europe and Oceania	-2,979	-3,310	-2,672	-68	-500	-80	2,911	2,810	2,592
Excluding Outer Europe, Oceania and South Africa	-2,536	-3,130	-2,488	131	-624	-335	2,667	2,506	2,153
Excluding Outer Europe, Oceania, South Africa and Venezuela	-3,780	-4,451	-3,986	246	-596	-337	4,026	3,855	3,649

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics* and Central Statistical Office, *Quarterly Bulletin of Financial Statistics* (Salisbury).

^a Exports, i.e. minus imports, c.i.f.

^b Gold, convertible exchange (including sterling assets) and IMF first (gold) tranche positions.

^c Preliminary; including estimates based on less than twelve months' returns for some countries.

^d As defined in table 2-1, above.

^e Nineteen republics (Cuba has been omitted).

^f Jamaica.

^g Ethiopia, Ghana, Libya, Morocco, Nigeria, Rhodesia and Nyasaland, South Africa, Sudan, Tunisia and the United Arab Republic. The inclusion for 1963 of Somalia and the seven countries formerly constituting French West Africa would raise the trade deficit to \$1,018 million and the reduction in foreign exchange reserves to \$48 million.

^h Greece, Ireland, Portugal and Spain.

ⁱ Iran, Iraq, Israel, Jordan, Syria and Turkey.

^j Burma, Ceylon, China (Taiwan), Federation of Malaya, India, Indonesia, Pakistan, Philippines, Republic of Korea, Republic of Viet-Nam and Thailand.

^k Australia and New Zealand.

well as the principal *robusta* coffee, tobacco, sugar and sisal exporters of Africa and a number of countries in southern and south-eastern Asia, notably Ceylon and Indonesia (in which the balance became more active) and Burma and the Federation of Malaya (in which the balance became less active).

Nevertheless, a majority of the developing countries—about two-thirds of the total—continued in deficit in 1963. And, notwithstanding the improvement in combined balances at the regional level, in nearly 60 per cent of the countries with trading deficits balances became more passive in 1963. In almost all these cases the deterioration reflects a rise in imports, though in Ghana, Madagascar and Turkey export receipts were also down. Where deficits were reduced between 1962 and 1963, it was the result of a rise in export earnings. The only exception was Colombia where the improvement in trade balance was brought about by cutting imports in the face of relatively poor export returns. Cuts in imports also contributed to reducing the trade deficit in Brazil, India, Syria and Uruguay.

Among the other (more developed) primary exporting countries, imports increased to a greater extent than exports and there was a general worsening of the merchandise balance—a significant increase in the deficit in South Africa and the countries of Outer Europe (Greece, Ireland, Portugal and Spain) and virtual disappearance of the surplus in New Zealand. Only in Australia was the increase in export proceeds more than enough to cover a sizeable increase in imports—bringing the merchandise account into surplus, for the first time since 1954.

Receipts from services generally followed trade receipts upwards in 1963, though in only a few of the primary exporting countries were they of significant absolute magnitude. The most dramatic increase was again in Spain, where earnings from tourism went up a further 30 per cent and private inward transfers—chiefly from migrant labour—a further 25 per cent, reaching a combined total of over \$800 million, a fourfold expansion in four years. Greece also enjoyed a further large—one-third—increase in earnings from travel and other services (chiefly shipping), bringing the combined total to over double the 1960 figure of \$105 million. Private inward transfers, however, receded from the record amount of \$153 million received in 1962. In Ireland, invisible receipts continued at the high 1962 rate, covering about 60 per cent of the merchandise deficit. Earnings from the Suez Canal in 1963 were about 30 per cent above the high 1962 level and over 40 per cent of the United Arab Republic's merchandise trade deficit was thereby met. In Mexico, on the other hand, tourist receipts, which had been rising steadily since 1958, dropped back

sharply in the second half of 1963, though for the year as a whole—at a net \$351 million—they were well above the 1962 level and again exceeded the passive trade balance by a substantial margin.

Another contribution to the liquidity of the primary exporting regions was a further increase—of about 6 per cent—in the amount of new gold produced. This reached \$1.1 billion in 1963. The expansion was overwhelmingly in South Africa: gains in Ghana and Southern Rhodesia—from mines recently granted fiscal privileges—and, on a smaller scale, in Mexico were more than offset by reductions in Australia, Colombia, India, Nicaragua and the Philippines.

On the other side of the account was an almost universal increase in the net outflow of investment income. In part this reflects the general rise in the degree of indebtedness of the primary exporting countries, the counterpart to the continuing inflow of loan capital. In some countries, however, it also reflects the upswing in income accruing to export industries in 1962/63. Though some of the commodities for which the production facilities are to a significant extent foreign-owned did not share fully in the world market recovery in 1963—rubber and copper, for example—the rise in earnings was sufficiently widespread to have a perceptible effect on profits. Investment income flowing back to the United States from the primary exporting countries, for example, rose to \$340 million on government account (up \$105 million on 1962) and to \$2.34 billion on private account (up \$131 million on 1962).

MOVEMENTS OF CAPITAL

The more buoyant conditions in export industries and the widespread improvement in liquidity in the primary exporting countries, on the other hand, seem to have encouraged a somewhat greater inflow of capital. Perhaps most significant was a virtual doubling of the amount of private direct investment from the United States, so that though other forms of private lending were reduced, the net movement of private capital from the United States to the primary exporting countries (outside of Europe) was up by \$164 million over 1962 to almost \$800 million. Net government lending (including changes in holdings of foreign currency) was up by a slightly smaller amount to a total of almost \$1.7 billion. At about \$530 million, the net flow of United States capital—both government and private—to Latin America in 1963 was almost \$200 million less than in 1962: the increase was directed to other primary exporting regions—Oceania, Africa, West Asia and southern and south-eastern Asia. The net flow to these regions reached almost \$2 billion in 1963, \$500 million above the 1962 figure. The main increase in donations and other unilateral transfers,

on the other hand, was to Latin America: this flow reached a net figure of well over \$2 billion in 1963, three-fourths of the increase of \$143 million going to Latin America.

The net flow of capital to the developing countries from other industrial countries was probably slightly higher in 1963 than in 1962: a sizeable increase in the outflow from the Federal Republic of Germany and a smaller increase from the United Kingdom offset a sharp decline in the outflow from France and a smaller decline from Japan.

The principal increase in the outflow of funds from the Federal Republic of Germany was in the form of unilateral public transfers—up by the equivalent of about \$40 million, or 15 per cent, chiefly to countries in Asia. Public lending was also higher: net of repayments it was up by about \$16 million (or 10 per cent). The increase was largely in loans to Asian countries, which accounted for about half of net disbursements in 1963. New commitments rose sharply, especially to the Asian region, and the unutilized balance at the end of 1963—at the equivalent of about \$650 million—was about double the end-1962 figure. On a net basis, private lending was also larger in 1963: the amount of direct investment was substantially lower in Latin America and Africa but it was not offset, as it had been in 1962, by large repayments.²

Aid extended by the United Kingdom to the developing countries was about 5 per cent—the equivalent of rather less than \$10 million—higher in 1963 than in 1962. The rise was entirely in multilateral payments: bilateral aid declined slightly, as an increase in public lending was more than offset by a reduction in grants. The bulk of the bilateral aid continued to go to countries in Africa and Asia.³

The outflow of funds from France to the developing countries was substantially smaller in 1963 than in 1962, both on private and public account. Private investment dropped sharply to the equivalent of about \$300 million from an average of well over \$400 million in the two preceding years. Most of the reduction was in funds moving to North Africa, but the completion of a number of major projects elsewhere in Africa was also followed by a decline in the movement of private capital. On a smaller scale, export credits were also down. At the equivalent of about \$850 million, bilateral public aid was 5 per cent less than in 1962: a decline in equipment grants from the high 1962 level more than offset a rise in loans and in the amounts given for

technical assistance, research, stabilization, budget support and other purposes. These increases were most notable in the case of loans and technical co-operation agreements outside the franc zone. Arrangements made with such countries as Ethiopia, Greece, Iran, Mexico and Spain will be reflected in the movement of funds in future years.⁴

In Japan, 1963 saw a sharp decline in export credits accorded to developing countries. Reflecting balance of payments stringency, credits for terms of over five years dropped by the equivalent of \$78 million to not much more than a third of the 1962 figure. This reduction more than outweighed an increase in public lending and private investment, so that the over-all flow of funds (including reparations and grants amounting to \$77 million in 1963) was down to \$265 million—6 per cent below 1962 and 30 per cent below 1961.⁵

Though aid committed to the developing countries by the centrally planned countries was substantially less in 1962 than in the two previous years, there are indications that deliveries were speeded up in 1963. The bulk of the aid has taken the form of export credits—at a 2.5 to 3 per cent rate of interest—related to specific investment projects. The difference between exports from the developing countries to the centrally planned countries and the flow of goods in the opposite direction rose to about \$630 million in 1963—up from about \$590 million in 1962 and \$390 million in 1961—and part of this deficit continues to be financed by such credits, particularly in the case of Afghanistan, Cuba, India, Indonesia, Syria and the United Arab Republic. Among the countries accorded new credits in 1963 were Afghanistan, Algeria, Cambodia, Iran, Nepal and the United Arab Republic.

The amount of capital and aid distributed through multilateral means continues to be only a small fraction of total bilateral movements. In 1963, however, the flow of resources—of know-how and food as well as of capital in the form of equipment or purchasing power—through various international institutions registered a general and sizable increase. The consortia of countries aiding India and Pakistan continued to provide funds on an increasing scale. Well over \$1 billion was pledged to India for the third year of its third development plan and more of this was made available for the purchase of raw materials and components of capital goods. The amount pledged to Pakistan for the fourth year of its second plan totalled \$425 million. And substantial additional

² Reply to the joint United Nations and International Monetary Fund questionnaire, "Special Report for United Nations on International Flow of Long-term Capital".

³ United Kingdom, Central Statistical Office, *Annual Abstract of Statistics, 1963* and *Financial Statistics*, May 1964 (London).

⁴ *Le Monde* (Paris), 10-11 May 1964, "Evolution de l'aide française aux pays sous-développés", summarizing a report of the French representative to the Development Assistance Group of the Organisation for Economic Co-operation and Development.

⁵ *Nihon Keizai Shimbun* (Tokyo), 23 May 1964.

sums were promised by a similar group for continuation of the Indus River basin project.

Disbursements by the International Bank for Reconstruction and Development amounted to \$470 million in 1963, about \$30 million more than in 1962. As repayments were greater, however, the expansion on a net basis was rather less—from \$263 million to \$286 million. The increase was very largely to Latin America: there were sizeable net loans to Mexico (\$73 million), Argentina (\$56 million) and Colombia (\$34 million) and smaller disbursements to a number of other countries, as a result of which Bank lending reached a net total of \$202 million, more than double the 1962 figure. On a smaller scale, net disbursements to West Asia (chiefly Israel), the West Indies (chiefly Trinidad) and Oceania were also above the 1962 level, but with India, Rhodesia and Nyasaland and South Africa making substantial repayments, net lending to southern and south-eastern Asia and Africa was sharply reduced: the largest elements were to Mauritania (\$19 million net) and Pakistan (\$17 million).

There was also a sharp stepping up of the flow of funds from the International Development Association (IDA)—from \$12 million in 1961/62 to \$56 million in 1962/63. The principal recipient of these funds was India (\$42 million), but smaller disbursements were made to a number of other countries in southern and south-eastern Asia (notably China (Taiwan)), Latin America (notably Chile, Colombia and Honduras), Africa (the Sudan and Swaziland) and West Asia (chiefly Turkey). In the course of 1963, further credits to the extent of \$210 million were committed. These included \$88 million for India (for railways and power), \$64 million for Pakistan (water supply and flood control), \$22 million for Turkey (for irrigation and electricity), \$14 million for Ethiopia (for roads) and smaller sums for Jordan, Paraguay, Syria and Tanganyika.

Net disbursements by the International Finance Corporation (IFC)—at \$13 million in 1962/63—were double the 1961/62 figure. They went largely to Latin America (notably Colombia and Mexico) but also to Pakistan and Spain and in smaller sums to participate in industrial investments in several other countries. Among the amounts committed in the course of 1963 were several destined for use by investment corporations—public and private. These included \$1.5 million in Morocco, \$1.3 million in Venezuela and smaller sums in the Federation of Malaya, Pakistan, the Philippines, Spain and Turkey. In most cases the purpose was the provision of external resources to complement the domestic financing of manufacturing enterprises.

Much more important in absolute terms was the lending of the Inter-American Development Bank.

Rising from a mere \$3 million in 1961, its first year of activity, to about \$55 million in 1962, net disbursements in 1963 exceeded \$134 million. Some \$65 million of this was from the Social Progress Trust Fund, \$56 million from ordinary capital and \$13 million from the Fund for Special Operations. All nineteen Latin American members took advantage of this source of finance, most of them drawing from all three funds.

Comparable in magnitude were the disbursements of the Development Fund of the European Economic Community (EEC). These went chiefly to the associated countries in Africa; on a net basis they amounted to the equivalent of \$66 million in 1963, compared with \$53 million in 1962. The allotments made in 1963 included \$12 million each to the Congo (Leopoldville) and Surinam, \$6 million each to Dahomey and the Ivory Coast and smaller sums to many other EEC associates. The Fund's resources at the end of 1963 totalled \$581 million, contributed by the Federal Republic of Germany and France (\$200 million each), Belgium and the Netherlands (\$70 million each), Italy (\$40 million) and Luxembourg (\$1.25 million). By the time the Convention of Association was ratified in June 1964, about \$484 million of this had been allocated, much of it still awaiting disbursement. By this stage a further \$730 million had been pledged for commitment during the next five years.

A sizeable flow of money and services continued through United Nations schemes. Expenditure on technical assistance amounted to about \$48 million in 1963—\$16 million under the Regular Programme and \$32 million under the Expanded Programme. The latter sum was \$6 million below the amount spent in the previous year, reflecting the fact that 1963 was the first year of a two-year accounting period, with a number of new projects just getting under way. The only regions in which expenditures in 1963 exceeded those in 1962 were Africa—with \$20 million, the largest recipient—and the West Indies. The most notable increase was in the proportion of funds used for assisting Governments with their economic development plans: this rose from 15 per cent to 18 per cent of the Expanded Programme. Other major activities were agriculture, health and education: these four categories accounted for over two-thirds of the total.

Expenditure by the United Nations Special Fund amounted to about \$39 million in 1963, substantially more than in 1962 (about \$23 million). Regionally, 1963 disbursements were fairly equally divided among countries in Africa (\$10 million), southern and south-eastern Asia (\$10 million) and Latin America (\$9 million), with much of the remainder (\$6 million) going to West Asia.

The World Food Programme, jointly operated by the United Nations and the Food and Agriculture Organization, commenced activities at the beginning of 1963. In the course of the year about \$91 million had been pledged by donor countries, \$66 million in food. Ten projects for using food aid for development purposes—mostly resettlement and land improvement—were launched during the year. These involved over \$9 million in food, of which rather more than half had been delivered before the end of the year. In addition, some \$5 million worth of food was dispensed under various emergency schemes.

Such evidence as is available from the recipients' side suggests that capital inflows in 1963 were not very much greater in the aggregate than they were in 1962.⁶ A number of countries indicate increased receipts—Argentina, Australia, China (Taiwan), the Dominican Republic, Greece and Spain, largely on private account, Ceylon, India and Tunisia, largely on government account, and Costa Rica, Ireland, Mexico, Paraguay and the Republic of Korea on both private and public account. The flow of long-term capital into Mexico was almost 30 per cent higher in 1963 than in 1962; for the first time since the nineteen twenties the Government raised money through a bond issue—for \$40 million—floated on the open New York market.

The Sudan, Thailand and Turkey report the continuation of a net capital inflow at about the 1962 rate. In the Philippines, South Africa and Venezuela there was a further net outflow of capital, but it was on a smaller scale than in 1962. In Iraq and Indonesia there seems to have been a turn around—from a net outflow in 1962 to a net inflow in 1963.

Against these positive changes are a number of cases of reduced inflows. Chile, the Federation of Malaya and the Republic of Viet-Nam appear to have received less private capital than in 1962, Ethiopia, Israel and Jordan less government capital, while in Bolivia, New Zealand, Nicaragua, Nigeria and Portugal the net inflow on both private and government account seems to have declined. In Brazil and Burma, moreover, the net inflow of 1962 seems to have given place to a net outflow in 1963.

A rough comparison suggests that the gains—affecting as they did rather more of the major trading countries—were somewhat larger in total than the losses.

CHANGES IN LIQUIDITY

The massive reduction—of over \$1.1 billion—in the merchandise deficit of the primary exporting

countries plus a smaller net increase in receipts of other current items and of capital resulted in a major accretion of reserves. Official gold holdings rose by about \$300 million in the course of the year, the bulk of the increase taking place in South Africa and Spain. Official holdings of convertible currencies rose by over \$1.3 billion, the increase being well distributed among the developing countries of Latin America and Asia as well as in the more advanced primary exporting countries, Australia, New Zealand and South Africa. Foreign exchange in the hands of commercial banks also rose—by about \$300 million, widely distributed but largely in the sterling and franc areas.

Notwithstanding the widespread easing of balance of payments pressure, drawings from the IMF were somewhat greater in 1963 than in 1962. And as there had been large-scale repayments in 1962, the contrast on a net basis was even sharper: net drawings of about \$126 million in 1963 as against net repayments of about \$159 million in 1962. The drawings were effected chiefly by Latin American countries, reflecting the relative sluggishness of exports from this region as well as the high import demand in countries subject to strong inflationary pressures. The largest amounts were drawn by Argentina, Brazil, Chile and Colombia and smaller amounts by a number of other countries in the region. In the aggregate, Latin America accounted for over three-fourths of gross drawings of \$303 million by all primary exporting countries and for about 90 per cent of net drawings amounting to \$126 million.

The only other countries to call upon the Fund in 1963 were Indonesia, Turkey and the United Arab Republic (with drawings of around \$21 million each), Afghanistan (\$6 million) and Liberia (\$4 million), while India and Syria made repayments of sums advanced previously.

The total official reserves—gold, foreign exchange and gold tranche position in the IMF—of the primary exporting countries changed very little in the first three years of the Development Decade, recovering in 1961 and 1962 rather more than had been lost in 1960. The accretion of over \$1.7 billion in 1963 raised total reserves about 10 per cent above their 1962 level. This increase was spread fairly uniformly over the major regions—Latin America, West Asia, southern and south-eastern Asia and Oceania—with a somewhat smaller increase accruing to Outer Europe. The only region not enjoying a significant increase in liquidity was Africa, where increases in Lybia and South Africa were more than offset by large reductions in Morocco, Nigeria, Senegal and the Sudan and smaller reductions in a number of other countries.

A rapid upsurge in Australian reserves—totalling almost \$500 million in the course of the year—was

⁶ Preliminary balance of payments figures are often difficult to interpret because of the size of the unexplained residual. In many cases these "errors and omissions" conceal capital movements greater than those actually recorded as such. The text above should therefore be read with appropriate reservation.

offset slightly by a decline in New Zealand. All four of the countries of Outer Europe added to their reserves, most notably Spain, where an increase of over \$100 million raised the total to about \$1.2 billion—more than double the total three years earlier. Altogether, the more developed of the primary exporting countries—Oceania, Outer Europe and South Africa—account for about 45 per cent of the increment in reserves. The remainder—the best part of \$1 billion—accrued to the developing countries. Thus, in 1963 the developing countries made good more or less the whole of the loss of reserves sustained in the first three years of the Development Decade.

Almost all the countries of Latin America managed to increase their liquidity in 1963, Argentina, Mexico and Venezuela by very substantial amounts. The only notable exceptions were Brazil and Uruguay where, despite sizable reductions in trade deficits, reserves were again drawn down. Both countries were subject to increasing internal disequilibrium; currencies were devalued during the year and it is probable that there was some outflow of capital.

In West Asia the rise in liquidity was also fairly general, particularly large increases being registered by Iraq, Israel, Kuwait and Saudi Arabia. The exceptions in the region were Syria and Turkey. In the former, reserves declined to the lowest level for many years, notwithstanding a further reduction in the merchandise deficit from the high level occasioned by the drought early in the decade. In Turkey, the decline in reserves was largely the result of a further expansion in imports in the face of lower tobacco shipments.

Increases in liquidity were also widespread in southern and south-eastern Asia, the most notable being in China (Taiwan), India and Thailand. The

reductions were confined to Ceylon, Indonesia and the Republic of Korea. In Ceylon, imports were cut back for the third successive year in the face of static exports; the result was a further increase in the trade surplus but not sufficient to offset a decline in receipts of official grants and a rise in the outflow of both investment income and private capital. By curtailing imports again, Indonesia also managed to increase its trade surplus, but despite a major devaluation in May and a drawing from the IMF, it seems to have experienced a resumption of the downward drift in reserves. In the Republic of Korea, the reduction in reserves was largely the result of another major expansion in imports and a corresponding increase in the trade deficit not fully compensated by a much larger inflow of capital and a small increase in aid.

In Africa the over-all deficit on merchandise account—at rather more than \$1 billion, measuring exports f.o.b. and imports c.i.f.—seems to have been much the same in 1963 as in 1962: increases in the trade gap in Algeria, Ghana, Madagascar, Mozambique, Réunion, Senegal, South Africa, the Sudan and the United Arab Republic offset most of the effect of improvements in the trade balance in other countries in the region. The small gain that resulted on merchandise account was outweighed by a less favourable net movement of other items in the balance of payments, in particular the net inflow of capital. As indicated above, the consequence was a small decline in liquidity among the countries reporting their reserves and a larger decline in sterling and franc balances. Excluding South Africa, whose reserves have experienced considerable swings in recent years, the decline in 1963 was the fourth successive reduction in the liquidity of the African region.

Changes in internal balance

As is inevitable in a group as heterogeneous as the primary exporting countries, domestic developments in any single year cover an extremely wide spectrum of change. Though, as indicated in the first part of this chapter, the external developments of 1963 tended to provide some unifying force, with a majority of countries managing to improve their external balance, the year brought its usual range of differences in developments of internal balance. The major source of these differences was, as in the past, the agricultural sector, heavily dependent on unstable climatic conditions. Some countries were recovering from a set-back in the previous year and thus reporting a very high rate of year-to-year expansion, others experienced a set-back in 1963.

Among the latter were some of the more populous countries—Brazil, India and Pakistan, for example—and this tended to hold down the average increase both in agricultural production and in the gross domestic product. However, thanks largely to a relatively rapid rise in some of the major primary exporting countries—Australia, Mexico, New Zealand, South Africa, Spain, the United Arab Republic, for example—the average rate of growth was not much below the longer-run trend.

Imports did not add uniformly to available supplies: as indicated earlier, the expansion in imports was concentrated very largely among a small group of countries, particularly the more industrialized of the primary exporting countries. On the

average, total supplies increased by rather less than 5 per cent, but the increases were distributed in such a way that, while a substantial number of countries were able to sustain a considerable expansion in consumption, a similar number experienced a decline in per capita levels of consumption. Most of the countries in which there was a cut-back in per capita consumption also registered a decline or only a minor increase in fixed capital formation. In general these were the countries suffering from acute imbalance, in most cases external as well as internal. A few, however—including Pakistan, the Republic of Korea and Trinidad and to a less extent Morocco and the Philippines—increased their investment substantially while holding down consumption. At the other end of the scale there were countries—South Africa, Spain, Turkey and the United Arab Republic, for example—in which the expansion of disposable supplies was such as to permit a considerable increase in both consumption and investment.

The favourable turn in export prices had the effect of raising incomes rather more than production increased. It also served to increase liquidity, and in general money supply tended to expand more rapidly in 1963 than in the preceding year. Most countries experienced a slight rise in import prices and in those countries whose external disequilibrium led to a currency devaluation in the course of the year—Brazil, Chile, Indonesia and Uruguay, for example—this price impact was greatly accentuated. More fundamental was the continued pressure of domestic demand which in some countries had been reflected earlier in a wage/price spiral. There was little sign of any easing of those pressures in 1963; on the contrary, there was some intensification in several

countries, especially where imports were being restrained in order to ameliorate external disequilibrium. Thus, while the combination of import restraint and generally buoyant demand for export products helped to ease the external imbalance of many primary exporting countries, there was no corresponding improvement in the state of internal balance.

PRODUCTION

The early years of the Development Decade have seen some equalizing of rates of growth among the primary exporting countries. Very few of the countries achieving growth rates in excess of 5 per cent a year in real terms in the nineteen fifties have been able to sustain this pace in the first three years of the nineteen sixties. Conversely, most of the countries in which the growth rate was relatively low in the nineteen fifties—with production barely keeping pace with population in some cases—have been able to achieve some acceleration in the more recent period. In the majority group, with growth rates between 3 and 5 per cent a year in the nineteen fifties, and accounting for almost half of the primary exporting countries for which appropriate data are available, most of the countries have also been able to increase the pace of their advance (*see* table 2-6).

Preliminary estimates indicate that the increase in gross domestic product between 1962 and 1963 was above the trend of the nineteen fifties rather more frequently than below—twenty of the thirty-six primary exporting countries for which measurements have been made. As it dropped below trend in a number of the larger countries, however—Argentina, Brazil, India, Mexico and Pakistan, for example—

Table 2-6. Primary Exporting Countries: Rate of Growth in Gross Domestic Product in 1960-1963 Relative to Trends in the Nineteen Fifties^a

<i>Trend: average percentage per year</i>							
<i>Less than 1.5</i>	<i>1.5-2.4</i>	<i>2.5-3.4</i>	<i>3.5-4.4</i>	<i>4.5-5.4</i>	<i>5.5-6.4</i>	<i>6.5-7.4</i>	<i>7.5 and over</i>
Ireland ++	Argentina —	Ceylon —	Australia 0	Cyprus ++	Brazil —	Algeria —	China (Taiwan) —
Mauritius ++	Morocco +	Chile +	Colombia —	Ecuador 0	Burma —	Iraq —	—
	Pakistan +	Congo	Federation of	El Salvador ++	Costa Rica —	Korea	Israel +
	Paraguay +	(Leopoldville) —	Malaya +	Guatemala —	Greece +	(Republic of) —	Jamaica —
	Syria ++	Peru —	Ghana ++	Nicaragua +	Mexico —	Rhodesia	Trinidad —
		Spain ++	Honduras +	Panama ++	Philippines —	and Nyasaland —	Venezuela —
			Kenya ++	Portugal 0	Tanganyika —	Turkey —	
			New Zealand 0	South Africa ++			
			Nigeria +	Thailand 0			
			Sudan +	UAR +			
			Tunisia +				
			Uganda —				

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Yearbook of National Accounts Statistics*.

^a The figure for the nineteen fifties represents the least squares trend of gross domestic product measured in most cases at 1960 prices but in some cases at the prices of

some earlier year. The symbol after the country reflects the arithmetic average year-to-year increase between 1960 and 1963 relative to the trend: ++ substantially higher; + higher; 0 more or less on trend; — lower; — — substantially lower.

the average rate of growth in 1963 was not far removed from that achieved in the nineteen fifties. Nor did it differ greatly from the average rate of increase of the two earlier years in the nineteen sixties. Here again, a majority recorded some acceleration—twenty-two out of thirty-nine—but some major countries were among those in which there was some deceleration; hence, the average rate of increase was fractionally below the longer-run trend.

The total output of most of the major products of farm, plantation and mine in the primary exporting countries registered a modest (1-3 per cent) increase between 1962 and 1963. The items for which such an increase was not achieved were confined very largely to certain export crops—coffee and sugar, rubber, jute and henequen. Against these there was an appreciably larger increase in the case of tobacco and (for the 1963/64 crop) cotton, as well as in the case of a number of metals (iron and steel, aluminium and zinc), petroleum and natural gas, and also in the case of various basic industrial products such as electricity and cement. In general, the expansion in the output of these major commodities was greater in the primary exporting countries than in the industrial countries.

The out-turn of cereals in the primary exporting regions in 1963 was around 4 per cent above that of 1962. Crops were uniformly good in Central America, North Africa and West Asia; elsewhere there were wider variations (*see* table 2-7). In South America, the output of maize and barley was held down by poor 1962/63 crops in Argentina; the 1963/64 crop promises to be considerably better. In southern Africa, the 1962/63 maize crop in Rhodesia and Nyasaland was well below the record level of the previous year and the wheat crop was lower in South Africa; here again the 1963/64 harvests are likely to be larger.

In southern and south-eastern Asia, the 1963 wheat and barley crops were lower; the 1962/63 rice crop was also down, though early returns suggest that the decline may have been made good in 1963/64. The reductions were concentrated very largely in India, though in the case of rice a number of other countries—including China (Taiwan), Indonesia, Pakistan and the Republic of Korea—also reaped smaller harvests in 1962/63. The recovery in 1963/64 rice production occurred in the face of lower crops in the major exporting countries, Burma and Thailand.

In Oceania the only significant reduction in cereal output was in the 1962/63 Australian barley crop; this was about 40 per cent below the 1960/61 level and the decline was only partly made good by a better out-turn in 1963/64. Among the primary exporting countries of Europe, on the other hand, 1963

harvests were generally poor, though Spain produced more wheat and maize than in 1962.

By and large, the increases in cereal output served to meet growing domestic needs. The expansion in import demand that stemmed from the poor crops reaped in Europe, the Soviet Union and Japan was met largely by exports from North America. Australian earnings from wheat, however, were at a record level—a fourth greater than in 1962 and 4 per cent above the 1961 high. Argentina earned more from its maize exports though wheat shipments were down by a third. Rice exports from Thailand were up 7 per cent on 1962 and almost back to the 1961 record. And there was a threefold increase—relative to the low 1962 figure—in shipments of wheat from Tunisia and rice from the United Arab Republic.

After declining for two years, sugar production in the primary exporting countries recovered in 1963/64: preliminary estimates suggest that the 1963/64 crop was about 6 per cent above that of the previous year, or about 2 per cent below the 1960/61 level. The lag was very largely in Cuba, though production in some of the other Caribbean islands as well as in Brazil, India and Indonesia was also down on 1960/61. (Production in the primary exporting countries other than Cuba actually increased fairly steadily in the aggregate and in 1963/64 was about 11 per cent above the 1960/61 level.)

The crop exerting the most direct effect on the world sugar market in 1963 was the one whose harvesting began before May, that is, in the 1962/63 season. Centrifugal production from this crop was down about 2 per cent on the previous output, notwithstanding a sharp increase in Africa and Oceania. As total production in the industrial and centrally planned countries was about 5 per cent below the 1961/62 level—which in turn was 5 per cent below the 1960/61 level—while in primary exporting countries other than Cuba it was up about 2 per cent, many of the producers in the latter group were well placed to benefit from the spectacular rise in price that occurred on the free market. The output of non-centrifugal sugar—confined largely to Latin America and southern and south-eastern Asia and all consumed locally—was also up about 2 per cent on the 1961/62 figure.

The output of tobacco in the primary exporting countries in 1963 was between 8 and 9 per cent above that of the previous year. Expansion was general, but particularly large in the case of Brazil and Greece. The only major countries to reap a significantly smaller crop were Mexico, Nigeria and Rhodesia and Nyasaland, but as a result of the spread of blue mould, crops among the small producers at the eastern end of the Mediterranean were extremely poor. Indications are that the output that becomes

Table 2-7. Primary Exporting Regions: Changes in Production of Selected Food Crops and Tobacco, 1962 and 1963
(Index, preceding season = 100)

Region and season	Wheat	Rice	Barley	Maize	Sugar	Tobacco ^a
<i>Central America</i>						
1962/63	102	99	99	100	92	100
1963/64	125	104	116	115	100 ^b	95
<i>South America</i>						
1961/62	113	103	100	108	100	108
1962/63	105	106	68	101	98	101
1963/64 ^c	...	...	166	...	104	126
<i>Outer Europe</i>						
1962/63	129	98	121	90	90	114
1963/64	92	97	96	108	85 ^b	120
<i>North Africa</i>						
1962/63	150	201	58	153	123	110
1963/64	166	118	410	108	106 ^b	104
<i>Central and southern Africa</i>						
1961/62	116	112	175	123	124	101
1962/63	79	100	114	99	106	102
1963/64 ^c	120	...	88	...	115	96
<i>West Asia</i>						
1962/63	115	123	116	65	97	87
1963/64	117	119	109	125	108 ^b	130
<i>Southern and south-eastern Asia</i>						
1962/63	108	96	106	114	95	108
1963/64	95	103	80	103	115 ^b	101
<i>Oceania</i>						
1961/62	90	110	63	117	102	142
1962/63	125	101	97	101	133	88
1963/64 ^c	109	108	117	...	101	113
<i>Primary exporting countries</i>						
1962 ^d	113	97	104	110	95	104
1963 ^e	103	104	105	104	98	109

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United States Department of Agriculture, *World Agricultural Production and Trade, Statistical Report and Foreign Agriculture Circular, FG Series, FR Series, FS Series* (Washington, D.C.).

^a The indices reflect the change between calendar years 1960 and 1961, 1961 and 1962 and 1962 and 1963. Data are not available for Cuba.

^b Forecast.

^c Forecast; except in the case of tobacco for which the index is based on crops available

in the first half of 1963.

^d 1962/63 crops in the northern hemisphere combined with those of 1961/62 in the southern hemisphere; except in the case of sugar for which the index refers to production from crops the harvesting of which began in the season May 1961/April 1962.

^e 1963/64 crops in the northern hemisphere combined with those of 1962/63 in the southern hemisphere; except in the case of sugar for which the index refers to production from crops the harvesting of which began in the season May 1962/April 1963.

available in the first half of 1964 is back to normal in Nigeria and at a record level in Rhodesia.

The output of the major export crops in the primary exporting countries registered very little advance between 1962 and 1963: there were increases of between 2 and 3 per cent in the case of cocoa, wool and hard fibres, but reductions of comparable order in the case of coffee, cotton, jute and rubber (see table 2-8).

Largely as a result of two successive reductions in the Brazilian crop, total coffee production was

down by about 7 per cent in 1962/63 and by between one and 2 per cent in 1963/64. There were reductions in many of the smaller Latin American producers, too, but these were offset by widespread increases in Africa and Asia. The proportion of the world coffee crop grown outside Latin America, which had jumped from less than 23 per cent in 1961/62 to almost 30 per cent in 1962/63, rose above 30 per cent in 1963/64.

The 1962/63 cocoa crop was about 2 per cent above that of 1961/62, reductions in Brazil and

Table 2-8. Primary Exporting Regions: Changes in Production of Major Export Commodities

(Preceding year = 100)

Region and season ^a	Coffee	Cocoa	Cotton	Wool	Hard fibres ^b	Jute	Rubber (natural) ^b
<i>Latin America</i>							
1962/63	84	102	112	101	105	85	95
1963/64	97	107	93	100	94	117	140
<i>Africa</i>							
1962/63	127	102	113	99	109	—	103
1963/64	100	103	98	99	104	—	102
<i>Outer Europe</i>							
1962/63	—	—	99	—	—	—	—
1963/64	—	—	102	—	—	—	—
<i>West Asia</i>							
1962/63	°	—	107	96	—	—	—
1963/64	°	—	102	104	—	—	—
<i>Southern and south-eastern Asia</i>							
1962/63	108	150	119	100	102	90	104
1963/64	105	150	97	101	113	98	95
<i>Oceania</i>							
1962/63	°	113	100	100	—	—	—
1963/64	°	128	150	104	—	—	—
<i>Primary exporting regions</i>							
1962/63	93	103	114	100	106	89	103
1963/64	99	104	97	103	101	98	96

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Rubber Study Group, *Rubber Statistical Bulletin* (London); United States Department of Agriculture, *World Agricultural Production and Trade*, *Foreign Agriculture Circular*, *FVF Series* and *Wool Situation*; Gill and Duffus,

Ltd., *Cocoa Market Report* (London).

^a The 1963/64 index is generally based on preliminary estimates.

^b Change in production between calendar years 1961 and 1962, and 1962 and 1963, respectively.

^c Included in southern and south-eastern Asia.

Nigeria being more than offset by increases in Ghana and the Ivory Coast. These changes seem to have been reversed in 1963/64: there were smaller crops in Ghana and the Ivory Coast but as a result of increases in Brazil, Cameroon and Nigeria, a further over-all advance of 2 per cent was registered, raising total production above the 1.2 million ton mark reached in 1960/61.

Cotton production in the primary exporting regions was up sharply in 1962/63, but most of the major producers—including Argentina, Brazil, India, Mexico, Spain, the Sudan, Syria and the United Arab Republic—had smaller crops in 1963/64. At about 4.5 million tons, however, the primary exporting regions provided a higher proportion of world supplies (over 41 per cent) than in 1960/61 or 1961/62.

The wool clip, which had remained at the 1961/62 level in 1962/63, was about 3 per cent greater in 1963/64. The gain was concentrated almost en-

tirely in Oceania, and very largely in Australia. Production in Latin America appears to have increased only fractionally, while in Africa—chiefly southern Africa—the clip registered a second slight decline.

While the primary exporting regions provide rather less than two-thirds of the world's wool supply, they produce virtually all the non-apparel fibres. The 1963/64 jute crop—almost all from Asia—appears to have been slightly smaller than that of 1962/63 which in turn was 10 per cent below the large out-turn of 1961/62. The decline between 1962/63 and 1963/64 was almost entirely in Pakistan where in the face of lower prices some jute acreage had been given over to rice. In the case of the hard fibres there was a fractional increase between 1962 and 1963. This took the form of an expansion in the output of sisal (chiefly in Brazil and Kenya) and of abaca (chiefly in the Philippines) which more than offset a contraction in henequen output in Mexico.

Supplies of rubber were greater in 1963 than in 1962, but the expansion came entirely from synthetic types: the output of natural rubber was about 4 per cent down. The decline was largely in Indonesia, though less rubber was produced in Cambodia and the Republic of Viet-Nam, too.

In the aggregate, agricultural production in the primary exporting regions was probably about 2 per cent higher in 1963 than in 1962. There were declines in a number of countries (including Colombia, India, Iraq, Pakistan, Portugal, Rhodesia and Nyasaland, the Sudan and Syria) and virtually no increase in several others (including Brazil, El Salvador, Jordan and Mexico) and this went a long way to offsetting a sharp recovery in such countries as Guatemala, Kenya, Tunisia and the United Arab Republic and substantial expansion in a number of others (including Burma, Chile, Cyprus, Greece, Iran, the Republic of Viet-Nam, Tanganyika and Turkey). Thus, 1963 was another year in which agriculture barely kept pace with the growth of population in the primary exporting regions as a group.

Among the minerals and metals there was a general tendency for production to expand to a greater extent in the primary exporting regions than in the rest of the world (*see* table 2-9).

One of the few exceptions was iron ore. Here, the principal changes were in the countries from which all or most of the output is exported: there were reductions in Peru and Venezuela, in Algeria and Morocco, in Spain, and in the Philippines, but there were offsetting increases in Chile and Mexico, in Portugal, in Sierra Leone and Tunisia, and in the Federation of Malaya and India. Largely as a result of a 5 million ton increase (about 7 per cent) in the Soviet Union, however, production in the rest of the world rose somewhat more rapidly in the aggregate.

Relatively few of the primary exporting countries smelt their iron ore: their combined output of pig iron and steel amounts to about 5 per cent of the world total. Between 1962 and 1963 there was a general expansion in output: only in China (Taiwan) and Spain did pig iron production decline and only in Chile was there a reduction in the output of steel ingots. There was a particularly rapid increase in steel production in India and, on a much smaller scale, in Argentina, Portugal and the Republic of Korea as well as a sharp recovery in Turkey. In the aggregate, production was up by about 10 per cent.

Though there was a major increase in Japanese imports of bauxite between 1962 and 1963, it was more than offset by a reduction in imports into North America. As these are the leading markets and as relatively little is smelted locally, this prob-

ably signifies a decline in bauxite production in the primary exporting countries. Production of aluminium in the primary exporting regions, very small in absolute terms, rose by about 14 per cent in 1963; the main contributor to this was India where output has trebled since 1961.

Virtually the whole increase in mine production of copper between 1962 and 1963 took place in the primary exporting regions. Here expansion, though generally modest, was widespread; it included gains of 7 per cent in Peru, 5 per cent in Northern Rhodesia, 3 per cent in Chile. Apart from a reduction of about 25,000 tons (8 per cent) in the Congo (Leopoldville), the declines were limited to the smaller producers—Australia, Morocco, Spain and Uganda. The output of copper metal in the primary exporting regions rose somewhat less. Most of the gain was in southern Africa but on a smaller scale there were also advances in Australia, Mexico and Peru offsetting, in part, reductions in the Congo (Leopoldville) and—appreciably less in absolute terms—in Chile, Spain and Turkey.

Table 2-9. Minerals and Industrial Products: Change in Output between 1962 and 1963, World and Primary Exporting Regions

Item	Index of output in 1963 ^a (1962=100)		Proportion of world output produced in primary exporting regions in 1962 (percentage)
	Primary exporting regions	World ^b	
Iron ore	101	102	18
Pig iron	107	105	6
Steel	110	107	5
Aluminium	114	110	4
Copper ore	103	101	45
Metal ^c	103	103	40
Lead ore	101	100	56
Metal	105	104	35
Tin ore	100	100	98
Metal	104	100	72
Zinc ore	104	102	40
Metal	113	103	14
Coal	105	103	9
Lignite	109	101	5
Natural gas	107	105	4
Petroleum	108	107	49
Electricity	110	108	7
Cement	107	103	14

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Lead and Zinc Study Group, *Monthly Bulletin* (New York); International Tin Council, *Statistical Bulletin* (The Hague); British Bureau of Non-Ferrous Metals, *World Non-Ferrous Metal Statistics* (London).

^a Preliminary; 1963 output has in some countries been estimated on the basis of less than twelve months' data.

^b Excluding mainland China; excluding the Soviet Union in the case of the non-ferrous metals and ores.

^c Smelter copper.

There was also a small increase in the output of lead ore, confined to the primary exporting regions—most notably Australia, Bolivia, Northern Rhodesia and South West Africa where increases were large enough to compensate for reductions in Mexico, Morocco, Peru and Spain. Most of these changes in ore production were reflected in corresponding changes in metal production, though in the case of Peru there was a sharp recovery in lead output, which had dipped in 1962.

A small increase in mined output of zinc was mainly the result of expansion in Australia and Peru. This offset reductions in Argentina and Mexico and in the Congo (Leopoldville), Morocco and Northern Rhodesia. Despite the smaller mine output, Argentina and Northern Rhodesia produced more zinc metal in 1963. The Congo (Leopoldville) and Mexico were the only producers among the primary exporting countries not to increase their output of zinc in 1963 and in the aggregate an expansion of about one-eighth was recorded.

The great bulk of tin ore is mined in the primary exporting countries. After a sharp increase (of about 5,000 tons) in 1962, total production remained practically unchanged in 1963. There were increases in all Latin American producers (notably Bolivia and Mexico), in most African producers (except Rwanda and Southern Rhodesia) and—more significant in absolute terms—in the Federation of Malaya and Thailand, but these were counterbalanced by a further sharp contraction in Indonesia and minor reductions in Burma and Laos and in Portugal and Spain. At the global level this stagnation in mine output was paralleled by stagnation in metal production. But appreciably more of this output of tin metal came from the primary exporting countries, most notably Bolivia, the Federation of Malaya, Nigeria and Spain.

The output of fossil fuels in the primary exporting regions rose by rather more than 7 per cent between 1962 and 1963—a good deal more than in the rest of the world. The increases in coal and lignite production were largest in India, the Republic of Korea and South Africa, though there were sizable gains in other countries also, notably Australia, Greece and Turkey. Against these, the reductions were relatively insignificant, except in Spain where labour strikes had interrupted mining. The expansion of petroleum production in Nigeria and of hydroelectric capacity in Rhodesia and Nyasaland led to a further contraction of coal mining in these countries.

The most notable increases in natural gas production were in Argentina, Mexico, Pakistan and Venezuela. Gas remains a minor source of energy among the primary exporting regions, however, and the

growth of greatest quantitative significance was in petroleum, partly for domestic consumption but largely for export. Here, expansion was almost universal in 1963 as well as considerable in absolute terms, especially in Libya (an increment of over 14 million tons in average annual output), Iran (6.3 million tons), Iraq (6.2 million tons), Saudi Arabia (5.2 million tons), Kuwait (4.9 million tons), Kuwait Neutral Zone (3.8 million tons), Algeria (3.4 million tons), Venezuela (2.5 million tons) and Colombia (1.2 million tons). Against such massive increases, minor reductions in Argentina, Congo (Brazzaville), Ecuador and Trinidad recede into insignificance.

Mine output in the primary exporting countries other than the petroleum producers of North Africa and the Arabian Peninsula rose about 5 per cent between 1962 and 1963. At the one end of the scale there was expansion in excess of 10 per cent in Colombia, India, Iran, Iraq, Israel, Pakistan, the Republic of Korea and Rhodesia and Nyasaland; at the other end there was a contraction in output in Argentina, Greece, Kenya, Morocco and Tanganyika and stagnation in Cyprus, Chile, the Philippines and Spain. The poor results of the second group were for the most part not attributable to the state of external demand; they reflect domestic production problems, including physical and technical difficulties and labour strikes.

The index of mining production in the less industrialized countries was almost 11 per cent higher in 1963 than in the previous year.⁷ This reflects the high rate of expansion in the petroleum sector; the production of metallic ores was up by less than 2 per cent.

The output of electricity in the primary exporting regions rose by almost 10 per cent between 1962 and 1963. Expansion was virtually universal: of fifty reporting countries, only Algeria, the Federation of Malaya and Senegal generated less in 1963 than in 1962. Cement production also increased widely in the primary exporting regions in 1963 and at an appreciably greater rate than in the rest of the world. The proportion of primary exporting countries registering reductions between 1962 and 1963 was somewhat larger than in the case of electricity, however; it included Argentina and Trinidad, Ethiopia, Kenya, Mozambique, Northern Rhodesia and Uganda, and Ceylon and the Philippines.

Total manufacturing output in the primary exporting countries rose by about 7 per cent between 1962

⁷ United Nations, *Monthly Bulletin of Statistics*, May 1964, page x. The index covers all the countries dealt with in the present chapter (including the petroleum producers not considered in the previous paragraph) plus Yugoslavia minus Australia, Ireland, Israel, New Zealand and South Africa.

and 1963. In this sector, expansion was almost universal; Argentina and Syria were the only countries not registering a significant increase, while gains of over 10 per cent were not uncommon—China (Taiwan), Cyprus, Guatemala, Israel, the Ivory Coast, the Republic of Korea, the Republic of Viet-Nam, South Africa and Tunisia all achieved such advances. Among the less industrialized countries the increase was about 6 per cent. It was concentrated largely in southern and south-eastern Asia where the expansion was about 9 per cent; for the second year in a row, and notwithstanding sizable increases in Chile and Mexico, industrial growth in Latin America barely reached 2 per cent.

The increase in the gross domestic product of the primary exporting countries was about 4.5 per cent between 1962 and 1963. The average was held back by slow growth in a number of countries in which agriculture yielded a disappointing out-turn—most notably in Colombia, Iraq, Pakistan, the Sudan and Syria and, to a less extent, Brazil and India—but

also by another poor industrial year in Argentina (*see* table 2-10). There was a converse tendency for agricultural recovery to be reflected in an above-average rate of increase in gross product, as in Burma, Guatemala, Kenya, Tunisia and the United Arab Republic. High rates of growth were also recorded in Australia and South Africa where a broad-based recovery that had set in during the second half of 1962 was sustained in 1963 by a high level of demand, both internal and external. Israel also achieved a high rate of growth—of the order of 10 per cent for the third successive year.

Among the countries that effected some improvement in their trade balance in 1963, a majority reduced their imports (as in the case of Argentina, Brazil, Ceylon, Colombia, India, Iraq, Rhodesia and Nyasaland, Syria, Tunisia and Venezuela) or raised their imports less than their domestic product (as in the case of China (Taiwan), Israel, Kenya, Morocco and Nigeria). Only a few countries increased their available supplies to a greater relative extent

Table 2-10. Primary Exporting Countries: Indicated Change between 1962 and 1963 in Total Supplies and Selected Components^a

Country ^b	Agriculture ^c	Industry		Electricity	Gross domestic product	Imports ^d	Total supplies ^e
		Manufacturing	Mining				
Argentina	B	—B	—B	B	—B	—F	—C
Guatemala	E	D	...	...	D	D	D
Iraq	—B	C	D	...	A	—D	—B
Tanganyika	C	...	—B	B	B	B	B
China (Taiwan)	B	D	C	B	B	B	B
Philippines	B	B	A	B	B	E	C
India	—B	C	C	D	B	—B	B
Brazil	A	—	B	...	B	A	B
Syria	—C	A	B	D	—B	A	—B
Rhodesia and Nyasaland	—B	B	D	E	B	A	B
Colombia	A	B	E	D	A	—C	A
Ivory Coast	B	D	B	G	C	C	C
Australia	C	C	B	C	C	C	C
Venezuela	C	C	...	D	B	—C	B
Morocco	B	B	—B	...	B	B	B
Viet-Nam (Republic of)	C	D	...	D	C	C	C
Israel	B	—	D	—	C	B	C
Ceylon	B	C	...	D	B	—D	—B
Nigeria	B	B	C	D	C	B	B
Kenya	E	C	—D	C	C	C	C
Tunisia	E	D	C	B	D	A	C
Trinidad	D	B	—B	C	C	C	C
Cyprus	C	D	A	C	C	B	C
Federation of Malaya	B	C	B	C	B	B	B
Portugal	—B	B	B	D	B	C	B
Ireland	A	C	C	C	B	C	B
New Zealand	B	C	B	D	C	D	C
Mexico	A	C	B	C	C	C	C
El Salvador	A	B	...	C	B	F	C
United Arab Republic ^f	F	B	...	...	C	G	D

Table 2-10 (continued)

Country ^b	Agriculture ^c	Industry		Electricity	Gross domestic product	Imports ^d	Total supplies ^e
		Manufacturing	Mining				
Burma ^f	C	B	B	B	C	A	C
Thailand	B	C	B	E	E	C	C
Sudan ^f	-B	C	G	C	A	B	A
Greece	C	C	-B	D	C	D	C
Ghana	B	B	B	C	B	C	B
Turkey	C	B	B	C	C	D	C
South Africa	B	D	C	C	C	F	D
Jordan	A	—	C	—	C	D	C
Iran	C	...	D	...	...	-B	...
Chile	C	...	A	C	B	F	C
Pakistan ^f	-B	C	D	D	A	F	B
Spain	C	C	A	C	C	F	C
Korea (Republic of)...	B	D	D	D	C	F	C
Average, ^g above countries	2	7	5	10	4	5	5

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat; Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome); replies of Governments to the United Nations questionnaire of November 1963 on economic trends, problems and policies; national publications.

^a Based on preliminary official estimates of the national accounts or on "indicators" derived from official or semi-official statistics of production, trade and transport. Where indicators were used, changes in gross domestic product and its components reflect changes, in real terms, in the output of all the items of goods and services for which data were obtainable, combined in accordance with weights derived from national accounts of 1960. The indicated changes are necessarily tentative, being based in some cases on less than a full year's figures, both for the sectors shown and for other sectors for which estimates were made. The symbols indicate a percentage range of increase or decrease (-): A = -1 to 1; B = 2 to 5; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 to 30; G = 31 and over.

^b Countries are arrayed in descending order

of movement in the trade balance from the largest improvement to the largest deterioration, measured in each case by the change between 1962 and 1963 expressed as a percentage of total trade (exports, f.o.b. plus imports, c.i.f.) in 1962.

^c Including livestock, except in Burma, Ceylon, El Salvador, Ghana, Iraq and Kenya; excluding forestry and fishing, except in Burma, China (Taiwan), Federation of Malaya, Greece, Israel, Kenya, Pakistan, Republic of Korea and Republic of Viet-Nam. The crops taken into the 1963 gross domestic product are generally those harvested in the second half of the 1962/63 season or in the first half of the 1963/64 season. The symbols therefore do not always conform to changes between 1962/63 and 1963/64 crops.

^d Quantum index.

^e Weighted aggregate of gross domestic product and imports; the weight attached to imports was derived from the national accounts for 1959.

^f Change between fiscal years: July/June for Pakistan, the Sudan and the United Arab Republic; October/September for Burma.

^g Production of countries for which symbols are shown weighted by the output of the sector in question in dollars in 1959.

from imports than from local production; among these were Australia, Guatemala, the Ivory Coast, the Philippines, the Republic of Viet-Nam, Syria and Tanganyika. At the other end of the spectrum, by contrast, the countries whose trade balance grew more passive generally registered an increase in imports significantly larger, in relative terms, than the increase in domestic product. The exceptions here were limited to Burma, Cyprus and the Federation of Malaya, whose imports rose by 4 per cent or less in quantum. The remainder of these countries experienced a considerable upsurge in imports and it was largely because of this that, on the average of all primary exporting countries, the contribution of imports to total supplies rose fractionally more between 1962 and 1963 than that of domestic output.

In the aggregate, the volume of supplies available to the primary exporting countries was almost 5 per cent greater in 1963 than in 1962. The highest increases were registered in El Salvador, Greece, Guatemala, Jordan, South Africa, Spain, Tunisia and the United Arab Republic. But against these there were a number of countries in which the per capita availability of supplies, whether from internal or external sources, was lower in 1963 than in 1962—Argentina, Brazil, Ceylon, Colombia, India, Iraq, Rhodesia, the Sudan, Syria and Venezuela.

THE USE OF SUPPLIES

The increase in total supplies—from external as well as domestic sources—was sufficient to permit

a small rise in the average per capita level of consumption in the primary exporting countries, and somewhat larger increases in fixed investment and in exports (*see* table 2-11).

In the disposition of supplies there was a sharp contrast between the less advanced and the more advanced of the primary exporting countries—Outer Europe, Oceania and South Africa. Though the gross domestic product of the former, the developing countries, increased only half as much as that of the latter—about 3.5 per cent as against 7 per cent—it was the developing countries that registered the greater expansion in export volume. The developing countries supplemented their domestic production from imports to a much smaller extent than did the more advanced primary exporting countries. Thus, the contrast in the movement of available supplies was even sharper—rather less than 3.5 per cent as against more than 9 per cent. This in turn led to corresponding differences in the changes in consump-

tion and investment. In the developing countries, consumption just about kept pace with the probable growth in population, while in the more advanced primary exporting countries it expanded at the very high rate of about 8 per cent. In the case of fixed capital formation the disparity was of the same order: expansion in the developing countries, at about 5 per cent, was less than a third of that registered in the more advanced countries.

Among the primary exporting countries as a group, the average increase in consumption expenditure between 1962 and 1963 was about 4 per cent. This was somewhat above the increase in the preceding interval but the gains were distributed in a completely different fashion: only a fourth of the primary exporting countries were in the median group with increases of between 3 per cent and 5 per cent over the 1962 level, whereas at the one end of the scale 38 per cent registered a high rate of increase of 6 per cent or more and at the other end 38 per cent

Table 2-11. Primary Exporting Countries: Indicated Change between 1962 and 1963 in the Use of Supplies^a

Country ^b	Total supplies	Consumption	Gross capital formation		Gross domestic expenditure	Exports		
			Fixed investment	Rate of stock accumulation		In current prices	In 1962 prices	In import equivalent
Tanganyika	B	A	B	+	B	F	D	F
Burma ^c	C	C	C	—	C	—A	—B	A
Thailand	C	C	C	+	C	B	B	B
Mexico	C	C	B	+	C	B	...	B
Guatemala	D	C	C	—	C	F	F	...
Tunisia	C	C	C	—	C	C	C	C
United Arab Republic ^d ..	D	C	D	+	C	D	D	D
Nigeria	B	B	C	+	B	C	C	B
Kenya	C	C	A	—	C	E	D	E
South Africa	D	D	D	+	D	B	C	B
Ivory Coast	C	B	E	+	B	E	E	E
Cyprus	C	B	F	...	C	C	C	C
Australia	C	B	D	+	C	E	C	E
Portugal	B	A	A	...	A	D	D	D
Pakistan ^d	B	A	B	+	A	C	F	C
Venezuela	B	B	B	+	B	A	A	A
Rhodesia and Nyasaland ..	B	A	A	+	A	C	B	B
Greece	C	C	C	...	C	E	B	E
El Salvador	C	B	F	—	C	D	C	D
China (Taiwan)	B	B	B	+	B	H	E	H
New Zealand	C	C	D	+	C	D	B	D
Trinidad	C	B	E	+	C	C	C	C
Sudan ^d	A	B	C	—	B	F	G	F
Ireland	B	B	D	+	B	D	C	C
Federation of Malaya ..	B	B	C	+	B	B	C	B
Ceylon	—B	A	—C	+	A	—B	—B	—C
Turkey	C	C	F	...	C	—B	—C	—B
India	B	B	C	—	B	E	E	D
Spain	C	C	F	...	C	A	—B	A
Philippines	C	B	D	+	B	G	F	F
Morocco	B	B	C	+	B	C	B	C

Table 2-11 (continued)

Country ^b	Total supplies	Consumption	Gross capital formation		Gross domestic expenditure	Exports		
			Fixed investment	Rate of stock accumulation		In current prices	In 1962 prices	In import equivalent
Israel	C	C	B	—	C	F	F	F
Viet-Nam (Republic of)	C	C	—C	+	B	F	F	F
Iraq	—B	—B	—C	—	—C	D	D	D
Ghana	C	B	E	...	C	C	B	C
Korea (Republic of) ..	C	A	F	+	B	H	H	H
Argentina	—C	—B	—E	—	—C	D	D	D
Colombia	A	A	A	—	A	—B	A	A
Chile	C	C	B	+	C	B	B	B
Brazil	B	A	A	—	A	D	D	D
Average, ^a above countries	5	4	9		5	10	8	9

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat; replies of Governments to the United Nations questionnaire of November 1963 on economic trends, problems and policies.

^a In the absence of official figures, many of the symbols in this table are based on "indicators" derived from national statistics of trade, production and public finance. Where indicators were used, changes in expenditure reflect "apparent disappearance" (production minus exports plus imports, with due allowance for inventory changes whenever possible). Consumption was measured by the apparent disappearance of major food items, textile items, consumer durables and other items, weighted in most instances in the same way as the cost-of-living index. Fixed capital formation was measured by the apparent disappearance of cement, steel, machinery and major producer durables, generally aggregated by value. In some countries, an index of construction activity was also used in assessing investment changes. In most cases the indicators were computed in real (physical) terms: where values were used, they were

reduced to a constant (1960) price basis by means of the most appropriate available deflator. Where official estimates were used, they were usually preliminary figures. In general, the indicators were based on a comparison of figures for at least the first three quarters of 1963 with those for the corresponding period in 1962. The symbols indicate a percentage range of increase or decrease (—): A = —1 to 1; B = 2 to 5; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 to 30; G = 31 to 40; H = 41 and over.

^b Countries are arrayed in ascending order of increase in the cost-of-living index, averaging the change between 1962 and 1963 and the change during 1963.

^c Change between 1961/62 and 1962/63 (October/September).

^d Change between 1961/62 and 1962/63 (July/June).

^e Indicated change in supplies, consumption, fixed investment and gross domestic expenditure for countries listed, weighted by the 1959 gross domestic product, in current dollars; changes in exports for countries listed weighted by export values in 1959.

failed to raise consumption in line with population growth.

In some of the cases in which consumption declined or lagged, the explanation lies in the inadequacy of supplies: in Ceylon, Colombia, Rhodesia and Nyasaland and Venezuela, for example, there were declines or lags in investment and exports also. In other cases, the available supplies were devoted to a much greater extent to exports (as in Argentina, Brazil, India, Iraq, Portugal, Syria and Tanganyika) or to investment (as in Morocco and Trinidad) or to both investment and exports (as in Pakistan, the Philippines and the Republic of Korea). Conversely, among the countries with high rates of increase in consumption were some for which this meant relatively low rates of increase in exports (Burma, New Zealand, Spain, Turkey) or in investment (Israel, Kenya, Republic of Viet-Nam) or in both (Chile, Greece, Mexico, Thailand). In only a small number of countries was the growth of supplies sufficient to sustain over-average

expansion in all three forms of expenditure; they include Australia, Guatemala, South Africa, Tunisia and the United Arab Republic.

Among the countries registering a modest 1-2 per cent increase in per capita consumption there was, on the whole, a vigorous expansion of both investment and exports. It was below or on average in the Federation of Malaya and Nigeria, but appreciably above average in El Salvador, Ghana, Ireland, the Ivory Coast, Jordan and the Sudan. In China (Taiwan), there was a sharp increase in exports but investment lagged, while in Cyprus the reverse was true. In general, this group with average growth in consumption registered only moderate increases in the retail price level, ranging from about one per cent in Cyprus and the Ivory Coast to about 4 per cent in the Federation of Malaya. Ghana was the only country outside this range and here prices were affected by import control and higher customs duties imposed in the face of a continuous deterioration in external balance.

As in the case of consumption, fixed capital formation registered a higher average increase between 1962 and 1963 than in the preceding interval—just under 9 per cent compared to approximately 6 per cent. Rather less than a fourth of the countries were in the median group with expansion of from 7 to 11 per cent. A similar number invested less—or at least not significantly more—in 1963 than in 1962. At the other extreme, about a sixth of the primary exporting countries raised their fixed capital formation by more than 20 per cent. The remainder were distributed about the median—a group of a seventh with increases of from 4 to 5 per cent and a similar group with increases between 12 and 20 per cent.

There was some tendency for the countries with particularly strong inflationary pressures to be concentrated in the group with poor investment performance in 1963: among the countries registering retail price increases of 7 per cent or more in 1963, only Chile, Ghana and the Republic of Korea increased their fixed capital formation. These increases in investment—small in Chile, quite large in the other two countries—were achieved by increasing imports and placing the external balance under some strain. The high rate of capital formation in Turkey was also achieved at the expense of external liquidity. In the other members of the high-investment group—El Salvador, Pakistan, South Africa and Spain—on the other hand, the expansion in 1963 took place with only incipient price rises (most marked in Spain) and without any strain on the external balance.

More generally, the evidence of price changes indicates that, though it was only in a small number of countries that the problem was of critical dimensions, demand was tending to outrun supply rather more frequently in 1963 than in 1962. Thus, the movement of retail prices, as measured by a cost-of-living index—though a very imperfect indicator—suggests a perceptible intensification of inflationary pressures in the primary exporting countries in 1963. Of the seventy primary exporting countries for which significant indices are available, about 36 per cent—the largest group—registered some degree of acceleration in price rise in 1963 (compared with movement during 1962). In the second largest group (comprising rather more than a fourth of the total) prices continued to rise at more or less the same rate as in 1962. In rather less than a fourth of the countries there was a discernible deceleration in the rate of price increase, while in about an eighth there was virtual price stability. In only one country (Burma) did retail prices continue to decline in 1962 and 1963 (*see* table 2-12).

The proportion of countries registering an increase of more than 5 per cent in retail prices rose

from about 25 per cent in 1962 to over 30 per cent in 1963; the proportion registering an increase of 10 per cent or more rose from a seventh to a fifth and the proportion registering a decline in prices (about 5 per cent) was half what it was in 1962. The group of countries in which the cost of living rose by more than a fifth in the course of 1963 contained all those that had been in this category in 1962—Argentina, Brazil, Chile, Congo (Leopoldville) and Indonesia—but it also included Colombia and the Republic of Korea, where inflationary forces, after having remained quiescent for several years, resumed more overt form.

Changes in money supply in the primary exporting countries in 1963, while more or less parallel in a majority of cases with the increase that had occurred in production, trade and incomes, also contain evidence of the expansion of inflationary pressures. The proportion of countries in which the per capita supply of money declined in the course of the year dropped from about 17 per cent in 1962 to about 7 per cent in 1963. Contrariwise, the proportion in which the per capita supply of money rose by more than a sixth rose from 15 per cent to 24 per cent. In this latter group, moreover, a great majority of the countries (85 per cent) registered some acceleration in the rate at which the money supply was increasing. The proportion of countries in which the expansion in money supply was less than in the previous year (or in which expansion had given way to contraction) was about 22 per cent in 1963, compared with 33 per cent in 1962 (*see* table 2-13).

Among the countries in which money supply ran far ahead of domestic expenditure, the principal component in a majority of countries was the expansion of credit in the private sector. In Colombia this was the sole factor, far outweighing the contractionary effect of a reduction in foreign assets. In Brazil, the Philippines, the Sudan, Syria and Tunisia it was accompanied by a comparable expansion in credit to the public sector, in El Salvador by a comparable expansion in foreign assets, and in Israel, Pakistan and Portugal by increases in both government credit and foreign assets.

In Colombia, where there was a general raising of minimum wages early in 1963, new indirect taxes (first on beer and gambling, later on motor spirit and various consumer goods) and new direct taxes (first on incomes and capital, later on gifts and bequests) were introduced in order to avoid a budget deficit. A rise in public investment was matched—at least in part—by a cut in the administrative budget. The fiscal deficit which nevertheless emerged later in the year was financed by the peso proceeds of certain earlier foreign loans. Austerity was more

Table 2-12. Primary Exporting Countries: Distribution of Changes in Cost of Living,^a 1962-1963

Trends in 1963 ^b	Total	Countries in which, in relation to the corresponding period in 1962, the cost-of-living index at the end of 1963 was ^c					
		98 or less	99-101	102-105	106-109	110-120	over 120
Trend continued	28	Burma	Australia Cyprus Greece Guatemala Iran Ivory Coast South Africa Thailand Tunisia	British Guiana El Salvador Honduras India Ireland Madagascar Morocco New Zealand Nigeria Northern Rhodesia Portugal Turkey Uganda	Cameroon Ecuador Peru Philippines		Argentina
Trend decelerated	15		China (Taiwan) Kenya Mexico Puerto Rico Southern Rhodesia Bolivia	Costa Rica Sudan Surinam Trinidad and Tobago	Israel Spain	Dominican Republic	Congo (Leopoldville) Indonesia
Trend accelerated	20			Ceylon Federation of Malaya Hong Kong Jamaica Nicaragua Panama Senegal Upper Volta	Chad Republic of Viet-Nam	Cambodia Gabon Ghana Iceland Iraq	Brazil Chile Colombia Republic of Korea Uruguay
Trend reversed	7	Mozambique Tanganyika	United Arab Republic	Niger Pakistan Sierra Leone Venezuela			
Total	70	3	16	29	8	6	8

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

^a Usually in the principal urban centre or centres; referring, in some cases, to particular population or income groups and, in some cases, with restricted com-

modity coverage.

^b The change between the end of 1963 and the end of 1962 as compared with the change between the end of 1962 and the end of 1961.

^c In most cases the average for the month of December, but in some cases an earlier month and in others the average for the last quarter.

in evidence in the public sector than in the private sector: private credit continued to expand, despite an increase in the minimum ratio of reserves to sight and short-term deposits laid down for the commercial banks.

The expansion in the Brazilian money supply was at the accelerated rate that had emerged in 1962 and it occurred in the face of various disinflationary steps, including the imposition early in 1963 of a ceiling on the credit creation of the Central Bank, the raising of compulsory deposits to be made by the commercial banks and cuts in the degree to which petroleum, wheat and public transport were subsidized. In mid-1963 a beginning was made on reform of the tax system and a compulsory loan in

the shape of a temporary surtax was introduced. But to compensate public employees for the continuing rapid rise in the cost of living, salaries were increased by 70 per cent and shortly afterwards a general system of family allowances was introduced, both serving to expand very considerably the budgetary deficit.

In the Philippines, prices began to rise at a faster pace in the second half of the year—the cost of living increased about 8 per cent between June and October—and the Government took disinflationary action: the reserve requirements of the commercial banks were raised, government deposits with them reduced, and their re-discount quotas with the Central Bank cut. A lengthy port strike caused a lag

Table 2-13. Primary Exporting Countries: Distribution of Changes in the Supply of Money, 1962-1963

Index of change in money supply ^a (corresponding figure in preceding year=100)	Countries in which, as relation to the trend during the preceding year, the trend during the indicated year ^b registered:												
	Number of countries		Continuation			Deceleration			Acceleration			Reversal	
	1962	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962	1963	
Less than 97.5	1	1											
98-100	5	1											
101-103	3	2											
104-110	15	16											
111-117	22	21											
118 and over	8	13											
TOTAL	54	54	7	17	14	10	24	21	9	6			

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*, and national sources.

^a An arithmetic average of the change during the year (measured between successive year ends) and the change in the average (measured quarterly) between successive years.

in imports and in customs collections—an important source of revenue—and the Government announced a reduction in budgeted spending in order to slow down the increase in its indebtedness to the banking system.

In some countries the growth of government borrowing was the principal factor in the rise in money supply. It was accompanied by an expansion in private credit in Ceylon, Chile, India and the United Arab Republic and by an increase in foreign assets in Iraq and Mexico. In Chile, what was already a large budget deficit was magnified in the second half of 1963—just as the rate of expansion in output in mining and manufacturing began to slow down—by various unplanned outlays, such as a sizable increase in salaries in the public sector, designed to compensate for the rapidly rising cost of living. The acceleration in the rate at which prices were rising was also reflected in a raising of the maximum rate of interest—from 14 per cent in the first half of the year to 17 per cent in the second half. The consequent weakening of the bond market tended to inhibit government borrowing from the public.

In Argentina, where disinflationary measures had resulted in a sharp cut in private credit in 1962, there was a marked acceleration in money supply in 1963. It was spurred by a record budget deficit but, as the year progressed and unemployment increased, controls over private liquidity were relaxed and, for the year as a whole, there was a substantial increase in private credit and—in the wake of a major swing from deficit to surplus on merchandise account—also in foreign assets.

In Mexico, where the favourable external balance helped to increase domestic liquidity, the Government continued its policy of absorbing funds through bond issues designed to finance future investment in infrastructure and in other areas—notably

low-rental housing—generally unattractive to private capital. There was a contraction of credit to the private sector despite several measures aimed at liberalizing lending and directing funds into productive investment, housing and exports. Nevertheless, the expansion in total money supply in 1963 was about three times as great as the increase in gross domestic expenditure.

In China (Taiwan), the rise in foreign assets—associated with a 50 per cent increase in export receipts—was the main expansionary force, though there was also a marked rise in private credit. The principal step taken to contain the effects of increased liquidity was the liberalization of imports: these rose to a record level, a fifth higher than in 1962.

Among the countries for which appropriate data are available, the only others to experience an increase in the supply of money significantly greater than the increase in domestic expenditure were Greece, the Republic of Viet-Nam and Spain. In all three countries expansion occurred in both private and government credit and in foreign assets.

In the aggregate—taking into account not only the countries referred to above but also those in which the rise in the supply of money was more in line with the increase in expenditure—the most expansionary force was private credit in about half of the cases, government credit in about a third and foreign assets in about a sixth. Government credit was an auxiliary factor in half the countries, foreign assets in rather less than half and private credit in rather more than a third. A decline in foreign assets was by far the most important countervailing contractionary force: it operated in 38 per cent of the countries, whereas government credit was cut in only a fifth of the countries and private credit in less than an eighth.

Outlook⁸

Because of the widespread improvement in external balance in 1963, the primary exporting countries generally entered 1964 in better economic shape than they had enjoyed at the outset of the Decade of Development. Their combined liquidity had received a considerable boost during 1963 and the average price of their major export products in the first quarter of 1964 was almost 9 per cent above the corresponding figure a year earlier. And the import requirements of the industrial countries that constitute their main market were still rising. Com-

mercial stocks were in most instances in reasonable relationship with current rates of absorption, and the latter were generally still moving upwards. Government-held stocks, though relatively large in some cases, were being disposed of, if at all, in a manner calculated to stabilize rather than disrupt international markets. All in all, market prospects for the primary exporting countries continued to be favourable.

Among the major commodities entering international trade, relatively few seem likely to yield a lower average export unit value in 1964 than in 1963. Among the principal food-stuffs, rice and sugar are the only items for which the market bal-

⁸ This section is based in part on replies received from Governments to the United Nations questionnaire of November 1963 on economic trends, problems and policies.

ance has changed perceptibly: the 1963/64 rice harvest is at a record high, with substantial increases in the output of some of the leading net importers, while the 1963/64 sugar crop is 8 per cent above that of 1962/63 and only slightly below the 1960/61 record, with a sharp recovery in Europe and further gains in North America, the main importing regions. Cocoa and the poorer grade of tea may also yield lower unit values, though in these cases the average for the year as a whole depends much more heavily on output in the second half.

In the case of the vegetable seeds and oils, indications are that lower unit values may be realized for the softer oils—particularly olive, which was in very short supply in 1962/63, but also soya-bean and ground-nut—and rather higher unit values for the harder (palm) oils and also for linseed oil. Tobacco seems unlikely to hold the sharp rise in unit values realized in 1963.

The only other agricultural commodities for which 1964 is unlikely to bring any strengthening of the market are the principal raw materials, the supply of which has risen in the face of erosion of demand by substitutes. Most important among these are cotton—particularly the short and medium staples—rubber and hides and skins. The striking failure of rubber prices to respond to the great upsurge in motor-car production in 1962 and 1963 is evidence of the extent to which the capacity to produce synthetic types has expanded; in 1964 the price of natural rubber will probably continue to bump along the floor set by that of synthetic.

Among the minerals there is a sharp contrast between the ferrous and non-ferrous sections of the market. Among the latter, prices were rising through most of 1963 and the early months of 1964 so that the average export unit value for 1964 is almost certain to be appreciably above the 1963 level. Among the ferrous metals, on the other hand, excess capacity in the steel industry, along with continuing competition from substitute materials, still seems to be exerting a depressing effect. There are few signs of any immediate recovery in the unit values of iron, manganese and chromium ores. Excess capacity is also likely to prevent any increase in petroleum prices; indeed the discounts quoted increasingly in the past few years will probably continue to be a feature of the market, though not one that affects the receipts of most of the resource countries.

Subject to the qualifications implicit in this assessment of market prospects of individual commodities, the foreign exchange earnings of the primary exporting countries seem likely to continue to increase at a substantial over-all rate. There is no reason to expect receipts from the sale of services—labour, transit, tourism, shipping and so on—to cease the

strong upward movement of recent years. And in the light of pledges already made, loans negotiated but not yet disbursed, and the greater attractiveness that the improvement in external balance of many of the primary exporting countries may be expected to exert on private investors, it is not unlikely that capital receipts in 1964 will exceed those of 1963, at least in the aggregate.

One of the reasons for the massive improvement in external liquidity in 1963 was the tendency for imports to lag well behind exports. Import expenditure picked up in the course of the year—almost the whole of the increment in the imports of the developing countries occurred in the second half of 1963—and, given the general easing of balance of payments pressures, the expansion in imports may be expected to continue in 1964. Even if export earnings are buoyant, there is unlikely to be another major increase in reserves. Indeed, many countries may be prepared to countenance a reduction in liquidity in the interest of meeting development needs.

From what is known of 1963/64 crops, total agricultural output in the primary exporting countries is likely to show a greater advance over the preceding season than was the case in 1961/62 or 1962/63. With foreign exchange availability constituting less of a bottle-neck and with incomes in the export sector registering a further advance, it is probable that industrial production will also increase to a greater degree than it did in 1963. In the aggregate, therefore, the scene would appear to be set for an expansion in gross domestic product greater than has so far been achieved in the nineteen sixties.

Aggregates and averages, however, will again conceal wide divergences in individual country performance. This is not to say that advances in exports, in liquidity and in domestic production will be concentrated in the more developed of the primary exporting countries in the way in which they tended to be in 1963. Some of these countries were beginning to show signs of strain by the end of the year. In Australia and New Zealand, for example, unemployment had been reduced to extremely low levels and in South Africa various bottle-necks had emerged, most notably in the construction industry. Early in 1964, monetary restraints began to be applied in Australia and then in New Zealand, raising interest rates, reducing commercial bank credit and tightening minimum hire-purchase terms. In South Africa a number of capital projects in the public sector were postponed.

Though the contrast between the more advanced and the less advanced of the primary exporting countries may thus be less marked in 1964 than it was in 1963, there are a number of significant disparities within the less developed group itself which

are likely to make for differences in performance in 1964. To judge by developments in 1963, perhaps the most significant of these are the inflationary wage/price spiral and the agricultural bottle-neck. The lag in countries in which these factors operated accounted for most of the difference in growth rates between the developing countries and the more advanced primary exporting countries in 1963. And they are likely to hold down growth rates in a number of developing countries in 1964. The problem which remains to be solved is that of raising domestic productivity and imported supplies at a rate which would be sufficient to forestall inflationary demands for higher wages and incomes.

By severe deflationary measures, Argentina has put itself into better external balance, but at the expense of a sharp drop in gross domestic product. It is in a position to let imports expand in 1964 but, with the budget still running a substantial deficit, the large increase in industrial production that is required will have to be accompanied by increased saving if the inflationary cycle is not to be set off again. Even though imports have been virtually frozen for four years, Brazil has not yet improved its external balance to the point at which the expansion required for further internal development can be contemplated. The rise in hard *arabica* coffee prices that started in the third quarter of 1963 and was still under way in the early months of 1964 will assist in reducing balance of payments pressure⁹ and a resumption of capital inflow is likely to assist, but the year began with a doubling of the minimum wage and the budget deficit is the largest ever, so that the task of slowing down the rise in domestic prices will require a massive increase in available supplies. A very poor 1963/64 maize crop and a large continuing wheat shortfall magnify the difficulties in the way of this objective.

Other countries suffering from chronic and acute internal disequilibrium—such as Chile and Indonesia—face similar tasks. In Chile the advantages accruing from the devaluation of October 1962 were completely negated by the rise in prices in 1963. In the inflationary circumstances prevailing, wage agreements negotiated in 1963 were to last only a single year and another round of wage increases is expected in 1964. In combination with another budgetary deficit, this will complicate the problem of

stabilization. The rise in copper prices that started early in 1964 may make it easier to increase supplies from abroad, but, as in the case of Brazil, the extent to which foreign exchange earnings will benefit is rendered doubtful by the fact that one of the factors inducing the rise in price was an expected cut in Chilean output in consequence of a labour strike.

In the case of Indonesia, little assistance can be expected from the movement of export prices. The stabilization measures enacted in May 1963 were aborted partly by the country's inability to finance a larger volume of supplies from abroad, partly by the continuation of a large budget deficit. Both difficulties have been carried forward into 1963/64. The external problem, indeed, seems to have been accentuated by another poor rice harvest: with an output not significantly above the average for the second half of the nineteen fifties, a further increase in imports will be necessary.

Agriculture also poses problems in many developing countries that are not in the grip of acute inflation. In India, for example, the growth of agricultural output in the course of the current (third) five-year plan has been only about half the target rate of 5 per cent per year—barely keeping pace with population. Though 1963/64 wheat and rice crops are likely to be well above the disappointing yields of the two preceding seasons, the food grain objectives of the plan are not likely to be realized. This failure continues to complicate both the task of holding the domestic price level in the face of rising demand and the task of maximizing the development potential of the import basket.

The United Arab Republic also faces agricultural difficulties arising from high population density and rate of growth. Here the Government is taking an increasing part in production decisions, aiming to raise yields per acre and to secure an optimum division of farm capacity between cotton (largely for export) and rice and other grains (largely for domestic consumption). With food production rising at only about one per cent a year, food imports have come to play an essential development role and food aid—largely from the United States—has come to be a vital form of economic assistance.

Where agriculture has not been such a drag on the economy, production expectations for 1964 are generally much higher. In China (Taiwan), for example, agricultural output is expected to sustain higher exports and domestic price stability and an 8 per cent increase in gross national product is projected for what is the final year of the third four-year plan. In Mexico, agricultural output is also expected to rise in the wake of recent investment in irrigation and the year should be one of balanced

⁹ The extent to which Brazil's coffee earnings may be expected to rise, however, is by no means certain. One of the reasons for the increase in coffee prices has been the decline in Brazilian production which has helped to bring supply down nearer to recent levels of consumption. But first estimates of the 1964/65 crop suggest that drought and frost have reduced output to less than 40 per cent of the average of the second half of the nineteen fifties. Unless there is a rapid recovery of damaged trees, the benefits of the price rise will accrue only to Brazil's competitors.

growth. In Thailand, a rise in yield per acre is expected to result in an increase of rather more than 3 per cent in agriculture. As other sectors will be expanding more rapidly—manufacturing at 10 per cent—a gross national product growth of just under 6 per cent is projected. This may require a larger increase in imports than can be financed by increased exports—given current price expectations for rice, rubber and jute—and reserves may be drawn upon for the purpose.

In these and in other countries where, under development plans, growth rates ranging from 5 to 9 per cent are expected in 1964, the targets set for agriculture remain vulnerable to unfavourable turns in the weather and other natural conditions. And,

agriculture still being the dominant contributor to the gross domestic product—and often to foreign exchange earnings as well—over-all rates of growth remain correspondingly vulnerable.

Perhaps the most important outcome of the generally favourable external circumstances enjoyed in 1963 and promised for 1964 may lie in the opportunity that will have been provided to apply additional resources to meet the two development problems that have emerged so clearly in recent years—the almost universal need to stabilize and make more productive domestic agriculture and the not unrelated need (less widespread but more pressing) to restore a better balance between demand and the available supply.

Chapter 3

RECENT TRENDS IN THE CENTRALLY PLANNED ECONOMIES

Industrial production of the centrally planned economies of eastern Europe continued to increase at high rates in 1963. The pace of expansion continued to slow down throughout the region, however, and in Czechoslovakia industrial output actually declined.

The total output of agriculture in eastern Europe was seriously affected by the decline in production in the Union of Soviet Socialist Republics, where particularly adverse weather caused a sharp decline in crops and the resulting fodder shortage led to a reduction in livestock. In other countries agricultural production increased, in some cases substantially. Here too, however, unfavourable weather was a factor restraining the expansion of output.

As a consequence of these changes in the two major sectors of the economy, the growth of national income slowed down in most countries of eastern Europe. In Czechoslovakia, national income actually declined in 1963.

In mainland China, a further improvement in industrial and agricultural production occurred for the second consecutive year, indicating the continuation of the process of recovery from the very low level of output of 1960 and 1961.

Investment activities also presented a rather diversified pattern of change. In all but two eastern European countries, the growth of fixed investment slackened in 1963. Czechoslovakia, however, experienced a very steep decline in fixed investment.

In all centrally planned economies, retail sales and personal consumption increased in 1963; in some countries the increase was faster than in 1962. The over-all balance between supply and demand for consumer goods was maintained in some countries but deteriorated in others either because of the

greater than anticipated increase in money payments or the lower than planned increase in supply. Specific shortages, especially of products of animal husbandry and some manufactured consumer goods, were apparent in most countries. On the other hand, in some countries the inadequate structural adaptation of supply to demand resulted in a further accumulation of stocks of consumer goods.

In general, there were some increases in both money wages and prices in 1963. On balance, however, there was a small improvement in real wages.

Foreign trade of the European centrally planned economies as a group also slackened in 1963, mainly because of the slowing down in the trade of the Soviet Union, which is by far the largest trading country in the region. The trade of the centrally planned economies with the rest of the world increased more slowly than their trade among themselves. This was in contrast to developments in 1962 when the pattern was just the reverse. In mainland China, trade with the European centrally planned economies continued to decline in 1963, while trade with the rest of the world increased.

Among the policy problems of 1963, those which aroused particular interest were the increasing tendency towards important reforms of the methods of planning and management; the exceptional situation in Czechoslovakia where internal and external imbalances, similar in some respects to those experienced by other centrally planned economies, resulted for the first time in an absolute decline in output, and changes in agricultural policy of the Soviet Union which are expected to have far-reaching effects on future growth of output and of exports of agricultural commodities to other centrally planned economies.

Developments in agriculture

The developments in agriculture in 1963 were influenced by the adverse weather which resulted in a decline in yields of certain crops and by scarcities of fodder which seriously affected animal husbandry in most eastern European centrally planned economies. The impact of the adverse weather on

agricultural production was most pronounced in the Soviet Union, where it caused a sharp decline both in crops and in livestock numbers. In other European countries, declines in certain crops—particularly grains—were compensated by increases in others and, consequently, total output was gener-

ally higher than in 1962. In contrast, because of fodder shortages resulting in part from the inadequate harvest in 1962, output of animal husbandry declined in virtually all of the centrally planned economies. In all European centrally planned economies, the output levels reached in 1963 were substantially below the targets set in the annual plans. Among countries for which global data are available, the highest rate of increase—more than 6 per cent—was achieved by Czechoslovakia, followed by Hungary and Poland, which increased their agricultural output by close to 5 and 4 per cent, respectively (see table 3-1).

In Czechoslovakia, the favourable results achieved in 1963 were not sufficient to compensate for the fall in output suffered in 1962; in consequence, the past year's output has remained about 2 per cent below the levels reached in 1960 and 1961. In Poland, also, the losses suffered in 1962 were not en-

tirely recovered, but while the exceptionally high 1961 level of agricultural production has not been regained, the 1963 output was about 5 per cent higher than that of 1960. In Hungary, where production fell by about 5 per cent between 1959 and 1960 and increased by an average of one per cent per year in 1961 and 1962, the improvement achieved in 1963 raised output almost 7 per cent above the level of 1960 and some 2 per cent above that of 1959.

In Bulgaria, agricultural production increased by less than one-half of one per cent between 1962 and 1963 and was only slightly higher than in 1960. The rise was not much greater in Eastern Germany; in 1963 it was one per cent greater than in 1962, and still below the level reached in 1960. In Romania, for which no data on total agricultural output are available for 1963, production seems to have increased in the order of 3 per cent, following a 9 per

Table 3-1. Changes in Gross Agricultural Output, 1960-1963
(Percentage change over preceding year)

Country and item	1960	1961	1962	1963	
				Planned	Actual
<i>Bulgaria</i>					
Gross agricultural output	3.3	-3.5	4.2	17.0	0.4
Crops	1.8	-9.3	8.8	...	...
Animal products	6.4	8.4	-3.7	...	...
<i>Czechoslovakia</i>					
Gross agricultural output	5.4	—	-7.6	9.5	6.5
Crops	9.6	-3.1	-12.0	18.4	15.0
Animal products	1.6	2.9	-3.2	1.3	-1.5
<i>Eastern Germany*</i>					
Gross agricultural output	6.3	-1.5	0.3	1.0	1.0
<i>Hungary</i>					
Gross agricultural output	-4.9	0.7	1.6	12.5	4.5
Crops	-6.1	-3.9	3.9	20.0	8.5
Animal products	-5.1	6.4	-0.3	6.0	-1.5
<i>Poland</i>					
Gross agricultural output	5.4	10.4	-8.5	5.8	3.8
Crops	7.9	11.6	-14.2	11.6	11.3
Animal products	1.9	8.5	—	-2.0	-6.1
<i>Romania</i>					
Gross agricultural output	1.6	8.0	-8.9	17.0	...
Crops	-1.7	3.4	-9.0	20.9	...
Animal products	9.4	18.7	-9.1	10.2	...
<i>USSR</i>					
Gross agricultural output	2.3	2.6	1.3	...	...
Crops	3.6	2.0	—	...	...
Animal products	-1.0	4.5	2.5	...	...

SOURCE: Reports on fulfilment of plans; national statistical yearbooks and statistical bulletins, and replies of Governments to the United Nations questionnaire of November 1963 on economic trends, problems and policies.

* In current prices; the percentage increase

in output in 1963 is estimated on the basis of data on plans for 1963, actual data on 1962 and the statement indicating that the plan has been fulfilled. See *Die Wirtschaft* (Berlin), 7 October 1963 and *Neues Deutschland* (Berlin), 5 January 1964.

cent decline in 1962 and an 8 per cent increase in 1961. In consequence, agricultural production in 1963 was still below the level reached in 1961 and only slightly above that of 1960. In the Soviet Union, the fall in agricultural production in 1963 cannot be assessed with any precision. It seems, however, that this decline was at least equal to and most likely greater than the cumulative gains achieved in the three preceding years when total production was increasing at an average annual rate of about 2 per cent.

In mainland China, for which no output data have been announced after 1959, the situation in agriculture seems to have improved in 1963 for the second consecutive year. Grain output, which, according to official statements, has exceeded the 1953-1957 average, was still substantially below the exceptionally high production levels of 1959, but considerably above the extremely low levels of 1960 and 1961. Compared to 1962, the estimated grain output was some 10 per cent higher in 1963. Output of animal husbandry, especially of pork, and production of vegetables also improved, partly because of a substantial increase in output on the private plots of members of collective farms.

The main feature marking the slow progress of agricultural production in the centrally planned economies of eastern Europe during the past three years has been the stagnation in grain output. Output of principal grains in countries other than the Soviet Union has remained, during the past three years, consistently below that of 1960.¹ In the Soviet Union, which is the main supplier of grain to other centrally planned economies, grain production rose by 3 per cent in 1961 and by another 7 per cent in 1962 but it fell sharply in 1963. It should be added that in 1959, 1960 and 1961 grain production was lower than in 1958 and in 1962 it exceeded the level reached in 1958 by 5 per cent.²

The most significant change in crop production took place in the Soviet Union, where the exceptionally adverse weather affected almost all regions of the country and resulted in a disastrous decline. No official data were published on Soviet grain output in 1963 and, therefore, only very broad estimates can be made on the basis of indirect information. The announced purchase of 14 million tons of grain from abroad cannot be considered as indicat-

ing the magnitude of the decline in output since, in addition to foreign imports, the deficit could have been covered, at least in part, by a reduction in exports and by the decumulation of stocks.³ Assuming that the Soviet grain output declined in the same proportion as state procurements, that is, by about 21 per cent, the output of grain in 1963 would amount to some 118 million tons, that is, about 30 million tons less than in 1962. There are reasons to believe, however, that output has fallen proportionally more than deliveries. As in some areas all crops were destroyed or at least fell below the critical level, an increase in the ratio of deliveries to output in less affected areas could have been imposed as an emergency measure, necessary not only to ensure the required supply to the urban population but also to provide grain to the most affected state and collective farms. Such a rise in the share of procurements in certain areas could have been conceived as a temporary measure to be followed later by a reverse flow of grain from the State to the farms after an improvement in total supply had been brought about through imports. In consequence, total deliveries could have declined proportionately less than output in the exceptional situation of 1963, although in the past fluctuations in either direction have usually been more pronounced in deliveries than in output. In fact, a statement made at the end of 1963 by the Chairman of the Economic Committee of the Council of Nationalities of the Soviet Union seems to imply that the actual percentage decline in grain production might have been much greater than the 21 per cent fall in government purchases of grain.⁴

In contrast to output of grain, that of industrial crops and potatoes in the Soviet Union was more

¹ Total exports of grain declined from 7.8 million tons in 1962 to 6.2 million tons in 1963. It is possible that the fall in 1963 output may have a greater impact on 1964 exports.

² According to this statement, published in *Pravda* (Moscow), 17 December 1963, average annual output of grain during 1959-1963 exceeded the annual average during the preceding five years, 1954-1958, by 900 million poods, that is, by 14.7 million tons. Since the annual average output of grain during that period amounted to 113.2 million tons, the increase of 14.7 million tons would raise the annual average production in 1959-1963 to 127.9 million tons. In consequence, total output during the five-year period would amount to 639.5 million tons and, since grain production during 1959-1962 was equal to 546.5 million tons, the residual, that is 93 million tons, would correspond to the 1963 production. Compared to the 1962 output of 148 million tons, this would indicate a decline in grain production of 55 million tons, that is, about 37 per cent of the 1962 output.

It should be added, however, that this calculation is based on the most commonly used statistical series which, in addition to grain, includes pulses and maize in the lacto-cereotic stage. Another series, provided by the *Statistical Yearbook* of the Soviet Union, does not include unripened maize. On the assumption that the data indicated in the above-mentioned statement refer to the less comprehensive series, it may be inferred that the output of grain fell from 140 million tons in 1962 to 109 million tons in 1963, that is, by 31 million tons or 22 per cent.

¹ Compared to 1960, the output of principal bread grains of eastern European countries other than the Soviet Union was smaller by 3.5 per cent in 1962 and by 5.4 per cent in 1963. The aggregate index of output of principal grains—wheat, rye, barley, oats and maize—based on 1960 = 100, was in 1961: 98.4; 1962: 95.8; 1963: 97.5.

² The index of output of all grains in the Soviet Union based on 1958 = 100 was: 1959: 89.2; 1960: 95.2; 1961: 97.7; 1962: 105. Net exports of grain from the Soviet Union to the centrally planned economies amounted to 5 million tons in 1960 and 1961 and to 5.9 million tons in 1962.

satisfactory. The cotton crop was excellent, exceeding by more than 20 per cent both the 1962 output and the average output of 1960-1962. No data were published on the output of sugar-beets and potatoes. State procurement of sugar-beets fell by 6 per cent (*see* table 3-2), while procurements of potatoes increased by as much as 40 per cent, which seems to indicate a certain decline in output of sugar-beets and a rise in the potato crop, although not necessarily proportional to changes in procurements. It is likely that the exceptionally large increase in potato procurements was in part the result of emergency measures tending to reduce the effect of the decline in government purchases of grain on the food supply made available to the urban population.

In other centrally planned economies, crop production was generally higher than in 1962, although changes in output of various crops were uneven, reflecting differences in the impact of weather on individual crops or changes in their respective acreage.

While no data on crop production are available for Eastern Germany, the comparison of the index of total agricultural production with data on changes

in livestock and increases of products of animal husbandry seems to indicate that the 1963 crop was lower than or at most equal to that of 1962.

In Hungary, output of wheat and barley declined by over 20 per cent, but a 10 per cent increase in maize production partly compensated for this decline; however, since output of other grains fell, total grain output was 6 per cent below that of 1962. Output of sugar-beets increased by 28 per cent and that of vegetables by 10 per cent. Output of fruit also increased.

Bread grain output declined also in Bulgaria and Romania, while the output of maize increased substantially in both countries. In Bulgaria wheat production declined by about 10 per cent but maize production rose by the same percentage and total output of these two crops fell by about one per cent. In Romania, however, the 6 per cent decline in bread grain was more than compensated by a 20 per cent increase in maize, resulting in a 9 per cent increase in aggregate production. The increase in maize was mainly the result of an extension of acreage, achieved at the expense of other crops. Total grain

Table 3-2. Output and Procurement of Major Crops, 1955-1963
(Millions of tons)

Country and item	Grains ^a				Sugar-beets				Potatoes			
	Average 1955-1960	1961	1962	1963	Average 1955-1960	1961	1962	1963	Average 1955-1960	1961	1962	1963
<i>Bulgaria</i>												
Output	4.32	4.34	4.40	4.31 ^b	1.16	1.46	1.12	...	0.34	0.45	0.32	0.41
Procurement	1.1	1.2	1.2	...	1.14	1.42	1.08	...	...	...	...	...
<i>Czechoslovakia</i>												
Output	5.30	5.66	5.69	5.76 ^c	6.29	6.89	5.81	7.73	7.38	5.33	5.00	6.39
<i>Eastern Germany</i>												
Output	6.06	4.84	5.94	...	6.99	4.66	4.97	...	13.0	9.43	13.28	...
Procurement	2.0	1.7	1.9	1.9	6.53	4.41	...	...	3.51	2.96	3.73	3.88
<i>Hungary</i>												
Output	6.39	6.07	6.69	6.29	2.36	2.36	2.65	3.39	2.48	1.63	1.70	1.88
Procurement	1.47	1.52	1.49	1.14	2.28	2.30	2.61	...	0.37	0.43	0.44	0.55
<i>Poland</i>												
Output	13.43	15.46	13.45	14.5	7.66	11.56	10.08	10.60	34.76	45.20	37.82	44.85
Procurement	2.4	2.6	2.0	2.2	7.66	11.56	10.08	10.60	3.07	4.19	4.11	4.65
<i>Romania</i>												
Output	9.27	10.61	9.68	10.4	2.35	2.91	2.18	2.40	2.85	2.88	2.60	2.70
<i>USSR^d</i>												
Output	118.0	138.0	148.2	...	39.9	50.9	47.4	...	84.0	84.3	69.7	...
Procurement	44.4	52.1	56.6	44.8	37.8	47.7	43.9	41.4	7.2	7.0	5.7	8.0

SOURCE: See table 3-1.

^a Data on grain output in the Soviet Union include all cereals as well as unripened corn in terms of grain equivalent and pulses.

^b Based on official data relating to output of wheat and corn and on estimates of production of other grains in 1963. Aggregate crops of wheat and corn amounted

to 3.6 million tons both in 1962 and 1963.

^c Estimated on the basis of reported output of wheat and corn and on preliminary data on yields for rye, barley and oats, assuming that the sown area for these cultures remained the same as in 1962.

^d Average indicated in the first column for each commodity refers to 1954-1960.

production declined in Bulgaria by approximately the same extent as the combined output of wheat and maize, while output of potatoes rose by almost 30 per cent. In Romania, total production of grain rose by 7 per cent and output of sugar-beets increased by about 10 per cent.

The improvement in crop production in Czechoslovakia and Poland was very substantial. In Czechoslovakia the output of wheat increased by 6 per cent, of maize by 34 per cent and of potatoes by 28 per cent, and the sugar-beet harvest was the second highest in post-war years, exceeding the 1962 production by 33 per cent. In Poland, the output of four major crops increased by about one million tons in 1963, that is, by 8 per cent over the preceding year without, however, reaching the level of the exceptionally good harvest of 1961. Potato output increased by 18 per cent and the 1963 crop was the second largest of the decade. Output of sugar-beets also increased, by 5 per cent, despite a reduction in the area under this crop.

Supply of fodder in most of the European centrally planned economies deteriorated under the impact of the poor results of the 1962 harvest and of the 1963 drought. The effect of the decline in the supply of animal feed was particularly adverse in the Soviet Union where the number of pigs declined by 29 million, that is, by about 42 per cent of the 1962 population, eliminating the total increment in pig numbers achieved during the previous seven years (*see* table 3-3). The number of sheep and goats was reduced by 5 per cent, and the number of cattle fell by about 2 per cent, even though the number of cows increased slightly. The considerable difference between the decline in pigs and that in cattle was obviously the effect of a deliberate policy which tended to reallocate the reduced supply of animal feed in such a way as to preserve the stock of cattle at the expense of pigs, the numbers of which can be recovered at a much faster rate. The percentage decline was somewhat higher for privately owned cattle than for the stock belonging to the state and collective farms, and substantially greater for privately owned sheep and goats. In contrast, the decline in pig numbers, which was as high as 49 per cent in the state and collective farms, amounted to only 19 per cent for the privately owned stock.

In other countries, which were much less affected by the deterioration in the supply of animal feed, the decline in livestock was considerably less than in the Soviet Union. It is notable, however, that in some of these countries the percentage decline in cattle was greater than in the Soviet Union.

In Hungary, the number of cattle fell by 5 per cent and that of cows by 4 per cent, while the number of pigs declined by about 10 per cent. In ab-

Table 3-3. Livestock Numbers,^a 1961-1963
(Thousands)

Country and year	Cattle		Pigs	Sheep
	Total	Cows		
<i>Bulgaria</i>				
1961	1,783	599	2,331	10,161
1962	1,759	600	2,066	10,107
1963				
<i>Czechoslovakia</i>				
1961	4,518	2,062	5,895	603
1962	4,507	2,045	5,897	524
1963	4,480	1,984	5,845	678
<i>Eastern Germany</i>				
1961	4,548	2,176	8,864	1,930
1962	4,508	2,092	8,045	1,792
1963	4,614	2,102	9,289	1,899
<i>Hungary</i>				
1961	2,021	848	8,423	2,643
1962	2,003	806	7,772	2,850
1963	1,908	773	7,041	3,043
<i>Poland</i>				
1961	9,168	5,915	13,434	3,494
1962	9,589	6,022	13,617	3,300
1963	9,840	6,070	11,653	3,100
<i>Romania</i>				
1961	4,707	2,144	4,665	12,285
<i>USSR</i>				
1961	82,077	36,336	66,702	144,498 ^b
1962	86,988	37,967	69,964	146,410 ^b
1963	85,300	38,200	40,700	139,200 ^b

SOURCE: See table 3-1.

^a Based on end of year counts in Bulgaria, Czechoslovakia, Romania and the Soviet Union; December count for Eastern Germany; October count in Hungary, except for sheep (March); July count for Poland.

^b Including goats

solute terms, the number of cows privately owned by members of collective farms and other individuals—about 50 per cent of the total—declined by 57,000, while the total decline amounted to only 33,000. This implies that the private owners were compelled by the lack of fodder to sell a substantial number of cows to the collective farms despite the fact that the Government was not discouraging the expansion of privately owned stock.

In Poland, in 1963, the number of pigs declined by 15 per cent and that of sheep by 6 per cent. In contrast, cattle numbers increased by 3 per cent, largely because of the assistance given by the Government to the peasants in providing them with feed. In Czechoslovakia, there was a steep increase in the number of sheep, about 30 per cent, which, after two years of decline, brought their numbers above the level of 1960. Cattle and pig numbers, however, fell by about one per cent each and the number of cows by 3 per cent.

No data on livestock are available for Bulgaria and Romania. It seems, however, that in the latter country the decline in crops in 1962, followed by only a partial recovery in 1963, chiefly in grain output, prevented any increase in livestock during that year. In Bulgaria the decline in the number of pigs seems not to have been arrested in 1963, in view of the deficient supply of animal feed, while the number of cattle seems to have remained unchanged.

The only eastern European country where all varieties of livestock increased in 1963 was Eastern Germany. As output of feed-stuffs seems to have remained unchanged, the total supply of animal feed probably expanded since there was a further increase in imports, which had already risen considerably in 1962. The number of pigs increased by more than 15 per cent, of sheep by 6 per cent and of cattle by more than 2 per cent. The number of cows and sheep which had declined in 1962 were still below the level of 1960: cattle by one per cent, cows by 3 per cent and sheep by 6 per cent.

The deficiencies in the supply of animal feed in 1963 had a restraining effect on the output and pro-

curement of the products of animal husbandry in most eastern European countries (*see* table 3-4). In many instances output and procurement of meat have not increased or have increased very little despite the substantial decline in livestock numbers. These differences indicate a lowering of the average weight of slaughtered animals, which could be due to early slaughtering and to an increase of the proportion of younger animals in total slaughtered stock.

Judging from procurement data, the greatest improvement in animal husbandry occurred in Eastern Germany, where government purchases of meat rose by 12 per cent, of milk by 6 per cent and eggs by 7 per cent. In the Soviet Union also meat production increased by 7.6 per cent and procurements of meat by 8 per cent. But output and procurements of milk declined by 4 and 2 per cent, respectively. Output of eggs fell by some 4 per cent, but purchases rose by 2 per cent. Among other countries for which data are available, Czechoslovakia showed only a slight increase in the output of meat and milk. In Hungary, output of milk and eggs remained un-

Table 3-4. Output and Procurement of Livestock Products, 1955-1963

Country and item	Meat ^a				Milk ^b				Eggs ^c			
	Average 1955-1960	1961	1962	1963	Average 1955-1960	1961	1962	1963	Average 1955-1960	1961	1962	1963
<i>Bulgaria</i>												
Output	0.43	0.49	0.52	...	0.90	1.15	1.09	1.13	0.94	1.40	1.32	1.26
Procurement	0.24	0.31	0.34	...	0.41	0.71	0.71	...	0.51	0.90	0.82	0.71 ^d
<i>Czechoslovakia</i>												
Output	0.87	0.96	0.99	1.00 ^e	3.61	3.85	3.55	3.53 ^e	2.03	2.35	2.37	2.43 ^e
Procurement .....	...	0.79	0.83	0.83	...	...	...	...	...	1.22	...	...
<i>Eastern Germany</i>												
Output	1.26	1.41	1.22	...	5.40	5.61	5.22	...	2.81	3.60	3.10	...
Procurement	0.94	1.11	1.00	1.12	3.99	4.95	4.63	4.92	1.55	2.35	2.06	2.21
<i>Hungary</i>												
Output .....	...	...	...	...	1.72	1.84	1.75	1.75	1.60	1.90	1.83	1.83
Procurement	0.45 ^e	0.54	0.63	0.65	0.61	0.75	0.75	0.85	0.42	0.49	0.44	0.46
<i>Poland</i>												
Output	2.02	2.39	2.44	2.30	10.98	12.39	12.42	12.12	4.67	6.14	6.07	5.74
Procurement	1.27	1.73	1.76	1.64	3.15	3.86	3.84	3.56	1.91	2.90	2.82	2.46
<i>Romania</i>												
Output	0.87	1.06	...	...	2.29	2.95	...	...	1.97	2.60	...	...
<i>USSR</i>												
Output ^b	13.7	14.1	15.7	16.9	54.8	62.6	63.9	61.2	22.7	29.3	30.1	28.8
Procurement	5.79	7.33	8.60	9.30	20.8	27.5	29.2	28.5	4.51	7.38	8.50	8.70

SOURCE: See table 3-1; *Planované Hospodárství*, No. 12, 1963 (Prague), page 5.

^a Millions of tons in terms of live weight, including poultry.

^b Billions of litres.

^c Billions.

^d Estimated on the basis of returns for nine months.

^e Estimated on the basis of reported production value

given in *Planované Hospodárství*, No. 12, 1963, page 5, assuming no change in prices between 1962 and 1963.

^f It has been officially reported that procurements of milk increased by 0.5 per cent and of eggs by 12.4 per cent over 1962.

^g Excluding poultry.

^h Live weight estimated by the use of a conversion coefficient derived for each year from data on procurements expressed in live and in carcass weight.

changed while that of meat seems to have fallen. In Poland, output of meat, milk and eggs declined by 4, 2 and 5 per cent, respectively, while purchases of meat and milk declined by 7 per cent each and those of eggs by 13 per cent.

While no data on changes in output of meat are available for Bulgaria and Romania, it seems that in these two countries production either declined or remained at approximately the same level as in 1962. Output of milk, however, increased in Bulgaria by about 4 per cent, while that of eggs fell by about 5 per cent.

The supply to agriculture of machinery and equipment, as well as of fertilizers, continued to expand

in most of the centrally planned economies in 1963 (*see* table 3-5). Deliveries of tractors increased substantially in Hungary, Poland, Romania and the Soviet Union, but only slightly in Eastern Germany, while in Czechoslovakia they fell by about 20 per cent. In contrast, in all countries except Hungary, deliveries of combines were lower than a year earlier. In most countries the supply of fertilizer per hectare of sown area increased for the second consecutive year, in some cases very substantially, reflecting increased efforts to improve yields. In Bulgaria, the increase in supply of fertilizers per hectare of sown area amounted to 35 per cent, in Hungary, to 9 per cent, in the Soviet Union, to 8 per cent, in Czechoslovakia, to 7 per cent and in Poland, to 2 per cent.

Table 3-5. Deliveries of Tractors, Grain Combines and Chemical Fertilizers to Agriculture, 1961-1963

Country	Tractors ^a			Combines ^a			Fertilizers ^b		
	1961	1962	1963	1961	1962	1963	1961	1962	1963
Bulgaria	...	...	4.2	...	...	...	29.4	31.4	42.0
Czechoslovakia ^c	14.0	16.2	12.9	3.5	2.1	1.2	97.6	112.0	120.0
Eastern Germany ^d	7.1	14.0	14.1	1.2	2.3	1.8	206.0	203.2	...
Hungary	4.9	7.3	9.5	0.2	1.2	1.8	41.3	53.4	58.0 ^e
Poland	12.9	17.8	20.6	0.4	0.5	...	51.9	58.6	60.0
Romania	12.1	9.3	10.3	6.0	5.7	3.6	...	15.0	...
USSR	185.3	206.0	238.0	70.0	79.2	77.0	13.3 ^e	14.4 ^e	15.6 ^e

SOURCE: National statistical yearbooks, and reports on fulfilment of plans.

^a Thousands of physical units.

^b Kilogrammes of pure content per hectare of arable land.

^c Tractors in 15-h.p. units.

^d Tractors and combines in socialist sector only; application of fertilizers in total agriculture.

^e Calculated from data in gross weights by applying the official conversion rates.

Developments in industry

Unlike agricultural output, industrial production of the centrally planned economies continued to expand at a relatively high rate, although the pace of growth again slowed down in 1963. In the aggregate, industrial production of the European centrally planned economies rose by 7 per cent in 1963, compared to a 9 per cent rise in 1962. While industrial growth slackened in all European centrally planned economies, the extent of the change varied considerably; in consequence, the rates of industrial growth of individual countries diverged much more than in the past (*see* table 3-6). In mainland China, industrial production continued to improve at an accelerated rate, although the main emphasis was still placed on reorganization and improvement in quality rather than on maximization of growth rate. In eastern Europe, the highest rates of industrial growth—12.5 per cent and 10 per cent, respectively—were again achieved by Romania and Bulgaria, the two less developed countries of the region. Next in line were the Soviet Union and Hungary, where in-

dustrial production increased by 8.5 per cent and 7 per cent, respectively. The smallest deceleration occurred in the Soviet Union and in Bulgaria—one percentage point—followed by Hungary and Romania where the rates of increase declined by 1.4 and 2.3 percentage points, respectively. The rate of industrial expansion in other centrally planned economies was much smaller and the deceleration generally greater. In Poland, industrial production rose by only 5.3 per cent in 1963, compared to an 8.4 per cent rise in 1962 and the much higher rates of increase achieved in preceding years. In Eastern Germany, the rate of increase was 6.2 per cent in 1962 and 4.9 per cent in 1963. In Czechoslovakia, following a 6.2 per cent increase in 1962, and for the first time since the Second World War, industrial production actually declined (by 0.6 per cent) in 1963.⁵

⁵ With the exception of Hungary and Romania, industrial expansion during the period 1961-1963 was at annual rates below those reached in 1956-1960. In Hungary, the average rate for 1956-1960 was seriously influenced by the sharp decline in industrial output in 1956 following the uprising.

Table 3-6. Changes in Gross Industrial Output^a
(Percentage change over preceding year)

Country	Average 1956-1960	1961	1962	1963	
				Planned	Actual
Bulgaria	15.9	11.7	11.1	10.2 ^b	10.0 ^c
Czechoslovakia	10.7	8.9	6.2	0.9 ^d	-0.6
Eastern Germany	9.2	5.9	6.2	6.4	4.9
Hungary	8.1	11.0	8.2	8.0	7.0
Poland	9.9	10.4	8.4	5.0	5.3
Romania	11.1	15.3	14.8	12.0	12.5
USSR	10.4	9.2	9.5	8.0	8.5
TOTAL, above countries*	10.3	9.2	9.0	7.3	7.1

SOURCE: See table 3-1.

* Data refer in Hungary and Poland to state and co-operative industry, in other countries to total industry, including state, co-operative and private industry, the latter consisting mostly of small handicrafts. Data for Eastern Germany exclude output of handicrafts; for the Soviet Union, output of enterprises attached to the collective farms is not included.

^b Centrally planned industry.

^c State and co-operative industry.

^d Original plan, revised at the beginning of 1963.

* Aggregated index, weighted by share of each country in total industrial output of the area in 1961 as indicated in *Mejduarodnaya Ziss*, No. 2, 1963 (Moscow), page 12.

Developments in the industrial sector were seriously affected by the situation in agriculture in 1962 and 1963, both through its direct effect on industries using agricultural raw materials and through its indirect impact on foreign trade. In some countries, the need to reduce exports or to raise imports of agricultural commodities over and above the originally anticipated quotas had a detrimental effect on imports of raw materials, fuels and equipment. During the first half of the year, industrial production was also seriously affected by the extremely severe winter which resulted in a considerable disruption of the flow of supplies of materials, fuels and power and in a substantial increase in absenteeism. In some countries, output of industries particularly affected by weather, such as metallurgy, building materials and power generation, experienced an absolute decline during the first quarter of 1963 over the corresponding period in 1962. The effect of the smaller than planned rates of increase during the first half of the year was partly or fully compensated by an acceleration of these rates—in some countries a very significant one—during the second half of 1963.

The adverse weather in 1962 and 1963 was an important and, in some countries, a decisive factor of deceleration in industrial growth in 1963. Industrial growth was also influenced by other decelerating factors of a more lasting nature, the effect of which on the growth rates had already become apparent during the preceding year. Taking these factors into account, the plans set for 1963 anticipated a deceleration in the growth rate of industrial production. In several countries considerable efforts have been made to improve the co-ordination of production targets

set for various products, industries and sectors in order to eliminate or widen the bottle-necks on the one hand, and to arrest the undesirable accumulation of stocks on the other hand. In Czechoslovakia, Eastern Germany and Poland, the imbalances due to difficulties in foreign trade and to inadequate planning and implementation of plans have become particularly significant during recent years. In Czechoslovakia, and Poland the poor harvest of 1962 had a considerable impact on the prospective growth of industrial production in 1963 largely because of the increased need for imports of agricultural commodities at the expense of imports of industrial raw materials. The reduced possibilities of industrial expansion were taken into account in the formulation of the 1963 plan and in consequence the targets were lower than they would have been had the conditions been better. In Poland, the plan for 1963 provided for a 5 per cent increase in industrial production, compared to an 8.4 per cent increase in 1962. In Czechoslovakia, however, the situation deteriorated to such an extent that a general reorganization of industry became urgent. The plan for 1963, aimed at readjustments and elimination of bottle-necks necessary to prepare the ground for further economic growth, provided for a less than one per cent increase in industrial production. In Eastern Germany, however, where the process of reorganization and readjustment had begun in 1961, the plan provided for a 6.4 per cent increase in industrial production, that is, slightly more than the rate of growth achieved in 1962. In other centrally planned economies of eastern Europe, the planned deceleration amounted to about 2.8 percentage points in Romania, 1.5 percentage points in the Soviet Union and to

less than one percentage point in Bulgaria and Hungary.

The targets set for industrial production in the plans for 1963 were exceeded in Poland, Romania and the Soviet Union. In Bulgaria, the actual achievements were somewhat lower than planned, but in other countries the differences between planned and actual output were more significant. In Czechoslovakia, the very modest rate of increase of less than one per cent planned for 1963 was not achieved and industrial production actually declined.

The efforts aiming at improvement in the balance between supply and demand of raw materials and fuels and at better utilization of productive capacity were not always successful even in countries which were able to exceed the global industrial targets set for 1963. In some countries, the inability to reach the planned levels of output resulted in under-utilization of capacity. In other cases, a similar effect was due to a deliberate slowing down of production of some commodities, motivated by the undesired accumulation of stocks of certain goods in low demand. The slowing down of output, whether planned or unanticipated, was also frequently due to delays in the completion of investment projects. It seems, however, that in most cases in 1963 the deficient supply of raw materials or semi-manufactures was a more important factor in non-fulfilment of plans for specific commodities than the delays in bringing new capacities into operation.

The lack of comparable data on capacity and output in specific industries, even apart from the problems involved in defining capacity, precludes any meaningful assessment of the degree of under-utilization of industrial facilities. But official statements and inquiries relating to specific industries, supplemented by data on changes in output, seem to indicate that in several countries output of a number of industrial commodities was below the level which could have been reached if the supply of raw materials had been adequate.

Thus, according to a statement by the Bulgarian Prime Minister in March 1963, the level of industrial production in that country could have been 20 to 30 per cent higher if the supply of raw materials had been adequate for full utilization of existing capacity. Textile and chemical industries were specifically mentioned in this statement. In Poland, an inquiry conducted in 1963 has shown that in machine building, for instance, industrial capacity, defined in terms of a sixteen-hour daily output, was utilized only up to 60 per cent. The under-utilization was due to insufficient supply of materials, power and qualified labour, the latter factor being particularly significant in the less industrialized regions of the country and caused in part by the inadequacy of

housing and other facilities. While no similar evaluations are available for other industries, it is obvious that—in the food industry, for example—the reduced supply of agricultural raw materials owing to the poor harvest in 1962 reduced the utilization of capacity; in this industry, output declined by almost 3 per cent in 1963. In Czechoslovakia, the under-utilization of industrial capacity in most industrial branches is clearly indicated by the fact that output of ferrous metallurgy fell by almost 3 per cent, that of engineering by 2 per cent and that of building materials by 10 per cent. Among consumer goods industries, production of light industries fell by 2.6 per cent, but that of the food industry increased by over 4 per cent. The problem of under-utilization of capacity caused by inadequate supplies of materials and power or by defective allocation of available supplies existed in all centrally planned economies. The solution of this problem was to be achieved through improvements in the method of planning and management of industry and more specifically in the supply allocation system.

In most of the eastern Europe centrally planned economies, output of producer goods—defined as total output of final investment goods and of all intermediate goods, irrespective of their destination—increased faster than that of consumer goods. In the Soviet Union, output of producer goods rose by 10 per cent, exceeding substantially the planned target, while that of consumer goods increased by only 5 per cent, that is, less than anticipated. A similar pattern of growth was observed in Poland, where output of producer goods increased by almost 7 per cent, exceeding the planned target, while production of consumer goods rose by less than 2 per cent and was, in 1963, below the level planned for that year. In Bulgaria and Romania also, production of consumer goods grew at a slower rate than that of producer goods, but the difference between the respective rates of growth of these two sectors was much smaller than in Poland and the Soviet Union. In Czechoslovakia, however, the relationship between these two sectors changed in favour of consumer goods, the output of which rose slightly, while total industrial production declined, and in Hungary production of consumer goods increased faster than that of producer goods.

In Romania, within the consumer goods sector, output of light industry increased by 10 per cent, that is, twice the rate achieved in 1962 (*see* table 3-7). In Czechoslovakia, however, it fell by 2.6 per cent. In the other countries, particularly in Poland and the Soviet Union, the rate of expansion was lower than in 1962. In the latter country the rate of increase fell from 4 per cent in 1962 to 2 per cent in 1963; with the possible exception of the war

Table 3-7. Changes in Output of Light Industry and the Food Processing Industry, 1961-1963
(Percentage change over preceding year)

Country	Light industry ^a				Food industry			
	1961	1962	1963		1961	1962	1963	
			Planned	Actual			Planned	Actual
Bulgaria	12.0	12.4	...	9.11	15.4	5.5	11.1	8.5
Czechoslovakia	7.0	5.0	...	-2.6	6.0	2.0	...	4.1
Eastern Germany	4.9	5.0	...	...	3.8	—	3.9	...
Hungary	9.4	5.3	5.0	5.0	12.3	7.0	8.5	13.0
Poland	7.3	5.3	...	2.2	6.5	2.8	0.7	-2.7
Romania	20.0	5.0	...	10.0	10.0	8.0	...	5.0
USSR	5.0	4.0	...	2.0	7.0	9.0	6.5	5.0

SOURCE: See table 3-1.

^a For Eastern Germany, Hungary and the Soviet Union, indices as given in national statistics; for Romania, the textile industry only; for other countries, indices calculated from data on specific industries, namely, for Bulgaria: textiles, leather and shoes, clothing, cellulose and paper, glass and china; for Czechoslovakia: textiles, leather and shoes,

printing, glass, ceramics, china, wood; for Eastern Germany: textiles, leather and shoes, wood, clothing, paper and printing, glass and china; for Hungary: textiles, leather and shoes, wood, paper, printing, clothing; for Poland: textiles, leather and shoes, paper, glass, clothing; for the Soviet Union: textiles, leather and shoes, clothing, furniture.

years, this was the smallest rate of growth of light industry ever registered in the Soviet Union. The deceleration was caused in part by the scarcity of certain raw materials and in part by the deliberate decisions to slow down the growth of production of certain commodities in order to reduce previously accumulated inventories.⁶ Similar factors have influenced the developments in light industry in Bulgaria and Poland, as well as in several other countries.

Shortages of agricultural raw materials were the main, if not the exclusive, reason for the slowing down or under-fulfilment of plans in food industries. In Poland, where, in view of the poor 1962 harvest, the plan for 1963 provided for a less than one per cent increase, output of food industries actually declined by almost 3 per cent, largely under the impact of a 7 per cent fall in production of meat and an almost 11 per cent decline in production of butter. A considerable deceleration of output occurred in the Soviet Union where the growth rate of the food industry fell from 9 per cent in 1962 to 5 per cent in 1963, as against the planned rate of 6.5 per cent. Output of butter fell by 7 per cent in 1963, but that of meat increased by the same percentage. In Romania also, a substantial slowing down in the rate of growth of the food industry took place, from 8 per cent in 1962 to 5 per cent in 1963. By contrast, in Bulgaria, Czechoslovakia and Hungary, production in food industries increased in 1963 at substantially higher rates than during the preceding year.

⁶ For a review of these problems in the preceding years, see United Nations, *Economic Survey of Europe in 1962* (Sales No.: 63.II.E.1), pages 30 to 44.

The improvement was particularly significant in Czechoslovakia, where an acceleration in output of the food industry from 2 per cent in 1962 to 4 per cent in 1963 was achieved under conditions of a decline in total industrial production. In Bulgaria, the rate of growth of the food industry rose from 5.5 per cent in 1962 to 8.5 per cent in 1963. This increase was not, however, sufficient to reach the target of the plan for 1963, which provided for an 11 per cent increase in output of the food industry. In Hungary, however, the 13 per cent increase in output of the food industry was considerably in excess of the planned rate of increase of 8.5 per cent, as well as of the 7 per cent increase achieved in 1962.

Within the producer goods sector, output of electric power, fuels and ferrous metals increased in the Soviet Union at a much higher rate than in the other eastern European countries taken together (see table 3-8). This however, would not hold true in all cases if the Soviet growth rates were compared with the growth of output of specific industries in individual countries.

Output of electric energy increased at a higher rate than industrial production in most of the centrally planned economies in 1963; the only exceptions were Hungary and Poland where the reverse was true. The expansion of output of electricity was particularly significant in Bulgaria and Romania where the commissioning of new thermal stations was an important factor contributing to the rise in production by 20 and 16 per cent, respectively. Very high rates of increase were also achieved by the

Table 3-8. Changes in Output of Fuel, Power and Selected Basic Materials, 1961-1963

(Percentage changes over preceding year)

Item	USSR			Other eastern European countries		
	1961	1962	1963	1961	1962	1963
Coal ^a	-0.4	4.2	2.9	5.3	4.4	3.9
Crude oil	12.2	12.0	10.8	3.0	6.0	2.0
Natural gas	30.2	24.7	22.0	9.0	9.5	...
Electric power	12.1	12.7	12.0	9.0	8.0	6.5
Pig-iron	8.8	8.6	6.1	5.0	9.0	3.0 ^b
Rolled steel	8.5	7.3	5.2	8.7	8.4	4.4 ^b
Cement	11.7	12.7	6.4	7.7	4.2	4.4 ^b
Fertilizer	10.4	12.7	15.0	13.0	14.4	11.9 ^b
Plastics	17.5	14.9	24.0	27.4	20.1	10.1

SOURCE: See table 3-1.

^a Hard coal, brown coal, lignite on a ton-to-ton basis.^b Excluding Eastern Germany, for which no data are available for 1963. In the five remaining countries (Bulgaria, Czechoslovakia, Hun-

gary, Poland and Romania), aggregate output of pig-iron increased in 1962 over 1961 by 10.1 per cent, output of rolled steel by 9.3 per cent, output of cement by 4.7 per cent and that of fertilizer by 15.2 per cent.

Soviet Union, where output of electric power rose in 1963 by 12 per cent. The growth of electric power production was much slower in Hungary and Poland, and the rates of increase achieved in this industry—6 and 4.5 per cent, respectively—were smaller in both countries than the growth rate of total industrial production. In Czechoslovakia, however, output of electricity increased by 3.8 per cent, while total industrial production declined.

Among fuels, output of coal increased in the Soviet Union by about 3 per cent, and in other eastern European countries by about 4 per cent, that is, less than in 1962. But in the Soviet Union total output of fuels increased much more in view of an almost 11 per cent increase in oil production and a 22 per cent rise in output of natural gas. Output of crude oil in other countries increased by only 2 per cent.

The differences in the growth rates of coal output among the eastern European countries other than the Soviet Union were much smaller than in the case of electric power. The highest rate of increase, amounting to 7 per cent, was achieved by Romania, followed by Hungary and Poland, where coal output increased by about 6 per cent in each country.⁷ In Bulgaria and Czechoslovakia output grew by about 5 per cent, and in Eastern Germany by less than 3 per cent. Oil production increased by 7 per cent in Hungary and by 3 per cent in Romania.

Expansion of output of ferrous metallurgy slackened somewhat in the Soviet Union and decelerated

very substantially in other eastern European countries taken as a whole. In Bulgaria and Romania, however, production of pig-iron and of rolled steel grew faster than in 1962, and the rates of increase achieved by these two countries in 1963 were considerably higher than in any other centrally planned economy. In Bulgaria, production of pig-iron increased by 21 per cent and that of rolled steel by 6 per cent. In Romania, the corresponding growth rates amounted to 13 and 15 per cent, respectively. In the Soviet Union, pig-iron production rose by 6 per cent and that of rolled steel by 5 per cent in 1963. In the other centrally planned economies, output of pig-iron rose by less than one per cent in Hungary, by 1.7 per cent in Poland and 1.4 per cent in Czechoslovakia, while production of rolled steel rose by about 5 per cent in Hungary, 4 per cent in Poland and less than one per cent in Czechoslovakia.

As in the preceding year, the highest priority, in most countries, continued to be attached to the engineering and chemical industries. In virtually all countries, output of these two branches expanded considerably faster than did total industrial production, although the growth rates achieved in 1963 were—with the exception of chemical industries in Romania and the Soviet Union—lower than in 1962 (see table 3-9). In engineering industries, the rates of expansion reached in 1963 ranged from 7 per cent in Hungary to 20 per cent in Bulgaria and, with the exception of Bulgaria, Hungary and Romania, exceeded the planned targets. In Czechoslovakia, however, engineering production declined in 1963 by 2 per cent.

Developments in engineering industries during recent years have been influenced by difficulties en-

⁷ The 6 per cent rise in the Polish coal output is largely due to a considerable increase in the extraction of brown coal. Production of brown coal increased by 38.3 per cent in 1963 but that of bituminous coal increased by only 3.2 per cent.

Table 3-9. Changes in Output of Some Branches of Producer Goods Industries, 1961-1963

(Percentage change over preceding year)

Country	Engineering			Chemicals			Construction materials		
	1961	1962	1963	1961	1962	1963	1961	1962	1963
Bulgaria	15.5	23.8	20.3	13.9	20.7	16.8	13.0	14.2	8.5
Czechoslovakia	11.3	8.8	-2.0	16.7	10.4	3.4	7.2	8.3	9.8
Eastern Germany	6.8	10.0	...	8.3	7.5	6.8	5.1	6.6	...
Hungary	14.1	11.0	7.0	22.4	17.0	13.0	3.4	3.0	1.0
Poland	18.6	16.3	12.6	19.1	15.5	8.7	8.6	4.0	6.7
Romania	19.7	19.0	13.0	26.9	24.0	30.0	13.7	18.5	20.0
USSR	16.0	15.0	13.0	14.0	15.0	16.0	12.0	9.0	8.0

SOURCE: See table 3-1.

countered in securing the necessary raw materials in some countries, and by the need to adjust the volume and composition of output to the changing domestic and foreign demand. Thus, for instance, the greater attention paid to the expansion of agriculture and the greater priority assigned to the chemical industry could not but influence considerably the changes in the composition of output of engineering industries. At the same time, the considerable growth of engineering industries in all centrally planned economies has substantially altered the structure and influenced the growth rate of foreign demand for products of these industries within the region and, in many instances, has increased the quest for new markets and for enlargement of exports to the countries outside the group. The efforts, started earlier, towards improvements in quality and cost reduction through greater specialization and towards the adaptation of output of engineering industries to the demand were strengthened in 1963. These efforts were of particular importance in Czechoslovakia and Eastern Germany where production and exports of machinery and equipment were of primary concern, but significant changes in the structure of the engineering industry were being introduced in other countries as well. In Czechoslovakia, which produced an extremely wide range of products of the engineering industry, the plan for 1963 provided for a steep reduction in the assortment of goods and for a greater adaptation of output to the pattern of domestic investment during the next few years as well as to the prospective foreign demand. Consequently, while output of some types of machinery and equipment, such as tractors, agricultural machinery and rolling presses, was reduced by 10 to 20 per cent, output of electric and diesel locomotives increased by 18 and 59 per cent, respectively. In Hungary, the changes in the composition of output were aimed at increasing the share of electronic machines and precision instruments in total production. In Poland, production of engineer-

ing industries increased by 12.6 per cent in 1963, while output of electric and agricultural machinery and of certain transportation machinery rose by 25 to 34 per cent. In the Soviet Union, where total production of the machine building and metal working industries rose by 13 per cent, output of oil extracting and metallurgical equipment fell by 5 and 2 per cent, respectively. The increases in output of rolling presses, diesel locomotives, automobiles and machine tools ranged from one to 3 per cent, but production of agricultural machinery increased by 17 per cent and within this group of products, output of tractor-ploughs and cultivators increased by 27 per cent each and output of sowing machines by 23 per cent. These substantial differences in the rates of growth of output of various products of the machine building industry obviously were influenced by the increased emphasis placed on improvements in the supply of machinery and equipment to agriculture.

The measures aiming at a greater adaptation of output to domestic and foreign demand and at improvement of efficiency through economies of scale were influenced by the recommendations of the Council of Mutual Economic Assistance (CMEA) and various agreements concerning the international division of labour among its members. The recommendations relating to machine building provide, for instance, that Bulgaria and Poland should specialize in shipbuilding, Romania in installations for the oil industry, Czechoslovakia in equipment for the chemical industry, Hungary in the field of telecommunication and precision mechanics and Eastern Germany in machinery and equipment for the textile and printing industries. These examples do not of course cover the full range of recommendations or agreements concerning specialization in the engineering sector among the CMEA countries. A great number of arrangements deal with the international division of labour within various branches of en-

gineering, such as the automobile or machine-tool industries, providing for specialization in production of individual types of products. The recommendations relating to the engineering industries cover about 1,200 products, of which more than 500 were agreed upon in 1962-1963. The influence of these recommendations on actual developments in the engineering industries have been until now rather limited in view of the difficulties involved in changing the existing structure of production. Their role has consisted not so much in narrowing the range of engineering goods produced in individual countries as in preventing its widening.

The increasing emphasis placed on developing the chemical industry during the past few years was again reflected in 1963 in the rapid growth of its output in most of the centrally planned economies. This expansion was particularly significant in Romania, where production rose by 30 per cent in 1963, and in Bulgaria, the Soviet Union and Hungary, where it rose by 17, 16 and 13 per cent, respectively (*see* table 3-9). In Romania, the Soviet Union and Hungary, the chemical industry expanded faster than machine building and considerably exceeded, in the first two countries, the rates of growth achieved by other branches of industry.

In the remaining countries, expansion in 1963 was much slower, but there also the rate of growth in chemical production was generally higher than in other industries. Only in the Soviet Union and Romania did chemical production increase more rapidly than in 1962 and only in the latter country has it increased more than planned. In the other countries, expansion of chemical production was slower than in 1962 and the planned targets have not been fully met.

In the Soviet Union the acceleration of growth in the chemical industry was particularly significant in plastics, the output of which increased by 17 per cent in 1962 and by over 24 per cent in 1963, and in fertilizers, the output of which has been continuously accelerating during recent years (*see* table 3-8). The increase in production of fertilizers amounted to 7 per cent in 1960, to 10 per cent in 1961, to 13 per cent in 1962, and to 15 per cent in 1963. The increase in the output of the chemical industry in 1963 was considerably influenced by the commissioning, in the course of the year, of fourteen large chemical enterprises and a considerable number of new plants and shops, including facilities for producing fertilizers, with a yearly capacity of 7.4 million tons, which corresponds to more than one-third of total production of fertilizers in 1963. Among other eastern European countries, only in Hungary was the increase in the production of fertilizers, 15.8

per cent, greater than the increase in the Soviet Union. In the remaining countries, the rates of growth of fertilizer production ranged from 4.6 to 6.7 per cent in 1963.

Production of construction materials increased very substantially in Romania, by 20 per cent (*see* table 3-9). In Bulgaria and the Soviet Union, output rose by 8.5 and 8 per cent, respectively. In Poland, it rose by 6.7 per cent. In Czechoslovakia and Hungary, however, production of construction materials declined by 9.8 and one per cent, respectively.

In mainland China, the highest rates of increase were achieved in industries serving agriculture. During the first half of 1963, output of tractors increased by 30 per cent and that of fertilizers by 42 per cent over the corresponding period of the preceding year. The expansion of output was largely responsible for the ability to supply agriculture, during the past two years, with about 30,000 tractors and more than 400 million small metal agricultural implements, as well as with considerable quantities of irrigation and drainage equipment. While the rate of growth of the engineering industries accelerated in 1963, the main feature of developments in this case was the reorganization undertaken, partly consequent upon the considerable fall in trade relations with the European centrally planned economies, for greater diversification of output. According to official statements, the engineering industries in mainland China are now able to produce modern aircraft, motor vehicles, electric and diesel locomotives, hydraulic presses, blast furnaces, blooming mills, large-scale turbo-generators and electric equipment. Although several of these products were already in production before 1960, their output was sharply reduced during 1960-1961 and started recovering only in 1962. The increases in production and the enlargement of the range of engineering products were largely the effects of the completion of enterprises started earlier and of retooling and adaptation of other enterprises to the production of goods whose acquisition from abroad had become more difficult. The recovery in mainland China's agriculture and the ensuing increase in the supply of agricultural raw materials to manufacturing industries also resulted in substantial increases in the production of light and food industries in 1963. This is partly indicated by the fact that output of seventeen essential consumer goods increased by 20 per cent during the first half of 1963 over the corresponding period of 1962 and output of milk, canned meat, soap and cigarettes rose in the range of 40 to 100 per cent during the same period. Although these data cannot be considered as giving even an approximate indication of the rate of growth of total industrial production in 1963 over 1962 or of the degree of its recovery from the

decline registered earlier, they do show that recovery is well under way.

Industrial employment increased in 1963 at a lower rate than in 1962 in most of the centrally planned economies (*see* table 3-10). In Czechoslovakia, it remained practically unchanged; but in Eastern Germany, it declined. Apart from these two countries, the growth of industrial employment exceeded the planned rates—in certain cases, substantially. While in some countries this was partly associated with the over-fulfilment of production plans, in others it was caused exclusively by the inability to increase productivity of labour in accordance with the plan, and by the attempt to reach production targets through greater than planned increases in employment. The increase in employment in excess of the plan was very substantial in Bulgaria, Hungary, Poland and Romania, and much less significant in the Soviet Union. In Eastern Germany, where the plan provided for a rise in industrial employment of less than one per cent, it actually fell by 1.5 per cent, a change partly associated with a substantial under-fulfilment of production plans. The under-fulfilment of the plans for productivity of labour were particularly significant in Bulgaria, where the rate of growth of output per man declined from 7.8 per cent in 1962 to 4.6 per cent in 1963, as compared to a 6 per cent rate planned for that year. In Hungary and Poland also, the rates of increase of labour productivity fell from 4.4 per cent and 3.2 per cent in 1962 to 3.3 and 2.7 per cent respectively in 1963, while the targets for 1963 provided for a 5.5 per cent increase for Hungary and a 3.2 per cent increase for Poland. In Romania, where the plan for 1963 called for a 9.3 per cent increase in output per man, the actual rate of increase amounted to 7.2 per cent, but was substan-

tially higher than that achieved in 1962. In Eastern Germany the rate of increase in productivity was almost the same in 1963 as in 1962, 6.5 per cent as compared to the planned rate for 1963 of 7.2 per cent. In the Soviet Union, the plan for 1963 provided for a 5.6 per cent increase, compared to the 6 per cent increase achieved during the preceding year. The targets set for 1963 were not reached, however; labour productivity rose during that year by 5 per cent.

An important factor accounting for the slowing down of the growth of labour productivity in several centrally planned economies in 1963 was the severe winter which, as already stated, disrupted the flow of fuels and supplies to industry, and, in many cases, resulted in temporary work stoppages. In Poland, for instance, output per man rose during the first half of the year over the corresponding period of 1962 by only 0.3 per cent while in the second half of the year it rose by 4 per cent. The disruptions caused by the weather were not, however, the only reasons for under-fulfilment of productivity plans. As during the preceding year, labour productivity was influenced in several countries by deficiencies in the supply and proper timing of deliveries of materials and equipment to producing units. In some countries the alteration of the pattern of industrial production associated with the revisions of the original plans has called for retoolings and for the slowing down of expansion of output of some products and the considerable acceleration of others. These reorganizations also had a decelerating effect on the growth of labour productivity. This effect was particularly significant in 1963 in Czechoslovakia, where one of the tasks of the annual plan was the conversion of a considerable number of industrial enterprises to the manufacture of new products.

Table 3-10. Changes in Industrial Employment and Output Per Man,^a 1961-1963
(Percentage change over preceding year)

Country	Employment				Output per man			
	1961	1962	1963		1961	1962	1963	
			Planned	Actual			Planned	Actual
Bulgaria	22	3.0	3.7 ^b	5.2 ^c	9.3	7.8	6.1 ^b	4.6 ^c
Czechoslovakia	3.6	3.0	0.3	0.3	5.2	3.2	0.7	-0.9
Eastern Germany	0.6	-0.4	0.7	-1.5	5.3	6.6	7.2 ^d	6.5 ^d
Hungary	3.7	3.8	2.5	3.6	7.0	4.4	5.5	3.3
Poland	3.6	5.0	1.7	2.4	6.6	3.2	3.2	2.7
Romania	8.2	7.7	2.5	4.9	6.5	6.5	9.3	7.2
USSR	5.3	3.3	2.3	3.3	4.0	6.0	5.6	5.0

SOURCE: See table 3-1.

^a Coverage as in table 3-6.

^b Centrally planned industry.

^c State and co-operative industry.

^d Centrally administered state industry.

National income, investment and consumption

As a consequence of the developments in agriculture and industry reviewed in the preceding sections, the growth of national income accelerated only in Poland and Hungary. In Bulgaria and Romania national income increased at virtually the same rate as in 1962, while in the Soviet Union and Eastern Germany the pace of expansion slowed down. In Czechoslovakia, national income declined in absolute terms (*see* table 3-11). In mainland China, for which no data are available, the improvements in agricultural production and industrial output seem to indicate that national income increased faster than in 1962.

It is significant that the differences among countries in changes in their respective rates of growth from 1962 to 1963 were largely determined by developments in agriculture. In countries where the expansion of national income quickened or continued at the same rates as in 1962, the reason lay entirely in improved performance of agriculture. In the remaining countries the degree of deceleration was also largely influenced by changes in agricultural production.

Among the European centrally planned economies the highest rates of expansion were achieved by Romania and Bulgaria where they amounted to 7 and 6 per cent, respectively; in the former country the rate of growth was equal and in the latter almost equal to that achieved in 1962. In Bulgaria the growth of national income was slower than planned, however, largely because the increase in agricultural production fell considerably short of expectations.

Table 3-11. Changes in National Income
(Percentage change over preceding year)

Country	1961	1962	1963	
			Planned	Actual
Bulgaria	3.0	6.2	13.5	6.0
Czechoslovakia	6.5	1.5	1.0	-4.0 ^a
Eastern Germany	3.7	4.2	...	3.0 ^b
Hungary	6.1	4.7	8.0	5.0
Poland	7.4	2.5	5.2	5.5
Romania	10.0	6.5	...	7.0
USSR	7.0	6.0	7.0	4.6

SOURCE: See table 3-1; also *Rudé Právó* (Prague), 31 January 1964.

^a Based on the statement of the Chairman of the Central Planning Committee, as reported in *Rudé Právó*, 31 January 1964, indicating that national income in 1963 was 67 per cent above that of 1953, and on indices for the period 1953-1962 as given in the *Statistical Yearbook* of Czechoslovakia for 1963.

^b Estimated on the basis of data relating to gross output by sector, weighted by their share in national income.

In Romania also, the growth of national income was considerably slower than expected. The improvement in agricultural production in 1963, following a substantial decline during the preceding year, was the main factor enabling that country to maintain the rate of expansion of national income at the previous year's rate despite a deceleration in the growth of industrial production.

National income increased in Poland by 5.5 per cent and in Hungary by 5 per cent. As already stated, these two were the only eastern European countries where national income increased in 1963 at a higher rate than in 1962. While in Hungary this acceleration was relatively small, in Poland the rate of expansion was more than twice as high as during the preceding year and exceeded the target set in the annual plan. In Hungary, however, the rate of growth of national income was substantially below the planned rate. In both countries the acceleration in 1963 had been preceded by a slowing down of growth, particularly significant in Poland, and the rates of growth of national income achieved in 1963 were still below those of 1961. In both countries these changes were largely determined by fluctuations in agricultural production, since the rates of growth of industry declined in 1962 as well as in 1963.

In the other centrally planned economies, national income either increased in 1963 at a much slower rate than in 1962, or it declined. In the Soviet Union national income increased by less than 5 per cent in 1963 as compared to a planned increase of 7 per cent. The rate of expansion of national income, which, during the preceding three years, had been slowing down by one percentage point each year, decelerated by a greater amount in 1963. This was largely the consequence of the decline in agricultural production caused by exceptionally harsh weather; though, to a much less extent, a further slowing down of the growth rate of industry was also a contributory factor.

In Eastern Germany also, the pace of development slackened in 1963. National income rose during that year by 3 per cent, as compared to a 4.2 per cent increase in 1962. The deceleration was largely occasioned by the slowing down in industrial expansion, since the value added in agriculture, which had declined in 1962, seems to have either increased slightly in 1963 or remained at the level of the preceding year.

Czechoslovakia was the only country where national income actually declined—by about 4 per cent—its 1963 plan having provided for a modest one per cent increase over the preceding year. This

decline was accounted for by a fall in industrial production and an even greater reduction in construction and transport and communications activities. The substantial improvement in agricultural output was not sufficient to compensate for the decline in other components of national income.

Investment activity accelerated in 1963 very substantially in Bulgaria and only slightly in Eastern Germany (see table 3-12). In other countries the growth of investment was slower than in 1962, and in Czechoslovakia investment declined in absolute terms for the second consecutive year. The deceleration in investment growth was provided for in the plans for 1963 in all countries except Bulgaria and the Soviet Union, but no country was able to achieve the targets set for investment in the 1963 plans.

Table 3-12. Changes in Gross Fixed Investment,^a
1961-1963
(Percentage change over preceding year)

Country	1961	1962	1963	
			Planned	Actual
<i>Bulgaria</i>				
Total	57	45	...	90 ^b
Limit ^c	32	99	21.3	17.6
<i>Czechoslovakia</i>				
Total	72	-26	-6.0	11.4
<i>Eastern Germany</i>				
Total	4.6	2.3	7.4	2.5
<i>Hungary</i>				
State and co-operative sector	-10.4	15.4	14.0	12.0
<i>Poland</i>				
Total	7.3	10.9	8.3 ^d	4.6 ^e
State and co-operative sector	8.0	13.7	8.4 ^f	2.4
<i>Romania</i>				
State sector	21.4	13.7	12.0	8.8
<i>USSR</i>				
Total	4.4	5.0	...	3.0
Centrally planned	10.1	9.0	10.0	6.0

SOURCE: See table 3-1, also *Planovo Stopanstvo i Statistika*, No. 1, 1964 (Sofia) and *Gospodarka Planowa*, No. 11, 1963 (Warsaw).

^a Data for Bulgaria, Eastern Germany and Hungary computed from investment outlays in current prices, for other countries in constant prices. With the exception of Eastern Germany, gross fixed investments exclude capital repairs.

^b Including private housing. Data for total investment in 1961 and 1962 exclude private housing.

^c "Limit investment"—centrally planned investment excluding projects below a certain value.

^d According to the annual targets established by the five-year plan, 1961-1965.

^e In 1963 prices; all other data expressed in 1961 prices.

^f Original target. Owing to a higher than anticipated result attained in 1962, this target was first reduced to 4.6 per cent and then further lowered to 4.4 per cent in the course of 1963.

The highest rate of increase was achieved by Hungary, where investment in the state and co-operative sectors rose by about 12 per cent in 1963. Private investment fell by some 2 per cent and total investment increased by about 11 per cent. The changes in the allocation of investment in favour of agriculture were reflected in a further increase in the share of this sector, which was raised in 1963 to 20 per cent of state and co-operative investment, while the share of industry was equal to 40 per cent of the total. Although the investment plan for 1963 was not fulfilled, the totals invested during 1963 and the two preceding years were higher than the amounts provided for this period in the long-term plan. The under-fulfilment of the investment plan was largely the result of labour shortages in the building trades, deficiencies in the organization of construction activities and the disruption of these activities and of transportation caused by the severe winter of 1963.

High rates of increase in investment were also reached by Bulgaria and Romania, amounting to about 9 per cent in each country. While in Bulgaria this rate was twice as high as in 1962, in Romania the growth of state investment slackened perceptibly in 1963. In both countries the main changes in investment allocation occurred within the industrial sector, where heavy industries were favoured. In Romania an increased proportion of investment went to power generation and chemical industries, and in Bulgaria to power generation and engineering. In the latter country "limit"⁸ investment allocated to these two branches rose in 1963 by 25 per cent and 35 per cent, respectively, while total "limit" investment increased by about 17 per cent during the same year.

In the Soviet Union, centrally planned investment, which in recent years has amounted to about three-quarters of the total, increased in 1963 by 6 per cent, the smallest rate of increase recorded in recent years; in 1960 it had amounted to 13 per cent, in 1961 to 10 per cent and in 1962 to 9 per cent. The rate of increase achieved in 1963 fell substantially short of the 10 per cent planned for investment in the annual plan. Total investment, which has generally increased much more slowly than centrally planned investment, rose in 1963 by 3 per cent as compared to 5 per cent in 1962.

The changes in the allocation of centralized investment in the Soviet Union during 1963 were quite significant; these largely reflected the greater emphasis placed on expansion in the chemical industry and on agriculture, and the much lower priority

⁸ "Limit" investment, which in 1962 amounted to about 63 per cent of total investment, relates to centrally planned investment, excluding outlays on projects or equipment below a certain value.

assigned recently to the growth of machine building and metallurgy. These shifts are indicated by the fact that while total centrally planned investment rose by 6 per cent in 1963, investment in the chemical industry increased by 24 per cent, and in agriculture by 13 per cent. In contrast, investment in the machine building industries increased by only one per cent and in ferrous and non-ferrous metallurgy by 4 per cent. A further shift from coal to oil and natural gas was also indicated by the rise of 10 per cent in investment in the latter industry which was twice the rate of increase in coal mining.

In Poland total investment increased in 1963 by 4.6 per cent, and investment in the state and co-operative sector by only 2.4 per cent. These differences seem to imply that private—mostly agricultural—investment, which in 1962 accounted for about one-tenth of the total, increased by some 24 per cent in 1963. State and co-operative investment had been originally planned to increase in 1963 by 8.4 per cent. This rate of increase had been formulated on the basis of the anticipated results of investment activities in 1962. During that year, however, investment increased considerably more than expected. As the volume of investment scheduled for 1963 was not changed, the planned rate of increase for 1963 was automatically reduced to 4.6 per cent. This target was, however, further reduced in view of the poor results of the 1962 harvest, which had a detrimental effect on the growth of consumption and on imports of industrial raw materials in 1963. The actual difficulties proved to be greater than anticipated and even the reduced plan target could not be fully met. The allocation of total investment underwent significant changes in 1963. The highest rates of increase in investment were achieved in agriculture—13 per cent—building enterprises—11.4 per cent—and industry—7.7 per cent. Investment in residential housing rose less than the average and that in trade and transport and communications fell. Within the industrial sector the most significant changes in the allocation of investment are indicated by the increase of 26.3 per cent in investment in the chemical industry, the fall of 2.3 per cent in investment in machine building and the decline of 13.7 per cent in the food industry.

In Eastern Germany the rate of increase in investment in 1963 was only slightly above that reached in 1962 and substantially lower than the increases in 1961 and 1960. The plan for 1963 provided for a steep acceleration in investment activities in an attempt to regain the rate of increase of 7.4 per cent achieved in 1960. But for the third consecutive year the investment plan remained under-fulfilled, the actual growth rate being about one-third of the planned rate.

As already stated, Czechoslovakia was the only centrally planned economy which experienced an absolute decline in investment in 1963. During that year investment fell by more than 11 per cent, following a 2.6 per cent cut in 1962. In consequence, the volume of investment in 1963 was only slightly above the level reached in 1959. The decline was anticipated in the annual plan, which, in view of the difficulties relating to the reorganization of industry and to foreign trade, provided for a reduction in the volume of investment by 6 per cent. But the severe winter on the one hand, and the unexpected delays in the reorganization of the building industry on the other, resulted in a considerable reduction in construction activities during the first three quarters of the year. Inability to fulfil the construction programmes was the main factor preventing the achievement of the planned level of investment, although, to a much less extent, delivery of machinery and equipment also fell short of the planned targets. Although no data are available on changes in the allocation of investment in Czechoslovakia, it seems that within the industrial sector the main efforts were concentrated on fuel and power, the chemical industry and metallurgy.

The difficulties encountered in the implementation of investment plans in 1963 were basically of the same nature as in the preceding years. In almost all countries the dispersion of resources among an excessive number of projects reduced the efficiency of the building organizations, and the lack of co-ordination between construction work and the production and delivery of equipment was an important factor preventing the fulfilment of plans. In many instances these imbalances ensued from the setting of exaggerated investment targets, without due regard being paid to the availability of qualified labour and to the domestic and foreign supply of equipment or raw materials required for industries producing investment goods. In 1963, an additional factor was the extremely severe winter which in most countries halted or slowed down construction activities during the first quarter of the year and severely disrupted the delivery of materials and equipment to investment projects.

Efforts to improve the efficiency of investment continued during 1963. As the volume, as well as the rate of growth, of unfinished investment projects was considered excessive, several countries introduced measures aimed at increasing the share of investment outlays devoted to the completion of projects under way.⁹ In some countries work on certain projects was suspended in order to concen-

⁹ For a review of these problems in the preceding years, see United Nations, *Economic Survey of Europe in 1962*, pages 16 to 23.

trate resources on the completion of others considered to be of more immediate importance. Another important aspect of investment policy was the effort, not always successful, to direct an increasing share of investment outlays towards construction of new projects.

In 1963, as in the preceding year, the most far-reaching measures were undertaken by Eastern Germany and Czechoslovakia, where the difficulties caused by the dispersion of resources had become particularly acute. In both countries central control over investment was increased, and work on several investment projects was suspended. In Eastern Germany the increased emphasis on completing high-priority projects is indicated by the fact that investment outlays on these projects rose by more than 25 per cent, that is, ten times as much as the percentage increase in total investments.

In Czechoslovakia the over-all decline in investment activity resulted in further delays in completing high-priority projects, despite the considerable efforts made to allocate the reduced investment outlays in accordance with the priority rating established by the authorities.

In Poland the relation between the volume of unfinished construction and investment seems to have further deteriorated in 1963.¹⁰ This is partly indicated by the fact that unfinished construction in the centrally planned sector increased by 9.6 per cent in 1963, that is, at a higher rate than in 1962, while the rate of growth of investment declined considerably. The delays in completion were also reflected in a very substantial increase in the stock of machinery and equipment earmarked for installation. During the whole of 1962 the stock of uninstalled machinery and equipment rose by less than 2 per cent, while during the first nine months of 1963 it rose by almost 17 per cent.

In Bulgaria and Romania, where the ratio of unfinished construction to investment has been much smaller during recent years than in other countries, the situation did not change appreciably in 1963. In Bulgaria the difficulties encountered in the completion of investment projects in the state sector are indicated by the fact that while the construction plan of "limit" investment was practically fulfilled, the delivery of machinery and equipment fell short of the planned quotas by about 6 per cent. Similarly, in Romania the plan for commissioning industrial enterprises seems to have been under-fulfilled, partly because of the delays caused by adverse weather.

In the Soviet Union the emphasis on completing investment projects under way had by 1962 already

had considerable effect in reversing the tendency towards an excessive growth of unfinished construction in relation to investment. The ratio of unfinished construction to investment in the state and co-operative sectors, exclusive of collective farms, which amounted to about 0.70 between 1958 and 1960, rose to 0.76 in 1961 and fell to about 0.75 in 1962 and 1963. The aim of the government policy is to reduce this ratio to about 0.58 in 1965. Within the narrower area of centrally planned outlays, investment increased by about 9 per cent in 1962 and by 6 per cent in 1963, while completion of projects under way rose by 15 per cent and 11 per cent, respectively. The concentration of outlays on the completion of investment projects under construction and the effects of this policy on the relation between the rates of growth in investment and in the volume of completed projects varied from industry to industry. Thus, for instance, in the chemical industry investment rose by 24 per cent and completed projects by 33 per cent in 1963. In metallurgy these rates were 26 and 4 per cent respectively and in agriculture 12 and 13 per cent. It is obvious that these differences were determined not only by the degree of concentration of outlays on the completion of certain projects, but also by differences in the stages of various investment projects at the beginning of the period.

Official information on changes in consumption during 1963 is available for only a few countries; for other centrally planned economies the main indicator of these changes is data relating to the growth of retail sales in state and co-operative trade. As indicated in table 3-13, the largest increases in retail trade were achieved by Bulgaria, Hungary and Romania.

In Bulgaria the rate of increase in 1963 amounted to 9.4 per cent and was about twice as high as in the preceding year. In Hungary also, the expansion of retail trade accelerated considerably, from

Table 3-13. Changes in Volume of Retail Trade, 1961-1963
(Percentage change over preceding year)

Country	1961	1962	1963	
			Planned	Actual
Bulgaria	8.9	4.5	9.9	9.4
Czechoslovakia	4.5	2.5	2.0	2.0
Eastern Germany ^a	5.7	-0.6	2.0	0.3
Hungary	2.0	4.5	5.3	8.1
Poland	8.3	4.2	3.6	4.7
Romania	14.7	12.5	9.0	8.0
USSR	3.7	6.0	6.9	5.0

SOURCE: See table 3-1.

^a In current prices.

¹⁰ The ratio of unfinished construction to investment amounted to about 0.60 in 1963.

4.5 per cent in 1962 to 8 per cent in 1963.¹¹ In Romania, however, which also achieved an 8 per cent increase in retail sales during 1963, the rate of expansion in 1963 was much smaller than in any of the three preceding years.

Consumption data are available for Hungary, Bulgaria and Romania. In Hungary, total consumption increased by 5 per cent during 1963, as compared with 4 per cent in 1962, at a much slower rate than retail sales, however, which grew by 8.1 per cent during 1963. In Bulgaria and Romania also, the growth of personal consumption during 1963 was apparently slower than that of retail trade, in view of the increasing share of total consumption goods purchased in the retail trade network, associated with the shift of the agricultural population to industrial occupations and with the increasing share of money payments in the income of agricultural producers.

In the other centrally planned economies, the rates of increase in retail sales were substantially smaller than those in the countries mentioned above. In the Soviet Union retail sales rose by 5 per cent during 1963, compared with an increase of 6 per cent during the immediately preceding years; the plan for 1963 provided for an increase of 6.9 per cent. In Poland retail sales increased during 1963 at only a slightly lower rate than those in the Soviet Union, by 4.7 per cent, indicating a slight acceleration over the preceding year. Total consumption as well as personal consumption increased in Poland by 4 per cent in 1963 as compared to a 4 per cent increase in the former and a 3 per cent rise in the latter in 1962. In Czechoslovakia a deceleration in the growth of retail sales and of personal consumption took place in 1963. Retail sales increased during that year by 2 per cent and personal consumption by one per cent only, that is, less than provided for in the plan for 1963. During the preceding year the corresponding increases amounted to 2.5 per cent and 2 per cent, respectively.

The smallest rate of increase in retail sales was achieved in Eastern Germany, where a 0.6 per cent decline in 1962 was followed by a 0.3 per cent rise in 1963.¹² As changes in consumption in Eastern Germany are much more closely related to variations in retail sales than in most of the other countries, it is likely that personal consumption also increased only slightly in 1963 and that this increase was not sufficient to compensate for the small decline in personal consumption which occurred in 1962.

¹¹ For Hungary, the 1963 data on retail sales are expressed in current prices. Since the cost of living declined in 1963, one can presume that the volume of retail trade has not increased less than its value.

¹² In current prices.

The data on changes in national income, fixed investment and retail sales, supplemented by other information, seem to indicate that in Bulgaria, Romania and Eastern Germany the share of national income allocated to consumption was smaller in 1963 than during the preceding year. In the Soviet Union, where national income increased by 4.6 per cent, total investment by 3 per cent and retail sales by 5 per cent in 1963, and where the fall in agricultural production obviously affected seriously the changes in inventories, it is probable that the shift in the allocation of national income was in favour of consumption despite the sharp fall in agricultural output, the impact of which on consumption might be more pronounced in 1964.

In Czechoslovakia, for which data on changes in personal consumption are available, the 4 per cent decline in national income was accompanied by a 1.3 per cent rise in consumption, the share of which in the reduced total resources increased in 1963.

More complete data for Hungary and Poland on the allocation of national income in 1963 are indicated in table 3-14. In Hungary total and personal consumption increased by 5 per cent, that is, at the same rate as national income. Accumulation, however, rose by as much as 12 per cent. This increase was entirely accounted for by a 22 per cent rise in fixed assets, while investment in inventories (inclusive of changes in unfinished construction) fell by about 4 per cent. The fivefold increase in net imports enabled the share of consumption in national income to remain unchanged despite the much faster growth in accumulation than in national income.

In Poland, on the contrary, there was very little change in the balance of foreign trade. Net fixed investment also remained unchanged, and the 10 per cent rise in accumulation was wholly due to a large increase in investment in inventories. This increase was entirely the result of a rise in stocks of agricultural produce, while industrial inventories declined. As national income rose by 5.5 per cent and consumption by only 4 per cent, the share of consumption in national income declined in 1963.

The effect of these shifts in the allocation of resources between consumption and accumulation on the balance between demand and supply of consumer goods cannot be ascertained with any precision for lack of data on changes in money payments in relation to output. For only a few countries are data available, even on money wages.

In Bulgaria output per man in industry increased by 4.6 per cent while average wages rose by only 3.4 per cent. The higher rise in productivity of labour than in wages had a restraining effect on the rise in demand in relation to supply. But money incomes of peasants most probably increased more

Table 3-14. Hungary and Poland: Allocation of National Income, 1962-1963

Item	Hungary			Poland		
	1962 (billions of forints in current prices)	1963 (billions of forints in current prices)	1963 (index, preced- ing year =100)	1962 (billions of zlotys in current prices)	1963 (billions of zlotys in current prices)	1963 (index, preced- ing year =100)
National income	155.2	163.0	105.0	419.3	442.4	105.5
Net domestic expenditure	155.9	166.7	106.9	418.5	441.7	105.5
Consumption	114.7	120.5	105.1	316.7	329.4	104.0
Personal	109.1	114.6	105.0	280.6	291.8	104.0
Social	5.6	5.9	105.0	36.1	37.6	104.0
Accumulation	41.2	46.2	112.1	101.8	112.3	110.3
Net fixed investment ^a	25.5	31.1	122.0	80.4	80.4	100.0
Changes in inventories ^b	15.7	15.1	96.2	21.4	31.9	149.1
Balance of foreign trade ^c	-0.7	-3.7		0.8	0.7	

SOURCE: For Hungary, data for 1962 in current prices from the *Hungarian Statistical Yearbook* for 1963. Data for 1963: estimates based on official statistics for 1962; percentage increases in national income and personal and total consumption indicated in the plan fulfilment report; net fixed investment in absolute terms and its share in national income distributed from *Nepszabadsag*, 6 May 1964 (Budapest); the share of accumulation in net domestic expenditure from the reply of the Hungarian Government to the United Nations questionnaire of November 1963 on economic trends, problems and policies. For Poland, data for 1962 in 1961 prices, from the *Polish Statistical*

Yearbook for 1963. Data for 1963: estimates based on percentage increases in national income and personal and social consumption indicated in the plan fulfilment report and on the statement in the same report indicating that fixed investment in 1963 has remained unchanged and that its share in net domestic expenditure fell from 19.2 per cent in 1962 to 18.2 per cent in 1963 in 1961 prices.

^a For Hungary, net change in fixed assets.

^b For Hungary, including changes in stock of unfinished construction.

^c Obtained as a difference between national income and net domestic expenditure.

than production under the impact of the mid-1962 increases in prices paid to agricultural producers. In consequence, it seems that the rise in total money income available to the population exceeded the rise in supply of consumer goods, and resulted in a pressure of demand upon supply. Prices in state and co-operative trade seem to have risen by about 3 per cent, but this rise was at least in part the effect of price increases introduced during the second half of 1962. Prices of food on collective farm markets rose for the second consecutive year, although the increase in 1962 was considerably smaller than that during the preceding year.

In Hungary, where the share of resources allocated to consumption remained unchanged, wages increased by 4 per cent while output per man in industry rose only slightly more than 3 per cent. Money income of peasants seems, however, to have increased less than output. In consequence, the balance between demand and supply has improved, and this change was reflected in a decline in the consumer price index by 1.5 per cent.

In Poland the balance between supply and demand for consumer goods deteriorated in 1963. While resources allocated to consumption increased less than national income, money payments to the population increased more than output. Within the

industrial sector, average money wages increased by 4.6 per cent while output per man rose by only 2.7 per cent. This divergence seems to have been mainly responsible for the imbalance between the demand and supply of consumer goods, although the money receipts of peasants also increased in relation to output, and more specifically in relation to sales, in view of the increase in prices received for pigs, tobacco and hops. The effect of these price increases on peasant demand for consumer goods was, however, offset partly or fully by increases in prices paid by agricultural producers to the government agencies for machinery and equipment.¹⁸ The consequence of these developments was an increase in the pressure of demand upon supply, which was reflected in shortages of various commodities and in price increases. Consumer prices increased by about 2.5 per cent, that is, at a somewhat lower rate than in 1962; this rise reflected in large measure substantial increases in the price of coal, gas and electricity, as well as of alcohol, meat, milk and dairy products. The effect of these price increases on the cost of living was, however, partly offset by a decline in the price of fruit and vegetables. The

¹⁸ Prices of coal and electricity were also raised and, therefore, had a restraining effect on peasant demand for manufactured and other consumer goods purchased in the state and co-operative trade.

increases in the price of gas, coal and electricity were conceived as a measure tending to reduce the consumption of these goods and as a means of reducing the pressure of demand upon the supply of other commodities. While the increases in the price of gas, coal and electricity were accompanied by some compensatory wage increases, the resulting increment in money income was insufficient to compensate for the rise in the prices of consumer goods.

In Czechoslovakia average money wages seem to have declined in line with the fall in productivity, and money income of peasants seems to have increased no more than deliveries of agricultural commodities. In consequence, no inflationary pressures were generated in these two decisive sectors. And even if in other sectors wages had increased more than production, it may be inferred that this would not be sufficient to prevent a reduction in the overall pressure of demand upon supply of consumer goods, in view of the small share of these other sectors in total output. In effect, total money income seems to have increased more slowly than the supply of goods in retail trade. While the latter rose in 1963 by 2 per cent, the wage bill increased by only 1.5 per cent. Even if it is assumed that the money income of the peasants increased in the same proportion as agricultural production, that is, by 6 per cent, this would not result in a rate of increase in total money receipts of the population considerably above the rate of increase in the wage bill because of the relatively small share of the money earnings of the peasants in the total. No data are available on changes in consumer prices in 1963. Some readjustment of prices did occur, however. Prices of some foods, as well as of durable consumer goods, were increased while prices of certain other commodities were reduced. In addition, there was a substantial increase in sales at reduced prices of various semi-durable and durable consumer goods. The lessening of the over-all pressure of demand upon supply was also indicated by the further increase in the value of instalment credits made available by the state banks to consumers. It will be noted, however, that the lessening of the pressure of demand upon supply in Czechoslovakia should be viewed against the background of a decline in national income and a considerably greater decline in fixed investment which occurred in 1963.

In Eastern Germany money income of the population seems to have risen somewhat more than retail sales, and the cost of living rose slightly.

In the Soviet Union average money wages rose much less than the 5 per cent increase in labour productivity in industry. In contrast, money receipts of the collective farms increased by about 5 per

cent¹⁴ over 1962 despite the decline in agricultural production and in the volume of deliveries of several important commodities. The rise in money income of the collective farms reflected on the one hand the substantial increases in deliveries of meat, cotton, potatoes and vegetables, and on the other, the considerably increased prices paid by the government agencies for meat and dairy products after mid-1962, which were followed in 1963 by further price increases for cotton, sugar-beets and potatoes. The rise in money receipts of the collective farms, however, also partly reflected the substantially increased deliveries of meat brought about by the large number of pigs slaughtered for lack of fodder. It is most likely, therefore, that a considerable proportion of the increment in money receipts of the collective farms was not considered as current income but as a counterpart of the decline in stock and, therefore, was transferred to the undistributed funds of the collective farms. In fact, the rules of the collective farms provide that, if the planned increase in livestock is not achieved, the deficit should be covered by the transfer to the undistributed funds of the receipts from sales of livestock and livestock products. In consequence, assuming that these rules were applied, the distributed income of the members of collective farms either declined or remained stationary or rose in a much smaller proportion than the money receipts of the collective farms. In any event, the total money income of the population does not seem to have risen faster than the total supply of goods in the retail trade network. While the overall balance between demand and supply of consumer goods was maintained in 1963, specific shortages, especially of various foods, increased. Among durables and semi-durables, household equipment, such as refrigerators and washing machines, and various knitted goods were in short supply. At the same time there was a further increase in stocks of unsalable consumer goods.

The changes in money wages and prices in 1963 resulted in very slow increases in real wages in several centrally planned economies. In Bulgaria real wages seem to have risen by one per cent in 1963. In Eastern Germany and Czechoslovakia the rise was probably even smaller, if any. In Poland, where money wages rose by 4.5 per cent, the increase in cost of living reduced the rate of growth of real wages to only 2 per cent. In the Soviet Union "real per capita income of the working population", which, apart from income in money and in kind, includes pensions, social insurance and state expenditures on goods purchased by institutions providing free ser-

¹⁴ Based on data for 1963 indicated in *Voprosy Ekonomiki*, No. 2, 1964 (Moscow), and for 1962 as shown in *Narodnoe Khozyaistvo SSSR v 1962 Godu* (Moscow).

vices to the population, increased by 2 per cent in 1963.¹⁵ Only in Romania and in Hungary did real wages increase appreciably in 1963. In Romania, average real wages increased by 4.6 per cent, following a 5 per cent and 3 per cent increase in 1962 and 1961, respectively. In Hungary, where the growth of real wages was very slow during the two

¹⁵ The term "working population" covers wage and salary earners as well as working members of collective farms and other co-operatives.

preceding years—less than one-half of one per cent in 1961 and 1.5 per cent in 1962—they rose in 1963 by about 5.1 per cent. Family incomes of wage and salary earners increased on a per capita basis much more—by 7 per cent—because of a rise in employment and in various social benefit payments. The rise in per capita family income in several other centrally planned economies, and for similar reasons, was also greater than the rate of increase in real wages.

Foreign trade

In 1963 the total foreign trade turnover of the eastern European centrally planned economies increased by 7.4 per cent (*see* table 3-15), compared to an increase of 10.8 per cent in 1962 and of 7.6 per cent in 1961. This slackening of trade expansion was largely accounted for by the fall in the rate of growth of the trade of the Soviet Union, by far the largest trading country among this group, from 14 per cent in 1962 to about 6 per cent in 1963. The growth of foreign trade also slowed down in Bulgaria and Poland. In contrast, the foreign trade of Czechoslovakia, Hungary and Romania increased faster in 1963 than during the preceding year. Except for Czechoslovakia, where the expansion of foreign trade was accompanied by a fall in national income, developments in foreign trade were generally in line with changes in national income in 1963. Although no official data are available for mainland China, incomplete information based on statistics of its trading partners indicates that this country's trade declined by 8 per cent in 1960, by 25 per cent in 1961 and by another 8 per cent in 1962. In 1963, however, this declining trend was arrested, and total foreign trade turnover seems to have been even somewhat higher than in the preceding year. This improvement was entirely due to a further expansion of the trade of mainland China with countries

other than the centrally planned economies, since its trade with the countries belonging to the Council of Mutual Economic Assistance, which in 1962 was about 64 per cent lower than in 1959, declined by a further 20 per cent in 1963.¹⁶

Among countries for which separate data on imports and exports are available (*see* table 3-16),

¹⁶ See *Kommunist* (Moscow), 6 November 1964.

Table 3-16. Exports and Imports, 1961-1963
(Millions of roubles)

Country and item	1961	1962	1963
Bulgaria			
Exports	596	695	755
Imports	599	706	824
Balance	-3	-11	-69
Czechoslovakia			
Exports	1,842	2,038	2,288
Imports	1,821	1,863	1,950
Balance	21	175	338
Eastern Germany			
Exports	2,035	2,118	2,406
Imports	1,995	2,134	2,058
Balance	40	-16	348
Hungary			
Exports	926	990	1,089
Imports	923	1,034	1,179
Balance	3	-44	-90
Poland			
Exports	1,353	1,481	1,593
Imports	1,518	1,697	1,781
Balance	-165	-216	-188
Romania			
Exports	713	736	824
Imports	733	847	920
Balance	-20	-111	-96
USSR			
Exports	5,398	6,327	6,545
Imports	5,245	5,806	6,353
Balance	153	521	192

SOURCE: See table 3-1.

Table 3-15. Foreign Trade Turnover, 1961-1963

Country	Index			Amount, 1963 (millions of roubles)
	1961 (preceding year=100)	1962	1963	
Bulgaria	110.3	117.2	112.7	1,579
Czechoslovakia	108.7	106.5	109.0	4,238
Eastern Germany	102.7	105.5	105.0	4,464
Hungary	111.1	109.4	112.0	2,268
Poland	113.1	110.7	106.2	3,374
Romania	117.8	109.5	110.2	1,746
USSR	105.7	114.0	106.3	12,898
TOTAL	107.6	110.8	107.4	30,565

SOURCE: See table 3-1.

Czechoslovakia, Eastern Germany, Poland and Romania experienced an improvement in the balance of trade. In other countries imports increased faster than exports, resulting in increased deficits or reduced surpluses. In several countries the trade balance was less favourable than anticipated, largely owing to developments in agriculture, which necessitated reductions in exports or increases in imports of products of animal husbandry or of grain.

In Czechoslovakia the 12 per cent growth in exports and the 5 per cent increase in imports resulted in a rise of net exports from 175 million roubles in 1962 to 338 million roubles in 1963. An even more significant change occurred in Eastern Germany where the net imports of 16 million roubles in 1962 were replaced by net exports amounting to 348 million roubles. This impressive change was, however, brought about by a 3.6 per cent decline in imports accompanied by a 13.6 per cent rise in exports.

In Poland the faster rise in exports than in imports was reflected in a sharp reduction of the trade deficit from 216 million roubles in 1962 to 188 million in 1963. Among countries where the balance of trade deteriorated, net imports increased in Bulgaria from 11 million roubles in 1962 to 69 million in 1963 and in Hungary from 44 million roubles in 1962 to 90 million roubles in 1963. In the Soviet Union exports increased in 1963 by 3.4 per cent while imports rose by 9.9 per cent, resulting in a substantial decline in net exports from 526 million roubles in 1962 to 192 million roubles in 1963. The much greater than anticipated increase in imports resulted in part from the purchases of grain abroad necessitated by the disastrous harvest in 1963.¹⁷

¹⁷ Only part of the 14 million tons of grain purchased abroad seems to have been shipped to the Soviet Union in 1963.

Data on commodity composition of trade in 1963 are available only for Bulgaria, Hungary and Poland; for Bulgaria, they pertain to only the first nine months of the year (see table 3-17). In Hungary the most significant change in exports was the decline in the share of machinery and equipment and manufactured consumer goods in the total, while the share of food and agricultural raw materials increased. As for imports, there was a decline in the share of fuels and industrial raw materials in the total to the advantage of all other commodity groups. In Poland the changes in the commodity composition of trade were generally much more pronounced than was the case in Hungary. The pressing need for imports of food¹⁸ necessitated restrictions on imports of raw materials despite their effect on the rate of growth of industrial production. Imports of raw materials fell slightly in 1963, while imports of food-stuffs increased by about 19 per cent, that is, almost four times as much as the rate of growth of total imports. In consequence, the share of fuels and raw materials in Polish imports declined from 46.8 per cent in 1962 to 44.5 per cent in 1963, while the share of food and agricultural raw materials rose from 13.3 per cent in 1962 to 15.1 per cent in 1963. The share of machinery and equipment also increased, while that of manufactured consumer goods fell slightly. The changes in the composition of exports were also considerably influenced by the developments in agriculture. In fact, the most significant change in export trade was the 10 per cent fall in exports of food which was instrumental in reducing the share of these commodities in total exports from 19 per cent in 1962 to 16 per cent in 1963. The counterpart of this change was the con-

¹⁸ Imports of meat increased from 5,000 tons in 1962 to 45,000 tons in 1963.

Table 3-17. Commodity Composition of Foreign Trade of Bulgaria, Hungary and Poland, 1961-1963
(Percentage of total exports and total imports)

Item	Bulgaria ^a		Hungary			Poland		
	1962	1963	1961	1962	1963	1961	1962	1963
<i>Exports</i>								
Machinery and equipment	20.4	24.2	37.2	36.1	34.1	28.0	30.0	33.1
Fuels and industrial raw materials	28.4	27.8	22.4	22.3	22.7	39.1	39.0	38.0
Food and agricultural raw materials	32.7	31.4	19.8	19.7	23.1	21.4	19.2	16.0
Manufactured consumer goods	18.5	16.6	20.6	21.9	20.1	11.5	11.8	12.9
<i>Imports</i>								
Machinery and equipment	44.9	46.8	25.5	30.0	30.2	29.1	33.2	34.1
Fuels and industrial raw materials	42.1	39.3	59.1	55.7	54.7	49.7	46.8	44.5
Food and agricultural raw materials	6.7	6.8	10.6	9.6	9.9	15.3	13.3	15.1
Manufactured consumer goods	6.3	7.1	4.8	4.7	5.2	5.9	6.7	6.3

SOURCE: See table 3-1, also *Statisticheski Izvestia*, No. 4, 1963 (Sofia).

^a First nine months of each year.

siderable increase in the share of machinery and equipment from 30 per cent in 1962 to 33 per cent in 1963. The share of manufactured consumer goods also increased, while that of fuels and industrial materials fell, largely because of the 2.4 per cent decline in exports of coal, the major product in this commodity group.

In Bulgaria changes in the commodity composition of trade were mainly due to a greater than average expansion of trade in machinery and equipment. Exports of machinery and equipment rose by 28 per cent during the first nine months of 1963 over the corresponding period of 1962. In consequence, the share of machinery and equipment rose from 20 per cent in 1962 to 24 per cent in 1963, the rise being at the expense of all other commodity groups. Exports of manufactured consumer goods declined by about 3 per cent. In imports, the share of machinery and equipment rose from some 45 per cent in 1962 to about 47 per cent in 1963 as a result of a 21 per cent increase in imports. Imports of manufactured consumer goods increased even faster, by 31 per cent, and those of food and agricultural raw materials by 17 per cent. In contrast, imports of fuels and industrial raw materials increased less than the average and the share of these items in the total declined from 42 per cent in 1962 to 39 per cent in 1963.

Data on geographical distribution of trade shown in table 3-18 indicate that, in 1963, the trade of most centrally planned economies with one another increased faster than their trade with the rest of the world. The change in the relative rates of expansion of trade with the rest of the world was particularly marked in Bulgaria. In 1962 Bulgaria's trade with the centrally planned economies increased by 14 per cent, compared with a 37 per cent expansion in trade with the rest of the world. But in 1963, trade with the rest of the world rose by only 11 per cent, while trade with the centrally planned economies expanded at virtually the same rate as in 1962. In the Soviet Union and Romania also, the direction of changes in the geographical distribution of trade was reversed in 1963. In 1961 Soviet trade with the centrally planned economies rose by 3 per cent, while that with the rest of the world increased by as much as 12 per cent. In 1962 again, the trade with the rest of the world expanded faster than that with the centrally planned economies, the respective rates of increase being 19 and 12 per cent. But in 1963 the trade with the centrally planned economies increased by 6.5 per cent and that with the rest of the world by 5.8 per cent only. Romania's trade with the centrally planned economies increased by 8 per cent in 1962 and that with the rest of the world by 12 per cent, while in 1963 the rates of expansion of the trade with these regions were 8 and 11 per cent, respectively.

Table 3-18. Geographical Distribution of Trade of Centrally Planned Economies, 1961-1963
(Millions of roubles)

Country and year	Trade with centrally planned economies		Trade with rest of the world	Total trade
	Total	With the USSR		
<i>Bulgaria</i>				
1961	1,017	623	178	1,195
1962	1,158	748	243	1,401
1963	1,309	...	270	1,579
<i>Czechoslovakia</i>				
1961	2,554	1,232	1,109	3,663
1962	2,850	1,449	1,051	3,901
1963	3,113	1,577 ^a	1,125	4,238
<i>Eastern Germany</i>				
1961	3,093	1,783	937	4,030
1962	3,367	2,201 ^b	885	4,252
1963	...	...	...	4,464
<i>Hungary</i>				
1961	1,332	621	534	1,849
1962	1,469	728	555	2,024
1963	1,588	...	680	2,268
<i>Poland</i>				
1961	1,794	877	1,077	2,871
1962	2,052	1,032	1,126	3,178
1963	2,194	1,141	1,181	3,375
<i>Romania</i>				
1961	994	585	452	1,446
1962	1,075	643	508	1,583
1963	1,197	731	547	1,744
<i>USSR</i>				
1961	7,621		3,022	10,643
1962	8,525		3,611	12,136
1963	9,077		3,821	12,898

SOURCE: See table 3-1, also *SSSR v. Tsifrah v. 1963 Godu* (Moscow).

^a Estimated on the basis of statistics for the first three quarters of 1963, assuming that the relationship between the data for the entire year and those for the first three quarters was the same as in 1962.

^b Derived from Soviet trade statistics. The corresponding figure for 1961 indicated in the same source is 1,876 million roubles.

Among other countries for which data are available, the trade of Czechoslovakia and Poland with other centrally planned economies continued to grow faster than their trade with the rest of the world, although the difference between the rates of expansion of trade with these two groups was considerably reduced in 1963. This was particularly true for Czechoslovakia where in 1962 trade with the rest of the world declined by 5 per cent, while trade with the centrally planned economies increased by 12 per cent. In 1963 the trade with both groups of countries increased by 7 and 9 per cent, respectively.

In Hungary, by contrast, a significant shift in the distribution of trade between these two groups took place in 1963. While, during recent years, the trade

with the centrally planned economies was expanding faster than that with the rest of the world, in 1963, the trade with the market economies rose by 23 per cent as against an 8 per cent increase in the trade with the centrally planned economies.

Little information is available on the changes in the distribution of trade within the group of centrally planned economies in 1963. Probably the most significant change was a further decline in the trade of the CMEA countries with mainland China which, as already indicated, fell by about two-thirds from 1959 to 1962 and by a further 20 per cent in 1963. Separate data on trade with the Soviet Union are available only for three countries. The trade of Czechoslovakia with the Soviet Union increased by about 9 per cent, at approximately the same rate as its total trade with the centrally planned economies. In Poland and Romania, however, trade with the Soviet Union rose by 11 and 14 per cent, respectively—that is, at substantially higher rates than their trade with the remaining countries of the group taken together.

Table 3-19 shows the magnitude of changes in the trade of the centrally planned economies with various regions in the rest of the world. These data, derived from the statistics of partner countries, are not directly comparable with those shown in the preceding tables because of discrepancies inherent in such derivations and in view of differences in coverage. According to the data shown in table 3-19, the trade of the centrally planned economies¹⁹ with the rest of the world increased in 1963 by 7.9 per cent, compared to a 6 per cent increase in 1962.

The trade of mainland China²⁰ rose by 17 per cent as against a slight decline in 1962. The trade of eastern Europe, excluding the Soviet Union, also expanded at a faster rate—by over 8 per cent—compared with about 2.9 per cent in 1962. However, the trade of the Soviet Union with the rest of the world in 1963 rose much less than in 1962—by somewhat over 4 per cent as against 13 per cent in the preceding year. The slowing down in the expansion of the trade of the Soviet Union and the acceleration in that of mainland China and the eastern European countries as a group in each case occurred both in imports and exports.

As in preceding years, exports of the centrally planned economies to the rest of the world expanded faster than their imports from outside the group, the respective rates of increase being 8.2 and 7.6 per cent. In consequence, net exports rose from \$320

million in 1962 to \$380 million in 1963. This change was mainly a reflection of an increase in the export surplus of mainland China which resulted from an 18.5 per cent increase in exports and a 15.8 per cent expansion in imports and amounted to \$84 million in 1963. Exports of the Soviet Union rose somewhat faster than its imports from the rest of the world (by 4.7 per cent as against 3.9 per cent); as a result, the country's export surplus increased to over \$100 million. There was also some increase in the net exports of the other eastern European countries, although their exports and imports increased at about the same rate. The net balance of trade of these countries with the rest of the world was equal to \$195 million in 1963.

The slowing down in the growth of exports of the Soviet Union in 1963 occurred in almost all the regions shown in table 3-19 except western Europe and Finland. It was particularly marked in Latin America, where exports declined slightly after having increased by more than one-third in 1962, and in Asia and the Far East where exports had risen by nearly one-fourth in 1962. Exports to Africa and the Middle East, which had not increased in 1962, declined by more than 10 per cent in 1963. On the other hand, the slowing down in the growth of imports occurred largely in trade with western Europe and Finland. There was also a sharp fall in imports from Latin America and a smaller expansion of imports from Asia and the Far East, following an increase of almost one-half in 1962. Imports from Africa and the Middle East, however, rose by 46 and 34 per cent, respectively, in 1963. There was also a sevenfold increase in imports from Canada and the United States which totalled over \$160 million in 1963. As a result of these developments, there was an improvement of about \$190 million in the trade balance of the Soviet Union with western Europe and an increase of nearly \$85 million in the large surplus with Latin America. On the other hand, the trade deficit with North America, Australia and New Zealand rose by about \$157 million and there was also an increase in the deficit with Asia and the Far East. A surplus of \$55 million on trade with Africa in 1962 changed to a slight deficit in 1963.

The expansion of exports and imports of other eastern European countries was also evident in their trade with almost all the regions shown in table 3-19. The only declines in 1963 were those in the export and import trade with the Middle East and in the exports to Finland. Apart from these exceptions, there was a fairly uniform growth of exports to the major regions. The growth of imports was more diverse. The value of imports from Canada and the United States and from Africa rose by roughly 30 per cent each and that of imports from Australia

¹⁹ In the following discussion, the term "centrally planned economies" excludes Cuba and Yugoslavia.

²⁰ In the following discussion referring to data in table 3-19, the expression "trade with mainland China" is meant to include the trade of Mongolia, North Korea and North Viet-Nam.

Table 3-19. Trade of Centrally Planned Economies with Rest of the World,^a
1961-1963
(Millions of dollars)

Area and year	USSR		Other eastern European countries		China (mainland) ^b		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
<i>Canada and United States</i>								
1961	29.0	69.4	67.4	157.8	3.6	121.1	100.0	348.3
1962	20.0	23.0	76.1	144.4	7.7	137.6	103.8	305.0
1963	22.5	161.4	76.4	183.5	8.3	97.0	107.2	441.9
<i>Latin America</i>								
1961	305.4	346.5	205.7	162.4	100.0	75.6	611.1	584.5
1962	409.2	305.8	168.8	164.5	100.0	98.3	679.0	568.6
1963	400.0	212.5	188.4	170.2	100.0	46.0	688.4	428.7
<i>Western Europe^c</i>								
1961	812.6	707.4	1,538.2	1,450.3	183.0	182.0	2,533.8	2,339.7
1962	839.6	847.0	1,605.7	1,502.2	169.8	150.3	2,614.1	2,499.5
1963	912.4	729.6	1,743.1	1,572.1	172.8	169.8	2,828.3	2,471.5
<i>Finland</i>								
1961	156.2	127.7	65.3	56.9	1.4	6.0	222.9	190.6
1962	167.1	195.1	65.2	46.3	2.0	5.1	234.3	246.5
1963	202.8	183.3	55.0	48.7	2.8	5.6	260.6	237.6
<i>Yugoslavia</i>								
1961	32.0	50.9	137.2	124.7	—	—	169.2	175.6
1962	59.1	43.3	129.1	123.6	—	—	188.2	166.9
1963	72.8	85.3	167.2	125.4	—	—	240.0	210.7
<i>Asia and the Far East</i>								
1961	293.1	296.0	205.7	135.4	348.2	158.3	847.0	589.7
1962	362.3	432.1	214.8	167.3	408.0	151.7	985.1	751.1
1963	375.0	471.9	236.8	198.1	533.0	172.7	1,144.8	842.7
<i>Australia and New Zealand</i>								
1961	0.7	23.2	9.6	46.1	8.5	169.0	18.8	238.3
1962	0.4	32.1	9.7	32.7	10.0	101.2	20.1	166.0
1963	0.5	53.5	10.4	38.2	12.0	212.9	22.9	304.6
<i>Africa^d</i>								
1961	179.0	111.8	179.7	180.1	35.9	39.1	394.6	331.0
1962	163.5	108.4	201.6	157.5	40.5	42.3	405.6	308.2
1963	146.5	158.3	211.4	205.1	42.2	75.4	400.1	438.8
<i>Middle East^e</i>								
1961	80.6	29.3	86.0	37.5	6.9	13.6	173.5	80.4
1962	81.0	31.2	111.3	63.5	12.0	8.4	204.3	103.1
1963	67.5	41.7	106.5	59.5	16.5	25.5	190.5	126.7
TOTAL								
1961	1,888.6	1,762.2	2,494.8	2,351.2	687.5	764.7	5,070.9	4,878.1
1962	2,102.2	2,018.0	2,583.3	2,402.0	749.0	694.9	5,434.5	5,114.9
1963	2,200.0	2,097.5	2,795.2	2,600.8	887.6	804.9	5,882.8	5,503.2

SOURCE: Statistical Office of the United Nations, and Statistisches Bundesamt, *Wirtschaft und Statistik*, No. 3, 1964 (Stuttgart).

^a Exports from and imports to the centrally planned economies, as derived from data of their trading partners, which include Cuba and Yugoslavia. In table 3-16, those two countries are excluded from the data on trade with the rest of the world and included in those relating to trade with the centrally planned economies. The full reconciliation of the coverage in these two tables was prevented

by the lack of country details on trade with Cuba and Yugoslavia.

^b Including trade of Mongolia, North Korea and North Viet-Nam.

^c European countries, members of the Organisation for Economic Co-operation and Development including trade between Eastern Germany and the Federal Republic of Germany.

^d Including Ethiopia, Libya, Sudan and United Arab Republic.

^e Excluding Ethiopia, Libya, Sudan and United Arab Republic.

and New Zealand and from Asia and the Far East increased by 17 to 18 per cent. However, imports from western Europe and Latin America rose by less than 5 per cent. There was consequently a marked improvement in the trade balance with western Europe. As in the case of the Soviet Union, this was partly counterbalanced by a marked increase in the deficit with North America and Australia and New Zealand and a reduction in the surplus with Africa.

The faster growth in the exports of mainland China to the market economies in 1963 was partly due to a slight expansion of trade with western Europe following a marked decline in 1962. But the trade with this region is of far less importance to mainland China than to the other centrally planned economies. It accounted for only about 20 per cent of mainland China's imports and exports to market economies in 1963, compared with over 60 per cent of those of the eastern European countries other than the Soviet Union and about 40 per cent of exports and 35 per cent of imports of the Soviet Union. The increased growth rate of trade of mainland China with the market economies stemmed mainly from the accelerated expansion of exports to Asia and the Far East which rose by 31 per cent after a 17 per cent increase in 1962. By 1963 this region took 60 per cent of mainland China's exports but supplied little more than one-fifth of its imports. The faster growth in imports was concentrated in those from Australia and New Zealand. An increase of over \$110 million in imports from this region followed a sharp decline in 1962 and more than offset a reduction in imports from Canada in 1963.

As table 3-19 shows, the trade of mainland China with various regions is more uneven than that of the Soviet Union or of the other eastern European countries as a group. In 1963, there was a very large increase in the surplus with Asia and the Far East and in the deficit with Australia and New Zealand, which amounted to \$200 million. Furthermore, there was some decline in the large deficits with North America, and an increase in the deficit with Africa.

The difficulties which certain countries experienced in obtaining or disposing of particular products through foreign trade again focused attention on the need to ensure greater co-ordination of national economic plans so as to permit a more advantageous division of labour among countries by allowing greater specialization and a larger international exchange of goods. In 1962-1963 the Council of Mutual Economic Assistance adopted a considerable number of additional recommendations providing for greater specialization and co-ordination in the production of various types of machinery. While the items covered by these agreements have

so far amounted to about 525 types of products of engineering industries and to nearly 1,200 types of products of all branches of industry, they still represent only a relatively small proportion of output in individual countries. So far, the effect of these agreements and recommendations has been to prevent the range of goods produced in individual countries from being widened rather than to reduce the range of goods already being produced. The need for further specialization in the machine building industry was particularly stressed because of the considerable expansion of these industries in all centrally planned economies and the growing need for trade expansion in this field. It has been pointed out that the emergence of engineering industries in countries which in the past were largely or entirely dependent on imports and the expansion of these industries without sufficient regard to specialization and international division of labour had a restraining effect on the trade in machinery and equipment of the CMEA countries. This factor was considered largely responsible for the much slower increase in the share of machinery in total exports of the CMEA countries than in the exports of the developed market economies.²¹ Official and semi-official statements have also mentioned that the engineering products offered for export by the centrally planned economies were frequently lower in quality and less up to date than those offered for sale by the developed countries. In consequence, imports of machinery from the highly developed market economies to the CMEA countries increased faster than their imports from other members of the group.²² In order to reverse this trend, considerable efforts are being made to improve and modernize the output of engineering industries through, among other things, greater specialization.

The 1962 decision of the CMEA to introduce multilateral settlements was implemented in 1963 when member countries signed an agreement which provided for settlement in transferable roubles and for the installation, in January 1964, of an International Bank for Economic Co-operation as a clearing-house for multilateral settlements. While trade continues to be conducted on the basis of bilateral agreements, it is no longer necessary for each country to achieve a balance with each trading partner. Member countries may aim at balancing receipts and payments in each calendar year with one another, in so far as they can secure the agreement of their respective

²¹ According to a statement made by G. Kohlmeier at a special session of the Karl Marx University of Economics in Budapest, as reported in *Társadalmi Szemle*, No. 12, 1963 (Budapest), the ratio of the rate of increase in exports of machinery to that of total exports in the period 1957-1962 amounted to 1.1 in the trade of the CMEA countries and to 2.1 in the trade of the market economies.

²² *Op. cit.*

trading partners for the use of bilateral balances in transferable roubles for purchases in third markets. No country is compelled to use its net balances in the course of the year during which they were accumulated, but each country is obliged to keep its freely disposable transferable roubles in its account at the Bank.

In addition to its function as a clearing-house, the Bank will provide short-term commercial credits for settlement of accounts when a country has not sufficient transferable roubles in its account. These credits may be applied to seasonal needs for cash as well as to providing expansion of trade.

The funds for financing of credit operations are to be derived from the capital of the Bank supplied

through contributions of member countries and from interest-bearing deposits of these countries. Credits offered by the Bank will also bear an interest charge. Contributions to the capital of the Bank are established in proportion to the value of exports of the participants to other CMEA countries, but each participant has only one vote irrespective of the size of its contribution.

The introduction of a system of partial multilateral settlements among CMEA countries may provide a stimulus to the expansion of their trade with the rest of the world if countries outside the CMEA are enabled to use their net balances with particular CMEA countries for purchases in other countries of the group.

Problems and policies

The difficulties encountered by several centrally planned economies in agriculture as well as in industry and the resulting further deceleration of their economic expansion have again brought problems of planning and management to the fore. Of course, some slowing down of the pace of economic advance from the high rates achieved in initial stages of planned development is only to be expected as the economy becomes increasingly diversified and more complex. The rate of economic growth is also bound to be affected by random factors, such as bad weather. It is generally recognized, however, that the recent slowing down of economic expansion has gone beyond the influence of these factors. At the same time, this slowing down does not appear to be accounted for entirely by labour shortage or by scarcity of domestic raw materials. Thus, although the over-all rate of growth in a given country might be influenced by conditions beyond the control of the Government, it is now widely recognized within the centrally planned economies that the recent emergence of pronounced imbalances must have resulted largely from shortcomings in economic policy and from deficiencies in planning and management.

The discrepancies in the growth of various sectors of the economy—reflected *inter alia*, in the undesired accumulation of stocks of some products and shortages of others, in the increased volume of uncompleted construction,²³ and in increases in the cost of production—had a decelerating effect on economic growth in the centrally planned countries. The impact of these discrepancies was, however, relatively slight in the less developed countries of the group, such as Bulgaria and Romania, as well as

in the Soviet Union, which, by reason of its size, its wide resource endowment and the extensive nature of its manufacturing industries, is less dependent on foreign trade than other centrally planned countries.

The magnitude and the impact of internal and external imbalances was immeasurably greater in the most developed countries of the group—in Czechoslovakia and Eastern Germany, with their more complex industrial structure and heavy dependence on foreign trade, as well as in Poland which belongs in an intermediate category. Hungary, which also belongs to the same intermediate category, has not, however, experienced similar difficulties during recent years. The much more balanced growth in that country is largely explained by the fact that its efforts to overcome imbalances started much earlier than those of other countries. The severe set-backs suffered by the Hungarian economy as a consequence of the economic and political strains culminating in the events of 1956 prompted the adoption of new policies and a gradual introduction of changes in the methods of planning and management which have produced significant results. A major factor was the introduction of a very cautious investment policy that served to avoid the emergence of strains and bottle-necks which arose in several other countries as a consequence of excessively ambitious investment programmes. Furthermore, a number of apparently limited but continuously applied changes in the practice of planning and management produced a marked improvement in the co-ordination of supply, production and investment plans and promoted a closer relation between these plans and the anticipated developments in foreign trade. In the field of management, improvement in efficiency of enterprises was sought through the gradual reduction of administra-

²³ For a review of these trends and the relevant statistical data, see United Nations, *Economic Survey of Europe in 1962*.

tive interference in their current operations and by placing increased emphasis on their sales rather than on the fulfilment of output plans in evaluating their efficiency and allocating rewards. This trend was continued with increasing attention being paid to inter-enterprise agreements for purchases and deliveries of goods in the preparation of production plans in 1963, and with the introduction as of 1 January 1964 of a charge on capital as an inducement for economizing on capital outlays and for more efficient utilization of existing productive capacity.

In contrast to the trends in Hungary, the imbalances which had developed earlier in Czechoslovakia, Eastern Germany and Poland, far from lessening or disappearing, became intensified in the past few years. These growing difficulties impelled Czechoslovakia and Eastern Germany to abandon their long-term plans of economic development before their completion and led to a drastic revision of Polish investment plans. Many of the problems encountered were to some extent common to these three countries. But one of the differences between the situation in Czechoslovakia and Eastern Germany on the one hand and that in Poland on the other is that the two former countries were hampered by scarcity of labour, whereas in Poland population trends, resulting in a considerable increase in the number of young workers entering the labour force, have given rise to an additional problem of establishing a balance between supply and demand for labour in the coming years.

In Eastern Germany the process of readjustment was well under way in 1963. In Poland, where the revision of investment plans started in 1962 and continued in 1963, industrial production decelerated in 1963, but total national production increased faster than in 1962. In Czechoslovakia, however, the severity of imbalances and the measures adopted for readjustment have led to a decline in economic activities. Developments in Czechoslovakia have aroused a good deal of attention, not merely because this is the first case of a centrally planned economy experiencing in normal peace time a decline in total production. The problems encountered in Czechoslovakia may differ in certain respects and in intensity from those faced by other countries, but they do in a broad sense epitomize the type of problems which may be associated in varying degree with inadequacies in economic policies and the methods of planning and management in other countries of the group.

One of the problems to which increasing attention has been devoted in recent years is the effect of the considerable lag in agricultural production on over-all economic expansion. In this respect, also,

the difficulties encountered in some centrally planned countries in 1962 and in others in 1963 prompted a further reappraisal of past policies and an intensification of efforts aimed at overcoming the shortcomings responsible for the systematic under-fulfilment of agricultural plans. The inadequate expansion of agricultural production was the main factor restraining the growth of real wages and per capita consumption. It also had a decelerating effect on industrial growth in many countries. Thus, in countries dependent on imports of industrial raw materials, the inadequate growth of agriculture imposed the need to increase imports or reduce exports of agricultural commodities and, therefore, had a restraining effect on imports of industrial raw materials and equipment.

Developments in agriculture were influenced by a number of factors whose importance varied from country to country. The most common of these were the inadequate supply of fertilizers and pesticides, insufficient volume and inadequate pattern of investment, deficiencies in management, insufficient incentives for agricultural producers and, in some countries, excessive withdrawal of labour from agriculture and the unfavourable composition of agricultural manpower. Most of these factors were related to the relatively low priority assigned in the past to agriculture and to industries servicing agriculture. While the shift in emphasis in favour of agriculture was initiated some time ago, the transition to the new policy has been relatively slow.

The relatively low priority assigned to growth of agricultural production has influenced both the volume and the pattern of agricultural investment. In most countries a large proportion of investment was aimed at replacing manpower or horsepower by motor power rather than at raising yields. It is true that mechanization did have a certain influence on yields in cases where their increase depended on deeper ploughing. It has also contributed to the reduction of losses by shortening the harvesting period and speeding up the transfer of crops from the fields to the storage facilities; the replacement of horses by tractors has also increased quite substantially the proportion of grain left for human consumption. But, even taking all these factors into consideration, the effect of mechanization on the growth of output and supply was relatively limited. Its main effect was to increase output per man and to make possible the withdrawal of manpower from agriculture to industry. In some cases, however, the withdrawal of manpower was greater than that warranted by mechanization and therefore resulted in severe shortages of agricultural labour.

Even in countries where the shifts of population were relatively smaller, the withdrawal of labour

from agriculture had in some cases a negative influence on output and productivity in so far as it affected seriously the composition of the agricultural labour force. Since the major proportion of labour transferred to the cities consisted of young male workers, such shifts have resulted in a substantial increase in the proportion of women and over-age men in the agricultural labour force.²⁴ In countries which suffered considerable human losses during the war, such as the Soviet Union, the shifts of population to the cities have considerably amplified the effect of the war on the composition of agricultural employment.

Another major factor contributing to the low level of productivity on the farms was the lack of adequate incentives, largely due to the low prices paid by the government purchasing agencies for procurements of agricultural commodities from collective farms. Moreover, the private plots of the members of collective farms provided them with a much greater variety of food than that received in kind from collective farms, and their output represented a considerable proportion of their total income and consumption. Even more important probably was the fact that the income in money and kind received from work on collective farms was smaller in relation to efforts than the income derived from the private plots of the members of collective farms. As long as these differences between incomes and efforts persisted, the peasants were inclined to neglect work on collective farms in favour of work on their own plots, even though improvements in production of collective farms might result in increases in total income received by their members.

The income of collective farms is largely dependent on prices paid by government agencies for purchases of various commodities and on the composition of output and sales of farms. In consequence, the management of farms striving to maximize their income would tend to determine the pattern of production on the basis of prices of various commodities in relation to the amount of work required for their production and the cost of other inputs. In practice, however, the collective farms were not free to determine the composition of their output, and the prices paid for various commodities were dissociated from the relative inputs required for their production. This price and planning policy, even apart from the general level of prices, had a considerable disincentive effect on agricultural producers and was, in most cases, unable to induce farms to provide government agencies with the most desirable variety of agricultural commodities.

Most of these shortcomings of the system of planning and management of collective farms have long been recognized and considerable efforts have been made to improve the situation. Prices paid to agricultural producers have been increased several times, the outflow of labour has been slowed down or altogether arrested and the delivery of equipment has been increased.

In 1962 and 1963 efforts for improving agriculture were further strengthened. While the increase in emphasis placed on improvements in agriculture was common to all centrally planned economies, the most significant changes have occurred in the Soviet Union where the policies introduced in 1963 and the beginning of 1964 seem to represent a turning-point which may have far-reaching effects on the future growth of this sector of the economy.

The preceding review has emphasized the particular significance of the three questions which came to the fore in 1963—namely, the new attitudes towards planning and management of the economies, the exceptional situation in Czechoslovakia and the Soviet policy for agriculture. The following discussion elaborates upon these three topics.

NEW APPROACHES TO PLANNING AND MANAGEMENT

The methods of planning and management in the centrally planned economies, evolved during the initial stages of their planned development, were characterized by a high degree of centralization and relatively little scope for initiative by producing units. The general tendency was for most inter-industry flows and all aspects of the work of individual enterprises to be controlled by central, regional or other authorities. While this system of planning and management was instrumental in achieving very high rates of economic growth at the early stages of planned development, it tended to become increasingly inadequate at later stages. The growing complexity of the economy required much more flexible methods of management and a considerable widening of the scope of decisions left to the management of individual enterprises. Thus, greater initiative by the management of enterprises in the preparation as well as in the implementation of plans became the basic condition for increasing the efficiency of economic activities. The need for reform was strongly emphasized in the mid-nineteen fifties. It was subsequently followed up by various proposals. Several modifications were introduced in the system of planning and management. But these earlier modifications dealt, in general, with only some aspects of the problem, leaving other important aspects practically untouched, and therefore could not be entirely successful.

²⁴ In Czechoslovakia, for instance, more than 40 per cent of labour permanently engaged in agriculture in 1961 was accounted for by workers over fifty years old.

All these problems have acquired a new urgency during the past two years under the impact of further accentuation in imbalances which particularly affected Czechoslovakia, Eastern Germany and Poland, but which were, in a somewhat different form, in evidence in all centrally planned countries.

The approaches of recent years in many respects go much further than the views expressed in the mid-nineteen fifties.²⁵ It is true that many of these problems were raised at that time in the Polish debate on the "model of the socialist economy", but the solutions then offered did not gain the support of the authorities, and were not accompanied by similar tendencies in most of the other centrally planned economies. The present drive towards reforms is developing in virtually all centrally planned countries. Although this has not always been reflected in government decisions—it still exists largely in the form of views expressed in public debate—several official statements as well as experiments conducted in specially chosen enterprises or regions indicate clearly that, whatever differences may exist among countries in the content and timing of the forthcoming reforms, they are all directed towards further decentralization and greater autonomy of individual enterprises. This raises the problem of finding ways and means of associating central planning with a much more flexible method of guiding the economy which will, by increasing the initiative of the management of individual enterprises, improve both planning and management.

An important feature of the new approach is its recognition that the problem cannot be solved by eliminating particular shortcomings of the old methods and that to be efficient the reform has to deal with all closely interrelated aspects of planning and management. It is stressed that the changes in methods of planning and management cannot be achieved rapidly, since they require the replacement of ingrained habits by new stimuli and rewards. The changes must, therefore, be conceived as a process rather than as a single act, in which each step must be checked by experiment before a new step is undertaken.

Thus, the increase in the autonomy of enterprises cannot be fully effective if the structure of prices and the supply allocation system are not modified at the same time so as to replace the need for administrative controls by economic stimuli. It is increasingly believed that with an adequate price, tax and credit

policy these incentives may be sufficient to induce enterprises to act in conformity with the general interest of the economy as reflected in economic plans. The crucial problem of inter-industry relations—that is, of flow of supplies between enterprises—which was the weakest point of the existing system, is not treated separately from other problems of planning and management. Rather, it is intended to be solved as an integral part of the general reform.

Furthermore, strong emphasis is placed on the need to alter the role and the content of the central plans as well as the part played by the producing units in their formulation. It has always been recognized that no workable plan can be formulated without close co-operation with producing units. According to the prevailing practice, the preliminary global objectives are successively translated into more detailed targets for ministries, regions and individual enterprises, which, on the basis of these targets, prepare their own plans. These plans are then transmitted upwards through the administrative hierarchy reaching a higher degree of aggregation at each stage.

The central planning boards then test these plans for internal consistency and conformity with the basic economic tasks and, after approval by political authorities, the final plan in the form of governmental directives is transmitted down the administrative hierarchy to the producing units.

Nevertheless, for several reasons, this form of participation of enterprise in the preparation of plans could not be very effective. As long as their performance was evaluated mainly by the degree of fulfilment of plans for gross output, they had little interest in economizing on raw materials, semi-manufactures and labour. In the process of formulation of plans, they were rather inclined to set their production targets below capacity and to exaggerate their requirements for current inputs in order to reap the greater benefits from exceeding the planned quotas of output and profits in the process of implementation of the plans. They had even less incentive to economize on capital since investment of enterprises was financed free of charge by the State. This attitude was one of the factors inducing the supervising authorities to limit the influence of enterprises on the formulation of production and other plans. In view of this, as well as for other reasons indicated later, the final directives given to enterprises could not reflect local conditions sufficiently to allow the optimum realization of production possibilities. The scope for decision and initiative by the management of enterprises was considerably restricted by the numerous directives concerning value and composition of output, employment, productivity of labour, cost reduction, material input coefficients

²⁵ A considerable number of articles dealing with the problems analysed in this section have been published during the past few years in all centrally planned economies. For more recent discussion of these problems, see *Politická Ekonomie*, Nos. 8 and 10, 1963 (Prague); *Planovanié Hospodarství*, No. 5, 1964; *Közgazdasági Szemle*, No. 9, 1963 (Budapest); *Figyelő*, 9 May 1964 (Budapest); *Kommunist*, No. 5, 1964; *Pravda*, 24 and 25 February 1964; *Ekonomista*, No. 2, 1964 (Warsaw); *Nové Drogi*, No. 3, 1964 (Warsaw).

and so on. The conflicting nature of some of these targets was frequently a deterrent to efficient management of enterprises.

As noted earlier, the difficulties arising from these methods of planning and management have long been recognized. Consequently, several measures aiming at certain decentralization in planning and management have been introduced.

The most important of these measures is the shift of many responsibilities of the central planning and administrative organs to lower government echelons. Thus, in some countries the central boards which were responsible in the ministries for specific industries have been abolished and their functions have been taken over by industrial associations. These associations are more independent of the ministries than were the former central boards, but in practice their activities have consisted largely in transferring to the lower units the directives of their respective ministries. In the Soviet Union, where most of the economic ministries have been abolished, the responsibility has been shifted to republican governments and to the regional economic councils. Thus, the basic characteristic of reforms in these countries is the devolution of authority to lower administrative organs rather than to the enterprises. While the authority of the management of enterprises is somewhat increased and the number of obligatory indicators provided by the supervising authorities reduced, the activity of the enterprises and their freedom of action are still strictly limited by various targets and indicators.

The extremely important problem of the allocation of supplies between enterprises has been only partially resolved by increasing the scope of products subject to direct exchanges between enterprises, with or, in several cases, without the approval of the central or regional administration. The number of products centrally allocated has been reduced considerably, but in many instances they have remained under the control of lower administrative units. These changes have reduced somewhat the difficulties generated by excessive centralization of supply allocation. However, the continued growth of imbalances and the unnecessary accumulation of stocks of some goods and shortages of others indicate that the steps taken so far have not been adequate to solve the problem.

In recent debates on the problems of planning and management, it has been stressed that, in the preparation of their plans and directives, neither central nor intermediate authorities can possibly take fully into account the extremely large variety of conditions in individual enterprises. In consequence, the final directives to enterprises, formulated through the process of successive disaggregation of aggregate

targets, cannot always be successfully applied. While in theory a full co-ordination of the numerous enterprise plans could be achieved through the process of successive approximations, the number of operations required and the time necessary for their performance make this quite impracticable. It has, therefore, been suggested that the only adequate solution of these problems is to be found in the gradual replacement of administrative controls of enterprises by more flexible means of influencing their activities. It has also been maintained that the system of directives given to individual enterprises or to associations or firms composed of several enterprises could be replaced by commercial practices which would involve placing orders for delivery of specific goods by other producing or trading enterprises. The production programme of enterprises would be determined entirely by these agreements, concluded as a rule without any direct intervention by administrative authorities in the current operations of these enterprises. In these conditions, the evaluation of the activities of enterprises would not be based on the degree of fulfilment of the plans for gross or net output of enterprises but rather on their sales and on the fulfilment of their contractual obligations towards other enterprises. This would play an important role in adjusting production of enterprises to actual intermediate and final demand and bring to an end the considerable waste of resources caused by the tendency to formulate and implement production plans without due regard to the pattern and volume of demand.

It has been pointed out that the enlargement of the freedom of action of enterprises in their dealings with other producing or trading units need not result in any basic alteration in the existing inter-enterprise flows, which in the short run are determined largely by the existing productive facilities and by the current pattern of demand. The introduction of these direct and freely established relationships would contribute to the solution of the hitherto difficult problem of allocation of supplies between producing enterprises. Even apart from the fact that supply plans were frequently established after the formulation of production targets, they could never be adequately prepared in view of the extreme complexity of the inter-industry flows which they were assumed to regulate.

The initial proposals dealing with these problems and certain measures introduced in some countries were limited to the enlargement of the role played in the preparation of plans by contractual agreements between enterprises and to shifts in emphasis in the evaluation of the activity of enterprises from the fulfilment of output plans to the volume of sales and deliveries. But further development of these tendencies, apparent in various forms in all centrally

planned economies, implies a gradual elimination of virtually all directives given to producing units by their supervising authorities. The strict directive targets relating to output, employment, productivity, cost and other aspects of the activity of the enterprises would, according to these views, be replaced by full reliance on rewards to the management of enterprises and their staff based entirely on their profits. In the context of fixed or state-regulated prices, these profits would depend largely on the efficiency of the enterprises.

The strengthening of the role of profits and the reduction or complete elimination of the directives could not, however, be effective unless additional measures were adopted at the same time. In this connexion, considerable emphasis has been placed on the reform of producers' prices and on the introduction of a charge on capital.

While prices and profits are not intended to influence the allocation of investment, the prevailing views stress that they should generally correspond to the relative production costs of various commodities. Moreover, in cases where substitution is both possible and desirable, they should be fixed so as to induce enterprises to replace scarce domestic and, especially, imported raw materials by more abundant commodities. In fact, in fixing retail prices of consumer goods as well as of some producer goods, the authorities do take into account the degree of their scarcity. The question, thus, really concerns the application of this criterion to other raw materials, intermediate goods and final investment goods.

The other measure, namely, the introduction of a charge on capital, is considered to be a necessary pre-condition for increasing the autonomy of enterprises. The introduction of such a charge was considered essential even without other reforms as a means of inducing the management of enterprises to economize on investment outlays and to achieve optimum utilization of existing capacity. As long as investment was financed by the State free of charge, enterprises were inclined to exaggerate their needs for capital. The supervising authorities had to rely largely on the requirements formulated by enterprises, even though they were assumed to verify and control them. The desire to improve the efficiency of investment and to lessen the backlog of unfinished construction has given rise to various suggestions. Thus, it has been suggested that investment funds earmarked for a given project should be placed at the disposal of the enterprise or the firm to which the new project is allocated and that this firm should be fully responsible for the necessary arrangements with construction firms and with the enterprises producing machinery and equipment for the project. This measure, together with the introduction of interest on capital, is expected to increase

considerably the efficiency of investment. Influenced by the new measures, the investing firm should be interested in shortening the construction period and in economizing on other outlays in contrast to the present arrangement whereby neither the firm for which the project is built nor any other organization is sufficiently interested in improved efficiency.

The tendency towards enlarging the freedom of action of enterprises does not imply the elimination of central planning or the guiding role of the central authorities in economic development. The new approach does, however, involve significant changes in the functions of the central planning and managing agencies. If the activities of enterprises are not to be determined by directives but by commercial orders, the question arises as to where these orders would originate and what role the central planning and management authorities would play in their determination. The solution of this problem clearly depends on the extent of decentralization. According to some proposals, the planning agencies, after preparing the basic outlines of the plan, should, through the medium of intermediate planning and other agencies, ask enterprises to present offers for delivery of goods required for the implementation of national economic plans. The orders would then be placed with the enterprises that offer the most advantageous conditions relating to quality, cost and delivery schedules. After the agreements are concluded, the contractual obligations of these enterprises would provide the basis for the formulation of their individual plans without any need for directives from the higher authorities. This system is expected to enable enterprises to select the most advantageous pattern of production and to provide inducements for innovations and improvements. Through such inducements, the system is expected to offset the earlier tendency to repeat the existing pattern of output and to avoid innovations in techniques and introduction of new production lines.²⁰

The plans of enterprises based on contractual agreements relating to sales rather than directives would become the foundation for the final formulation of national plans. These plans would, thus, not only provide a much better reflection of the actual conditions of the economy, but they would also be better co-ordinated with the sectoral and enterprise plans. Other proposals suggest that a considerable improvement in planning and management of the economy could be achieved if the system of directives were retained only for enterprises producing final goods, while enterprises producing raw materials and intermediate goods would be left free to determine their production programmes on the

²⁰ Especially when such changes could result in temporary under-fulfilment of directive targets set for a given period.

basis of orders placed with them by the purchasers of their products. It has also been maintained that decentralization could be pushed much further without impairing the planned development of the economy. Thus, for instance, production programmes of enterprises producing final consumer goods could be determined entirely by orders placed with them by wholesale trade firms. These firms, in turn, would formulate their requests on the basis of information received from the central planning agencies on planned growth of disposable income and consumption, on the one hand, and on evaluation of changes in the pattern of consumer demand on the other. In fact, such evaluations have been made in the centrally planned economies in the process of preparing production plans, but they were used for formulating directives for producing enterprises rather than as a basis for commercial agreements between firms.

In the sector producing investment goods, the starting point for similar arrangements could be the investment programme contained in the central plan and the provisions relating to the financing of investment projects. The allocation of funds to individual firms or enterprises for investment purposes would provide the basis for concluding agreements between investors and the firms specialized in the preparation and construction of investment projects. These firms would, in turn, place their orders with enterprises producing machinery and equipment, construction enterprises and other sub-contractors.

A very important feature of these proposals is that they imply that most of the activities of various administrative organs—supervision of plants, allocation of supplies, serving as intermediaries in inter-enterprise relations and fulfilling other controlling functions—should be transferred to firms or associations of enterprises which operate as purely economic units that are provided with capital but which cover their current expenses from their sales proceeds and earn profits. The enlargement of the autonomy of the enterprises envisaged in these schemes may not be equally extensive in all segments of the economy. The administrative agencies may resort to directives relating to output of some intermediate goods, thus altering the links between enterprises at successive stages of manufacturing—from final goods to raw materials—established by contractual agreements between enterprises. This possibility is envisaged particularly for the period of transition to the new system. However, it is considered that, subject to laws and regulations, the current activity of enterprises should not be interfered with unless the emergence of shortages and imbalances makes it imperative to bring them under direct control of administrative authorities.

These changes may have a profound effect on the activities of the central planning agencies. Since the

annual plans are in practice largely predetermined by the existing capacities and the existing pattern of demand, there is a widespread tendency to de-emphasize their importance in favour of medium-term and long-term plans, both at the central and the enterprise levels. The lessening of the directive character of the plans and the enlargement of the autonomy of enterprises are likely to act in the same direction. In fact, it is widely recognized that the obligation to fulfil annual plans has frequently led to the deterioration of quality or to the application of measures which in the longer run had a detrimental effect on the activities of enterprises. During recent years, the annual plans were increasingly conceived as segments of the long-term or medium-term plans and the evaluation of the performance of the economy during a given year was less concerned with the degree of fulfilment of the annual plan than with its effect on the achievement of long-term goals. While this attitude was adopted with respect to over-all rather than enterprise plans, there is a tendency to apply this approach to the plans of enterprises as well. The gradual enlargement of the autonomy of the enterprises along the lines indicated would also imply changes in the content of the central plans and in the activities of the central planning boards. The central planning agencies would most likely concentrate largely on the preparation of the broader aggregates of the long-term plans, while their activity with regard to annual plans would be devoted mainly to current policy measures relating to the financing of investment, credit and fiscal policy, the determination and regulation of wages and prices and indirect measures guiding enterprises in the direction outlined in the annual segment of the medium-term plans.

It has already been stated that the new approaches to planning and management described in the preceding review are still under debate and that they have not been presented in the form of fully elaborated proposals for the reform of the system. Their importance lies in the fact that they reflect the general trend in the attitudes to planning and management of the economy and indicate at least the direction of changes which are contemplated in most centrally planned economies.

As indicated in other parts of this chapter, certain significant steps in this direction have been undertaken during recent years in several countries. In 1963, the most important changes occurred in Eastern Germany, which until recently was less inclined than other centrally planned economies to adopt any significant alteration in its system of planning and management of the economy. In an official document entitled "Principles of the New Economic System of Planning and Management of National Economy",²⁷

²⁷*Neues Deutschland* (Berlin), 16 July 1963.

published in 1963, the East German authorities criticized the prevailing system of planning and management on the ground that it was unable to secure a high efficiency of economic activities and, therefore, a sustained rapid and balanced growth of the economy. The methods used in economic planning and management were concentrated on reaching the quantitative targets set in the annual plans with little regard to cost, labour and material inputs and quality of products. The setting up of exaggerated targets which could not be fulfilled in any circumstances led, according to this document, to strains and stresses, imbalances, deterioration in quality and increased investment costs. The document emphasizes that the aim of the new system of planning and management is to eliminate the rigidity of the previous system through increasing the scope of autonomous decisions of the management of enterprises or of their associations.

The initial steps taken in this direction consisted of the establishment of eighty-two associations of state enterprises which correspond broadly to the branch structure of the industrial sector. The most significant feature of these associations is that they are set up as business concerns which are provided with capital but which cover their current outlays from their sales proceeds and earn profits. While associations of enterprises have existed for some time also in other countries, they were not as a rule set up as firms or business concerns and their activity was in practice largely limited to transferring to the lower units the directives derived from the central plans, that is, fulfilling functions similar to those performed by the former central branch administrations of various industrial ministries. The new element in the East German system is precisely the fact that the associations of enterprises are not conceived as administrative bodies but as profit-making undertakings. The associations of industrial enterprises have the exclusive responsibility for planning and management within their respective industrial branches. They have to conform to the general directives formulated for each branch in the central plan, which, however, is to be prepared with their active participation. Profits are to be employed as the main indicator of the performance of the associations as well as of the enterprises under their jurisdiction. A planned proportion of profits and of depreciation funds of individual enterprises is to be transferred to the associations. The enterprises will also pay to the associations a charge on capital which is to be introduced later. The associations will retain a considerable proportion of their profits and depreciation funds and transfer the rest of these proceeds to the budget. The funds left at the disposal of the associations will provide the means of financing investment programmes which will be prepared by the

associations for their respective branches subject to approval by the central authorities. In order to create conditions in which the volume of profits could serve as an indicator of efficiency of individual enterprises, prices of several industrial commodities, such as fuels, electric power, basic raw materials and chemicals, are to be raised in 1964, and brought closer to their relative production cost. Similarly, the revaluation of fixed assets and the establishment of new amortization rates are aimed at creating conditions for the more economical use of capital equipment. The improvement in the incentive system is to be achieved by setting up in each enterprise a special fund for bonuses and premiums. This fund will be financed by part of the profits earned by the enterprise concerned.

The innovations so far announced by the East German authorities are conceived as only initial steps in a series of reforms, which are to be introduced gradually. At the present stage, several problems relating to various aspects of planning and management have remained unresolved, and their solution is to be sought through experimentation with various schemes on a limited scale. But the general tendency outlined in the "Principles" is towards the gradual elimination of the rigidities inherent in the old system through lessening the role played by directives and a much greater reliance on indirect methods of influencing enterprises to act in conformity with the general objectives of the plans of economic development.

THE ECONOMIC PROBLEMS OF CZECHOSLOVAKIA

The difficulties facing the Czechoslovak economy in recent years became particularly acute during 1962 and 1963, when for the first time since the war economic expansion was brought to a standstill. The dislocation of the economy was reflected in a decline in national income and industrial production. The current long-term plan has been abandoned, and the main efforts have been concentrated on the reorganization of industry and the elimination of bottle-necks in order to prepare the ground for further expansion. At the same time, a critical reappraisal of methods of planning and management has led to the formulation of numerous suggestions concerning the necessity for basic reforms of the system.

Although the situation in 1962-1963 was influenced by unfavourable weather which adversely affected agriculture in 1962 and industry in 1963, the fall in economic activity in the latter year was the cumulative effect of adverse developments during several preceding years.

The general conditions of the Czechoslovak economy in recent years were characterized by stagna-

tion of agricultural production, scarcity of labour and natural resources and, consequently, a growing dependence on imports of food, industrial raw materials and fuels required for expanding manufacturing industries. The potential imbalances implied in this situation were further aggravated by shortcomings of economic policy and by inadequate methods of planning.

Industrial plans continued to be prepared without due regard to the current and capital costs implied in the pattern of expansion, and little was done to alter this pattern so as to ensure a more efficient utilization of available resources. The expansion of output was largely achieved through increased employment rather than improvements in productivity of labour, and through construction of new plants rather than modernization of existing facilities.

Inadequate attention was paid to specialization, and the fact that policies relating to technological change were not sufficiently concerned with economizing raw materials and intermediate goods resulted in substantial increases in input/output and capital/output ratios, and imposed an increasing drain on available resources.

It is now recognized that a more cautious policy would most likely have resulted in lower rates of expansion than those achieved in recent years, but it would certainly have helped to prevent the development of imbalances which have led to an absolute decline in production in 1963 and imposed considerable restraints on the pace of economic growth in the near future.

The emphasis on maximizing output in individual branches, with little regard to cost and the effects on other sectors, including that of foreign trade, was inherited from the past, and has not been entirely abandoned despite the recognition of its shortcomings and the elimination of some of its most obvious forms. In consequence, frequent statements emphasizing the need to reduce costs and capital/output ratios through changes in the composition of output and a more economical use of productive facilities have had little effect.

The emphasis placed on expansion of certain branches of manufacturing industries was associated with inadequate attention directed to the growth of agriculture and to industries producing raw materials, despite the fact that the expansion of output in these sectors would have reduced dependence on imports. Agriculture in particular was considerably weakened by excessive withdrawals of labour to industry,²⁸ and by inadequate incentives to mem-

bers of collective farms. This seems to have been one of the main reasons for the stagnation of agricultural output, despite very substantial increases in the supply of fertilizers and in deliveries of machinery and equipment. In consequence, the input of industrial materials per unit of agricultural output increased very substantially. The resulting rise in total inputs per unit of agricultural output was reflected in the fact that, whereas from 1954-1957 to 1958-1961 the average gross value of agricultural production rose by about 10 per cent, value added in agriculture increased by only 5 per cent.

The inadequate growth of output of raw materials and the rise in cost per unit of output in these industries were in part due to the depletion of natural resources. But, according to authoritative statements, much better results could have been achieved in this sector also, had it been provided with more modern equipment. The relatively small increases in labour productivity despite the rise in fixed assets per worker were largely a result of inadequate improvements in production techniques.

Similar factors contributed to the rising capital/output ratios found in most industries, and to inadequate increases in labour productivity. It has been strongly emphasized that the effects of labour scarcity would have been considerably reduced had the engineering industry been directed to devote more attention to modernization and improvement of the quality of its products, rather than to the fulfilment or over-fulfilment of purely quantitative targets.

The role played by Czechoslovak machine building and metal working industries in recent developments was of crucial importance. The output of these industries accounted in recent years for about 30 per cent of total industrial production and for a considerable proportion of total exports. The significance attached to developments in this sector is indicated by the fact that these were considered one of the major factors responsible for the difficulties experienced by the Czechoslovak economy.

One of the major shortcomings of Czechoslovak economic planning and policies during recent years was the inadequate attention paid to the need for close co-ordination of investment and production plans with the anticipated developments in foreign trade. This co-ordination was particularly needed in Czechoslovakia because, as already stated, the slow development of domestic production of raw materials and the stagnation in agriculture resulted in continuously increasing demand for imports of these commodities. This called for considerable increases in net exports of manufactured goods, the major proportion of which represented products of the engineering industries. The expansion in output of

²⁸ While agricultural production remained at about the same level as before the war, the number of persons permanently engaged in agriculture declined progressively from 67 per cent of the pre-war figure in 1948 to 56 per cent in 1956 and 40 per cent in 1963.

these industries could not be achieved through increases in the supply of domestically produced raw materials and intermediate goods because of scarcity of natural resources and insufficient capacity in metallurgy. In consequence, increased exports of engineering products could only be achieved through larger imports of industrial raw materials, which in turn called for further increases in exports of manufactured goods. A major role in balancing these imports was played by the machine and metal industries, which accounted for about 45 per cent of total exports and represented the largest contribution to net exports of manufactures. The increasing difficulties involved in this pattern of development are indicated by the fact that, while industrial production increased between 1955 and 1962 by about 90 per cent, net imports of fuels and raw materials rose by 320 per cent, that is, 3.5 times as fast as industrial production. Although more recently this ratio was reduced, it still amounted to more than 2.7 between 1958 and 1962. No less significant is the fact that net imports of raw materials and fuels increased much faster than net exports of manufactured products, the proceeds of which were necessary to cover the growing imports of food in addition to the imports of raw materials and fuels. The ratio of net imports of fuels and raw materials to the net exports of manufactured goods rose from about 0.22 in 1955 to 0.43 in 1958 and 0.53 in 1962.

The growing dependence on imports of food, fuels and industrial raw materials, and the inability to raise sufficiently exports of machinery and equipment to pay for these imports, have developed into a circular movement in which the inadequate growth of exports restrained the growth of imports of raw materials, which in turn acted as a restraining factor upon the expansion of output and exports of engineering industries.

The high priority assigned to the expansion of exports of machinery and equipment had a detrimental effect on investment in other sectors of the economy, since this policy entailed the allocation of the major part of investment outlays to the machine building and metal working industries, frequently neglecting other industries the expansion of which could relieve the pressure on the balance of payments. Thus, the inadequate growth of production of fertilizers was one of the factors restraining the growth of agricultural production, and the relatively slow progress in the chemical industry hampered the growth of output of such import substitutes as artificial fibres and plastics. According to official statements, the concentration on exports of machinery and equipment has reduced the possibilities for technical improvements even in the machine and metal working industries themselves, and the considerable increase in the range of goods produced by these in-

dustries resulted in slow growth in productivity and high unit costs of output.²⁹ These developments in the machine building industries present a particularly striking example of the effects of the general economic policy which in practice continued to press for maximization of output in specific industries irrespective of its effect on other sectors and industries and on the economy as a whole.

The concentration on maximum quantitative results was associated with inadequate attention to cost and quality of product, as well as to the need to adjust the volume and pattern of output to changes in domestic and foreign demand. While during the immediate post-war period the other centrally planned economies provided an expanding market for almost all products of Czechoslovak engineering industries, in later years this situation was considerably altered, following the rapid development of the engineering industries in these countries and the considerable expansion in their own exports of machinery and equipment.³⁰

The expansion of output and exports of machinery and equipment in other centrally planned economies obviously imposed certain restraints on the expansion of Czechoslovak exports. It also resulted in considerable changes in the pattern of demand and in raising the quality standards requested by the importing countries.

The attempt to solve these problems by increased specialization and international division of labour among the CMEA countries proved to be more difficult and required more time than anticipated. In many instances the centrally planned economies have shown a strong preference for imports from the market economies, since these countries were able to offer more recent models of machinery and equipment and higher-quality goods than those which could be supplied by Czechoslovakia. Frequently the inadequate quality, obsolete models and failure to meet contractually fixed delivery schedules also contributed to the difficulties encountered by Czechoslovakia in its efforts to expand exports to developing or developed countries in the rest of the world.

Although these tendencies have been apparent for some time, very little was done until recently to adapt the pattern of output and the standards of quality to the new requirements. In fact, planning and management in machine building continued to

²⁹ *Planované Hospodárstvi*, No. 11, 1963.

³⁰ This is clearly demonstrated by the following data showing the percentage share of machinery and equipment in the exports of several centrally planned economies in 1955 and 1962, respectively: Bulgaria, 2.5 per cent and 19.5 per cent; Czechoslovakia, 43.5 per cent and 47.6 per cent; Hungary, 29.7 per cent and 36.1 per cent; Poland, 13.1 per cent and 29.8 per cent. In Romania the share of machinery and equipment in total exports rose from 4 per cent in 1950 to 10 per cent in 1956 and 18 per cent in 1962.

follow the pattern which, in entirely different conditions, could have yielded results, but which, in the new circumstances, became increasingly harmful to the growth of the economy. While developments in the machine and metal working industry were crucial, problems of a similar nature also existed in other branches of industry where output was often planned without adequate regard for changes in demand. The lack of sufficient co-ordination between the activities of various enterprises, and between units producing final consumer goods and the retail trade outlets, resulted in accumulation of stocks of certain goods and shortages of others. The efficiency of investment was considerably impaired by the accumulation of unfinished construction, caused by the inadequate evaluation of the capabilities of the building organizations made in the formulation of investment plans. To sum up official pronouncements, the major imbalances in the Czechoslovak economy were caused by inadequate output and availability of food in relation to demand, imbalances between the requirements of the engineering industry and the capacity of the metallurgical industry and between over-all demand and output of fuel and power, the overstrained transportation facilities and the difficulties in foreign trade.

The solution of these problems is to be achieved by a thorough reorganization of industry and by far-reaching changes in the methods of planning and management of the economy. Although the changes in the methods of planning and management have not yet been formulated officially, the views expressed in recent debates leave little doubt that the general tendency is to increase considerably the freedom of action of management of individual enterprises or association of enterprises, and to rely much more on financial and fiscal means of influencing their activities, rather than on administrative directives. It is, however, considered that such decentralization will have desirable effects only if it is associated with the creation of a system of incentives inducing management to achieve optimum results. The role played by profits in the evaluation of the efficiency of enterprises and in determination of rewards is to be considerably increased. The introduction of a charge on capital similar to that already in existence in Hungary is also being contemplated as a factor to induce the enterprises to make better use of productive facilities. The role of the enterprises in the formulation of production plans is to be substantially strengthened, and those plans are to be largely based on inter-enterprise arrangements relating to supply and deliveries of their respective commodities. Although the need for institutional changes is fully recognized by the Czechoslovak authorities, the introduction of these reforms is to be

postponed until the elimination of the most important imbalances enables the economy to resume its growth. It is considered that in the present situation little can be gained by decentralization since the most urgent corrective actions call for centralized decisions.

The main objectives of government policy are to achieve improvements or arrest the deterioration in current input/output and capital/output ratios, and to bring about an acceleration of growth of labour productivity. The expansion of agricultural production and in the output of raw materials is expected to reduce dependence on imports. Improvements in the quality of exportable manufactured commodities, machinery and equipment as well as consumer goods are expected to facilitate a rise in exports and the capacity to pay for imports. It has been particularly stressed that the expansion in the output of manufactured consumer goods using largely domestic raw materials should enable these industries to regain, in part at least, the place they have occupied in the past in Czechoslovak exports. It is now considered, in contrast to the views expressed earlier, that an increase in the share of these industries in production and exports will have a beneficial effect on the economy of Czechoslovakia. Considerable attention is to be devoted to the expansion of the chemical industry, especially with regard to fertilizers, artificial fibres and plastics. The plan for 1963 provided for increased completion of projects under way, for a reduction in the number of new starts and for reducing the imbalances between supply and requirements of producer as well as of consumer goods. Partly because of the adverse weather which affected coal mining, metallurgy, transport and construction, little improvement was achieved during that year. The plan for 1964 provides, in addition, for a reduction in stocks and for restraining or arresting production in inefficient plants wherever such measures are necessary for the economy. To resume expansion, and to accelerate the growth of the economy, considerable efforts are to be made to reduce the consumption of power, raw materials and other goods in relation to output. The concentration on efforts to eliminate imbalances is also reflected in the decisions relating to income policy. According to these decisions, the changes in income payments and consumption will be limited and entirely subordinated to the need to raise incentives in agriculture and in a few selected industries. The implementation of these policy measures is not expected to restore balance to the Czechoslovak economy in 1964. Rather, the improvements to be achieved during that year are conceived of in terms of laying the foundations for the process of readjustment and structural change, a process which cannot be accomplished rapidly.

AGRICULTURAL POLICIES IN THE SOVIET UNION

Although increased attention was devoted to improvements in agriculture in all centrally planned economies, by far the most significant changes in policy during 1963 occurred in the Soviet Union. Before beginning the review of the problems of Soviet agriculture, however, it seems relevant to give a brief description of policy measures taken in this field by other centrally planned economies in the course of the past two years. During this period particular attention was devoted to strengthening the incentives for an expansion of output, and to technical improvements. The completion of collectivization in most countries⁸¹ called for considerable investment both in plant production and in livestock breeding. In some countries, difficulties in finding adequate means of financing the investments needed by collective farms for the development of animal husbandry led to significant changes in official attitudes towards farming on private plots. In Hungary the Government increased the aid given to members of collective farms for production of poultry and eggs on private plots; prices paid by government agencies for poultry were increased, and prices paid by peasants for fodder were reduced. In view of the lack of adequate facilities on collective farms, and in order to increase incentive in cattle breeding, the Hungarian authorities have introduced a system according to which part of the livestock belonging to collective farms is placed under the care of its members on their private plots, against remuneration related to increases in output. This system, introduced earlier, was further extended in 1963.

Bulgaria has also introduced reforms tending to stimulate output on the private plots of members of collective farms. Land was assigned to those members of collective farms who had no private plots, and collective farms were advised to supply their members with livestock within the limits set by the law, to provide them with fodder and to allow the grazing of privately owned livestock on pastures belonging to collective farms.

In Eastern Germany and Romania the measures designed to stimulate agricultural production took the form of increases in prices paid to agricultural producers. In Romania prices paid for various types of cattle were increased by 15 to 55 per cent. There were also increases in bonuses which took the form of feed-stuffs given to collective farms, their members and private farmers, at the conclusion of con-

tracts for delivery of livestock and animal products. In Eastern Germany the price increases for livestock products introduced in 1962 are to be followed in the beginning of 1964 by a general increase in procurement prices for crops. Prices for some products are to be increased by 20 to 30 per cent over their average 1963 level. At the same time, a system of bonuses has been introduced for deliveries exceeding the planned quotas.

In Czechoslovakia, where agricultural production had suffered from a virtual stagnation during the past ten years, the main efforts were devoted in 1963 to organizational changes. The consolidation of the collective farms into larger units, initiated some time ago, was continued in 1963.⁸² In order to improve the planning and management of agriculture, a new agency, the Agricultural Production Administration, was set up under the Ministry of Agriculture. The main task of this agency is to study the problems of agriculture and to prepare production and procurement plans for each district and region, giving special attention to their individual problems. Apart from these organizational changes, a new bonus system was introduced for promoting increased production and delivery of milk. Beginning with 1964 the bonus for milk deliveries exceeding planned quotas will be paid into the "milk premium fund" of the collective farms, to be used for monthly payments to collective farm members directly responsible for cattle breeding.

While the measures adopted by most centrally planned economies during 1963 were broadly in line with policies initiated earlier, the particular importance of the changes which occurred in the Soviet Union is that they represent a very significant shift in policy towards more intensive methods of land cultivation. The inadequate use of such methods was one of the basic factors accounting for the inability of Soviet agriculture to expand in accordance with the plan targets. An acceleration of the growth of agriculture—through the application of more intensive methods of land cultivation—is expected to contribute to the achievement of the very ambitious targets set for per capita consumption. Thus, this expansion would also have a considerable influence on developments in those European centrally planned economies which are dependent on Soviet grain exports.

The developments in Soviet agriculture during the past ten years were characterized by a steep increase in production between 1953 and 1958 followed by a relatively slow increase in subsequent years. Between 1953 and 1959 agricultural production increased by

⁸¹ In Poland most of the collective farms were disbanded and the enlargement of the small co-operative sector in agriculture is to be achieved gradually and on a purely voluntary basis. In consequence, the problems of agricultural policy in this country differ considerably from those faced by countries where agricultural activities are conducted by state and collective farms.

⁸² From 1959 to 1963 the number of collective farms was reduced from 12,560 to 4,500 and the average area of arable land per collective farm rose from 354 hectares to more than 700 hectares. Similar consolidations took place in state farms.

about 50 per cent. The importance of this advance is clearly indicated by the fact that in 1940 agricultural production was only 40 per cent higher than in 1913 and in 1953 it was only 4 per cent above the level reached in 1940. Although the changes in agriculture between 1913 and 1940 and again between 1940 and 1953 were strongly influenced by the world wars, the revolution and the difficulties encountered in the process of collectivization, the fact remains that the advance achieved between 1953 and 1959 was exceptional. The significant thing about the advance achieved during the nineteen fifties is the fact that it was largely due to an extension in the area sown, made possible by bringing under cultivation virgin and fallow land in Kazakhstan and western Siberia. Within this short period the cultivated area increased by about 40 million hectares.³³ The further increase in the sown area by an additional 20 million hectares from 1959 to 1962 has resulted in only relatively small increases in output. A large part of the newly cultivated land was, however, of marginal value because of the character of the soil, subject in certain cases to erosion, scarcity of water and unfavourable atmospheric conditions. The magnitude of the effort required for this huge undertaking and the impact of this effort on traditional agriculture are indicated by the fact that large state farms established in the new territories absorbed the major part of the tractors and grain combines delivered to agriculture between 1953 and 1962. Only a small proportion of the supply of these types of machinery went to the collective farms in the traditional agricultural regions. Between 1959 and 1962, for instance, the stock of tractors and trucks on collective farms had remained virtually unchanged, and that of grain combines even declined.³⁴

The attempts to solve the problems of agricultural production through huge expansion in the area sown proved to be inadequate in the long run. After the initial steep increases in the volume of grain production, further growth of output in the new territories was hampered by the physical conditions of this area. It is true that the effects of recurrent bad weather were not unexpected. Official statements made at the time the programme was being started indicated that cultivation of the new lands would be worth-while even if, within a period of five years, only one excellent, two medium and two poor crops were to be harvested.

Almost at the same time as the sown area was expanded, another campaign was undertaken to increase the productivity of land through an enlargement of the area under maize. While the newly sown territories were to produce mainly bread grains, in other parts of the country the area under maize increased at the expense of other grains. The extension of the area under maize was an integral part of the programme for raising the output of animal husbandry required to achieve the planned increases in per capita consumption. The area under maize was extended from 3.5 million hectares in 1953 to 37 million in 1962. However, on more than 60 per cent of this land, because of the prevailing climatic conditions, maize had to be harvested before ripening, and even before reaching its lacto-cerotic stage; it therefore had to be used for silage and green fodder, with much smaller nutritional value than the ripened grain. Moreover, the drive towards the extension of the area under maize resulted in many instances in planting maize on land where, during recent years, its yield per hectare was smaller than that of other grains.

In other regions the yield of maize was obviously considerably greater than that of other grains, but even in these regions, in a great number of cases, the estimated value of inputs per unit of output was considerably higher for maize than for other grains.³⁵ This consideration might not have been of primary importance in a situation where the government policy was to raise the total supply of grain irrespective of cost. But, in the long run, the problem of relative cost would naturally be very important.

In 1961 a new attempt was made to accelerate the growth of agricultural production by altering the system of crop rotation. The system of crop rotation prevailing in the Soviet Union consisted of periodically leaving one part of the sown area fallow or under annually sown grass. During fallow periods the grassland was used for livestock feeding; the grass was then ploughed in so as to enrich the land for sowing grain. The decision taken in 1961 was designed to eliminate the fallow and grass stage from the rotation cycle, replacing it with maize, sugar-beet and pulses.³⁶ The full implementation of these measures was not expected immediately, however, because of the time required to provide additional equipment and fertilizers called for by the anticipated increases in production.

³³ From about 157 million hectares in 1953 to 196 million hectares in 1959.

³⁴ The number of grain combines fell from 292,000 at the end of 1959 to 236,000 at the end of 1962. Total stock of agricultural equipment increased during the same period as a result of substantial additions to the stocks of state farms, largely in the newly cultivated areas. Between 1959 and 1962 total stocks of tractors rose from 1,054,000 units to 1,329,000 units, that of trucks from 729,000 to 875,000 and of grain combines from 494,000 to 520,000.

³⁵ According to M. Lemeshev in *Planovoe Khozyaistvo*, No. 1, 1964 (Moscow), in the Krasnodar Krai, for example, the yield per hectare of maize was only 1.7 quintals higher than grain, while current expenditure per hectare amounted to 38.7 roubles for grain and 81.2 roubles for maize. Such unfavourable cost price relations existed in the whole Northern Caucasus.

³⁶ In consequence, the area under fallow was reduced from 16.1 million hectares in 1961 to 7.4 million hectares in 1962.

The brief review of these policies indicates that, during the past, the main efforts were directed towards increasing production of grain through an extension in the area sown and by changes in the allocation of land among various crops rather than by increases in the yield of individual crops. In fact, while improvements in yield did occur, the average yield of grain crops remained exceedingly low.³⁷ The main reason for the low yields per hectare was the fact that the area under grain was virtually deprived of fertilizers, the major part of which was allocated to the production of technical crops such as cotton, sugar-beet, flax and hemp. According to an official statement, in planning the supply of fertilizers for agriculture, only the needs of technical crops were considered, and practically no attention was paid to the requirements of grain production. In 1960-1961, for instance, more than 50 per cent of the total supply of fertilizers was allocated to the production of the four technical crops mentioned above, accounting for about 4 per cent of the area sown. The remaining 50 per cent went mainly to areas under sunflowers, potatoes, tea and fruits, and only a very small proportion of the total went to the area under grain, which accounted for more than 60 per cent of total land under cultivation.³⁸

Under such conditions, the measures taken so far could have only a relatively limited effect. Although the need to increase the supply of fertilizers, pesticides and other chemicals to agriculture was recognized earlier, the decisions reached at the end of 1963 and in the beginning of 1964 represent a decisive turning-point in this respect. These decisions place the main emphasis on increasing the yield of grain to be achieved through huge increases in the application of fertilizers. The accelerated growth of grain production is now considered crucial. Apart from its importance in total agriculture, it is vital to the further expansion of animal husbandry. It is therefore an important factor in the achievement of the long-term goals for per capita consumption.

The programme for expansion of the chemical industry, which was assigned the highest priority rating, provides for an increase in the output of fertilizer, from 20 million tons in 1963 to 25.5 million in 1964 and to 35 million tons in 1965. About 10 million tons of fertilizer are to be applied to grain cultivation in 1964, mainly in the Ukraine, the Northern Caucasus and the Kuban region.³⁹ In addition, the output of pesticides and weed-killers is planned to increase from about 60,000 tons in 1963 to 126,000 in 1964. It is expected that the rise in the

supply of these chemicals will contribute to substantial increases in grain production, planned for 1964 and 1965. The output of grain is planned to reach 167 million tons in 1964, and about 174 million tons in 1965, that is, to exceed the 1962 output by 13 per cent in 1964 and by 19 per cent in 1965. Correspondingly, state procurements of grain are expected to reach 67 million tons in 1964 and 69 million tons in 1965, that is, about 22 per cent more in 1965 than in 1962.⁴⁰ The improved supply of fodder, and the consequent rise in the output of animal husbandry, is expected to permit a substantial increase in state procurements of these products. Procurements of livestock and poultry in 1964 are planned to amount to 9.4 million tons, and those of milk to 32 million tons, that is, 10 per cent more than in 1962 in each case.⁴¹

The increased emphasis on raising output through higher yields was also reflected in the wide application of irrigation and other improvements of land under grain, inclusive of pulses. The irrigated area under grain, which in 1962 amounted to some 2.4 million hectares, and in 1963 increased by 233,000 hectares, is to be extended by an additional 761,000 hectares in 1964-1965, and is then to increase by one million hectares annually up to 1970.⁴² The concentration on expansion of agricultural production is reflected in the considerable increases in state investments in agriculture provided for in the plan for the next two years. Compared with 1963, state investments in agriculture are to increase by 38 per cent in 1964 and by another 13 per cent in 1965.

During recent debates considerable attention was also devoted to the problem of increasing incentives and improving methods of planning and management in agriculture. Before 1953 the growth of agricultural production was seriously hampered by the extremely low prices paid by the state purchasing agencies to the collective farms, as well as by the lack of correspondence between the prices paid for various products and the relative quantities of labour and other inputs required for their production. To eliminate these defects, prices were increased several times during the past decade, resulting in a considerable rise in income and in substantial improvements in price/cost relationship.⁴³ The considerable

³⁷ Almost 54 per cent more than the reduced procurements in 1963.

³⁸ Compared to 1963, procurements of meat and poultry are to increase by one per cent and that of milk by 12 per cent in 1964.

³⁹ Total irrigated area amounted to 8.85 million hectares in 1962, 27 per cent of which was under cotton and the same percentage under grain.

⁴⁰ The term "cost" cannot be applied to collective farms without qualification, since the income distributed to members of collective farms depends in part on prices received for deliveries of goods to the state purchasing agencies. In consequence, the evaluation of cost was frequently based on

³⁷ The average annual yields of all grains per hectare amounted to 7.7 quintals in 1949-1953, 9.2 in 1954-1958 and 10.8 in 1959-1962.

³⁸ See *Voprosy Ekonomiki*, No. 12, 1963.

³⁹ *Ibid.*

changes in price levels and price relationships which occurred between 1952 and 1963 are shown in table 3-20. It should be noted that these extremely sharp increases in prices paid to agricultural producers took place during the period when retail prices in state and co-operative trade were declining. The index of retail prices fell between 1952 and 1955 by 15 per cent, and fluctuated narrowly around this level during the following years. The data relating to changes in price paid to collective farms clearly indicate that government policy was largely designed to increase the relative advantages of production of grain as well as of animal husbandry, both of which in the preceding period were at a considerable disadvantage in relation to technical crops.

Despite these readjustments and the extremely steep price increases, prices of beef, pork and, to a less extent, milk were still lower in 1963 than the outlays of collective farms on their production. The decisions taken in 1963 do not provide for any further price increases following the rise in prices paid

the assumption that the value of labour inputs in collective farms was equal to the wage rates of workers in state farms. On the other hand, the distribution of the income of collective farms among its members not only reflects the prices received for the various products, but must also take into account variations in the amount of effort and the qualifications required for performing individual tasks. In consequence, the situation may arise where the total outlays of a collective farm for production of a given commodity may be higher than its unit price; in such a case the difference is covered by "profits" earned from sales of commodities the price of which exceeds unit cost.

The increase in prices paid to collective farms was motivated also by the need to provide them with the means to purchase machinery and equipment following the abolition of the state-owned machine and tractor stations.

for the products of animal husbandry in 1962, and an increase in prices paid for cotton and sugar-beets in 1963. It is considered that the general level of prices reached after several consecutive increases is sufficiently high to provide incentives for further expansion of agricultural production. The differences between price and "cost" in animal husbandry which have to be covered by "profits" earned from sales of other goods can and should be eliminated, according to official views, not by further readjustments, but through a reduction in the unit cost of fodder and labour. The reduction in unit labour cost is to be achieved through mechanization and improved organization of work in animal husbandry. The reduction in the cost of fodder expected from the increases in yields per hectare is to be achieved through changes in crop rotation, a shift towards more productive crops, and even more, through the considerable increases in the application of fertilizers and the amelioration and irrigation of the area under crops.

The need to improve the methods of planning and management in agriculture has long been recognized, and the general tendency was to increase the authority and freedom of decision of the management of collective farms. The decision taken in 1955 stipulated that, subject to the fulfilment of its obligations to the State, and within the limits of the statutory rules of collective farms, management should be free to determine the volume and pattern of output, the allocation of land and manpower, and the remuneration of labour. It is true that, by fixing the quotas in regard to deliveries of various commodities to the state purchasing agencies, the government authorities could influence the production pattern of the col-

Table 3-20. Soviet Union: Average Procurement Prices Paid to Collective Farms and Average Cost of Materials and Labour Per Unit of Output
(Roubles per quintal)

Product	1952	1963	Index (1952=100)	1962, average costs of material and labour per quintal ^a	
				A	B
Cereals (excluding corn)	0.97	7.56	779	3.70	4.40
Corn grain	0.54	7.66	1,418	..	..
Sugar-beets	1.05	2.87	273	1.60	1.90
Cotton, raw	31.88	38.30	120	22.40	24.70
Potatoes	0.47	7.10	1,511	3.80	4.80
Beef	2.03	79.90	3,936	83.40	101.40
Pig-meat	6.72	98.00	1,458	114.60	134.70
Milk	2.52	12.18	483	12.90	15.60
Wool	106.80	378.67	355	250.40	274.80

SOURCE: *Izvestia* (Moscow), 7 March 1964; *Narodnoe Khozyaistvo SSSR v 1962 Godu* (Moscow).

^a In column A the labour component of cost corresponds to income of the collective farms distributed among its members according to work performed in production of various commodities. In column B, the labour component was calculated on the basis of wage rates paid to workers in state farms. See foot-note 4 to the present chapter.

lective farms. But the elimination of direct intervention in their internal activities was considered an important factor tending to increase the initiative and efficiency of the management of collective farms. These decisions do not seem, however, to have been fully implemented. Moreover, the steps taken in 1962 to strengthen the links between state and party organs on the one hand and agricultural undertakings on the other have—according to official statements—frequently been misinterpreted by local organizations, and have resulted in the imposition of considerable restraints on the autonomy of collective and state farms.

It has been stated that, although the territorial agricultural production boards and agricultural party organizations established in 1962 were among other things entrusted with supervisory functions over the planning and other activities of farms, they were not expected to impose upon them directives but rather to advise and aid the farms in their activities. In practice, however, the local state and party organizations intervened directly in the current operation of the farms. In many instances they imposed directives relating to allocation of land, to yields per hectare, to output of various crops and to livestock numbers; in general they attempted to regulate from outside all activities of the farms. In 1963 this attitude of the state and party organizations was strongly criticized and the need to ensure the freedom of decision of agricultural enterprises was emphasized. The importance attached to this problem is indicated by the decision of the Central Committee of the CPSU and of the Council of Ministers of the Soviet Union adopted in March 1964,⁴⁴ which forbids the local state and party organs to determine for the farms any production or other targets, with the exception of those relating to the sales of agricultural commodities to state purchasing agencies, as provided in the state plans. The decision emphasizes that state and collective farms should be entirely free to determine the area to be devoted to various crops, the production plans for crops and animal husbandry, the timing and organization of agricultural work and the introduction of technical improvements. It also states that in the case of disagreement between the management of the farms and the agricultural production boards relating to internal planning and operation, the final decision should rest with the management of the farms.

Anyone violating these rights of collective and state farms is to be held personally responsible to the

state and party organs for his actions and shall be liable to cover any losses such activities may cause to producing units.

The important decisions taken in 1963 and at the beginning of 1964 do not pretend to offer solutions to all the problems raised during recent debates. Thus for instance, while the need for greater specialization was again emphasized as a means of raising productivity, it has been pointed out that collective farms are often reluctant to specialize, in spite of the consequent increase in income, because the resulting gains for their members may be offset by the need to purchase goods such as meat or milk from other farms, at relatively high prices. Another problem raised, but not solved, was that of methods of remuneration for workers in collective farms. During recent years an increasing proportion of collective farms have introduced advance cash payments to members, bringing their system of remuneration much closer to the system of wage payments applied in the state farms. The advance payments in cash had a much greater incentive effect than the original system providing for the distribution of money income only after the end of the agricultural year, and after the fulfilment of state deliveries. The gradual transition towards full remuneration in cash was considered desirable. The extension of the new system was considerably delayed, however, since the less advanced farms had no financial resources for advance payments to their workers. In consequence, the old system of payments in kind and money has been retained for the time being, although its shortcomings are clearly recognized.⁴⁵ Although several problems of Soviet agriculture still await solution, there is no doubt that the measures adopted in 1963 and 1964 open new possibilities for an acceleration in the growth of agricultural production.

Even apart from the measures designed to bring about an improvement in the management of farms, the considerable increases in the supply of fertilizers envisaged for the forthcoming years seem certain to result in a substantial increase in output, and in view of the prevailing very low yields per hectare associated with extremely inadequate applications of fertilizers to grain production, the steep rise in the supply of fertilizers may enable the Soviet Union to expand its agricultural production at significantly higher rates than might be achieved by a more highly developed agriculture.

⁴⁴ The system of remuneration in state farms was also subject to discussion, without leading to a final choice between the following alternatives: fixed wage per unit of output or remuneration based on three indicators—yields, working time and cost reduction per unit of output.

⁴⁵ See *Pravda*, 24 March 1964.

Plans for 1964

The annual plans of the centrally planned economies for 1964 presented significant differences concerning the basic tasks to be accomplished during that year. While for such countries as Bulgaria, Hungary, Romania and the Soviet Union the plans adopted for 1964 aimed primarily at fulfilling the annual objectives of the long-term plans, in other countries the main emphasis was placed on the elimination of the imbalance of recent years. The rate of growth in national income planned for 1964 was much higher among the first group of countries than in the other countries.

In Czechoslovakia and Eastern Germany, the long-term plans of economic development were abandoned before their completion; it was stated that the period preceding the initiation of new long-term plans would be devoted largely to reorganization and readjustment required for preparing the ground for further economic expansion. In Poland, also, the current long-term plan was revised; considerable efforts have been undertaken to improve the internal as well as external balance of the economy. In Bulgaria, Hungary, Romania⁴⁰ and the Soviet Union, the 1964 plans provide for a rise in national income from 6 to

8 per cent; in Eastern Germany and Poland, national income is planned to increase by somewhat less than 4 per cent; but in Czechoslovakia, the planned increase for 1964 amounts to only 1.4 per cent (*see* table 3-21).

In Czechoslovakia, the plan provides for only a partial compensation for the 4 per cent decline which occurred in 1963; consequently, the volume of national income anticipated for 1964 will still be almost 3 per cent below the level reached in 1962. Czechoslovakia and the Soviet Union are the only two countries where the growth rate of national income planned for 1964 is higher than that provided in the plan for 1963. It is expected that 1964 will mark a recovery from the over-all decline in Czechoslovakia and from the fall in agricultural production which occurred in the Soviet Union in 1963.

In other countries the rates of increase planned for 1964 are lower than those planned for 1963, although in most cases they do exceed the rates of growth of national income actually achieved during the past year. Only in Poland does the plan provide for a smaller increase in national income than that planned and achieved in 1963.

The planned acceleration of growth of national income in most of the centrally planned economies is not always associated with the acceleration of invest-

⁴⁰ Although no target for national income is available for Romania, the percentage increases planned for specific sectors seem to imply that the over-all rate of growth of national income is planned at not less than 6 per cent in 1964.

Table 3-21. Planned Targets for 1964
(Percentage increases over preceding year)

Item	Bulgaria	Czechoslovakia	Eastern Germany	Hungary	Poland	Romania	USSR
National income	6.5	1.4	3.8	6.5 ^a	3.6	...	7.7 ^b
Gross fixed investment	-6.6	14.6 ^c	9.1 ^d	10.0 ^e	1.7	13.0 ^f	10.0 ^g
Personal consumption .....	...	2.3	...	4.5	...	...	...
Retail sales, volume	7.0	2.8	4.5 ^h	5.0	5.7	9.6	5.7
Industrial production	8.8	3.6	7.3 ^d	7.0	6.3	11.8	8.4 ⁱ
Industrial employment	4.1	0.8	...	3.3	1.7	2.5	3.7
Output per man in industry ..	4.5	2.8	...	3.6	4.5	9.2	4.6
Agricultural production	8.6	6.5	...	4.5	1.1	...	...
Foreign trade turnover	8.1	3.7	8.4	6.0	6.8	10.0	...
Exports	7.1	...	8.8	6.5	12.6	...	...
Imports	9.0	...	7.7	5.5	1.6	...	...

SOURCE: *See* table 3-1; also official documents relating to plans for 1964.

^a The plan foresees an increase of 6 to 7 per cent.

^b Based on the assumption that the 16 per cent increase planned for 1965 over 1963 will be equally divided between the two intervening years.

^c Including general repairs.

^d The percentage increase indicated in the plan for 1964 relates to the planned and not to the actual levels attained in 1963. Data given in the table were readjusted on the basis of information relating to actual data

for 1963.

^e State and co-operative investment is also planned to increase by 10 per cent.

^f State investment.

^g Centrally planned investment.

^h In current prices; estimated on the basis of data relating to the growth of supply of industrial consumer goods and food by using the weights of these commodities in retail sales in 1962.

ⁱ Based on the assumption that the 17.5 per cent increase planned for 1965 over 1963 will be equally divided between the two intervening years.

ment activities. Thus, in Bulgaria, where total investment increased by 9 per cent in 1963 and "limit" investment by 17.6 per cent, the plan for 1964 provides for a decrease of almost 7 per cent in total investment and a one per cent fall in "limit" investment. In Hungary, investment, which rose by 12 per cent in 1963, is planned to increase by 10 per cent in 1964. In Poland investments are planned to increase by less than 12 per cent in 1964, compared to a 4.6 per cent increase during the preceding year.

In all other countries the plans for 1964 provide for quite substantial acceleration in investment activities. The most significant change is planned in Czechoslovakia where the 12 per cent decline in investment in 1963 is to be followed by an almost 15 per cent increase in 1964. In Romania investment is planned to increase by 13 per cent in 1964 compared to a 9 per cent increase in 1963, and in the Soviet Union centrally planned investments, which rose by 6 per cent in 1963, are planned to increase by 10 per cent in 1964. In Eastern Germany investment outlays in 1964 were to exceed the outlays planned for 1963 by 3.7 per cent. But since the actual investment outlays were much smaller than those anticipated and the level of investment originally planned for 1964 has not been achieved, the planned increase in investment actually amounts to 9 per cent.

In most centrally planned economies, the investment plans provide for increased concentration on completion of investment projects started earlier in order to reduce the volume of uncompleted construction. In consequence, the ratio of the value of projects completed during the year to investment is expected to improve in most countries. In the Soviet Union, for example, the plan for 1964-1965 provides for a 20 per cent increase in fixed investment and a 26 per cent increase in completion of projects under way and a reduction of the value of unfinished construction by 1.5 billion roubles, that is, by about 6 per cent. The effectiveness of investment is also expected to increase by the continuation of the policy of raising capacity through modernization and extension of existing plants wherever possible rather than by construction of new projects.

The plans for 1964 especially emphasize expansion of agricultural production. Considerable increases are planned in investment in agriculture and in industries providing agriculture with machinery and equipment, fertilizers and other chemicals. In the Soviet Union, state investment in agriculture is planned to increase by 18 per cent in 1964 and by 19 per cent in 1965, while total investment is planned to increase by about 10 per cent during each of these years. In Poland, where total investment is planned to increase in 1964 by 1.7 per cent only, investment in agriculture is scheduled to rise by 27 per cent. In

Hungary also, investment in agriculture is planned at a substantially higher rate than total investment, largely in connexion with the programme of large-scale irrigation works and other projects aiming at land improvement and the extension of cultivated areas.

In most centrally planned economies, retail sales are planned to increase faster in 1964 than during the preceding year. The acceleration is particularly significant in Eastern Germany where retail sales are planned to rise by 4.5 per cent in 1964 as against a less than one-half of one per cent increase in 1963. Much smaller acceleration is planned in Czechoslovakia and Poland, as well as in Romania and the Soviet Union. In Romania retail sales are to increase by 9.6 per cent in 1964, that is, much faster than in any other country of the group. In Bulgaria the plan provides for a 7 per cent increase in 1964 as against an actual increase of 9.4 per cent in 1963. An even greater deceleration is planned by Hungary, from 8 per cent in 1963 to only 5 per cent in 1964. In several countries the rates of increase planned for retail sales are higher than those planned for national income. While in Bulgaria these differences are insignificant, they are quite substantial in Poland, Eastern Germany and, especially, Czechoslovakia. In the latter country, for which data on planned consumption are also available, the 2.3 per cent rise in consumption compared with the planned 1.4 per cent increase in national income clearly indicates a further shift in the allocation of national income towards consumption. While no such definite conclusion can be derived from the data available for other countries, it seems that a similar shift is likely to occur in Poland also. In contrast, in Hungary retail sales and consumption are planned to increase less than national income. In the Soviet Union the planned data on the growth of national income, investment and retail sales show a similar tendency.

The accelerated growth of national income in 1964 is to emerge largely from very substantial increases in agricultural production in Bulgaria and the Soviet Union. In each of these countries industrial production is planned to rise less than in 1963, while agricultural production is supposed to increase much faster than during the preceding year in Bulgaria and to recover from the 1963 decline in the Soviet Union. In Czechoslovakia and Eastern Germany, however, the acceleration in the growth of national income is to be brought about entirely by a faster rate of expansion in industry. In Poland the effect of an acceleration in industrial production is to be offset by an expected deceleration in the growth of agriculture, thus accounting for the slowing down in the growth of national income. In Hungary output of both industry and agriculture is planned to expand at the same rates as those achieved in 1963, and the acceleration

of growth of national income is expected to be brought about by an increased contribution of other sectors of material production, such as construction, transport and communications and trade.

The fastest growth in agricultural production is anticipated by Bulgaria where the plan for 1964 provides for an 8.6 per cent rise in output as against a less than one per cent increase in 1963. While no global targets for agriculture have been announced by the Soviet Union, data on output of grain planned for 1964 and data on planned procurements of products of animal husbandry indicate that total agricultural production is expected to increase considerably over the low level to which it had fallen in 1963. In Poland, however, the growth rate of agricultural production is expected to decline from 3.8 per cent achieved in 1963 to 1.1 per cent in 1964.

In industry the largest rates of growth are planned by Romania, where output is scheduled to increase by 12 per cent, followed by Bulgaria and the Soviet Union which plan to raise their industrial production by 8.8 per cent and 8.4 per cent, respectively. In Eastern Germany and Hungary production is planned to rise by about 7 per cent, and in Poland by over 6 per cent. The smallest rate of increase—only 3.6 per cent—is planned by Czechoslovakia. It should be noted, however, that even this relatively small growth rate represents considerable progress over the preceding year when industrial production in Czechoslovakia declined.

In all countries the high priority assigned to the chemical industry was reflected in a much higher than average rate of increase planned for that industry for 1964. In the Soviet Union output of the chemical industry is planned to increase between 1963 and 1965 by 36 per cent and that of engineering industries by 21 per cent, compared with the planned rate of increase in total industrial production during these two years of 17 per cent. A similar tendency is reflected in the 1964 plans of other countries for production of the chemical industries. The planned rates of expansion in the chemical industries are 2.8 times as high as the rates of growth of total industry in Bulgaria and 2.5 times as high in Czechoslovakia. Among other countries this planned ratio amounted to 1.9 in Romania and the Soviet Union and to 1.8 in Poland.

In all countries the growth of industrial production is planned to be achieved largely through increases in productivity of labour and only to a less extent through increases in employment. Thus, in Czechoslovakia and Poland about three-quarters and in Romania about four-fifths of the increment in output is to be accounted for by a rise in productivity of labour. In the Soviet Union, however, as well as in Bulgaria and Hungary, which plan for a relatively

higher rate of increase in employment, the contribution of the rise in productivity of labour to the growth of production is planned to be much smaller than that in the other countries. In the Soviet Union about 56 per cent of the increment in output is to be achieved through a rise in productivity of labour.

Little information is available on planned increases in the income of the population. In Bulgaria per capita real income of the population is planned to increase in 1964 by 5 per cent,⁴⁷ while in Hungary average real income of wage and salary earners, inclusive of social benefits, is to rise by 3 per cent. In Czechoslovakia real wages are planned to increase by 1.3 per cent. In the Soviet Union total money income of the population—that is, wages, salaries and money payments received by the peasants—is scheduled to increase between 1963 and 1965 by 12 per cent. Assuming that the wage bill will increase in the same proportion and taking into account the planned increase in employment of about 8 per cent, it may be concluded that the average money wages are planned to increase during the two years by about 4 per cent.

Foreign trade is planned to grow faster in 1964 than in 1963 in Eastern Germany and Poland, while in other countries its growth is expected to slow down. The planned acceleration of growth of foreign trade is particularly striking in Eastern Germany where the total trade turnover rose by less than one per cent in 1963; it is planned to increase by more than 8 per cent in 1964. In contrast, the greatest deceleration is anticipated in Czechoslovakia, where the rate of increase in foreign trade planned for 1964 amounts to only 3.7 per cent as against a 9 per cent increase achieved during the preceding year.

Among the four countries for which separate data on exports and imports are available, only in Bulgaria are imports planned to increase considerably faster than exports, thus resulting in a rise in net imports from 69 million roubles in 1963 to almost 90 million in 1964. In other countries the trade balance is expected to improve. The improvement is expected to be relatively small in Hungary where net imports are planned to decline from 90 million roubles in 1963 to 84 million roubles in 1964 and much greater in Eastern Germany where net exports are planned to increase from about 514 million roubles in 1963 to 580 million in 1964. In Poland, however, exports are to increase by 12.6 per cent in 1964 and imports by only 1.6 per cent, resulting in a very considerable decline in net imports, from 188 million roubles in 1963 to about 16 million in 1964.

In several countries exports to the market economies are planned to increase faster than exports

⁴⁷ This concept includes money payments and income in kind, as well as the value of goods used by health, educational and other institutions providing free services to the population.

to other centrally planned economies. In Poland, for instance, exports to the market economies are to increase in 1964 by 20 per cent as against a 12.6 per cent rise in total exports; in Czechoslovakia the corresponding increases are planned at 6.4 per cent and 3.7 per cent, respectively.

In most centrally planned economies considerable efforts are to be made in 1964 to raise exports of machinery and equipment. Thus, in Hungary exports of these commodities are scheduled to increase

by 25 per cent and in Bulgaria by as much as 40 per cent.

No data are available on the foreign trade plans of the Soviet Union. The purchase of some 14 million tons of grain in Canada and the United States is, however, likely to be reflected in an increase in the share of food in its total imports in 1964. This is also likely to affect the geographical distribution of the Soviet Union's imports by increasing the share of imports from the market economies in the total.

Economic situation in Yugoslavia

National income in Yugoslavia increased by 12 per cent in 1963, a considerably faster rate than that recorded in any of the three preceding years (*see* table 3-22). The rate of growth in national income had amounted to 18 per cent in 1959 but it fell to 6 per cent in 1960 and to 4 per cent in 1961. This tendency towards deceleration was reversed in mid-1962 but the full impact of the new trend became apparent only in 1963; for 1962 as a whole the rate of growth in national income amounted to 5 per cent. The acceleration in national income during 1963 reflected substantial increases in output of both industry and agriculture.

Industrial production rose by more than 15 per cent in 1963 compared with 7 per cent in 1962. Output of consumer goods increased by 17 per cent while output of producer goods rose by somewhat less than 15 per cent. The highest rates of growth were achieved by the chemical and food processing industries whose output increased by 25 and 20 per cent, respectively. Output of the machinery and equipment and consumer durables industries rose by 17 per cent, the textile, leather and shoe industries by 16 per cent, electric power by 14 per cent and the basic metals industries by 6 per cent. The growth of industrial production was much faster than had been expected in the plan for the year. This advance was largely due to an increase in labour productivity much greater than planned; it rose by 11 per cent in 1963, which was the highest rate ever achieved in post-war Yugoslavia.

Agricultural production, which had declined in 1960 by 10 per cent and again in 1961 by 6 per cent, increased by 4 per cent in 1962 and by 7 per cent in 1963. Weather conditions, which largely accounted for these fluctuations, favourably affected output of bread grains and sugar-beets in 1963; these recorded increases of 17 per cent and more than 40 per cent, respectively (*see* table 3-23). Output of maize, however, increased by only 2 per cent and that of fruit and wine grapes by one to 2 per cent. Total output

of fodder was affected by the drought and the resulting shortages of feed-stuffs caused a decline in livestock numbers and a 5 per cent fall in meat production.

While total agricultural production increased in 1963 by 7 per cent, output in the socialized sector of agriculture, which accounts for about 12 per cent of the agricultural area, rose by 19 per cent and production of the private sector by only 5 per cent. The considerable discrepancy in performance of these two

Table 3-22. Yugoslavia: Selected Indices of Economic Activity
(Preceding year = 100)

Item	1960	1961	1962	1963	1964 (planned)
National income	106	104	105	112	112
Personal consumption . . .	106	104	103	110	110
Volume of retail trade ^a . .	111	108	105	114	...
Gross fixed investment ^b . .	125	122	114	119	110
Total employment	109	104	102	103	104
Agricultural production . . .	90	94	104	107	107
Industrial production	115	107	107	115	111
Industrial employment	108	104	102	104	...
Output per man in industry	107	103	105	111	108
Average money earnings in industry	118	118	109	122	...
Cost of living	111	108	110	106	...
Average real earnings in industry	107	109	99	115	...

SOURCE: Reply of the Government of Yugoslavia to the United Nations questionnaire of November 1963 on economic trends, problems and policies; *Statistički Godišnjak*, 1963 (Belgrade); Federal Statistical Office, *Indeks*, No. 3, 1964 (Belgrade).

^a Value deflated by the index of retail prices.

^b In current prices. According to the reply of the Government of Yugoslavia to the United Nations questionnaire of November 1963 on economic trends, problems and policies, the volume of fixed investment increased in 1963 by 15 per cent. The percentage increase planned for 1964, derived from the same source, is also related to the volume of investment.

Table 3-23. Yugoslavia: Output of Major Agricultural Commodities, 1961-1963
(Thousands of tons)

Commodity	1961	1962	1963	1964 (planned)
Wheat and rye	3,360	3,670	4,300	4,500
Maize	4,550	5,270	5,380	6,200
Sugar-beets	1,730	1,870	2,660	3,000
Milk	2,393	2,326	2,360	2,450
Meat	644	651	620	670

SOURCE: See table 3-22.

sectors could be due in part to the differences in the quality of land, but much more important factors acting in favour of the socialized farms have been the advantages accruing to large-scale farming, such as more advanced methods of cultivation, the greater supply of machinery and equipment and the utilization of fertilizers and improved seeds.

The improvement in agricultural production together with a considerable increase in output of manufactured consumer goods made possible a very steep increase in personal consumption in 1963. While personal consumption had risen by only 4 per cent in 1961 and 3 per cent in 1962, it increased by as much as 10 per cent in 1963. Fixed investment increased by about 19 per cent in current prices and by about 15 per cent in constant prices during 1963. A further decentralization of investment funds was reflected in an advance of decentralized investment from about 69.5 per cent of total investment in the socialized sector in 1962 to 71.4 per cent in 1963. The most significant change in the sectoral allocation of investment was a considerable increase in the proportion of non-productive investment; this consisted largely in investment in residential housing and public services, whose share in total investment increased from about 30 per cent in 1962 to over 33 per cent in 1963. This shift was partly due to reconstruction of the city of Skolpje, which had been destroyed by the recent earthquake. Investment in productive sectors was mainly directed to the completion of projects under construction, and to reconstruction and modernization of existing facilities rather than to new starts. Special attention was paid to the expansion of capacity in enterprises producing for export. While fixed investment in 1963 increased faster than during the preceding year, the increase of 7 per cent in the volume of stocks in industry and trade was smaller than that in 1962.

As national income increased by 12 per cent and consumption by 10 per cent, a further shift in allocation of resources towards accumulation took place. The effect of this shift on the demand-supply situation was not counterbalanced in 1963 by the im-

sition of any significant restrictions on the growth of the money income of the population in relation to output. In fact, while labour productivity in industry as well as in the economy as a whole increased, on the average, by 11 per cent in 1963, average money earnings of wage and salary earners in all sectors of the economy rose by over 15 per cent and in industry by as much as 22 per cent. The total money income of wage and salary earners increased by 18 per cent, pension and other social benefits by 12 per cent and the income of peasants from sales of agricultural produce by 23 per cent. In consequence, total money payments to the population advanced more rapidly than the supply of consumer goods, and the resulting pressure of demand on the supply of consumer goods gave rise to further price increases. It is, however, significant that the advance in prices in 1963 was considerably slower than the increases during the two preceding years. While the index of retail prices rose in 1961 by 8 per cent and in 1962 by 7 per cent, in 1963 it rose by only 4 per cent. The cost of living increased more, the advance amounting to 6 per cent, but this increase was also smaller than in 1962 and 1961, when it had amounted to 10 and 8 per cent respectively. The increase in the cost of living in 1963 was largely the result of a 10 per cent increase in prices of food and a 6 per cent rise in the cost of health services. Prices of clothing and shoes as well as of rent, fuel and lighting increased by about 2 per cent. In spite of the rise in the cost of living, average real earnings in industry, which had declined slightly in 1962, increased in 1963 by as much as 15 per cent; average real income of wage and salary earners in all sectors of the economy rose by 9 per cent.

Efforts intended to reduce the trade deficit were not successful in 1963. While exports increased by 14 per cent, which was more than had been anticipated in the plan for the year, the increase of 20 per cent in imports was also much more than had been expected. In consequence, net imports rose from 53.6 billion dinars in 1962 to 75.8 billion dinars in 1963 (see table 3-24). Total exports increased mainly because of a considerable rise in exports of food, beverages and tobacco, and to a less extent because of increases in exports of various finished products and of raw materials other than fuels. But exports of fuels and lubricants and of machinery and transport equipment fell in 1963. Food products and chemicals each accounted for almost one-fifth of the increment in total imports; raw materials, excluding fuels and machinery and transport equipment, accounted for about one-sixth and one-tenth of the increment, respectively. Imports of mineral fuels and of animal fats and vegetable oils fell in 1963. A further improvement in the net balance for services was not sufficient to compensate for the deterioration

in the trade balance and, consequently, the total deficit on current account increased from 18.6 billion dinars in 1962 to 31.3 billion dinars in 1963.

The plan for 1964 provides for a further growth in national income of 12 per cent, the same rate as in 1963. Industrial production is planned to increase by 11 per cent and agricultural output by 7 per cent. Employment in the socialized sector, which increased by 3 per cent in 1963, is planned to increase by 4 per cent in 1964; in industry, it is planned to rise by about 3 per cent. The rise in industrial production as well as in total output of the socialized sector is to be achieved largely through increases in labour productivity by 8 and 7 per cent, respectively, in 1963. Real wages in the socialized sector are planned to increase at the same rate as output per man, namely, by 7 per cent. Total personal consumption is to rise by 10 per cent, the same rate as in the preceding year. Fixed investment is to increase at the somewhat slower rate of 10 per cent as against the 15 per cent rise achieved in 1963. While investment activity will generally follow the pattern established during the past two years, the share of total outlays allocated to agriculture, transportation, trade and catering is planned to increase somewhat at the expense of industry. The 1964 plan provides also for the beginning of construction of several important projects included in the seven-year plan of 1964-1970. As in the preceding year, over 70 per cent of investment outlays will be financed from decentralized funds, while federal funds will be mostly used for financing investment in power plants, transportation, waterworks and tourism. The latter

will also continue to provide the means for investment in the less developed areas of the country. Exports are planned to increase by 11 per cent in 1964 and imports by only 7 per cent, but the resulting decline in the trade deficit is not very significant, being a reduction from 75.8 billion dinars in 1963 to 72.0 billion in 1964. A much greater improvement is expected in the balance of non-commodity transactions, including services and emigrants' remittances, and in consequence total deficit on current account is planned to decline from 31.3 billion dinars in 1963 to 17 billion in 1964.

Table 3-24. Yugoslavia: Balance of Payments, 1961-1963

(Billions of dinars)^a

Item	1961	1962	1963	1964 (planned)
Exports of goods . . .	170.6	207.1	237.1	262.0
Imports of goods ^b . . .	265.0	260.7	312.9	334.0
Balance of merchandise trade	-94.4	-53.6	-75.8	-72.0
Balance of other transactions on current account	27.4	35.0	44.5	55.0
Total balance on current account	-67.0	-18.6	-31.3	-17.0

SOURCE: See table 3-22.

^a In foreign prices converted into dinars at the exchange rate of 300 dinars to the dollar.

^b Excluding private gifts which amounted to 5.6 billion dinars in 1962 and 4.1 billion dinars in 1963 and which are expected to amount to 4.0 billion in 1964.

Annex^{*}

THE PRIMARY COMMODITY SITUATION IN 1962/63 AND 1963/64

World markets for primary commodities were characterized in 1963 by a continuation and spread of the price increases that had begun in the fourth quarter of 1962. These increases were induced for the most part by changes on the supply side. The severe 1962/63 winter in the northern hemisphere accentuated the effect of poorer 1962 crops in a number of key exporting and net-importing countries and, in the case of various temperate zone products, some 1963 crops were also small. Unfavourable weather also affected the output of certain tropical products and thus, in the case of many food-stuffs, there was a distinct shift in the balance between production and consumption. With incomes and manufacturing activity continuing to expand in the industrial countries, the demand for raw materials increased further and this tended to widen the area of price increases.

Much of the increase in external demand occasioned by the poorer harvests in the net-importing countries was met by supplies from North America. In 1962 the share of crude products in total exports was 38 per cent in Canada and 20 per cent in the United States; of the increase in exports between 1962 and 1963, however, the proportion accounted for by primary commodities was almost 50 per cent in Canada and 40 per cent in the United States. Notwithstanding this increase, the primary exporting countries also enjoyed a general expansion in trade. While the availability of supplies was reduced in some cases, so that the increase in volume was less than the 7 per cent recorded between 1961 and 1962, price movements enhanced the expansion in 1963 where they had offset the expansion in 1962. Between 1961 and 1962 the increase in earnings of the primary exporting countries was rather less than 5 per cent; preliminary estimates suggest that the increase between 1962 and 1963 was about 9 per cent. Only a small minority (perhaps an eighth) of the primary exporting countries failed to increase their export proceeds in 1963.

THE STATE OF DEMAND

Consumption of most primary commodities continued to increase in 1963. Though there was a slight tendency for the rate of increase in incomes and gross product to slacken around the turn of the 1962/63 year, growth picked up again as the year advanced and the expansion between 1962 and 1963 was probably as great as that registered in

^{*} Because the United Nations Conference on Trade and Development took place from March to June 1964, the Commission on International Commodity Trade did not hold its session in May. By resolution 977 (XXXVI), the Economic and Social Council asked that the material usually presented in the *Commodity Survey* be submitted to the Conference, and in response to this request documents E/CONF.46/C.1/L.3 and Add.1 and E/CONF.46/115 were circulated to Governments attending the Conference. As the changes that occurred in the commodity situation were among the most important factors influencing the course of developments in 1963, both in international trade and in a large number of primary exporting countries, a summary of the salient features is presented here for general reference and as background to the trends discussed in chapter 2.

the previous interval. Higher rates of increase in Japan and the United Kingdom made up for somewhat lower rates in the United States and some of the European Economic Community (EEC) countries.

After faltering slightly in the first quarter of 1963 in the northern hemisphere—partly in response to the severe winter which disrupted many economic activities, especially construction, over a wide area—manufacturing production resumed a rate of increase of about 5 per cent a year. The intake of raw materials may have risen somewhat faster than this, for there is some evidence that, in the face of generally firmer markets and expectations of a continuation of high levels of demand, inventory buying by users was stepped up in a number of cases as the year advanced.

Demand on the international market was also influenced by the course of production in the major net-importing countries. The bad weather in the early portion of the year exerted a generally depressing effect on output in Europe, Japan and the Soviet Union and in many cases—particularly among the food-stuffs—this resulted in the diversion of some demand to the world market. Output of “synthetic” products, however, was generally higher and this tended to restrain demand for some imported raw materials, notably cotton and rubber. Consumption of some commodities—sugar, olive oil and sisal most noticeably—was restrained to some extent by sharp increases in price.

Most of the influences prevailing in 1963 remained operative in the early months of 1964. Consumption of most primary commodities seems to have continued rising at much the same rate as in 1962 and 1963.

PRODUCTION IN 1962/63 AND 1963/64

The output of the major commodities entering international trade was only slightly higher in 1963 than in 1962: expansion in the case of fuels, tobacco and raw materials was largely offset by a fractional contraction in the case of food-stuffs and fats and oils (*see* table A-1).

Among the principal food-stuffs, meat was the only item to register a significant gain: output in the major producing countries was up about 5 per cent, an increase in the slaughter of cattle and pigs more than offsetting a decline in the slaughter of sheep. The output of the main cereals was slightly below the record 1962 level, despite a larger harvest of coarse grains: wheat production was about 6 per cent lower and rice production (the 1962/63 crop outside mainland China) about 2 per cent lower. Recent evidence suggests that this last reduction was fully made good in 1963/64. A reduction in the world sugar crop between 1961/62 and 1962/63 (the second in a row) also seems to have been made good in 1963/64. The output of butter and cheese in the principal producers was marginally lower in 1963 than in 1962. The 1963/64 coffee crop was somewhat below that of 1962/63 and about 10 per cent below that of 1961/62. The cocoa crop increased by about 3 per cent between 1961/62 and 1962/63 and probably by a similar proportion in 1963/64 with a crop that appears to have exceeded the record level of 1960/61. Though there was also a slight rise in the amount of tea plucked in 1963, the over-all output of beverage crops was fractionally smaller.

Table A-1. World Production of Major Primary Commodities, 1960-1963^a

Commodity and group	1960		Volume index (1960=100)			
	Billions of dollars ^b	Thousands of tons	1961	1962	1963 ^c	1964 ^d
<i>Food-stuffs</i>	68.4		101	105	105	...
Cereals	41.7		100	106	105	...
Wheat	13.8	222,796	96	107	101	...
Rice ^e	14.2	140,047	107	109	107	110
Barley	4.1	77,392	97	110	112	...
Maize	9.6	192,405	98	99	107	...
Sugar	5.0		108	104	100	107
Centrifugal	4.4	48,918	111	106	102	109
Non-centrifugal	0.6	7,113	90	87	89	87
Meat	13.0		98	102	107	...
Beef and veal ^f	6.4	10,674	101	104	110	...
Pig-meat ^f	5.9	8,722	94	100	104	...
Mutton and lamb ^g	0.6	1,607	106	105	103	...
Dairy products	4.2		103	104	103	...
Butter ^h	3.2	3,856	101	103	102	...
Cheese ^f	1.0	1,542	108	106	106	...
Beverage crops	4.5		110	104	103	...
Cocoa	0.6	1,056	113	108	111	115
Coffee	2.8	3,946	110	102	100	...
Tea	1.1	943	106	107	108	...
Tobacco	5.1	3,927	89	100	106	...
<i>Vegetable oilsⁱ</i>	3.8		103	106	104	106
Edible oils	2.6		104	109	104	107
Soya-bean	0.8	3,461	96	105	110	115
Ground-nut	0.7	1,982	109	115	118	120
Cottonseed	0.5	2,091	100	105	108	111
Olive	0.6	1,184	113	110	79	77
Palm oils	1.0		103	100	103	102
Coconut	0.6	2,032	107	104	109	106
Palm	0.3	1,320	97	94	96	96
Palm kernel	0.1	399	100	92	93	96
Linseed oil	0.2	975	99	97	102	104
<i>Raw materials</i>	18.3		103	104	107	...
Fibres	10.1		104	103	106	...
Apparel fibres	9.5		102	102	105	...
Cotton	6.5	10,273	101	102	105	...
Wool	3.0	2,541	103	102	104	...
Non-apparel fibres	0.6		134	125	125	...
Jute and allied fibres	0.4	1,644	153	137	134	...
Hard fibres	0.2		96	102	106	...
Abaca	0.04	105	84	96	112	...
Agaves	0.16	773	99	104	104	...
Rubber, natural	1.5	2,017	105	106	102	...
Iron ore ^j	1.3	217,745	99	104	105	...
Non-ferrous metals ^k	5.4		100	105	111	...
Aluminium	1.8	3,690	98	107	118	...
Copper	2.3	3,650	101	104	107	...
Lead	0.4	1,838	103	102	107	...
Tin	0.3	148	95	99	99	...
Zinc	0.6	2,488	106	111	114	...
<i>Fuels</i>	34.1		103	108	113	...
Coal ^l	19.6	1,549,154	100	102	106	...
Petroleum, crude ^m	14.5	1,044,240	106	115	123	...
Total of above commodities	129.7		101	105	107	...

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; Food and Agriculture Organization of the

United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* and *Production Yearbook* (Rome); International Cotton Advisory Committee, *Cotton—World* (Foot-notes continued on page 109)

The decline in vegetable oil production was in value rather than in volume: it was entirely the result of a drastic reduction in the output of high-priced olive oil.^b The output of the other major oils was higher than in 1962: soya-bean, ground-nut and cottonseed oils increased by 3 to 5 per cent, while there was a marked recovery in the output of palm products and linseed oil, all of which had slumped in 1962.

One of the largest increases was in tobacco: the 1963 crop was about 6 per cent above that of the preceding year and slightly greater than the average crop in the second half of the nineteen fifties. The increase between 1962 and 1963 was largely in oriental and heavier types of leaf; the output of flue-cured leaf was fractionally below the 1962 level, reflecting chiefly a reduction in acreage in the United States and lower yields in Mexico.

A small rise in the production of major raw materials reflects gains in fibres and metals, and it took place in the face of a sharp drop in the output of natural rubber.

The total output of natural fibre in 1963 was generally above the 1962 level. The increase was confined to apparel fibres: the 1963/64 cotton crop was about 3 per cent greater than the 1962/63 crop, while the wool clip was up between one and 2 per cent. The production of non-apparel fibres, by contrast, seems to have declined, though only marginally. In the case of hard fibres, the decline reflects a reduction in the Mexican henequen crop. In the case of jute, the reduction was in the two main exporting countries, Pakistan and Thailand; in the aggregate, 1963 production was slightly below the 1962 level and about an eighth below the record 1961 crop. This reduction was offset in part, however, by an expansion in the Indian mesta crop.

The total output of rubber was also somewhat higher in 1963 than in 1962. The increase, however, came entirely from synthetic; there was a 4 per cent decline in the production of natural rubber, largely as a result of reduced tapping in Indonesia.

There was a somewhat sharper gain in the case of the principal metals and ores, though lead ore and tin ore did not share in the expansion. Among the metals, the largest increase was registered by aluminium (about 10

per cent outside the Soviet Union—somewhat more than in the preceding interval). There were smaller advances in the production of the other non-ferrous metals, though in the case of tin the gain was hardly significant and output still fell short of the 1960 level. Outside the Soviet Union, iron ore production dropped slightly, but a 5-million-ton (metal content) increase in the Soviet Union raised the world total above the 1962 level.

There was another 5 per cent rise in world production of fossil fuels in 1963. As in previous years, the gain was chiefly in petroleum but, largely as a result of a sharp increase in the United States, coal production was also significantly above the 1962 level.

PRICE MOVEMENTS

The price index of primary commodities in world trade, which had been drifting downwards ever since 1957, was reversed in the third quarter of 1962 and it moved erratically upwards throughout 1963. By the final quarter of 1963 this index (which includes crude fuels and metal ores, but not metals) was 10 per cent above the corresponding 1962 figure, and for the year as a whole the index was about 6 per cent higher than the 1962 average and back to the 1958 figure (*see* table A-2). These price gains continued in the early months of 1964 when some slackening in the case of sugar, cocoa and fats and oils was offset by an acceleration in the case of coffee and the non-ferrous metals.

The most buoyant groups in the 1963 price upswing were food-stuffs and fibres. Within the former the dominant impulse came from sugar, cocoa, butter, maize and pork; within the latter it came from sisal and wool. Price increases were very general, however: of the major items moving in international trade less than a third had a lower average price in 1963 than in 1962 and the proportion declining in price during the year was even smaller (*see* table A-3). In about 40 per cent of the cases the price in the final quarter of 1963 was 10 per cent or more above the corresponding 1962 figure.

The price index of the beverage crops rose by about 9 per cent in the course of 1963: a decline in tea prices served to moderate the effect of a sharp increase (about an eighth) in coffee prices and an even sharper increase (more than a fourth) in cocoa prices. Apart from linseed oil (whose price declined) and some of the soft edible oils (soya-bean, ground-nut and cotton-seed, whose prices remained fairly static), vegetable oils and oil-seeds and animal fats registered a substantial price increase—over an eighth in

^b In terms of volume, world production of fats and oils—including animal fats and marine oils, not covered in table A-1—registered a further increase in 1963, though a smaller one than in the preceding two years—probably not much more than one per cent in the aggregate.

(Foot-notes continued from page 108)

Statistics (Washington, D.C.); International Rubber Study Group, *Rubber Statistical Bulletin* (London); International Lead and Zinc Study Group, *Monthly Bulletin of Statistics*; International Tin Council, *Statistical Bulletin* (London); Commonwealth Economic Committee, *Intelligence Bulletin* (London); International Federation of Agricultural Producers, *World Dairy Statistics Digest*; Australia, Commonwealth Bureau of Census and Statistics, *Monthly Review of Business Statistics* (Canberra); New Zealand, Department of Statistics, *Monthly Abstract of Statistics* (Wellington); United States Department of Agriculture, *World Agricultural Production and Trade, Wool Situation and Foreign Agriculture Circular, Series FR, FG and FS* (Washington, D.C.); Gill and Duffus, Ltd, *Cocoa Market Report* (London).

^a Calendar years or seasons beginning in the year specified, except where indicated.

^b Valued at average export unit value; this is used for weighting individual commodities in the groups and sub-groups.

^c Preliminary; based in some cases on less than twelve months' returns.

^d Estimate of the 1963/64 crop in the case of rice, sugar and cocoa; forecast of oil yield of 1963/64 crops in the case of vegetable oils.

^e Excluding mainland China.

^f Production in Australia, Canada, Denmark, Federal Republic of Germany, Netherlands, New Zealand, United Kingdom and United States.

^g Production in Australia, New Zealand, United Kingdom and United States.

^h Fat content.

ⁱ Oil expressed from the crop preceding the year specified.

^j Metal content.

^k Primary smelter production as far as possible; excluding mainland China, Czechoslovakia, Eastern Germany, North Korea and the Soviet Union.

^l Anthracite and bituminous; excluding brown coal and lignite except in the United States and except for estimating the change between 1962 and 1963 production in Romania and the Soviet Union.

^m Excluding natural gasoline and shale oil, except in Colombia.

Table A-2. Export Price Indices: Primary Commodities and Manufactured Goods, 1960-1963
(1958 = 100)

Year and quarter	All primary commodities ^a	Food-stuffs		Agricultural raw materials		Minerals		Manufactured goods ^a		Terms of exchange ^b
		Total	Coffee, tea and cocoa	Total	Textile fibres	Total	Metal ores	Total	Non-ferrous metals	
1960	97	91	77	107	104	93	98	101	114	96
1961	95	90	72	103	105	92	100	102	110	93
1962	94	90	70	99	101	92	99	102	109	92
1963	100	103	73	103	112	92	96	102	110	98
1961										
I	94	89	73	104	106	92	99	101		93
II	96	90	73	106	108	92	100	103	112	93
III	95	89	72	103	104	92	101	103	112	92
IV	94	89	70	100	102	93	100	103	110	91
1962										
I	94	89	70	101	103	92	101	103	111	91
II	94	90	70	99	103	92	98	102	110	92
III	93	90	70	97	99	92	97	102	108	91
IV	94	92	70	98	101	92	98	102	108	92
1963										
I	97	96	71	102	110	92	96	103	108	94
II	101	105	74	102	111	92	96	102	109	99
III	99	102	72	102	112	92	95	102	110	97
IV	104	111	76	105	118	93	96	103	112	101
1964										
I	105	111	87	106	122	93	99	102	118	103

SOURCE: Based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

^a Non-ferrous metals are included with manufactures.

^b The price index for primary commodities divided by the price index for manufactured goods.

the case of palm products and considerably more in the case of olive oil and butter and other animal fats. In the aggregate, the price index of oils and oil-seeds moving in international trade rose by about 10 per cent between the last quarter of 1962 and the last quarter of 1963, bringing it back to the 1960 level. Led by maize, cereal prices also rose during the year—by about 3 per cent—making good the ground lost in 1962.

Lead and zinc prices recovered strongly in the course of 1963: December averages on the London Metal Exchange were over a third higher than a year earlier and prices were still rising. Other non-ferrous metals also increased in price and the combined index of non-ferrous metals entering trade in 1963 regained the 1961 level. In the face of excess capacity and price cutting in the steel industry, on the other hand, the prices of iron ore and some of the additive metals and ores—including manganese and chrome—were generally lower in 1963. The prices of natural rubber and hides and skins were also down, reflecting in part further inroads of synthetic products.

The basket of primary commodities exported by the under-developed areas—Latin America, Africa (other than South Africa) and Asia (other than mainland China, Japan, North Korea, North Viet-Nam and Turkey)—was priced about 10 per cent more in the last quarter of 1963 than in the last quarter of 1962. This represents a sharp reversal of the previous downward drift: the average price for 1963 was about 9 per cent above the 1962 level and the highest since 1958. The advance was led by sugar and cocoa; indeed the food component of the index was the only one to register a decisive increase: a gain of no less than 30 per cent in the course of the year restored the annual average to its 1958 level.

As the price of manufactures entering international trade remained virtually static (for the third successive year), the terms of exchange between primary commodities and manufactured goods moved strongly in favour of the former, reversing the trend that had persisted since 1954. The purchasing power of primary commodities—in terms of manufactures—rose 6 per cent between 1962 and 1963, and this brought it back to the 1959 level.

CHANGES IN TRADE

World trade in the major primary commodities increased by about 5 per cent between 1962 and 1963, rather more than it had risen in the preceding interval. The expansion was chiefly in fuels and food-stuffs; exports of fats and oils and other raw materials were not much above the 1962 level (*see* table A-4). In general, thus, the pattern of change reflects the bad weather and poor crops in Europe more than any other single factor.

In the category of fuels, the notable feature of 1963 was the full participation of coal in the expansion, most of the increment moving from the United States to western Europe and Japan. The growth in crude petroleum movement continued at the remarkable rate of over 10 per cent a year.

Among the food-stuffs, there was a sharp contrast between sugar and cereals. In the wake of the relatively small 1962/63 crop in some of the chief producing countries—notably Cuba—exports of sugar declined by about 6 per cent between 1962 and 1963. Cereal exports on the other hand were about 16 per cent above the 1962 level: the gain was principally in wheat, trade in which had receded in 1962, but maize exports were also up considerably—and

Table A-3. Export Price Indices: Primary Commodities
(Corresponding portion of preceding year=100)

Commodity ^a	1963	Fourth quarter 1963	First quarter 1964
Sugar	208	234	146
Sisal	144	127	105
Olive oil	139	84	51
Cocoa	126	127	98
Wool	120	129	121
Palm-kernel oil	116	115	107
Palm kernels ^b	114	111	98
Lead and ore	113	131	147
Animal fats	113	130	126
Zinc and ore	113	128	139
Copra and coconut oil	113	114	108
Butter	112	118	120
Maize	111	110	103
Pork	110	115	145
Soya beans ^b	108	116	104
Bacon	107	118	118
Tobacco	106	103	102
Cheese	105	105	106
Palm oil	104	113	106
Mutton and lamb	104	109	107
Coal	104	106	104
Coffee	103	112	137
Beef and veal	103	110	125
Tin and ore	102	113	125
Lumber	101	102	102
Copper and ore	101	101	108
Wood-pulp	100	106	107
Cotton	100	104	103
Ground-nut oil	100	103	100
Aluminium	100	102	102
Bauxite	100	100	100
Petroleum	100	100	100
Rice	100	100	99
Nickel and ore	99	100	100
Ground-nuts ^b	99	99	100
Wheat	98	103	105
Soya-bean oil	98	102	90
Jute	99	92	89
Tea	96	91	98
Iron ore	95	93	94
Rubber	92	88	89
Linseed ^b	91	99	99
Cotton-seed oil	90	99	95
Barley	90	93	100
Manganese ore	90	91	98
Chrome ore	90	90	98
Linseed oil	84	95	109
Hides and skins	83	87	90

SOURCE: Based on prices compiled by the Statistical Office of the United Nations.

^a Ranked in descending order of increase between 1962 and 1963

^b The oil is listed separately as its price moved differently.

for the third successive year—more than offsetting a sharp decline in exports of barley.

There was a further appreciable rise in trade in meat. Following a remarkable expansion in 1962, exports of beef and veal registered another sizable advance and there was another, much smaller, rise in exports of mutton and lamb.

Trade in the beverage crops, on the other hand, was virtually unchanged from the 1962 level: a small advance in the imports of coffee compensated for small declines in the case of cocoa and tea. There is some evidence that exports of coffee picked up sharply late in the year, particularly from Brazil, and this is likely to be reflected in higher imports in 1964.

Trade in tobacco leaf continued its expansion—at about 2 per cent a year, as measured by imports.

After swinging downwards in 1961 and upwards in 1962, trade in the major fats, oils and seeds changed relatively little between 1962 and 1963, at least in the aggregate: a sharp increase in the movement of animal fats was largely offset by a slight contraction in the movement of vegetable seeds and oils. This contraction was largely a reflection of a reduction in shipments of cotton-seed and palm kernels and their oils. Exports of olive oil were also down, in the wake of the poor 1962 olive crop, though actual arrivals in Italy, the principal market, were greater in 1963 than in 1962.

The small rise in trade in the major raw materials was fairly uniformly distributed: fibre exports registered a slightly greater increase than rubber or metals.

Among the fibres, exports of cotton and wool rose by about 2 per cent, but after previous declines, this left trade in 1963 still below the 1960 and 1961 levels. There was a considerable expansion in shipments of abaca from the Philippines which compensated for a further dip in shipments of sisal and henequen. Somewhat more raw jute was sold in 1963 than in 1962.

Changes in trade in rubber and the major non-ferrous metals as a group were only fractional: in the 1961-1963 period the combined index of exports was virtually stationary. In 1963 the most notable expansion was in aluminium, though tin exports were also appreciably higher than in 1962—offsetting, more or less, reductions in exports of copper, lead and zinc.

MARKET DEVELOPMENTS FOR MAJOR COMMODITIES

Market changes in 1962 and 1963 were almost all initiated from the supply side: final demand for most primary commodities continued its remarkably steady growth. Changes in production were generally such as to move the balance from a "buyers' market" to a "sellers' market": smaller crops in some net-importing countries increased the demand for imports while lower production in some exporting countries tended to reduce the amount on offer. In some cases production had been under restraint for several years; by 1963 rates of consumption had caught up with available capacity and the markets in question firmed noticeably. As a result the general movement of prices was upward.

The exceptions were relatively few. Capacity was still in excess of current needs in some commodities, notably steel (and the additive ores) and petroleum, while for others the further expansion of capacity for making synthetic materials (particularly fibres and rubber and other plastic materials) caused some weakening in the markets for certain natural products, including cotton, rubber and hides and skins.

After a 5 per cent increase between 1961/62 and 1962/63, world cereal production failed to advance in 1963/64: increases in coarse grain harvests were offset by a reduction in wheat, while in the case of rice, the smaller crop that was reaped around the turn of 1962/63 was followed by a somewhat larger one around the turn of 1963/64.

The reduction in the wheat crop in 1963 was confined very largely to western Europe and the Soviet Union. In western Europe the major declines were in France and, to

Table A-4. World Trade in Major Primary Commodities,* 1960-1963

Commodity and group ^b	1960		Volume index (1960=100)		
	Distribution of export value ^c (percentage)	Volume (thousands of tons)	1961	1962	1963 ^a
<i>Food-stuffs</i>	30.5		112	115	121
Cereals	10.6		113	115	133
Wheat	4.6	33,482	121	110	141
Rice	2.8	6,969	88	89	96
Barley	1.0	5,352	137	125	68
Maize	2.2	11,844	116	155	184
Sugar	6.1	17,661	126	117	110
Meat, fresh, chilled or frozen	2.7		105	133	144
Beef and veal	2.0	927	108	146	161
Mutton and lamb	0.7	479	98	101	104
Beverage crops	11.1		106	110	110
Cocoa	1.9	897	112	113	112
Coffee ^e	6.8	2,505	104	110	111
Tea	2.4	521	105	108	107
<i>Tobacco</i>	3.7	800	108	108	105
<i>Fats and oils</i>	9.5		94	100	102
Animal fats	2.8		101	96	104
Butter	1.8	591	109	102	110
Lard	0.4	551	80	78	83
Tallow	0.5	1,067	109	105	113
Oil-seeds and oils	6.7		91	102	101
Soya-bean	2.1	1,441	73	101	102
Ground-nut	1.1	767	110	127	129
Cotton-seed	0.3	289	83	89	85
Olive	0.4	215	95	90	68
Coconut	1.3	1,284	100	102	105
Palm oil	0.4	610	96	89	90
Palm-kernel	0.5	423	96	90	91
Linseed	0.5	465	108	106	104
<i>Raw materials</i>	31.6		101	100	101
Fibres	16.2		99	96	98
Cotton	8.7	3,945	93	88	90
Wool	6.2	1,383	107	106	108
Jute	0.7	855	91	99	103
Abaca	0.1	107	84	95	114
Agaves ^f	0.5	586	103	97	95
Rubber, natural	5.2	1,877	110	108	109
Non-ferrous metals	10.2		100	101	101
Aluminium	1.8	1,054	88	98	110
Copper	6.1	2,616	103	100	97
Lead	0.6	840	112	116	105
Zinc	0.8	821	100	102	101
Tin	0.9	114	97	99	107
<i>Fuels</i>	24.8		110	122	137
Solid fuels	5.5	120,270	103	109	124
Petroleum, crude	19.3	377,155	112	127	142
Total, above commodities	100.0		106	110	116

SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data provided by the Statistical Office of the United Nations; United Nations, *Monthly Bulletin of Statistics*, *Yearbook of International Trade Statistics*, *Commodity Trade Statistics*, parts I and II, January-December 1961; *Economic Developments in the Middle East* for the years 1950 to 1961; *World Energy Supplies*, Statistical Papers, Series J, Nos. 1, 2, 3 and 5; United Nations Economic Commission for Europe, *Quarterly*

Bulletin of Coal Statistics for Europe for the years 1955 to 1962 (Geneva); Food and Agriculture Organization of the United Nations, *State of Food and Agriculture*, 1963, *Trade Yearbook*, *Monthly Bulletin of Agricultural Economics and Statistics*, *The World Sugar Economy in Figures, 1880-1959*, *The World Coffee Economy, 1961*, *Cocoa Statistics* for the years 1959 to 1963, *Tea, Trend and Prospects, 1960* (Rome); International Monetary Fund, *International Financial Statistics* (Washington, (Foot-notes continued on page 113))

a smaller extent, Italy and the United Kingdom, and in total the harvest receded from the record 1962 level to somewhere around the 1955-1959 average. In the Soviet Union the crop fell well below that average. The result was a sharp decline in intra-European trade and a switch from net-exporter to net-importer status not only for the Soviet Union—where the swing was from an outflow of about 5 million tons to an inflow of about 10 million tons—but also for such countries as Italy, Spain and Sweden. Japan also harvested a very poor wheat crop in 1963, as did Iraq and Syria.

The resultant expansion in demand on the world market was met largely from Canada and the United States. Exports from Australia, however, were maintained at a high level—about twice the average in the second half of the nineteen fifties—reducing stocks to minimal proportions. In the wake of a poor 1962 crop, by contrast, exports from Argentina were well below 1955-1960 levels.

That the market was not greatly affected by these large-scale changes in output is a reflection of the magnitude and availability of North American stocks. In mid-1963, these stood at 1.7 billion bushels, down about 0.2 billion from the mid-1962 record and equivalent to one year's North American harvest or to the 1960-1963 average of one year's

world trade. Exports are expected to reach a new high in 1964 with increased purchases of soft red wheat by western Europe, very large shipments to be made from North America to the Soviet Union, greater imports planned by Japan, and further deliveries to mainland China from Argentina, Australia and Canada. As the nature and size of demand on the world market became clearer, prices, which—as indicated in chart A-1—had been dipping in 1962/63, hardened in the second half of 1963, and in the first quarter of 1964 averaged about 5 per cent higher than a year earlier.

Changes in rice production in the period under review were concentrated almost entirely in Asia: outside mainland China there was a reduction—largely drought-induced—of about 4 million tons between 1961/62 and 1962/63 and this appears to have been made good in 1963/64. The main swings were in the net-importing countries of India and Pakistan. Lower 1962/63 crops there occasioned a substantial increase in trade in 1963, restoring it to the level of the second half of the nineteen fifties, namely about 6.7 million tons. While Indian production was appreciably higher in 1963/64, smaller crops have been reported in several of the exporting countries, notably Burma, Cambodia and Thailand. United States shipments were about

(Foot-notes continued from page 112)

D.C.); Organisation for Economic Co-operation and Development, *Non-ferrous Metals—Statistics 1960, Trends 1961* (Paris); European Economic Community, Statistical Office of the European Communities, *Monatsstatistik* (Brussels); Commonwealth Economic Committee, *Grain Bulletin, Rice Supplement to the Grain Bulletin, Fruit Intelligence, Tropical Products Quarterly*, December 1963, *Tobacco Intelligence, Vegetable Oils and Oil-seeds, Wool Intelligence, Industrial Fibres* (London); International Sugar Council, *Statistical Bulletin* for the years 1961 to 1963; *Sugar Yearbook* for the years 1956 to 1961 (London); International Tea Committee, *Monthly Statistical Summary*, January 1964 (London); International Cotton Advisory Committee, *Cotton—World Statistics* (Washington, D.C.); International Rubber Study Group, *Rubber Statistical Bulletin* for the years 1950 to 1962 (London); International Lead and Zinc Study Group, *Monthly Bulletin of Statistics*; International Tin Council, *Statistical Bulletin* (London); Australia, Commonwealth Bureau of Census and Statistics, *Monthly Bulletin of Overseas Trade Statistics*; Canada, Dominion Bureau of Statistics, *Trade of Canada, Imports by Commodities*, December 1963 (Ottawa); Federal Republic of Germany, *Aussenhandel, Reihe Spezialhandel nach Waren und Ländern*, December 1962 and for the year 1963; *Statistisches Jahrbuch für die Bundesrepublik Deutschland* for the years 1950 to 1962 (Wiesbaden); Statistisches Bundesamt, *Der Aussenhandel* (Berlin); Federation of Malaya, *Monthly Statistics of External Trade* (Kuala Lumpur), September 1963; France, Ministère des Finances et des Affaires économiques, *Statistiques du commerce extérieur de la France*; Hungary, *Statistikai Évkönyv* for the years 1949 to 1955 and 1961 (Budapest); Indonesia, Central Bureau of Statistics, *Menurut Jenis Barang, Impor, Statistik Perdagangan Ekspor*, 1961 (Djakarta); Italy, Central Institute of Statistics, *Statistica Mensile del Commercio con l'Estero* (Rome); Japan, Ministry of Finance, *Monthly Returns of the Foreign Trade of Japan, Trade of Japan* (Tokyo); Netherlands, Central Bureau of

Statistics, *Maandschrift van de in-, uit- en doorvoer per golderensvoort* (Hague); New Zealand, Department of Statistics, *Monthly Abstract of Statistics*, January 1964; Nigeria, *Digest of Statistics*, vol. 12 (Lagos); Poland, *Rocznik Statystyczny* for the years 1955 to 1961 (Warsaw); Soviet Union, *Vneshnyaya Torgovlya SSSR za 1962 God* (Moscow, 1963); United Kingdom, United Kingdom Overseas Geological Surveys, *Statistical Summary of the Minerals Industry*, Board of Trade, *Accounts Relating to Trade and Navigation of the United Kingdom* (London); United States Department of Agriculture, *Foreign Agriculture Circular*, FR 1-64, FO 8-63, FFO 9-62, FLM 12-63, FVF 3-63, *Tobacco*, FT 10-63 and FT 5-64, *Foreign Crops and Markets*; United States Department of Commerce, *United States Exports of Domestic and Foreign Merchandise, Report No. FT. 410, Statistical Abstracts*, vol. 12; United States Bureau of Mines, *World Petroleum Statistics* for the years 1950 to 1963 (Washington, D.C.); Venezuela, Ministry of Mines and Hydrocarbons, *Petroleo y otros Datos Estadísticos, 1961* (Caracas); American Bureau of Metal Statistics, *World Non-ferrous Metal Statistics* (London) and bulletins; Gill and Duffus, Ltd., *Cocoa Market Report*, No. 170, 3 March 1964; F. O. Licht, *Die Weltzuckerwirtschaft, 1936-1961* (Ratzeburg); Metallgesellschaft Aktiengesellschaft, *Metal Statistics* (Frankfurt am Main); Ernesto Tornquist and Co., Ltd., *Business Conditions on Argentina*, December 1963 (Buenos Aires); Economist Intelligence Unit, Ltd., *Quarterly Economic Review—Republic of South Africa, Hard Fibres* (London).

* Based on gross exports, except where indicated.

^b The groups consist of the indicated commodities.

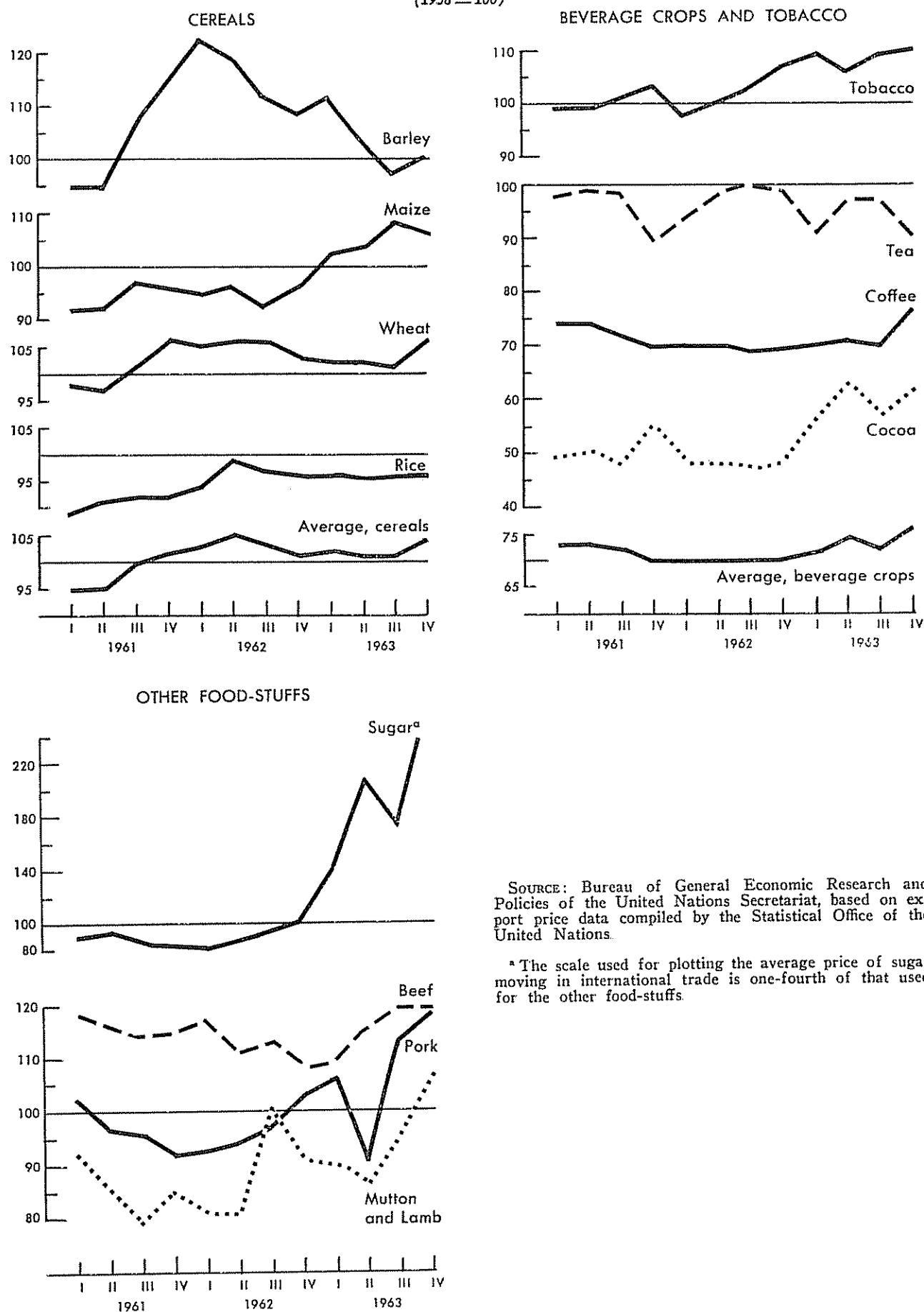
^c Used as weights for obtaining the group indices.

^d Preliminary; based in many cases on less than twelve months' returns.

* Imports.

* Sisal and henequen.

Chart A-1. Price Indices of Major Food-stuffs in International Trade, 1961-1963
(1958=100)



SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on export price data compiled by the Statistical Office of the United Nations.

^a The scale used for plotting the average price of sugar moving in international trade is one-fourth of that used for the other food-stuffs.

80,000 tons (9 per cent) higher in 1963 than in 1962 and, as there was no significant shortage of exportable supplies, the increase in trade was transacted at more or less stable prices.

World production of feed grains continued its fairly steady increase in the period under review. The 1962/63 *barley* crops were above those of the previous year throughout the northern hemisphere, but down somewhat in Oceania and South America. There was a recovery in the southern hemisphere in 1963/64 but it was offset in part by poorer crops in eastern Europe, Japan, the Soviet Union and the United States. In the case of *maize* the principal feature of the 1962/63 harvest was a decline in western Europe and the Soviet Union, offset by gains elsewhere. The 1963/64 harvest was a record one in western Europe but well below the 1961/62 level in the Soviet Union; the outstanding change, however, was the extremely large United States crop, amounting to more than half the world total. With demand for feed grains continuing to rise and supplies from eastern Europe sharply reduced, maize prices turned upwards in mid-1963 and by the end of the year they had regained their earlier premium over barley prices.

Meat production in 1963 was well above the 1962 level in most of the major producing countries; the chief exceptions were in Argentina and eastern Europe. There was some tendency for the growth in demand to outpace the increase in production, especially in western Europe and Japan whose domestic prices were driven upwards. Several countries—including Belgium, Denmark, France, Japan, the Netherlands and Sweden—took steps to encourage imports or discourage exports. The main contribution to the increase in supply came from *beef and veal*: cattle slaughter was up in almost all the major producers; the only significant exceptions were Italy and New Zealand. To judge by returns for the first three quarters, trade was also at an appreciably higher level: among the major countries, only the Federal Republic of Germany and the Netherlands imported less than in 1962, while there was a considerable increase in imports into Italy and the United Kingdom as well as into the United States. This increase was accompanied by a recovery in prices, which had been weakening for two years: by the last quarter of 1963 average prices were back to the 1960 level. In the course of the year both the United Kingdom and the United States made arrangements with their principal suppliers to control the movement of beef: the United Kingdom set 1963/64 quotas for Argentina and Yugoslavia, while Australia agreed to voluntary restraints of a longer-term nature on exports to the United States.

The increase in production of *pig-meat* was concentrated largely in the United States where slaughter rose appreciably from the reduced levels of 1961 and 1962. In western Europe there was little gain; in the second half of the year indeed there appears to have been some decline, particularly in Belgium, France, Italy and Norway. With demand continuing to expand, this was reflected in increased imports, especially into the EEC, and in a tendency for prices to rise, both for pork and for bacon.

The prices of *mutton and lamb* were also generally higher in 1963 than in 1962. This reflects the continuing increase in the demand for meat, the firmness of the beef and pork markets, and a further decline in production in the two main importing countries—the United Kingdom and the United States—from the high levels of 1961. In the first three quarters of 1963, slaughter in Oceania—the principal supplying area—was little above the corresponding 1962 level.

The severe winter of 1962/63 exercised a depressing effect on the output of milk in many parts of Europe and, as the

amount consumed as fluid continued to increase, a rather smaller quantity was converted into dairy products. Most significant as far as international trade is concerned, was the resultant decline in *butter* production in Denmark, Ireland, the Netherlands and Sweden as well as in the United Kingdom. Butter production was also somewhat lower in North America. The price on the London market rose substantially: in the final quarter of 1963 it was about a sixth above the corresponding 1962 figure and for 1963 as a whole the average price had regained the 1959 level. These developments were reflected in exports from Oceania which rose between 1962 and 1963 by about an eighth in volume and about a fifth in value. Cheese prices also rose, averaging about 5 per cent above the 1962 figure.

The expansion of *sugar* production between 1962/63 and 1963/64 was widespread; reductions were confined largely to Cuba and some of the Caribbean islands where hurricane damage was heavy, and to the Soviet Union and a few countries in Europe—Italy, the Netherlands, Poland and Spain for example—where the beet crop was affected by drought. The world market in 1963, however, was influenced more by the fact that the 1962/63 output of centrifugal sugar was about 4 per cent below that of the previous year, which had in turn been about 6 per cent below that of 1960/61, and that in the face of rising consumption, stocks had been drawn down at the beginning of the 1963/64 season from the record level of the beginning of the 1961/62 season to approximately the average 1955-1959 level. The result was a spiralling of free market prices from less than 3 cents a pound early in 1962 to nearly 12 cents a pound towards the end of 1963. The average price of sugar entering international trade in 1963 was twice the 1962 figure.

Preliminary figures suggest that rather less sugar was exported in 1963 than in 1962. The principal reduction was in the flow from Cuba to the Soviet Union, but Brazil and Czechoslovakia were also among the countries exporting less and France, Japan and Switzerland among those importing less.

A further shrinkage in *coffee* production more than offset a small gain in that of tea, bringing the output of beverage crops in 1963/64 below the level of the previous year. The reduction in the coffee out-turn was fairly general but the major decline was in Brazil where both the 1962/63 and the 1963/64 crops were smaller than the average in the second half of the nineteen fifties. Frost damage in 1962 and adverse weather in 1963 led to expectations of a further decline in Brazilian production. These and the improvement in the balance between current production and consumption induced a firming of prices, first of *robustas* and then, as 1963 advanced, of *arabicas* too: by the last quarter, the average price of coffee entering international trade was about 12 per cent above the corresponding 1962 figure. This advance in price appears to have induced some inventory buying: stocks of green coffee in the United States, for example, rose more than a fifth—to 48 million bags—in the course of 1963, almost all the increase taking place in the last quarter of the year.

In the crop year October 1962/September 1963 trade in coffee was at a record level—about 48 million bags. Imports were up about 3 per cent into the United States (to nearly 24 million bags) and about 5 per cent into the EEC (to 11.6 million bags). Exports from Brazil at about 18.5 million bags were 2.4 million bags above the 1961/62 level; most other producers also shipped more, the chief exception being Colombia whose exports at just over 6 million bags were 7 per cent below the 1961/62 level. Faced by a continuing upward movement in prices, the International Coffee Council, meeting early in 1964, raised 1963/64 export quotas an average of just over 3 per cent.

The record *cocoa* crop of 1960/61 was followed by two smaller crops. The 1963/64 crop, however, set a new record. This was largely the result of expansion in Brazil, Cameroon and Nigeria which more than offset reductions in Ghana and the Ivory Coast as well as among Caribbean producers. With production in 1962/63 below that of the previous year in Brazil and Nigeria, preliminary returns suggest that the amount of *cocoa* entering world trade in 1963 was marginally lower than in 1962. With consumption continuing to expand, it is probable that stocks in importing countries were drawn down for the second year in a row. Prices had begun to rise early in 1963 and for the year as a whole averaged about a fourth above the low 1962 figure, thus recovering some of the ground lost in 1961 and 1962.

In contrast to coffee and *cocoa*, *tea* was somewhat cheaper in 1963 than in 1962. The decline in price was largely in Ceylon which exported slightly more but realized slightly less. In India, average unit value was about 2 per cent higher and *tea* proceeds advanced about 7 per cent to the highest amount since 1958.

The increase in *tobacco* production between 1962 and 1963 was widespread. Among the major growers, only Argentina, the Federation of Rhodesia and Nyasaland and the United States harvested less leaf in 1963 than in 1962 though, on a smaller scale, output was also down in Burma, Canada and Spain, as well as in Chile, Mexico and Venezuela, while among the minor producers, blue mould made serious inroads in the crops in several Middle Eastern countries, particularly Cyprus, Israel, Jordan and Syria. More than offsetting these declines was a notable recovery in western European output and sharp increases in production in such leading exporters as India, Greece and Turkey, as well as the Soviet Union.

With consumption of cigarettes continuing to increase—though at a slower rate than in earlier years—and crops in the net-importing countries of Europe showing the effects of earlier blue mould infestation and still well below the average of the second half of the nineteen fifties, imports were at a somewhat higher level than in 1962. In the wake of a smaller 1962 crop in Turkey, exports fell sharply in the second quarter of 1963, and in the aggregate were considerably below the 1962 level. Prices having risen steadily in 1962 and 1963, average export unit values in 1963 were about 6 per cent above the 1962 figure.

The increase in the output of fats and oils between 1962 and 1963 probably fell somewhat short of the increase in consumption. Preliminary returns suggest that total exports—including the oil equivalent of seed—were slightly below the record level of 1962. The price index of fats, oils and oil-seeds entering international trade, which had been slipping erratically downwards since 1956, levelled out in 1962 and moved upwards in 1963, regaining the 1960/61 average (see chart A-2).

The only group of oils and seeds to register an increase in trade in 1963 was the tropical one. Exports of *copra* and *coconut oil* were appreciably higher, largely as a result of a better out-turn in the Philippines, whence shipments rose by no less than 31 per cent in volume and 47 per cent in value, more than offsetting a 30 per cent decline in shipments from Ceylon. The price of *palm kernels and oil* also increased by about an eighth between 1962 and 1963 but there was no comparable expansion in trade: the downward trend in exports from Nigeria was reversed but there was an offsetting reduction in exports from the Congo (Leopoldville). *Palm oil* shipments from the Congo (Leopoldville) and Nigeria declined in 1963 for the fourth successive year; there was some compensating increase from the continuing upward trend in the Federation of Malaya and also a slight recovery in Indonesia, but it is probable that total exports were below the 1962 level.

World trade in soft (edible) vegetable oils was sustained in large measure by an 8 per cent increase in shipments of *soya beans* (and oil) from the United States. *Cotton-seed* imports, however, were somewhat below the 1962 level. There was also a decline in cotton-seed exports from the Sudan, in the wake of cotton crops that were smaller than the record one of 1961/62. While seed and bean prices were generally higher in 1963 than in 1962—reflecting the continuing expansion in demand for compound feeds—oil prices were lower. There was also a decline in exports of rape-seed and sesame seed. The greatest proportional reduction in trade, however, was in olive oil in the wake of a poor 1962/63 olive crop in the Mediterranean area; 1963 exports from Spain and Tunisia were the smallest since 1959 and 1960, respectively, and prices rose strongly from the end of 1961 to mid-1963 when expectations of a record 1963/64 out-turn of olives began to weaken the market.

In the face of somewhat greater supplies—chiefly from India and Nigeria whose increase in exports more than offset reductions in Argentina, Senegal and the Sudan—the prices of *ground-nuts* and *ground-nut oil* remained remarkably steady in 1963, more or less at the average 1962 level. *Linseed oil* prices also remained relatively steady in 1963 though at well below the 1962 level. Shipments from Argentina, the leading exporter, were substantially smaller than in 1962.

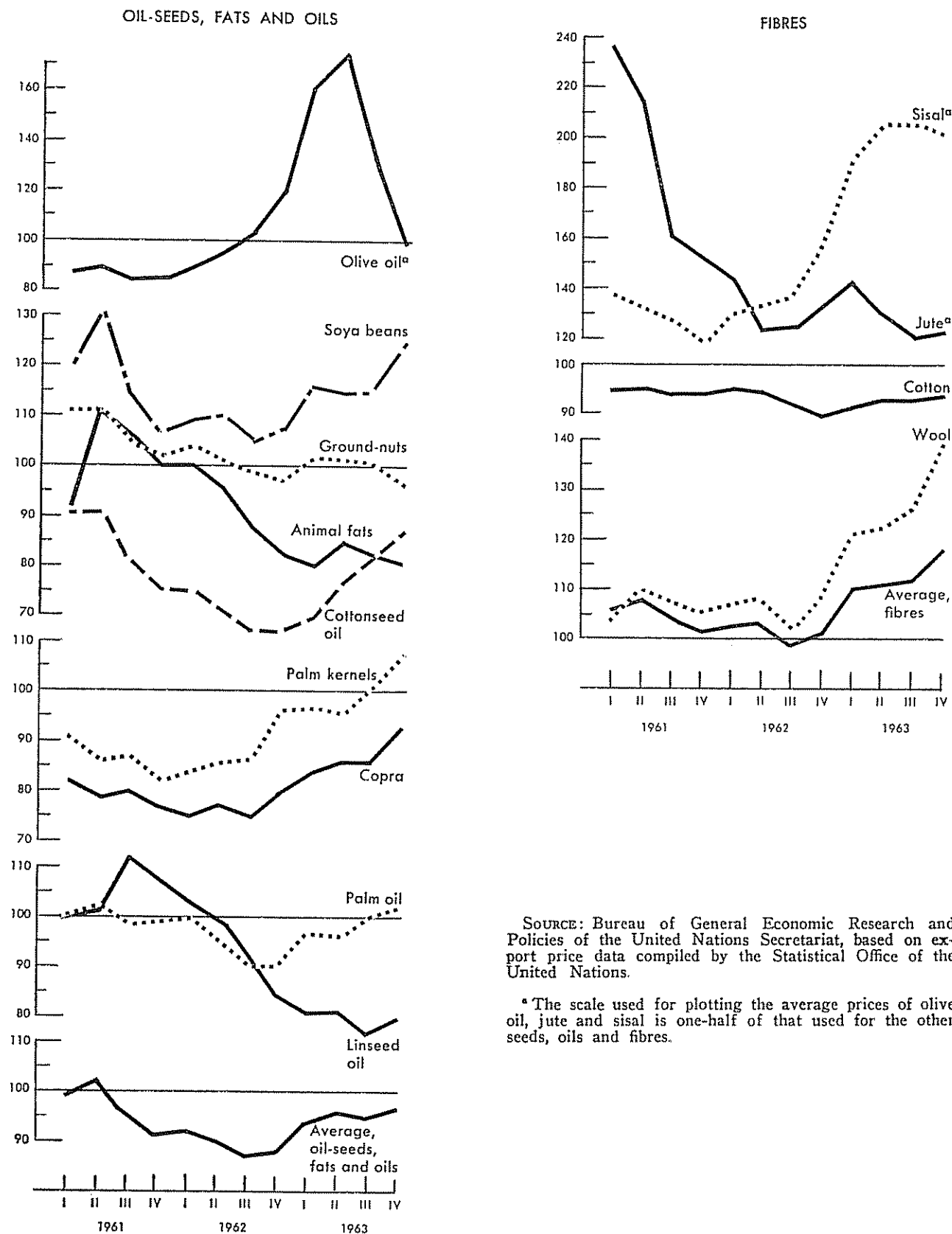
Fish oil prices rose steeply in 1963 in the wake of poor catches in the 1962/63 season, including returns from Antarctica. At year's end the prices of whale oil and Peruvian fish oil were virtually double their end-1962 figure.

The output of natural fibres in 1963 was up moderately on the 1962 level: reductions in the jute and henequen crops were more than offset by gains in most other fibres. Demand for fibre by the world textile industry continued to expand. In 1962, textile output (outside the centrally planned countries) was about 4 per cent above the 1961 level, expansion in North America offsetting stagnation in western Europe. In 1963 the expansion was in western Europe—up about 5 per cent in 1962—and this made up for a slackening in the rate of growth in North America. Fibre prices, which had tended to weaken in 1962 in the face of a large cotton crop, hardened again in 1963 and, led by wool, rose considerably in the course of the year.

World production of *cotton*, which had risen by about 6 per cent between 1961/62 and 1962/63, registered a further gain—of about 3 per cent between 1962/63 and 1963/64. This was largely the result of greater crops in the Soviet Union and the United States, though there were also increases in East Africa, Greece and Iran, as well as in mainland China. Offsetting these gains to some extent were reductions in the crops in Latin America (particularly Brazil and Mexico), in India, in Spain and in the Sudan and the United Arab Republic. One consequence of the smaller crops in the last two countries was a sharp cut in supplies of extra-long-staple cotton. Prices of long staples, having fallen erratically since 1960, turned upwards in mid-1963. The average price of all cotton entering international trade was much the same in 1963 as in 1962.

Total exports of cotton, which had dropped back sharply in 1961 and 1962 from the high 1960 level, rose slightly—about 2 per cent according to preliminary figures—in 1963. The increases were widespread and considerable but they were offset very largely by a sharp cut in shipments from the United States and, on a smaller scale, from the Soviet Union. Purchases by western Europe declined for the third successive year to the lowest level since 1952; North American imports were also at their lowest for many years; it was the other regions that registered increases.

Chart A-2. Price Indices of Oil-seeds, Fats and Oils and Natural Fibres in International Trade, 1961-1963
(1958 = 100)



SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on export price data compiled by the Statistical Office of the United Nations.

^a The scale used for plotting the average prices of olive oil, jute and sisal is one-half of that used for the other seeds, oils and fibres.

In the United States, the combination of larger crops and smaller exports resulted in a further accumulation of cotton stocks: the carry-over into the 1963/64 season was the greatest since 1957 and another substantial increment was in prospect. In the rest of the world, by contrast, stocks continued the slow decline that had started in 1958.

After a small decline in 1962/63, the world *wool* clip rose again slightly in 1963/64 to about 2.6 million tons or one per cent above the previous high point of 1961/62. The gain was chiefly in Oceania, though production was also higher in Asia (other than Japan) and eastern Europe (other than Yugoslavia). Elsewhere, the 1963/64 clip was generally below the 1962/63 level—by about one per cent in Africa, 2 per cent in western Europe and 3 per cent in North America. Early returns suggest that output in Latin America was little changed from the previous October/September season. World consumption in 1963 was probably not much more than one per cent above the 1962 level. However, as carry-in stocks in the major trading countries were relatively small—having declined for the second successive year in the principal importers and contracted to about half the average recorded in the first half of the nineteen fifties in the southern hemisphere exporters—sales were buoyant throughout 1963. After remaining fairly static for four years, wool prices began to rise vigorously towards the end of 1962 and, averaged over 1963 as a whole, were about a fifth higher than in the previous year.

The 1963/64 *jute* crop was slightly smaller than the previous one and about an eighth below the large 1961/62 crop. The decline was chiefly in Pakistan where lower prices (relative to those of rice, the alternative crop) and acreage control had combined to reduce planting, but a smaller output is also reported from Burma and Thailand. In India both *jute* and *mesta* production were above the 1962/63 level though below the record of the previous year. Preliminary returns indicate some contraction in trade in raw *jute* between 1962 and 1963, despite the fact that larger shipments were made early in the year from the 1962/63 crop. Prices were marginally lower and the 1963 *jute* earnings of Pakistan—by far the largest exporter—were about 5 per cent below those of 1962.

Early reports suggest that total hard fibre output was slightly smaller in 1963 than in 1962: minor increases in sisal (notably in Kenya) and abaca (in the Philippines) were more than offset by a major reduction in the Mexican henequen crop. Exports having been restricted in order to conserve supplies for domestic spinners, Mexican henequen sales were a fifth below the 1962 level. This tended to increase the demand for *sisal* and, in the face of the very slow rate of expansion in output, prices rose rapidly between the end of 1961 and the middle of 1963 when they levelled out at about twice the 1958 average. This brought *sisal* prices much closer to those of *abaca* than has been the case in the past. *Abaca* prices, which had been drifting downwards in 1961 and 1962, also rose and in the last quarter of 1963 were about a fifth higher than the corresponding 1962 figure. Exports from the Philippines in 1963 were up 22 per cent in volume and 28 per cent in value.

Though total rubber production increased between 1962 and 1963, the output of *natural rubber* was about 3 per cent lower.* This reduction was largely a reflection of a 15 per cent drop in the amount of rubber tapped in Indonesia, though there were also reductions in Brunei, Cambodia,

Liberia and the Republic of Viet-Nam. The decline in tapping in these countries was to some extent the consequence of lower prices: these had declined steadily from peak levels in 1960. In 1963 they reached the lowest figure since 1954, having dropped about 15 per cent in the course of the year, more or less to the floor set by the price of butadiene-styrene synthetic types (see chart A-3).

The output of metal products outside the centrally planned countries was about 4 per cent higher in 1963 than in 1962. This followed a much higher rate of expansion between 1961 and 1962 which went a long way to correcting the balance between the production and absorption of non-ferrous metals. Prices, which had been drifting downwards since 1960, reversed early in 1963 and by the last quarter of the year the price index of non-ferrous metals entering international trade was about 4 per cent above the corresponding 1962 figure.

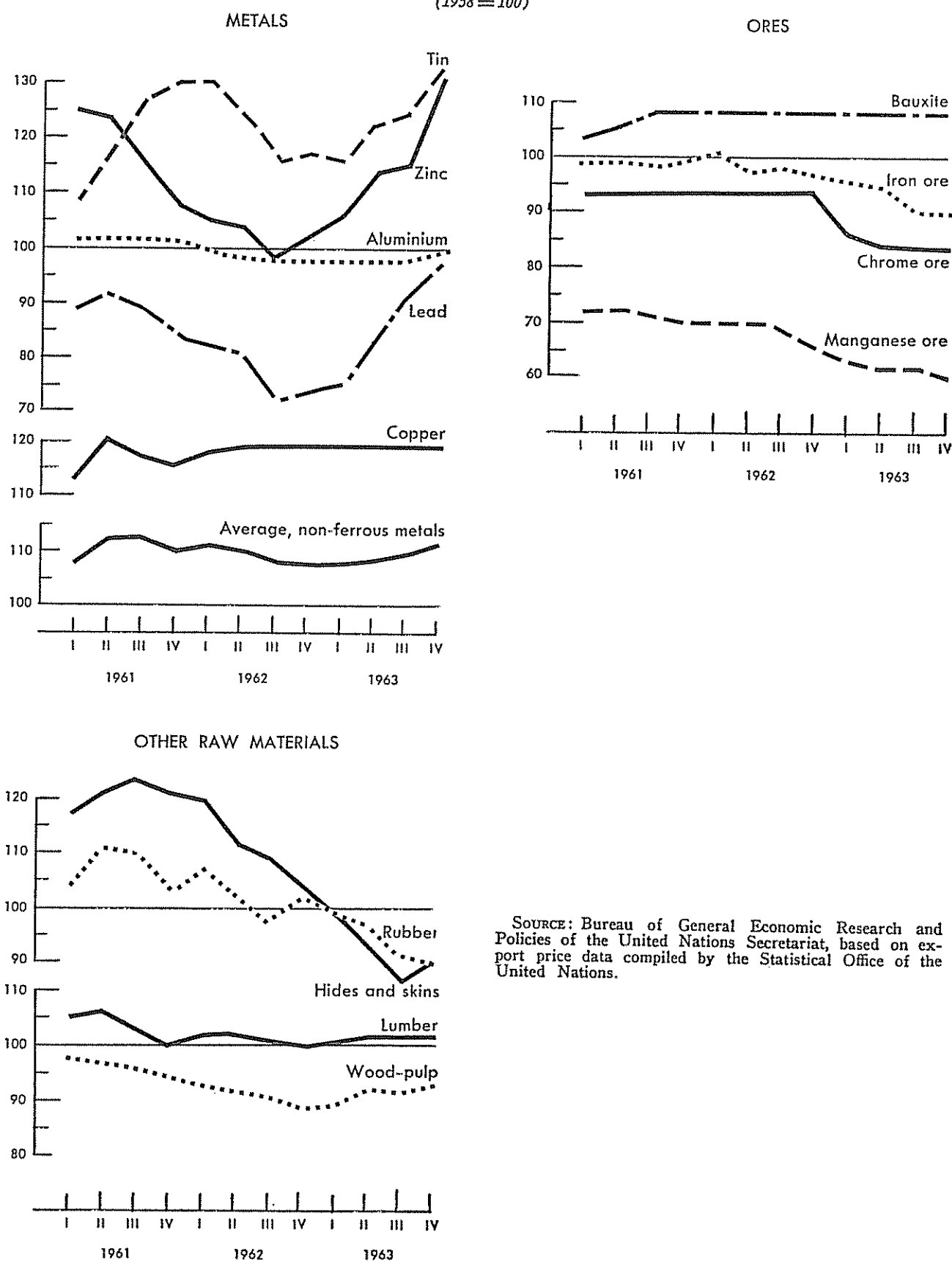
Production of *aluminium*, which had declined in 1961, rose vigorously in 1962 and 1963—by about 10 per cent a year outside mainland China and the Soviet Union. The only countries producing less in 1963 than in 1962 were China (Taiwan), Poland and the United Kingdom. Among the major producers, there was a marked expansion in the Federal Republic of Germany (of about 30,000 tons a year), Japan (50,000 tons), Norway (13,000 tons) and the United States (180,000 tons). In the United States, output was in excess of 2 million tons for the first time. Trade was also at a higher level, with particularly large increases in imports into Belgium and the United Kingdom; United States imports were also higher—by about 10 per cent. In the first half of the year absorption was up about 3 per cent in western Europe and 9 per cent in the United States—compared with the first half of 1962. And in the United States, producer stocks continued to decline. Prices, which had been marked down on several occasions since 1960, began to firm in mid-1963 though they averaged slightly less in 1963 than in 1962.

Copper production (outside mainland China and the Soviet Union), which had been held back by major mines in 1962 in an effort to stabilize prices, remained under restraint in 1963 and again advanced only moderately. United States output of refined metal remained at its 1962 level of 1.7 million tons, while there were reductions in a number of countries, including Canada, Norway, Portugal, Spain and the United Kingdom (all for the second year in a row), as well as Australia, Chile, France and the Federal Republic of Germany, and these reductions almost offset expansion elsewhere, notably in Belgium, Japan and Northern Rhodesia, as well as in eastern Europe. In the first half of the year absorption was about 9 per cent above the corresponding 1962 level in the United States but 2 per cent lower in western Europe. As the year advanced, the relative rate of absorption tended to rise and stocks were drawn down. United States imports of metallic copper—chiefly blister—were up about an eighth in volume on the 1962 figure, while exports were lower. As the market balance altered and expectations about future demand and supply were reformulated, prices began to rise and, by early in 1964, restraints on production were lifted in an effort to maintain stability. A seven-week labour strike at one of the major mines in Chile, however, precipitated a shortage in prompt supplies: by April, the London Metal Exchange price—which had been held at around £235 per long ton throughout 1962 and 1963—had risen by a third to over £300 a ton.

After remaining virtually unchanged between 1961 and 1962, production of refined *lead* outside mainland China and the Soviet Union advanced about 5 per cent in 1963. This expansion was not supported by any increase in mine

* Production of synthetic rubber outside the centrally planned countries reached about 2.5 million tons in 1963, compared with a natural rubber output of less than 2.1 million tons.

Chart A-3. Price Indices of Selected Metals and Ores and Raw Materials, 1961-1963
(1958 = 100)



SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on export price data compiled by the Statistical Office of the United Nations.

production: in 1963 outside the Soviet Union, this was only about 2 per cent above the 1960 level. The bulk of the increase in the output of lead metal was in Australia though there were also significant gains in Japan, Peru, the United States (in the second half of the year) and Yugoslavia, offsetting losses in a number of countries, most notably the Federal Republic of Germany, Morocco and Spain. Largely as a result of a 60 per cent decline in shipments from Spain, trade was at an appreciably lower level than in 1961 and 1962. In the face of a considerable expansion in the output of motor vehicles, by contrast, absorption was generally higher, particularly in North America. Between mid-1962 and mid-1963, United States producer stocks were halved. While, with demand increasing, consumer stocks in Japan, the United Kingdom and the United States tended to rise, producer stocks continued to fall—by the end of 1963 they were only two-thirds of the end-1961 level. Prices rose by over a third in the course of the year and were still rising in the early months of 1964.

Zinc also benefited from the expansion in the automotive and other metal using industries. Mine production outside mainland China and the Soviet Union increased by about 2 per cent to a level about an eighth above that of 1960. Output of zinc metal was only slightly (about 2 per cent) higher in 1963 than in 1962: increases in most countries—particularly Australia, Japan, Peru and the United States—being largely offset by reductions in Canada, the Federal Republic of Germany and Italy. The decline in Canada was reflected in exports; more significant, however, was a sharp reduction in shipments from the Soviet Union. In 1963 world trade in zinc metal failed to reach the 1960-1962 average. Prices began moving upwards on the London Metal Exchange early in 1963 and by the end of the year they had advanced about 40 per cent to the highest price since 1956. Consumers in Japan, the United Kingdom and the United States had increased their zinc inventories to much the same extent as they had increased those of lead, while producer stocks had been similarly drawn down: at the end of 1963 they were about 30 per cent below the corresponding figure in the three previous years.

With consumption exceeding production in the case of both lead and zinc, steps were taken in the United States to obtain congressional approval of limited releases from the large excess held in the strategic stockpile. In the meantime, prices on the free market continued to rise, becoming far out of line with those ruling in the closed United States market, especially in the case of zinc, for which the London Metal Exchange quotation reached a post-war record in May 1964.

Tin production showed little change between 1962 and 1963: expansion in most producing areas—including Bolivia, Federation of Malaya, Nigeria and Thailand—was offset by a further contraction in Indonesia and, in the aggregate, supplies again fell short of consumption. Commercial stocks, both producer and consumer, fell again—for the third successive year—and the balance between production and consumption was maintained by releases from the United States strategic stockpile. These releases were not sufficient to hold the price within the stabilization range set by the International Tin Council, the upper limit of which was raised from £850 to £1,000 per long ton. The average price in January 1964 was £1,041 per long ton, more than a fifth higher than the corresponding 1963 figure, and the price was still rising.

The consumption of energy in 1963 reflects not only the higher level of activity and incomes that characterized virtually all of the industrial countries but also the extremely cold weather which marked the early months of the year. The demand for coal and fuel oil increased rather more than in the years immediately before, and there was a vigorous expansion in trade.

World *coal* production increased appreciably more between 1962 and 1963 than in the preceding interval. This was largely due to expansion in a few countries—notably India, the Soviet Union and the United States—for output in western Europe and Japan was lower. This was reflected in turn in a somewhat larger expansion in imports into western Europe and also in a running down of stocks. While distributed stocks of coal were slightly higher at the end of 1963 than a year earlier, mine stocks registered their third successive decline. The unit value of coal exports inched upwards during the year and in the last quarter of 1963 it was 6 per cent above the corresponding 1962 figure and the average price in 1963 was the highest since 1957.

Posted prices for crude *petroleum* remained more or less unchanged in 1963. Hence, the earnings of petroleum exporters benefited to the full extent of the increase in the volume of their exports. World production registered a further 7 per cent increase. Expansion was almost universal. The most marked proportional gains were made by the newer and smaller producers in Africa, particularly Libya, but some of the larger producers—Kuwait and the Soviet Union, for example—also recorded massive increases. Preliminary returns—based for the most part on the first three quarters of the year—suggest that world trade in crude petroleum continued to increase at more than 10 per cent a year.