



**WORLD  
ECONOMIC SURVEY  
1962**

**II. Current Economic Developments**

**UNITED NATIONS**

Department of Economic and Social Affairs

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**UNITED NATIONS**

**New York, 1963**

E/3761/Rev.1  
ST/ECA/78

UNITED NATIONS PUBLICATION

Sales No.: 63. II.C. 2

Price: \$U.S. 1.50 (or equivalent in other currencies)

## FOREWORD

This report represents part II of the *World Economic Survey, 1962*. As indicated in the Foreword to part I, "The Developing Countries in World Trade" (Sales No.: 63.II.C.1), it consists of three chapters 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 a brief introduction which draws attention to some of the salient features of the current situation.

Most of the analysis is concerned with the calendar year 1962; chapters 1 and 2 conclude with brief assessments of the outlook for 1963. 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 1962.

Like part I, part II of the *World Economic Survey, 1962* 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., 1959/60

In certain tables, the symbol (.) has been used to indicate that recent information was lacking at the time of writing.

Use of a hyphen (-) between dates representing years, e.g., 1959-1961, 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: AID for Agency for International Development [United States]; AOS for Associated Overseas States [of the European Economic Community]; CICT for Commission on International Commodity Trade; CMEA for Council of Mutual Economic Assistance; DAC for Development Assistance Committee [of the Organisation for Economic Co-operation and Development]; DIF for Development Insurance Fund; ECAFE for Economic Commission for Asia and the Far East; EDF for European Development Fund [of the European Economic Community]; EEC for European Economic Community; EFTA for European Free Trade Association; FAO for Food and Agriculture Organization of the United Nations; GATT for General Agreement on Tariffs and Trade; IBRD for International Bank for Reconstruction and Development; ICA for International Co-operation Agency [United States]; ICCICA for Interim Co-ordinating Committee for International Commodity Arrangements; IDA for International Development Association; IADB for Inter-American Development Bank; IFC for International Finance Corporation; IMF for International Monetary Fund; LAFTA for Latin America Free Trade Association; OAS for Organization of American States; OECD for Organisation for Economic Co-operation and Development; OEEC for Organisation for European Economic Co-operation; SITC for Standard International Trade Classification. "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, "Malaya" has been used to designate the Federation of Malaya and Singapore; "South Africa", the Republic of South Africa, South West Africa and the High Commission territories of Basutoland, Bechuanaland and Swaziland.

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

In many parts of the world, the advances in production during 1962 were more moderate than in earlier years and frequently disappointed expectations. The rising trend in output, however, was well maintained in the early months of 1963, and the immediate outlook continued to be generally favourable. As reviewed in this part of the *Survey*, North America recorded a level of output in 1962 considerably above that of 1961; this, however, reflected recovery from a recessionary situation in the earlier year. Output had climbed rapidly in 1961 from the low point of the recession in the first quarter, but the continued advance in 1962 was at a much more moderate pace. Though earlier fears that the upswing would not be maintained into 1963 have been dispelled by events, considerable amounts of idle capacity and unemployed labour have remained as persistent features of the economy. In western Europe, 1961 had seen some loss in momentum of the strong upsurge in activity which had characterized 1959 and 1960. In 1962, the rate of increase in output slackened further as the earlier boom in investment appeared to taper off. Current trends were accordingly less certain than in preceding years. In a number of countries, the current situation was also complicated by a quickening in the pace at which prices and costs have been increasing.

For the under-developed countries, the recovery from recession in North America, combined with some restocking in western Europe, favoured their export trade in 1962. The volume of exports from these countries, though still increasing less than world trade, expanded more quickly than in 1961. On the whole, export prices were slightly lower than in 1961, though they tended to level out in the course of the year. Despite some improvement in foreign trade, however, domestic developments in many under-developed countries were less favourable than in 1961, owing partly to the adverse effects of poor weather on agricultural output. Moreover, because of repeated balance of payments deficits, a number of countries have become increasingly burdened with very large amounts of foreign, short-term debt or have seen their foreign exchange reserves dwindle to very low levels. Consequently, although there was a moderate expansion in export earnings during 1962, their external payments positions deterred them from allowing any substantial increase in imports; and this acted as a brake on the growth of domestic investment and general economic activity.

Among the centrally planned economies, the Soviet Union recorded a rate of growth in total output during 1962 not much different from that achieved in the preceding year. A number of countries, however, ex-

perienced a deceleration in the rate of growth, owing primarily to poor harvests; in certain countries of eastern Europe, the increases in 1962 fell well below those attained in most post-war years. Besides the poor agricultural performance, a factor tending to impede growth in the recent past was the accumulation of imbalances in the flow of goods and services among industries. It has been partly in order to avoid the emergence of such imbalances that measures to increase the flexibility of the economic system have been introduced into methods of planning and management.

As discussed in chapter 1, trends in the industrial countries during 1962 were compounded of continued recovery from recession in North America and a slackening of growth in western Europe. In North America, rising governmental expenditure had been the principal force supporting recovery from the recession in 1960/61. Official steps to ease conditions in mortgage markets were also important in reversing the earlier downward trend in residential construction. The initial upturn in the cycle during 1961 was quickly reinforced by the renewed accumulation of business stocks as well as by higher levels of business investment in plant and equipment. But during 1962, the rate of inventory accumulation fell off sharply, although the consequent decline in inventories relative to sales was, at this phase of the cycle, abnormal. As this was accompanied by only a moderate increase in fixed investment, total investment throughout the year failed to advance from the annual rate achieved in the last quarter of 1961. While the lower rate of inventory accumulation may have been partially ascribable to special factors, the main reason for the poor performance of total investment was undoubtedly the existence of substantial excess capacity at current levels of demand. That total output continued its upward movement throughout 1962 was entirely due to the continuous and fairly steady expansion in consumer demand and governmental purchases.

Contrary to expectations in the latter part of 1962, economic activity in the early months of 1963 was marked by the vigour of its upthrust. This fresh impetus was acquired principally from a strong advance in consumer expenditure — particularly for automobiles — which increased faster than disposable income. A higher rate of inventory accumulation also contributed to the acceleration of output. It still remained uncertain, however, whether fixed investment would rise much above its 1962 level. Some doubts persisted that the continued existence of excess capacity might hamper the effectiveness of the tax credits and revised depreciation schedules introduced by the United States Government in late 1962

to encourage business investment. Still, the performance of the economy in the first quarter of 1963 gave more than ample support to the official view, expressed at the beginning of the year, that total output for 1963 would be moderately above that of 1962.

In western Europe, the deceleration of the growth in total output in 1962 appears to have signalled the end of the investment boom which had begun in late 1958 or 1959. Fixed investment had risen strongly in recent years both in the countries which had founded the European Economic Community (EEC) in 1957, and in other countries of the region. The expansion in total output generated by increasing fixed investment had also been reinforced by buoyant export demand, particularly in 1960. But in 1962, the most common experience was a slackening in investment demand accompanied by some signs of emerging excess capacity. Changes in export demand were mixed. The volume of private consumption, however, generally continued to expand steadily, supported in some countries by a shift in the distribution of income from profits to wages; and a number of countries also increased their rates of public expenditure. For 1963, the general expectation was that the pace of expansion would not differ materially from that experienced in 1962. Where an acceleration or deceleration was foreseen, this was partially predicated on the expectation of a corresponding change in the growth of exports.

Over the last two or three years, a mounting source of concern in western European countries has been the sizable increases in wage costs which have followed in the wake of the boom in output and employment. Advances in wages considerably greater than in output per man continued to be a feature of labour markets in 1962. Despite the upward pressure of wage costs, however, advances in wholesale prices of finished manufactures were generally relatively moderate. These higher costs were partially offset by declining prices for imported raw materials; in addition, profit margins appear to have narrowed in the face of intensified foreign and domestic price competition. Nevertheless, the upward drift of wholesale prices in western Europe during recent years has contrasted unfavourably with the stability of these same prices in the United States, and some countries have expressed concern about the potential effect of rising domestic prices on their competitive position in world markets. Since the acceleration of price increases, however, has coincided with signs of some slackening in aggregate demand, and since balance of payments positions have remained strong, there has been no considered move to respond to the price increases by damping down domestic economic activity. In view of the prevailing situation, official policies in western Europe generally did not lean strongly towards either deflationary or expansionary measures in 1962. But in a number of countries, governments have recently been making attempts, though often quite tentative, to

devise ways of bringing a more direct influence to bear on the movement of incomes; so far, these have generally not gone much beyond public statements about the rates of increase in wages and salaries that would be acceptable from the national viewpoint.

Merchandise exports of the developed private enterprise economies increased at about the same rate in 1962 as they had in 1961. This was almost entirely due to trade among these countries, since the volume of exports to the primary exporting countries declined even more sharply than they had in 1961. Reflecting the deceleration in rates of domestic economic growth, trade among the EEC countries did not expand as rapidly as in the preceding year; none the less the intra-trade of these countries continued to be one of the most dynamic elements in world trade. Exports of the European Free Trade Association (EFTA) countries to the EEC countries also continued to rise strongly — at a rate not much below that of intra-trade among the members of the Community. By contrast, trade among the EFTA countries increased only slightly in line with the sluggishness of domestic economic activity in some member countries. Exports of the United States and Canada to western Europe failed to advance in 1962 and the main stimulus to their exports came from the recovery in trade between the two countries themselves. By comparison with the other developed private enterprise economies, the exports of Japan to both North America and western Europe increased at remarkably high rates in 1962.

The disequilibrating tendencies evident in international payments among industrial countries during recent years were not further aggravated in 1962, though neither was there any reversal of underlying trends. The continuing gap between payments and receipts of the United States was slightly narrowed in 1962; and no renewed pressure on sterling was experienced. At the same time, the foreign exchange reserves of the Federal Republic of Germany continued their gradual decline and the accumulation of reserves in certain other countries of western Europe was halted.

The moderate diminution in the outflow of gold and dollars from the United States occurred despite adverse movement in some major elements of the balance of payments. Although there was some increase in the value of merchandise exports, this was more than offset by the expansion in imports that ensued from the continued recovery and growth of domestic economic activity. The volume of foreign long-term investment undertaken by private United States investors also rose substantially in 1962, mainly because of greater purchases of Canadian and western European bonds.

On the other hand, as a consequence of the substantial volume of investment abroad in recent years, income from foreign investments rose appreciably in 1962. Also, the net outflow of private short-term capital con-

tracted, aided partially by the policy of supporting short-term interest rates in the United States in order to lessen the incentive to transfer funds abroad. However, at least as important as these changes in limiting the outflow of gold and dollars were agreements reached between the United States and certain western European governments for advance repayments of debts as well as advance payments on purchases of military equipment. In addition, the restrictions previously imposed on foreign aid which were designed to increase the proportion of aid spent in the donor country became increasingly effective in 1962.

Some important international steps were taken in the past year to strengthen the defences against large and abrupt movements in short-term capital. Principal among these were the arrangements under which the International Monetary Fund (IMF) has been empowered to borrow from ten industrial countries; in addition, reciprocal stand-by credit facilities were negotiated among central banks of major industrial countries. Such measures, by asserting official confidence in the international monetary system, probably contributed to the comparative stability of international exchange markets in the past year. They have also somewhat lessened the reluctance of the key international currency countries to pursue expansionary domestic policies for fear of worsening their external balances. It is important to recognize, however, that these measures offer potential relief to the balance of payments difficulties of the key currency countries only in so far as these difficulties may be aggravated by unwarranted, short-term capital movements. But the larger question for these countries is whether expansionary domestic policies can be vigorously pursued without serious risk of unacceptably high rates of loss in gold reserves. It is hoped that a conjunction of favourable circumstances might effectively contain the possible rate of loss. The increasing differential between domestic and foreign prices created by rising foreign costs and the more active official encouragement to exporters could improve the performance of merchandise exports. Over the longer run, favourable consequences could also ensue from higher domestic levels of effective demand and more confident business expectations; greater industrial investment could strengthen the national competitive position through reducing costs and improving products; at the same time, the more optimistic business expectations and higher interest rates could render domestic outlets for funds relatively more attractive and restrain the outflow of private capital. However, these advantageous developments may be slow to appear and, in the meantime, there is the real risk of some further deterioration in the external balance as imports rise more strongly than exports. It remains to be seen whether, in these circumstances and at the present stage of international monetary co-operation, other industrial countries would be prepared to support such expansionary policies by demonstrating their willing-

ness to accumulate larger dollar or sterling balances and to refrain from converting these into gold.

For the primary exporting countries, which are reviewed in chapter 2, progress in 1962 was most frequently impeded by the inadequate performance of agriculture and the precariousness of balance-of-payments positions. Both of these have been recurrent, or even persistent, sources of weakness in many developing countries; in 1962, they reinforced one another to cause a significant retardation in the rate of growth in total output.

The restrictive influence of weak balance-of-payments positions was experienced despite the fact that external developments broadly favoured the expansion of exports of primary commodities from the developing countries. The volume of exports, in fact, generally rose appreciably above the level of 1961; and, since this more than offset some further weakening in the price of exports, gains in export earnings were recorded.

The expansion in the export volume of primary commodities was fairly widely distributed among countries and regions. The largest increase took place in exports from western Asia, principally because of increased petroleum shipments. The volume of exports from Latin America also rose appreciably, exports to the European Economic Community increasing with particular strength. Exports from Africa and from southern and south-eastern Asia advanced more moderately than from the other areas. Though the increases in volume were not generally accompanied by any improvement in prices, this was not true of all commodity markets. In the market for cereals, prices were held up by the fact that output in major producing areas did not increase, mainly because of bad weather. Sugar output in Europe was also reduced by weather conditions. Coming on top of the Cuban cutbacks in production, this touched off a spectacular rise in free market prices out of proportion to the underlying change in the demand-supply situation. Among the beverages, coffee and cocoa prices remained fairly stable throughout 1962, though at lower average levels than in 1961. The stability of coffee prices was notable in view of the larger 1961/62 crop; the International Coffee Agreement drawn up in the course of the year contributed to control of the flow of supplies on to the market. In contrast to the prices of some foods, however, the prices of almost all raw materials were lower in 1962 than in 1961. This occurred despite the fact that industrial production was expanding in both North America and western Europe, and it clearly indicated that supplies of raw materials continued to be more than adequate to meet the demand. The textile industry in the developed countries proved to be an exception to the general rise in industrial production; its output slackened and prices of textile fibres generally weakened. On the other hand, although metal-using industries continued to expend their output, prices of non-ferrous metals also maintained their

downward drift. Copper prices were an exception; but these were held stable largely because of the support policies pursued by the major producers.

Trade in cotton textile products, which constitute the principal manufacture exported by the developing countries to the industrially advanced countries, made little, if any, headway in 1962. Although under the International Cotton Textile Arrangements, negotiated in 1961, the industrial countries in western Europe which have restricted textile imports most stringently agreed to some enlargement of quotas, the main importers — Canada, the United Kingdom and the United States — continued to limit their imports by means of bilateral agreements.<sup>1</sup> The United Kingdom had concluded such agreements with Hong Kong, India and Pakistan in 1958 and 1959. In the case of the United States, whose imports of cotton textiles, though small in relation to total domestic consumption, rose sharply between 1960/61 and 1961/62, invocation of the market disruption clause of the new international arrangement in the second half of 1962 is expected to hold 1962/63 imports down to the 1961/62 level.

For the developing countries as a group, the increase in export earnings during 1962 which ensued from the greater volume of shipments was accompanied by a less than proportionate advance in imports. The moderate rise in imports, however, at least constituted an improvement over their performance in the preceding year. In 1961, imports into the developing countries had barely increased at all over their level in 1960. Trade deficits had widened ominously in the course of 1960 as the rate of increase in demand for exports had begun to slacken off and export prices had resumed their downward drift. By the end of 1960 and in the course of 1961 many countries had accordingly been compelled to curb their demand for imports. In 1962, while there was some acceleration in imports, their recovery was restrained by the weak balance-of-payments position in which many countries continued to find themselves. In Latin America as a whole, there was only a fractional rise in imports and in Africa, they actually declined. In southern and south-eastern Asia, the increase in imports was greater than in the other regions, though still modest.

Since imports did not advance in step with exports, the trade balance of the developing countries, taken as a group, underwent some improvement in 1962. However, this improvement was very largely confined to Africa and Latin America, where imports had increased least or had even declined in the course of the year. In Africa, the improvement was quite wide-spread but in Latin America, it was less general and a number of countries experienced a further deterioration. In western Asia, there appeared to be a slight narrowing of the

<sup>1</sup> A short-term Arrangement covered the year 1 October 1961 to 20 September 1962 and a long-term Arrangement the following five years. For a discussion of these arrangements, see United Nations, *World Economic Survey, 1962*, part I (Sales No.: 63.II.C.1), pages 69 to 70.

trade deficit, but in southern and south-eastern Asia, the gap widened.

For Latin America as a whole, despite an increase in the surplus on merchandise trade, the loss in foreign exchange during 1962 was greater than it had been in 1961. This was only partly due to the fact that the drawings which the area had made on the IMF during 1961 were replaced by repayments in 1962. Even allowing for Fund transactions, the loss in foreign exchange during 1962 remained greater than in 1961. A further increase in the volume of earnings remitted abroad by foreign investors was one factor contributing to this enlarged outflow. But, in addition, the flow of foreign capital to Latin America appears to have declined substantially in 1962; in part, this reflected a continuation of the downward trend in United States private, direct investment in the area. At the same time, the outflow from Latin America of local short-term capital, which appears to have reached very substantial proportions in recent years, increased further in 1962.

In southern and south-eastern Asia, official reserves also registered a further sharp decline in 1962. This mainly reflected continued losses by India and Indonesia, whose reserves had reached extremely low levels by the end of the year. Several other countries, however, were also compelled to finance deficits on current account by drawing down reserves. By contrast, western Asia experienced a sharp rise in official reserves, partly owing to an improvement in the trade balance but mainly because of an increased inflow of capital in Israel. Among the African countries for which data are available, foreign exchange reserves showed an appreciable increase in 1962.

In view of the balance of payments pressures which had mounted in 1961, many governments had been impelled to take corrective measures; and the course of events in 1962 did not generally warrant any substantial relaxation of these measures. The application of more stringent import controls and of deflationary policies thus continued to be wide-spread throughout the year. Partly as a consequence of the restraints on credit or on spending in the public sector as well as of difficulties in obtaining imported supplies, industrial production advanced less rapidly in many countries during 1962 than it had in previous years.

Of more immediate importance than the slackening in industrial growth, however, was the poor performance of agriculture during the 1961/62 season. Owing to bad weather, agricultural production, and particularly food crops, generally recorded little advance over the preceding year. Principally for this reason, the growth in total output of the developing countries slowed down in 1962. However, there was every indication that harvests for 1962/63 would be substantially larger than in the preceding season.

Very largely because of the lack of any marked increase in food supplies during 1962, but also, in some

degree, because of the tightened restrictions on imports of consumer goods, total consumption generally failed to make any appreciable advance in the developing countries and per capita consumption very probably remained stable. The growth of investment was also retarded by the restraints on government spending and other official measures designed to relieve balance of payments strains. At the same time, inflationary pressure continued to be wide-spread and the rate of increase in domestic prices accelerated in a considerable number of countries. On the one hand, the poor agricultural performance and the restrictions on imports limited supplies; on the other, although Governments sought to restrict public expenditure, this tended to be offset by higher export earnings and an expansion of credit to the private sector.

While, among the centrally planned economies reviewed in chapter 3, high rates of growth continued to be recorded in the Soviet Union and some other eastern European countries, national income generally increased less rapidly in 1962 than it had in 1961. For a number of these countries, this represented the second successive year in which the rate of growth had decelerated. In mainland China, total output increased substantially in 1962 after two years of very low levels of agricultural production.

In most of the eastern European countries, the slower pace of expansion in 1962 was primarily a reflection of the limited increase, or even decline, in agricultural production owing to adverse weather. By contrast, industrial production generally continued to advance strongly in 1962. However, in some countries, the poor agricultural performance contributed to some lessening in the pace of expansion in industrial output; the bad harvests restricted the flow of agricultural raw materials to the processing industries and, through adversely affecting the volume of exports, also limited the capacity to obtain imported supplies of materials. Certain maladjustments between output and requirements of inter-industry supplies were also apparent in some countries. As a consequence, in Czechoslovakia and eastern Germany, long-term plans were abandoned in 1962 and the commencement of new long-term plans was delayed for a year in order to allow time for the readjustment of the economy and the elimination of current imbalances; in Poland, the investment plan was revised for the same reason. The emergence of such imbalances has been attributed to the need for adaptation of past methods of planning and management to economies which have increased greatly in complexity. The reappraisal of these methods, which was begun some years ago and was reactivated in 1962, has stressed the need both for more careful preparation of plans in order to avoid imbalances and tensions which might reduce potential growth, and for greater flexibility in the methods of managing the economy. In recent years, various reforms have been introduced towards these ends. While these have varied considerably in form and content

from country to country, they have generally been in the direction of decentralization of planning responsibilities, enlargement of the scope for initiative by individual enterprises, and greater reliance on systems of incentives.

Investment activity in the Soviet Union increased substantially in 1962; in other countries, the changes were mixed and ranged from a marked acceleration to an absolute decline. In several countries, steps were taken in 1962 to delay the initiation of new projects and to concentrate resources on the completion of projects already under way. This was prompted by concern over the lengthening of gestation periods in the creation of new projects. Among the factors identified as impairing the efficiency and lengthening the gestation period of capital construction were the dispersion of resources among an excessive number of projects, delays in delivery of machinery and materials and the inadequate preparation of engineering plans.

Although state investment in the agricultural sector continued to expand at high rates, the growth of total agricultural investment was generally judged inadequate, largely because of a much slower increase in investment of collective farms; this lag in investment of collective farms resulted mainly from the slowing down in growth of agricultural incomes. In view of the importance ascribed to the continued expansion of agricultural output, major steps were taken by some countries in 1962 to encourage greater investment by collective farms and to stimulate production. The prices paid by the State to agricultural producers, particularly for livestock and dairy products, were raised substantially; at the same time, prices charged to agricultural producers for certain producer goods were lowered. In some countries, changes in methods of planning and management in the agricultural sector were also introduced; in the Soviet Union, territorial production boards, each responsible for about thirty to sixty farms, were established to improve farming techniques and working methods.

Largely as a consequence of the unfavourable developments in agriculture, supplies of consumer goods tended to increase less than demand; and this led, in a number of countries, to increases in prices. In view of some rise in the cost of living and the limited gains in money wages, real wages generally progressed less than in the preceding year. In several countries, however, the per capita real income of other segments of the population appears to have increased more noticeably. In the Soviet Union, this was particularly true of collective farmers, and in some other countries, recipients of transfer payments also benefited. In the aggregate, personal consumption appears to have increased moderately in most countries, the highest rates being recorded in the Soviet Union and Romania.

Total foreign trade of the centrally planned economies continued to expand in 1962, generally advancing

more sharply than domestic output. By far the greatest part of total trade continued to consist of transactions within the region. In contrast to the preceding year, trade with the rest of the world increased at a lower rate than intra-trade. This was true despite the fact that the trade of the Soviet Union with the rest of the world increased at a much higher rate than its trade with the other centrally planned economies; for, the trade of other eastern European countries with the rest of the world underwent only a limited increase and that of mainland China declined. The highest rate of increase in trade with the rest of the world was recorded in transactions with Latin America. A considerable expansion over 1961 also took place in trade with Asia and the Far East.

Developments in the field of foreign trade have been increasingly influenced by the measures taken by the Council of Mutual Economic Assistance (CMEA). The broad purpose of these measures is to achieve closer co-ordination of national plans and take advantage of greater specialization in production. Some of the more

important of these measures are necessarily of a long-range character, but other recent steps have had a direct bearing on current developments. Among these have been the extension of the pipeline carrying oil supplies from the Soviet Union to other CMEA countries and the linking of national power grids. The number of investment projects, jointly financed under CMEA, has also increased. Of considerable potential importance for trade in the immediate future has been the decision to introduce multilateral settlements among member countries: that means that, while trade among the member countries will continue to be guided by bilateral agreements, it will no longer be necessary to achieve an exact balance between imports and exports in transactions with each trading partner. Another important event was the decision taken by the Council in 1962 to revise the system of prices used in foreign trade within the group; the aim is to ensure that identical products carry the same prices in trade within the group and to bring these prices into closer conformity with those used in trade with the rest of the world.

## Chapter 1

### RECENT TRENDS IN INDUSTRIAL COUNTRIES

#### Developments after 1958 in review

For most industrial countries the period 1959-1962 was one of significant advance in aggregate production. In western Europe and Japan the rise in economic activity was generally continuous, whereas in North America two periods of expansion were separated by a recession which started in the second quarter of 1960 and came to an end in the first quarter of 1961.

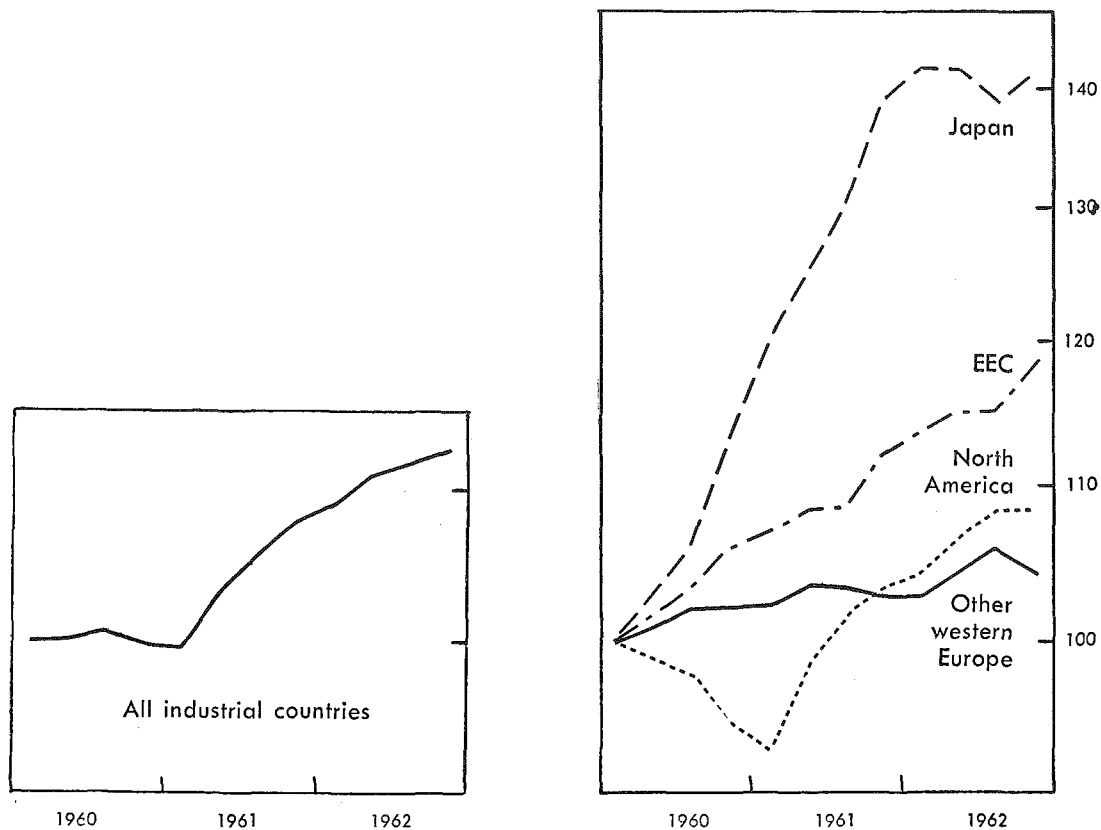
The recession in North America did not spread to other industrial countries. While industrial production dropped significantly in North America from the second quarter of 1960 to the beginning of 1961, so that industrial production in the industrial countries as a whole levelled off, other regions experienced a continued

strong rise in output during this period. In 1961 a recovery in industrial production in North America coincided with a considerable slowing down in western Europe. In the course of 1962 industrial production increased at a generally declining rate in the four regions distinguished in chart 1-1. In Japan and the United Kingdom, however, where deliberate restraint was exerted on the economy in order to restore equilibrium in the balance of payments, production showed little advance. In most countries, the movements in gross national product were similar to those in industrial production, although fluctuations were of smaller amplitude.

An outstanding feature in the upswing of economic

Chart 1-1. Industrial Countries: Indices of Industrial Production, 1960-1962<sup>a</sup>

(Seasonally adjusted; ratio scale; first quarter 1960 = 100)



Source: See table 1-1.

<sup>a</sup> For country coverage, see tables 1-3 and 1-5.



activity since 1958 has been a slower rise in most prices than in earlier post-war cycles. Because of more ample productive capacity in most countries supply responded more smoothly to expanding demand. As illustrated by the changes in implicit deflators of gross national product in table 1-1, the rate of increase in prices has been slowing down in North America and accelerating in western Europe. These relative price movements have been a factor in recent balance of payments developments.

The current western European upswing started in Denmark, the Federal Republic of Germany, Italy and the Netherlands around the middle of 1958, at the same time as the revival of activity in the United States following the recession of 1957-58. In Finland, Norway, Sweden and the United Kingdom expansion began at the end of 1958 and in Belgium and France as late as the early months of 1959. The driving forces in the initial stages of the upswing were higher public investment and increased demand for housing and consumer durables, facilitated by reductions in interest rates in most countries, and strong demand from abroad. In the course of 1960 a general and considerable fall in the rate of increase of exports was more than compensated by a vigorous expansion in domestic fixed investment. The investment boom reached its peak in the early months of the year but business investment was buoyant well into 1961 in most countries (see table 1-2). As other components of demand began to lose momentum, private and public consumption became increasingly more important for the continuation of the upswing in western Europe from the middle of 1960 onwards and in Japan somewhat later.

As early as the latter half of 1959 the Governments of Denmark and the Federal Republic of Germany took measures to restrain domestic demand. These measures were limited to raising discount rates and tightening credit. Somewhat later, direct restrictions on certain kinds of building activity were imposed in some coun-

tries in order to check excess demand for skilled labour and some scarce building materials. In the United Kingdom government policies aimed at restricting private consumption were instrumental in halting the rise of industrial production after the second half of 1960.<sup>1</sup>

In North America rising government expenditure was the principal factor helping to arrest the 1960 downturn and initiate a new expansion of final demand<sup>2</sup> after the first quarter of 1961. A number of government measures introduced in 1960 and 1961 to stimulate residential construction were important in reversing early in 1961 the downward trend in residential construction which had continued since the middle of 1959. The expansion was soon reinforced by a considerable advance in business fixed investment and a rapid building up of inventories. Although exports had risen vigorously in 1960, the recovery phase received little stimulus from abroad—as had also been the case in the 1958-59 recovery. In 1962 the North American economies reached new highs in production and employment but did not perform as well as had been hoped in view of the still abundant resources of idle manpower and productive capacity. As in western Europe, the expansion came to rely significantly on buoyant consumer demand and continued high public expenditure, as fixed investment and inventory accumulation began to slow down.

In western Europe as a whole external demand has become less important as a stimulus to expansion, since exports to overseas regions began to slow down after the beginning of 1960. Subsequent advances in business activity thus depended mainly on internal factors and were reflected in a high rate of growth of intra-European trade. In North America the effects of weakness in the

<sup>1</sup> On economic policy in the United Kingdom in 1960 and 1961, see United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1), pages 133-134. On the recovery in North America in 1961, see *ibid.*, pages 125 to 130.

<sup>2</sup> The term "final demand" is used to signify gross national expenditure less changes in inventories.

Table 1-1. Industrial Countries: Gross National Product and Average Price of Output, by Region, 1959-1962

(At 1954 prices and 1958 exchange rates)

Region <sup>a</sup>	Percentage share in combined 1961 gross national product	Gross national product				Implicit deflator of gross national product <sup>b</sup>			
		(Percentage change from preceding year)							
		1959	1960	1961	1962	1959	1960	1961	1962
Industrial countries.....	100	6	4	3	5	2	2	2	2
North America.....	62	6	3	2	5	2	2	1	1
European Economic Community.....	21	5	7	5	5	3	3	3	4
Other western Europe.....	12	4	5	3	1	1	2	3	4
Japan <sup>c</sup> .....	5	18	13	14	4	2	3	6	2

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); and official national sources.

<sup>a</sup> For country coverage, see tables 1-3 and 1-5.

<sup>b</sup> Ratio of gross national product at current and at constant prices.

<sup>c</sup> Fiscal years starting on 1 April of years indicated.

Table 1-2. North America and Western Europe: Gross National Product and its Major Components, by Region, 1960-1962

(At 1954 prices and 1958 exchange rates; percentage change from preceding year)

Region and year <sup>a</sup>	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories <sup>b</sup>
					Exports	Imports	
<i>North America</i>							
1960.....	3	3	1	1	12	-3	0.8
1961.....	2	2	6	-1	3	1	0.3
1962.....	5	5	7	8	4	8	0.6
<i>European Economic Community</i>							
1960.....	7	6	5	10	12	17	2.2
1961.....	5	6	6	10	6	8	1.3
1962.....	5	5	7	6	6	9	1.4
<i>Other western Europe</i>							
1960.....	5	4	2	9	7	13	2.3
1961.....	3	3	5	7	4	2	1.2
1962.....	1	2	4	—	4	3	0.5

Source: See table 1-1.

<sup>a</sup> For country coverage, see tables 1-3 and 1-5.<sup>b</sup> At current prices as percentage of gross national product at current prices.

foreign trade sector after 1960 were limited by the relatively low share of this sector in the gross national product.

In Japan the deflationary policies which were introduced at the end of 1961 and were in force through most of 1962 succeeded in turning the growing import surpluses of the previous years into a considerable export surplus in 1962, mainly by increasing exports.

Balance of payments difficulties interfered seriously with domestic expansion only in two countries during this period: in the United Kingdom in the latter half of 1960 and after the middle of 1961, and in Japan in the latter half of 1961 and in 1962. But the fear of such difficulties has had a pervasive influence among Governments—tending to restrain measures for economic expansion—and appears recently to have been playing a more significant role in the policies even of European

Economic Community countries, as elements of potential weakness have begun to appear in their foreign transactions. Balance of payments considerations have also played an important role in the economic policies of the United States, which by the end of 1962 had withstood large balance of payments deficits for over five years, with the aid of the large gold reserves accumulated during earlier periods.

This situation has prompted increased co-operation among national monetary authorities, both directly and under international auspices. This co-operation, however, has thus far been limited principally to cushioning the effects of balance of payments deficits on the United States gold reserve and to preventing or absorbing speculative movements of capital. The development of arrangements for concerted policies of expansion, that would avoid the drag of balance of payments disequilibria, still lies in the future.

### Continued expansion in North America

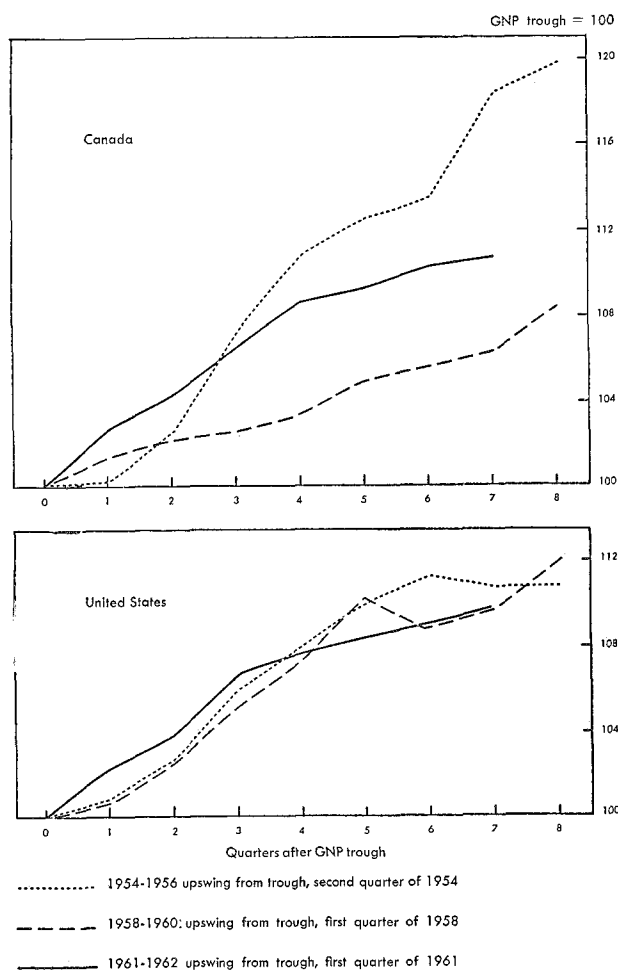
In the United States real gross national product increased by 5 per cent from 1961 to 1962, all components of demand contributing to the rise. The rate of growth slowed down in the course of 1962, as shown in chart 1-2 and table 1-3, and from the fourth quarter of 1961 to the fourth quarter of 1962 gross national product increased by only 3 per cent, compared to 9 per cent at an annual rate during the preceding three quarters. The performance of the economy fell considerably short of the Government's expectations at the beginning of the year, and was considered all the more disappointing since the preceding recovery of 1958-1960 had been incomplete in terms of demand for labour and capacity utilization.

The main reason for the difference between projected and realized levels of total output was a sharp shift in inventory accumulation. The annual rate of inventory investment dropped by \$4.8 billion between the fourth quarter of 1961 and the fourth quarter of 1962, more than offsetting a \$3.4 billion rise in expenditure on new plant and equipment with the result that total business investment actually declined in this period.

The possibility of a steel strike—which did not, in fact, materialize—influenced inventory movements in the first half of 1962. At the beginning of the year durable goods manufacturers increased their stocks, more than offsetting a shift from accumulation to liqui-

**Chart 1-2. North America: Gross National Product in the Last Three Expansions**

(Seasonally adjusted at constant prices)



Source: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure* (Ottawa); *Economic Report of the President* (Washington, D.C., January 1963).

dation in retail trade. Following the signing of a new work agreement in the steel industry, durable goods manufacturers abruptly reduced their rate of inventory building in the second quarter, and the decline continued until the end of the year.

The volume of residential construction was somewhat higher than in 1959, the previous peak year. Non-residential construction was little affected either by the cyclical downturn of 1960-1961 or by the subsequent upswing. Expenditure on plant and equipment increased by as much as 9 per cent from 1961 to 1962; the share of such expenditure in total gross national product, however, remained at about the same level as in 1958, and well below the level recorded in 1956 and 1957.

Developments in business fixed investment reflected the failure of total demand to expand sufficiently to effect a major reduction in the gap between output and

productive capacity, which had been building up over a period of several years. The existence of this gap has introduced a long-term factor into United States cyclical policy directed towards structural changes that would promote fuller utilization of available labour and equipment. A number of steps were taken with this object in view during 1962. The most important of these were the provision of an investment tax credit and of more liberal allowances for depreciation.

Personal consumption expanded steadily throughout 1962 under the impetus of a 5 per cent increase in disposable personal income and a rise in the propensity to consume. Heavy purchases of durable goods, particularly cars, made a notable contribution to the high level of consumption. Sales of domestically produced cars increased by more than 20 per cent from 1961 to 1962.

The rise in gross national product during 1962 was to a large extent dependent on a steady rise in Government purchases of goods and services. Of the \$24.9 billion increase in gross national product between the end quarters of 1961 and 1962, \$8.6 billion represented higher Government expenditures. The increase was about equally divided between Federal and other public outlays.

The Federal Government continued to support aggregate demand within the framework of policies instituted during and immediately after the previous downturn in activity. Among cyclical measures introduced in the course of 1962, the most important ones were enacted in the latter half of the year and had only a limited effect on current expenditures in that year. These measures included acceleration of public works programmes and the retraining of workers in areas of chronic unemployment and under-employment and, as mentioned earlier, the granting of certain tax benefits to enterprises.

As in 1961 the problem for the monetary authorities was how to encourage domestic production while protecting the balance of payments. The Federal Reserve System sought to resolve the conflict by supplying ample funds for the home economy while keeping short-term interest rates at levels high enough to prevent unduly large capital outflows to foreign countries. The plentiful supply of funds by the Federal Reserve System through its policies in the two previous years led to a downward drift in long-term interest rates in 1962, an unusual development in an expanding economy. Mainly through open market operations the Treasury and the Federal Reserve managed to keep short-term interest rates up (*see* chart 1-3). The reserve requirements of Federal Reserve member banks were lowered in October to provide for the growth of loanable funds while minimizing the pressure on short-term interest rates.

In Canada the strengthening of demand in 1961 was carried over into 1962. Production continued to rise throughout the year, but as can be seen from table 1-3 and chart 1-2 there was a gradual slowdown in activity

Table 1-3. North America: Gross National Product and its Components, 1961-1962

(At constant prices; seasonally adjusted at annual rates)

Item	Canada		United States	
	Percentage change between		Percentage change between	
	First and fourth quarters 1961	Fourth quarter 1961 and fourth quarter 1962	First and fourth quarters 1961	Fourth quarter 1961 and fourth quarter 1962
Final demand.....	6.3	3.7	6.4	4.0
Personal consumption.....	4.9	3.1	5.6	3.9
Durable goods.....	10.1	10.6	18.4	7.2
Non-durable goods.....	5.7	2.2	3.2	3.0
Services.....	2.4	2.0	4.1	3.8
Gross private fixed investment.....	3.5	0.9	14.4	4.8
Residential construction.....	5.3	4.2	25.9	2.0
Other construction.....	8.8	-7.3	-0.8	1.8
Producers' durable equipment....	-3.2	8.2	17.2	9.3
Government purchases of goods and services.....	3.3	1.2	8.1	5.0
Trade in goods and services				
Exports.....	8.5	4.1	2.5	0.4
Imports.....	3.7	-3.6	15.6	4.0
Changes in inventories <sup>a</sup> .....	2.0	0.4	2.4	-0.9
Non-farm <sup>a</sup> .....	2.7	-1.6	2.4	-0.9
Farm <sup>a</sup> .....	-0.7	2.0	—	—
Gross national product.....	8.5	4.2	9.1	3.1

Source: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, Fourth Quarter and Preliminary Annual, 1962* (Ottawa, 1963); United States Department of Commerce, *Survey of*

*Current Business* (Washington, D.C.).

<sup>a</sup> Change in annual rate of inventory accumulation as per cent of gross national product at end of period.

similar to that experienced in the United States. The rate of increase in final demand in the course of 1962 was of the same order as in the United States. The slackening in non-farm inventory accumulation was even more pronounced than in the United States, but the rate of accumulation of farm inventories increased.

Most of the principal areas of final demand contributed to the expansion of output. Private consumption increased considerably, particularly because of a buoyant market for cars. Exports of goods continued to rise, supported by the upswing in the United States and the high demand overseas. The devaluation of the Canadian dollar in 1961 and 1962 also contributed to the growth of exports. Private fixed investment increased only moderately owing to a fall in business construction. Despite cutbacks in Federal spending in the summer, Government expenditure at all levels was higher than in the year before.

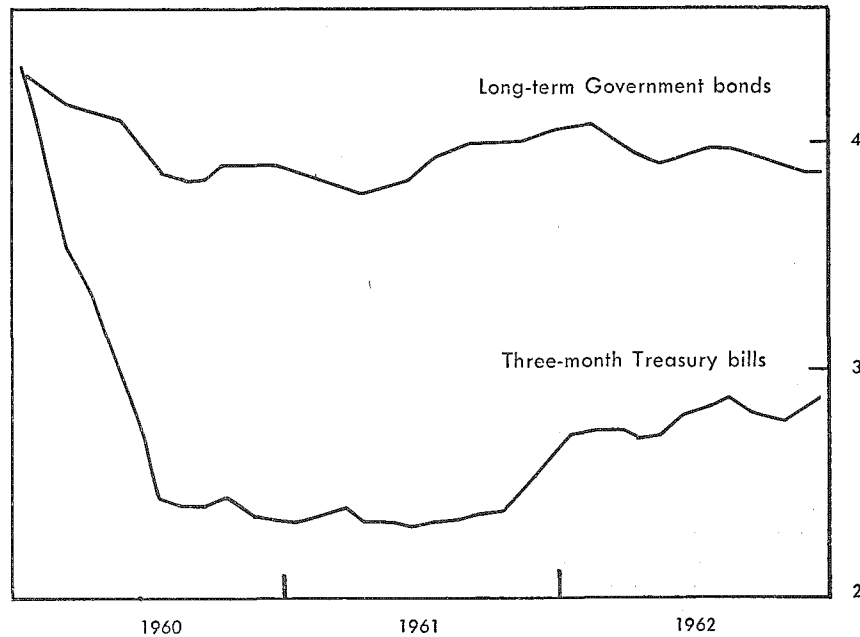
After running at a premium in relation to the United States dollar for several years, the Canadian dollar fell to a discount in 1961. In May 1962 the rate was fixed at 0.925 in terms of United States currency. A foreign exchange crisis in June was overcome by emergency measures including a temporary rise in the official discount rate and temporary restrictions on imports.

The advance in production was accompanied by a decline in unemployment in Canada and the United States, as shown in table 1-4. Despite the improvement, however, unemployment remained high. In December 1962 the United States rate was 5.6 per cent of the civilian labour force, or higher than at any time since the war, apart from periods of recession or major strikes. One aspect of the situation that caused particular concern to the North American Governments was the relatively high proportion of young and unskilled persons among the unemployed. At the same time, the ratio of persons working or looking for work to total population continued the decline of the last few years, the decrease being largest among juveniles.

Total hours worked rose less than production reflecting a further improvement in output per man-hour in 1962. The rise in hourly earnings was somewhat smaller than that in output per man-hour. In the United States the slight decline in labour costs per unit of output in combination with the falling tendency in average prices of imported raw materials contributed to continued stability in prices of finished goods. The moderate rise in wholesale prices of finished manufactures in Canada may have been due to the currency devaluation mentioned earlier.

Chart 1-3. United States: Short-term and Long-term Interest Rates, 1960-1962

(Per cent per annum; three-month moving averages)



Source: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin* (Washington, D.C.).

Table 1-4. North America: Employment, Production, Earnings and Prices, 1960-1962

Item	Canada			United States		
	1960	1961	1962	1960	1961	1962
Unemployment as percentage of civilian labour force.....	7.0	7.2	6.0	5.6	6.7	5.6
	Percentage change from preceding year					
Total civilian employment.....	1.7	1.6	2.8	1.7	0.2	1.6
Manufacturing production.....	—	2.8	7.3	2.6	0.9	7.6
Output per man-hour in manufacturing.....	1.7	2.7	3.4	2.3	4.3	3.8
Hourly earnings in manufacturing.....	3.5	2.8	2.7	3.2	2.7	3.0
Wholesale prices of finished manufactured goods.....	0.2	0.9	1.8	0.3	0.1	0.1
Consumer prices.....	1.2	0.9	1.2	1.5	1.1	1.2

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from 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.).

## Divergent trends in western Europe and Japan

Among member countries of the European Economic Community the rate of increase in gross national product accelerated in France. The Federal Republic of Germany and Italy<sup>3</sup> experienced a slight decline in the rate of growth, and there was little change in Belgium and the Netherlands (*see* table 1-5). Except in France, exports continued to make a notable contribution to the expansion: the advance in exports was particularly marked in Belgium and Italy,<sup>4</sup> as shown in table 1-6.

In the Federal Republic of Germany and the Netherlands the considerable decline in the rate of growth that had taken place in 1961 was followed by some sluggishness in business demand in 1962. The rate of increase in public consumption was, however, stepped up in these two countries. Military expenditure rose particularly vigorously in the Federal Republic of Germany, continuing the trend of the past two years.

Residential construction appears to have been slightly higher during 1962 than in the previous year in most European Economic Community member countries with the construction industry generally working at capacity (table 1-7).<sup>5</sup> Industrial investment rose much more slowly than in 1961. The generally higher rate of increase in total fixed investment than in the two components just mentioned reflects a continued rise in public investment.

In all European Economic Community member countries private consumption rose in 1962 as much or almost as much as in 1961. Purchases of durables, especially passenger cars, continued to advance strongly in all countries except the Federal Republic of Germany, as shown in tables 1-8 and 1-9. Expenditure on recreation and other leisure activities also registered a large increase.

In other western European countries real gross national product increased less than the European Economic Community average, except in Denmark. In all of these countries expansion was heavily dependent on private and public consumption. Fixed investment registered an absolute decline in Austria and the United Kingdom, and in Finland and Sweden its rate of increase declined appreciably. Exports accelerated slightly in Austria, Denmark and Sweden.

Owing to restrictive measures introduced in July 1961 economic developments in the United Kingdom

<sup>3</sup> Italian growth would have slowed down less in 1962 but for wide-spread strikes in the second half of the year.

<sup>4</sup> Although imports rose as much as exports in Italy, the fact that most of the increase consisted of raw materials and semi-manufactures which do not compete with domestic production indicates that external demand was a driving force behind the expansion.

<sup>5</sup> Concern at the possibility of cost inflation in the building industry led the Federal Republic of Germany to intensify restrictions on construction in the course of 1962.

Table 1-5. Western Europe and Japan: Industrial Production and Gross National Product,<sup>a</sup> by Country, 1960-1962

(Percentage change from preceding year)

Country and item	1960	1961	1962
<i>European Economic Community</i>			
<i>Belgium</i>			
Industrial production.....	6	5	6
Gross national product.....	4	4	4
<i>France</i>			
Industrial production.....	11	5	10
Gross national product.....	6	4	5
<i>Germany (Federal Republic)</i>			
Industrial production.....	11	6	5
Gross national product.....	9	5	4
<i>Italy</i>			
Industrial production.....	15	11	10
Gross national product.....	7	8	6
<i>Netherlands</i>			
Industrial production.....	13	1	4
Gross national product.....	9	3	3
<i>Other western Europe</i>			
<i>Austria</i>			
Industrial production.....	10	4	3
Gross national product.....	8	5	2
<i>Denmark</i>			
Industrial production.....	5	5	7
Gross national product.....	8	5	5
<i>Finland</i>			
Industrial production.....	14	10	5
Gross national product.....	9	7	3
<i>Norway</i>			
Industrial production.....	11	7	4
Gross national product.....	6	6	3
<i>Sweden</i>			
Industrial production.....	6	5	2
Gross national product.....	4	6	3
<i>United Kingdom</i>			
Industrial production.....	8	1	—
Gross national product.....	4	3	—
<i>Japan</i>			
Industrial production.....	26	19	8
Gross national product <sup>b</sup> .....	13	14	4

Source: See table 1-1.

<sup>a</sup> At constant prices.

<sup>b</sup> Fiscal years starting on 1 April of years indicated.

continued to be out of step with those in other western European countries during 1962. Although some restrictions were relaxed gradually domestic demand remained slack; exports advanced, but less than in 1961. Even private consumption showed relatively little increase. During the first half of 1962 there was a rather brisk advance in industrial production, which was expected to continue for some time. In the latter half of the year, however, output levelled off, and the Government acted to stimulate demand. Bank rate was reduced

Table 1-6. Western Europe and Japan: Gross National Product and its Main Components, by Country, 1960-1962

(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 <sup>a</sup>
					Exports	Imports	
<i>European Economic Community</i>							
<i>Belgium</i>							
1960.....	4	4	1	6	11	13	0.6
1961.....	4	3	2	10	5	5	0.8
1962.....	4	3	5	4	8	6	0.7
<i>France</i>							
1960.....	6	6	2	6	15	17	2.0
1961.....	4	5	5	8	5	7	0.9
1962.....	5	6	3	6	2	7	1.4
<i>Germany (Federal Republic)</i>							
1960.....	9	7	8	12	13	17	2.8
1961.....	5	7	8	10	4	8	1.9
1962.....	4	6	11	5	5	11	1.6
<i>Italy</i>							
1960.....	7	7	6	16	19	37	1.5
1961.....	8	7	6	12	17	15	1.4
1962.....	6	7	5	9	12	15	1.2
<i>Netherlands</i>							
1960.....	9	7	5	11	14	18	3.3
1961.....	3	5	3	7	4	7	2.9
1962.....	3	4	4	5	5	6	1.5
<i>Other western Europe</i>							
<i>Austria</i>							
1960.....	8	7	1	13	12	19	1.8
1961.....	5	7	2	6	7	8	0.6
1962.....	2	6	2	-2	9	6	0.3
<i>Denmark</i>							
1960.....	8	6	6	10	8	10	3.4
1961.....	5	6	6	9	4	5	1.5
1962.....	5	6	6	9	5	13	2.1
<i>Finland</i>							
1960.....	9	8	3	23	14	23	...
1961.....	7	7	8	7	6	8	...
1962.....	3	4	6	2	6	6	...
<i>Norway</i>							
1960.....	6	7	2	3	9	11	1.4
1961.....	6	6	5	10	7	10	1.5
1962.....	3	3	7	8	6	5	0.2
<i>Sweden</i>							
1960.....	4	2	1	4	11	16	2.4
1961.....	6	6	4	7	4	1	1.9
1962.....	3	3	9	2	7	5	1.1
<i>United Kingdom</i>							
1960.....	4	4	2	10	3	10	2.6
1961.....	3	2	6	9	4	—	1.3
1962.....	—	1	2	-2	2	1	0.4
<i>Japan<sup>b</sup></i>							
1960.....	13	9	11	32	11	23	5.8
1961.....	14	9	11	21	5	24	7.4
1962.....	4	7	9	4	17	-4	3.2

Source: See table 1-1.

<sup>a</sup> At current prices as percentage of gross national product at current prices.<sup>b</sup> Fiscal years starting on 1 April of years indicated.

Table 1-7. Western Europe and Japan: Gross Domestic Fixed Investment and its Main Components, 1960-1962

(At constant prices; percentage change from preceding year)

Country and year	Total	Housing	Industry
<i>European Economic Community</i>			
<i>Belgium</i>			
1960.....	6	9	8
1961.....	10	—	17
1962.....	4	1	7
<i>France</i>			
1960.....	6	4	12
1961.....	8	4	15
1962.....	6	4	7
<i>Germany (Federal Republic)</i>			
1960.....	12	4	19
1961.....	10	4	15
1962.....	5	4	1
<i>Italy</i>			
1960.....	16	—	25
1961.....	12	5	22
1962.....	9	14	7
<i>Netherlands</i>			
1960.....	11	1	14
1961.....	7	1	13
1962.....	5	2	5
<i>Other western Europe</i>			
<i>Austria</i>			
1960.....	13	6	24
1961.....	6	4	8
1962.....	-2	—	-2
<i>Finland</i>			
1960.....	23	17	35
1961.....	7	17	8
1962.....	2	5	7
<i>Norway</i>			
1960.....	3	2	21
1961.....	10	5	22
1962.....	8	4	12
<i>Sweden</i>			
1960.....	4	-3	11
1961.....	7	8	24
1962.....	2	7	1
<i>United Kingdom</i>			
1960.....	10	13	18
1961.....	9	6	19
1962.....	-2	2	-12
<i>Japan*</i>			
1960.....	32	24	41
1961.....	21	31	32
1962.....	4	20	-11

Source: See table 1-1.

\* Fiscal years starting on 1 April of years indicated.

in successive stages, and both general credit and hire-purchase controls were relaxed. Consumers' liquidity was also increased through partial repayment to the public of compulsory credits originally advanced to the Government during the war. In addition the rate of purchase tax on cars was lowered from 45 to 25 per cent. Because of balance of payments considerations

these steps were taken cautiously over a period of several months.

In Japan growing deficits in the balance of payments prompted the Government to tighten monetary controls in the second half of 1961. The official discount rate was increased in July and September and the proportion of payments for imports to be deposited with the authorities in advance was raised in September. As a result of these measures the rate of business expansion started to decelerate in the fourth quarter of 1961. The contractionist policy led to a slowing down of growth but no downturn in aggregate economic activity occurred. Gross national product increased by 4 per cent in fiscal 1962<sup>6</sup> compared to 13 per cent in fiscal 1960 and 14 per cent in fiscal 1961. The rate of growth in industrial production decreased to 8 per cent in the calendar year 1962. Public consumption and exports were the main expansive elements in the growth of gross national product.

Following a recovery in the balance of payments in the second half of 1962, monetary and credit restrictions were relaxed in the fourth quarter. In September a substantial reduction was made in the rate of advance deposits against imports and discount rates were lowered in October and November.

#### CHANGES IN EMPLOYMENT, WAGES AND PRICES

In western Europe all European Economic Community countries experienced a further rise in employment. The unemployment percentage was stable or declined in all of them except in France where there was a slight deterioration owing to a sudden and extensive influx of refugees from Algeria whose placement on the labour market could not be accomplished without some initial friction.

Among other western European countries a relatively slow rate of expansion in business activity was in several cases associated with a weakening in the demand for labour, as shown in table 1-10 and chart 1-4. Thus in Norway, Sweden and the United Kingdom unemployment as a percentage of the labour force increased from 1961 to 1962. In the United Kingdom the number of unemployed persons at the end of the year reached the highest level since 1947. The decline in the rate of growth in economic activity in Japan caused employment of temporary workers to fall off somewhat, but other categories of employees seem to have been little affected.

In European Economic Community countries domestic prices increased substantially, while elsewhere the rise was somewhat smaller, as shown in table 1-11. Competition from abroad and a renewed fall in the prices of imported raw materials generally made for relative

<sup>6</sup> Fiscal years starting on 1 April of years indicated.



Table 1-8. Western Europe and Japan: Personal Consumption and its Main Components, 1960-1962

(At constant prices; percentage change from preceding year)

Country and year	Total	Food	Clothing	Dwelling	Durables	Other
<i>European Economic Community</i>						
<i>Belgium</i>						
1960.....	4	2	8	1	16	2
1961.....	3	1	—	...	...	...
1962.....	3	2	1	...	...	1
<i>France</i>						
1960.....	6	4	8	5	11	6
1961.....	5	3	6	5	11	6
1962.....	6	4	6	5	11	7
<i>Germany (Federal Republic)</i>						
1960.....	7	6	8	...	7	9
1961.....	7	6	8	...	6	7
1962.....	6	3	4	...	3	7
<i>Italy</i>						
1960.....	7	4	6	2	21	9
1961.....	7	6	5	2	16	8
1962.....	7	5	7	3	21	10
<i>Netherlands</i>						
1960.....	7	4	10	2	17	4
1961.....	5	6	7	3	4	3
1962.....	4	4	5	...	6	5
<i>Other western Europe</i>						
<i>Austria</i>						
1960.....	7	6	5	3	11	9
1961.....	7	9	6	...	7	...
1962.....	6	7	5	...	...	...
<i>Denmark</i>						
1960.....	6	4	4	4	12	5
1961.....	6	6	11	4	10	4
1962.....	6	3	2	4	14	5
<i>Finland</i>						
1960.....	8	6	7	3	16	9
1961.....	7	5	6	3	21	10
1962.....	4	4	2	4	14	8
<i>Norway</i>						
1960.....	7	7	7	1	20	15
1961.....	6	5	5	4	6	8
1962.....	3	1	6	7	6	1
<i>Sweden</i>						
1960.....	2	2	2	4	4	4
1961.....	6	1	9	4	12	6
1962.....	3	2	2	7	5	1
<i>United Kingdom</i>						
1960.....	4	2	7	1	1	5
1961.....	2	1	2	1	-6	3
1962.....	1	1	-1	2	5	2
<i>Japan</i>						
1960.....	9	3	9	1	...	7
1961.....	9	6	13	15	...	6
1962.....	8	1	13	15	...	10

Source: See table 1-1.

stability in wholesale prices of manufactured goods, while consumer prices continued their steady increase. In European Economic Community countries an appreciable rise in wholesale prices of building materials added to the pressure on construction costs associated with rapidly rising wages.

In table 1-12 the input of labour in manufacturing is analysed in relation to manufacturing output. Most of the rise in production during 1962 is generally accounted for by increased output per man-hour. This can be interpreted as the result of the high rate of investment in previous years. In France the sharp rise in output

Table I-9. Western Europe and Japan: New Registrations of Passenger Cars, 1960-1962

(Percentage change from preceding year)

<i>Country and year</i>		<i>Country and year</i>	
<i>European Economic Community</i>		<i>Other western Europe (continued)</i>	
<i>Belgium</i>		<i>Denmark</i>	
1960.....	28	1960.....	22
1961.....	4	1961.....	16
1962.....	9	1962.....	28
<i>France</i>		<i>Finland</i>	
1960.....	13	1960.....	11
1961.....	13	1961.....	18
1962.....	20	1962.....	48
<i>Germany (Federal Republic)</i>		<i>Norway</i>	
1960.....	19	1960.....	66
1961.....	11	1961.....	41
1962.....	11	1962.....	-4
<i>Italy</i>		<i>Sweden</i>	
1960.....	51	1960.....	-5
1961.....	29	1961.....	13
1962.....	27	1962.....	8
<i>Netherlands</i>		<i>United Kingdom</i>	
1960.....	29	1960.....	25
1961.....	19	1961.....	-8
1962.....	21	1962.....	6
<i>Other western Europe</i>		<i>Japan</i>	
<i>Austria</i>		1960.....	35
1960.....	18	1961.....	80
1961.....	1	1962.....	97
1962.....	7		

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

per man-hour between 1961 and 1962 was due in part to the acceleration in production mentioned earlier, which led to better utilization of employed labour. Both in France and the Federal Republic of Germany industrial rationalization has been mentioned as a factor in the rise in output per man-hour in 1962. The slower advance in output per man-hour in most other western European countries and Japan in 1962 appears to have resulted to a large extent from the lower rate of growth in production.

Average hourly earnings registered further strong increases in the European Economic Community, as shown in table I-13; wage costs per unit of output also continued to rise sharply in the Federal Republic of Germany and the Netherlands. Wages and wage costs went up also in other western European countries, but the rates of increase were generally lower than in the

Table I-10. Western Europe and Japan: Employment and Unemployment, 1960-1962

<i>Country and year</i>	<i>Total civilian employment (percentage change from preceding year)</i>	<i>Unemployment* (percentage)</i>
<i>European Economic Community</i>		
<i>Belgium</i>		
1960.....	1	7.5
1961.....	3	5.9
1962.....	2	4.0
<i>France</i>		
1960.....	1	1.1
1961.....	1	1.1
1962.....	1	1.4
<i>Germany (Federal Republic)</i>		
1960.....	2	1.2
1961.....	2	0.8
1962.....	1	0.8

(continued)

Table 1-10 (continued)

Country and year	Total civilian employment (percentage change from preceding year)	Unemployment <sup>a</sup> (percentage)
<i>Italy</i>		
1960.....	1	4.1
1961.....	1	3.4
1962.....	1	3.0
<i>Netherlands</i>		
1960.....	2	1.2
1961.....	2	0.9
1962.....	2	0.9
<i>Other western Europe</i>		
<i>Austria</i>		
1960.....	2	3.5
1961.....	2	2.7
1962.....	1	2.7
<i>Denmark</i>		
1960.....	3	4.3
1961.....	2	3.9
1962.....	3	3.3
<i>Finland</i>		
1960.....	3	1.5
1961.....	1	1.2
1962.....	1	1.1
<i>Norway</i>		
1960.....	1	1.7
1961.....	2	1.2
1962.....	1	1.4
<i>Sweden</i>		
1960.....	2	1.4
1961.....	1	1.2
1962.....	1	1.3
<i>United Kingdom</i>		
1960.....	2	1.7
1961.....	1	1.6
1962.....	1	2.1
<i>Japan</i>		
1960.....	2	1.0
1961.....	1	0.9
1962.....	1	0.9

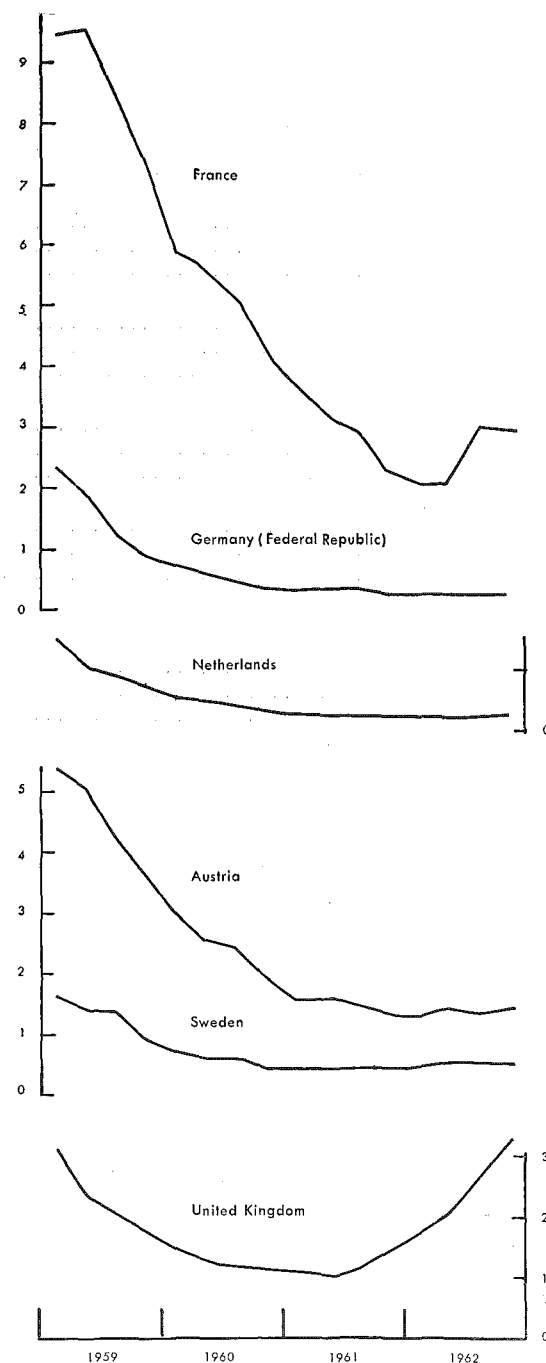
Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; and official national sources.

<sup>a</sup> 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. A conception of the extent to which definitional differences may affect unemployment rates is given by the following attempt to compare published rates with rates adjusted to United States definitions for five western European countries and Japan. Data refer to 1960 (for Sweden 1961) and are reproduced from President's Committee to Appraise Employment and Unemployment Statistics, *Measuring Employment and Unemployment* (Washington, D.C., 1962).

Country	Unemployment as percentage of civilian labour force	
	Published	Adjusted to United States definitions
France.....	1.1	1.9
Germany (Federal Republic).....	1.2	1.0
Great Britain.....	1.6	2.4
Italy.....	4.1	4.3
Japan.....	1.0	1.1
Sweden.....	1.2	1.5
United States.....	5.6	5.6

Chart 1-4. Western Europe: Number Unemployed per Vacancy, 1959-1962<sup>a</sup>

(Seasonally adjusted)



Source: Organisation for Economic Co-operation and Development, *Economic Indicators* (Paris).

<sup>a</sup> Shifts in number unemployed per vacancy reflect the direction of changes in the demand for labour within a country. The absolute level of this ratio and the amplitude of its fluctuations in time are not comparable between countries because of differences of definition and varying organization of labour exchange activities.

Table 1-11. Western Europe and Japan: Price Indices, Fourth Quarter 1960-1962  
(Percentage change from fourth quarter preceding year)

Country and year	Import prices of raw materials	Wholesale prices of building materials	Wholesale prices of finished manufactured goods	Consumer prices
<i>European Economic Community</i>				
<i>Belgium</i>				
1960.....	2	5	-1	—
1961.....	—	—	-2	1
1962.....	-2	6	-1	1
<i>France</i>				
1960.....	—	1	4	4
1961.....	-1	4	2	4
1962.....	-5	7	2	4
<i>Germany (Federal Republic)</i>				
1960.....	3	...	4	1
1961.....	-2	4	3	3
1962.....	-5	1	3	3
<i>Italy</i>				
1960.....	-9	4	2	1
1961.....	-1	1	—	3
1962.....	-4	3	3	6
<i>Netherlands</i>				
1960.....	-5	...	-1	—
1961.....	—	5	—	2
1962.....	-1	7	1	3
<i>Other western Europe</i>				
<i>Austria</i>				
1960.....	...	4	...	1
1961.....	...	3	...	5
1962.....	...	1	...	3
<i>Denmark</i>				
1960.....	-5	4	1	1
1961.....	-3	3	3	5
1962.....	-6	8	2	6
<i>Finland</i>				
1960.....	7	3	2	2
1961.....	-4	—	1	1
1962.....	-3	1	5	6
<i>Norway</i>				
1960.....	-5	1	1	—
1961.....	3	8	3	5
1962.....	-3	1	1	5
<i>Sweden</i>				
1960.....	-1	8	3	4
1961.....	-3	3	2	2
1962.....	-3	5	3	5
<i>United Kingdom</i>				
1960.....	-2	4	3	2
1961.....	—	3	4	4
1962.....	-6	2	1	3
<i>Japan</i>				
1960.....	-1	8	1	3
1961.....	1	17	7	8
1962.....	-1	-4	-3	4

Source: See table 1-9.

preceding year. In the latter half of 1962 earnings started to rise more slowly in the European Economic Community as well, but wage awards at the end of

1962 and the early months of 1963 have on the whole been considerably larger than the rate of increase in productivity.

Table 1-12. Western Europe and Japan: Employment, Hours Worked per Man and Output per Man-hour in Manufacturing, 1960-1962<sup>a</sup>

(Percentage change from preceding year)

Country and year	Employment	Hours worked per man	Output per man-hour
<i>European Economic Community</i>			
<i>France</i>			
1960.....	1	1	5
1961.....	1	—	3
1962.....	1	—	10
<i>Germany (Federal Republic)</i>			
1960.....	4	—	7
1961.....	3	-2	4
1962.....	—	-2	6
<i>Italy</i>			
1960.....	7	—	7
1961.....	7	—	4
1962.....	6	-5	8
<i>Netherlands</i>			
1960.....	3	—	10
1961.....	2	-3	4
1962.....	2	-1	2
<i>Other western Europe</i>			
<i>Austria</i>			
1960.....	3	—	8
1961.....	3	-1	2
1962.....	1	-1	3
<i>Finland</i>			
1960.....	9	3	2
1961.....	5	—	4
1962.....	3	1	2
<i>Norway</i>			
1960.....	4	6 <sup>b</sup>	
1961.....	3	4 <sup>b</sup>	
1962.....	1	2 <sup>b</sup>	
<i>Sweden</i>			
1960.....	5	1 <sup>b</sup>	
1961.....	4	-1 <sup>b</sup>	
1962.....	—	3 <sup>b</sup>	
<i>United Kingdom</i>			
1960.....	4	-1	5
1961.....	1	-2	2
1962.....	—	—	1
<i>Japan</i>			
1960.....	10	—	10
1961.....	9	-1	11
1962.....	9	-1	—

Source: See table 1-9.

<sup>a</sup> The figures are not comparable between countries owing to differences in definitions and coverage.<sup>b</sup> Output per worker.

Table 1-13. Western Europe and Japan: Hourly Earnings and Wage Costs in Manufacturing, 1960-1962

(Percentage change from preceding year)

Country and year	Hourly earnings	Wage cost per unit of output
<i>European Economic Community</i>		
<i>France</i>		
1960.....	7 <sup>a</sup>	2 <sup>b</sup>
1961.....	3 <sup>a</sup>	5 <sup>b</sup>
1962.....	8 <sup>a</sup>	-2 <sup>b</sup>
<i>Germany (Federal Republic)</i>		
1960.....	12	3
1961.....	12	7
1962.....	13	6
<i>Italy</i>		
1960.....	5	-2
1961.....	7	3
1962.....	14	5
<i>Netherlands</i>		
1960.....	9 <sup>a</sup>	—
1961.....	5 <sup>a</sup>	6
1962.....	10 <sup>a</sup>	7
<i>Other western Europe</i>		
<i>Austria</i>		
1960.....	10	1
1961.....	9	15
1962.....	8	5
<i>Finland</i>		
1960.....	6	2
1961.....	8	4
1962.....	6	3
<i>Norway</i>		
1960.....	4	-1
1961.....	7	3
1962.....	9	7
<i>Sweden</i>		
1960.....	6	6
1961.....	9	7
1962.....	8	5
<i>United Kingdom</i>		
1960.....	8	2
1961.....	6	7
1962.....	3	1
<i>Japan</i>		
1960.....	8	-2
1961.....	12	1
1962.....	—	—

Source: See table 1-9.

<sup>a</sup> Wage rates.<sup>b</sup> Ratio of change in wage rates to change in output per man-hour.

## Recent developments in foreign trade

The continued rise of production during 1962 was accompanied by a further increase in foreign trade. Exports of the industrial group of countries rose at approximately the same rate as in the preceding year, as shown in table 1-14. The terms of trade again moved

in favour of industrial countries, as they have for almost a decade.

In North America and western Europe, the advance in quantum of exports was moderate and fairly uniform. The more rapid growth of aggregate imports of indus-

Table 1-14. Industrial Countries:<sup>a</sup> Quantum of Exports and Imports and Terms of Trade, 1960-1962

(Percentage change from preceding year)

Year	Quantum of exports	Quantum of imports	Terms of trade
1960.....	13	11	1
1961.....	5	6	1
1962.....	5	9	1

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

<sup>a</sup> North America, western Europe and Japan.

trial countries reflected mainly a revival of imports into North America following the recovery in domestic output and demand in the last three quarters of 1961. As can be seen from table 1-15, imports into European Economic Community and European Free Trade Association member countries also accelerated somewhat, but the rates of increase were less than half of those attained in 1960.

In western Europe the tendency for imports to rise faster than in 1961 was due to higher shipments from primary exporting countries. In all the three regions

distinguished in table 1-16 these imports accelerated more than purchases from industrial countries; in North America, however, the difference was small, and such a pattern could well be expected at the current stage of the upswing. In western Europe, the buoyancy of imports from primary exporting countries was in contrast to the slower rate of increase in production, and may have been due to a shift from inventory disinvestment during 1961 to accumulation in 1962. It appears that stocks in several western European countries were allowed to run down after the temporary levelling off in aggregate industrial production of the European Economic Community around the middle of 1961 and the introduction of Government restrictions on demand in the United Kingdom at the same time. Since expansion of industrial output was resumed at the end of 1961 or beginning of 1962 and generally was maintained through the latter year, stocks were probably adjusted to the higher level of activity. The rise in purchases from primary exporting countries was accompanied by a firmer trend in prices towards the end of 1962; for some commodities price increases were substantial.

In Japan developments in foreign trade were conditioned by the measures to improve the balance of payments which were introduced in the latter half of

Table 1.15 Industrial Countries: Quantum and Unit Value of Exports and Imports and Terms of Trade, by Region, 1960-1962

(Percentage change from preceding year)

Item and year	North America	European Economic Community	European Free Trade Association	Japan
<i>Quantum</i>				
<i>Exports</i>				
1960.....	13	16	7	15
1961.....	—	6	4	7
1962 <sup>a</sup> .....	2	4	2	13
<i>Imports</i>				
1960.....	-4	22	14	24
1961.....	-1	8	3	31
1962 <sup>a</sup> .....	12	10	4	-1
<i>Unit value</i>				
<i>Exports</i>				
1960.....	1	2	1	1
1961.....	2	2	2	-2
1962 <sup>a</sup> .....	1	—	—	-1
<i>Imports</i>				
1960.....	2	—	1	1
1961.....	—	—	-1	-1
1962 <sup>a</sup> .....	-1	—	-1	-1
<i>Terms of trade</i>				
1960.....	—	3	—	1
1961.....	3	2	2	-2
1962 <sup>a</sup> .....	1	—	2	—

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).

<sup>a</sup> First three quarters, as compared with corresponding period of 1961.

**Table 1-16. North America and Western Europe: Quantum of Imports from Industrial Countries and from Primary Exporting Countries, by Region, 1960-1962**  
(Percentage change from preceding year)

Area of origin and year	Importing region		
	North America	European Economic Community	European Free Trade Association
<i>Industrial countries<sup>a</sup></i>			
1960.....	-5	25	18
1961.....	-2	10	3
1962.....	9 <sup>b</sup>	9 <sup>c</sup>	3 <sup>c</sup>
<i>Primary exporting countries<sup>d</sup></i>			
1960.....	-3	12	3
1961.....	-4	1	-4
1962.....	9 <sup>b</sup>	8 <sup>c</sup>	6 <sup>c</sup>

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Organisation for Economic Co-operation and Development, *Foreign Trade Statistical Bulletins*, Series A (Paris).

<sup>a</sup> North America, European Economic Commu-

ity, European Free Trade Association and Japan.

<sup>b</sup> First half.

<sup>c</sup> First three quarters.

<sup>d</sup> Africa, Asia (excluding Japan and mainland China), Latin America and Oceania.

1961 and which were in force until the fourth quarter of 1962. Apart from the deflationary measures referred to earlier, the proportion of payments for imports to be deposited with the authorities in advance was raised in September 1961 and not lowered until one year later. Efforts to promote Japanese exports were intensified. After a notable rise in 1961 imports fell back slightly, while the rate of increase in exports almost attained the high level reached in 1960. This rise consisted mainly of a sharp advance in shipments to industrial countries (table 1-17).

Changes in unit values of exports and imports in the industrial countries were generally small in 1962. The tendency for import unit values to decline was due to a fall in prices of primary products during the first three quarters of the year.

For the industrial countries as a whole, the increase in exports was concentrated in trade within the group. Moreover, in North America and the European Economic Community internal trade was more buoyant than external trade. Trade between Canada and the United

**Table 1-17. Quantum of Trade Between Regions, 1960-1962**  
(Percentage change from preceding year)

Exporting region and year	World	Area of destination					
		Total	Industrial countries <sup>a</sup>	EEC	EFTA	Primary exporting countries <sup>b</sup>	Centrally planned economies <sup>c</sup>
<i>Industrial countries<sup>a</sup></i>							
1960.....	13	14	-4	24	21	11	25
1961.....	5	7	-1	11	4	-1	4
1962 <sup>d</sup> .....	4	4	5	7	—	-5	2
<i>North America</i>							
1960.....	13	16	-4	43	33	10	°
1961.....	—	-1	-2	2	13	-1	°
1962 <sup>d</sup> .....	2	2	6	1	-6	3	°
<i>EEC</i>							
1960.....	16	16	-5	22	18	11	26
1961.....	6	10	-2	14	8	-3	-4
1962 <sup>d</sup> .....	4	8	7	11	2	-8	3
<i>EFTA</i>							
1960.....	7	7	-7	11	14	7	12
1961.....	4	7	-5	10	9	-2	6
1962 <sup>d</sup> .....	2	5	4	8	2	-6	1
<i>Japan</i>							
1960.....	15	8	2	25	25	20	°
1961.....	7	10	9	20	10	5	°
1962 <sup>d</sup> .....	13	31	30	26	48	2	°

Source: See table 1-16.

<sup>a</sup> See table 1-16, foot-note a

<sup>b</sup> See table 1-16, foot-note d.

<sup>c</sup> Eastern Europe (excluding Yugoslavia), Union

of Soviet Socialist Republics and mainland China.

<sup>d</sup> First nine to eleven months, as compared with corresponding period of 1961.

<sup>e</sup> Trade negligible.

States turned upwards in 1962 in sympathy with the business recovery. In the European Economic Community intra-trade continued to advance rapidly, although not as fast as in 1960-1961.

In European Free Trade Association member countries the relatively slow growth in home demand referred to earlier resulted in a smaller increase in internal trade than in exports to other industrial regions; indeed exports to the European Economic Community rose only a little less rapidly than the Community's intra-trade. Exports from North America and the European Economic Community to European Free Trade Association member countries were considerably more sluggish than exports to other industrial areas.

Despite generally improved balance of payments positions the primary exporting countries imported less from industrial countries than in 1961. Exports from industrial countries to the centrally planned economies showed a slight increase. Imports from the centrally planned economies by the industrial countries moved approximately in line with their total imports, but in almost all cases this meant somewhat lower rates of increase.

The weak uptrend in United States exports in 1962 was reflected in lagging deliveries of civilian goods to western Europe, except for a temporary upturn in agricultural products in the first half of the year in anticipation of increased import levies in European Economic Community member countries (table 1-18). Shipments to primary exporting countries outside the Western Hemisphere expanded during the year but in the main through official United States financing. This increase was largely offset by a fall in exports to Latin America, which had begun after the middle of 1961.

United States imports rose without interruption from early 1961 to the end of 1962. The largest gains occurred between the first and second half of 1961 (after allowance for seasonal adjustment) when industrial production also increased sharply. Although purchases of raw materials and semi-manufactures from abroad rose in line with total imports from 1961 to 1962 as a whole, a declining tendency emerged after the first quarter of 1962. The slow but persistent growth in imports of capital equipment continued during 1962. Imports of consumer goods other than food expanded conspicuously, but food and beverage imports rose only fractionally.

In Canada, changes in exports and imports were dominated by developments in trade with the United States. The balance of payments crisis around the middle of 1962 caused changes from quarter to quarter to be somewhat erratic. Deliveries to the United States went up sharply, while those to the United Kingdom and to other countries combined sustained declines. On the import side shipments from the United Kingdom fell off slightly, whereas imports from the United States and from all other countries as a whole rose considerably.

Reflecting trends in the components of domestic demand, most of the increase in the internal trade of the European Economic Community in 1962 was accounted for by larger sales of consumer goods; the growth of trade in capital goods levelled off at the beginning of the year. In the first half of 1962 there was a notable expansion of internal trade in farm products. The reason for this was that while Italian agricultural production developed favourably in 1961 and the first half of 1962, the opposite was the case in other European Economic Community countries.

Table 1-18. North America and Western Europe: Quantum of Exports and Imports, by Country, 1960-1962

	(Percentage change from preceding year)		
Country and item	1960	1961	1962
<i>North America</i>			
<i>Canada</i>			
Exports . . . . .	5	8	3
Imports . . . . .	-2	3	8
<i>United States</i>			
Exports . . . . .	15	-1	3
Imports . . . . .	-4	-2	14
<i>European Economic Community</i>			
<i>Belgium-Luxembourg</i>			
Exports . . . . .	10	5	16 <sup>a</sup>
Imports . . . . .	13	6	9 <sup>a</sup>
<i>France</i>			
Exports . . . . .	17	6	2 <sup>a</sup>
Imports . . . . .	19	9	13 <sup>a</sup>
<i>Germany (Federal Republic)</i>			
Exports . . . . .	15	5	4
Imports . . . . .	19	8	14
<i>Italy</i>			
Exports . . . . .	20	19	14 <sup>a</sup>
Imports . . . . .	42	30	16 <sup>a</sup>
<i>Netherlands</i>			
Exports . . . . .	14	4	6
Imports . . . . .	18	8	5
<i>Other western Europe</i>			
<i>Austria</i>			
Exports . . . . .	13	7	7
Imports . . . . .	21	10	9
<i>Denmark</i>			
Exports . . . . .	7	5	7 <sup>a</sup>
Imports . . . . .	12	5	17 <sup>a</sup>
<i>Finland</i>			
Exports . . . . .	17	4	6
Imports . . . . .	25	8	4
<i>Norway</i>			
Exports . . . . .	7	7	5
Imports . . . . .	13	11	5
<i>Sweden</i>			
Exports . . . . .	13	6	7
Imports . . . . .	18	1	5
<i>United Kingdom</i>			
Exports . . . . .	6	2	3
Imports . . . . .	13	-2	3

Source: See table 1-14.

<sup>a</sup> First nine to eleven months, as compared with corresponding period of 1961.



By the middle of 1962, internal tariffs on industrial products in the European Economic Community had been cut to 50 per cent of the 1957 level, and a number of steps had been taken towards the evolution of a common agricultural policy. Notwithstanding these developments and a slower rate of growth in output, European Economic Community imports from non-member countries accelerated during 1962. The expansion was mainly attributable to larger purchases of manufactured goods, although there was a fortuitous increase in agricultural imports in the first half of the year. As in the case of intra-trade, imports of capital goods from non-member countries tended to slow down while imports of consumer goods went on increasing. The United Kingdom, Latin America and the United States benefited most from the faster growth in European Economic Community imports.

Internal tariffs on industrial products among mem-

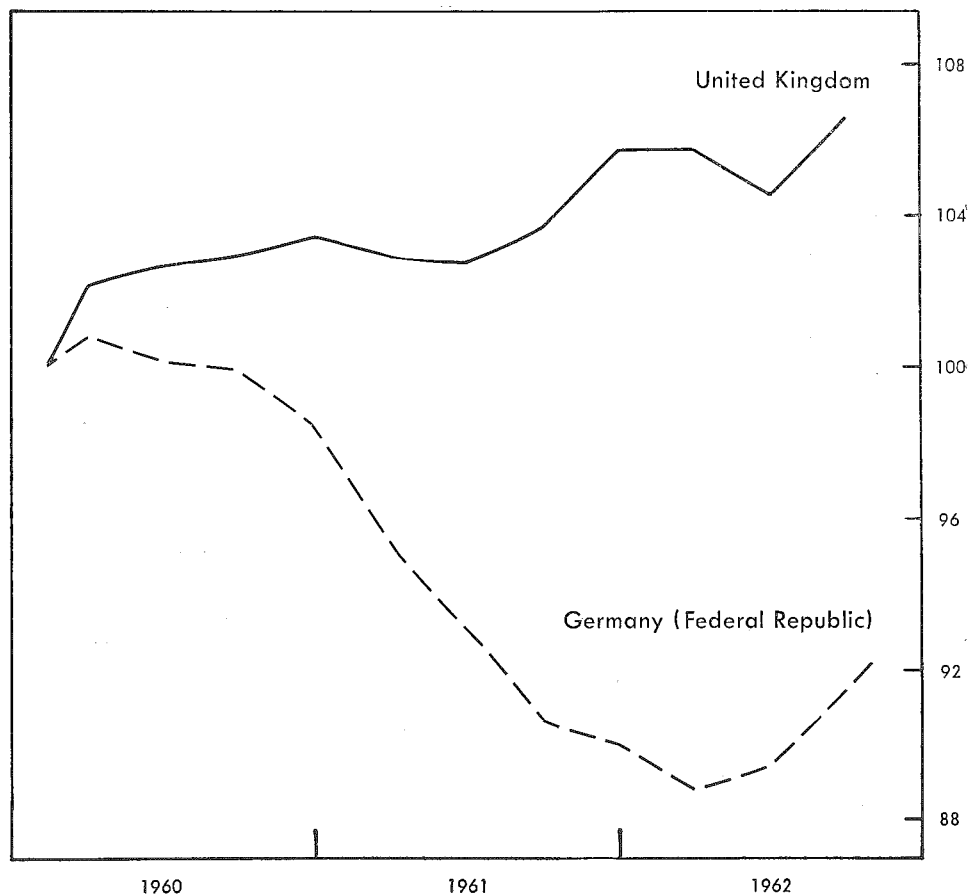
bers of the European Free Trade Association were reduced to 50 per cent of the base level by the end of 1962. As in the European Economic Community, developments in trade corresponded to changes in domestic demand and output.

Larger deliveries of investment goods were the main expansionary factor in the exports of member countries of the European Free Trade Association to other industrial areas. Because of the relatively low level of investment in European Free Trade Association countries, the rise in internal trade consisted to a lesser extent of investment goods.

The rapid rise in costs in continental western Europe in the last few years has improved the competitive position of United Kingdom and United States producers in world markets. This has been visible in new orders for British and west German goods from abroad for more than two years, as illustrated in chart 1.5. The

Chart 1.5. Federal Republic of Germany and United Kingdom: New Export Orders for Investment Goods, 1960-1962<sup>a</sup>

(At constant prices; four-quarter moving averages; first quarter 1960 = 100)



Source: Bundesministerium für Wirtschaft, *Die Wirtschaftliche Lage in der Bundesrepublik Deutschland* (Bonn); Statistisches Bundesamt, *Wirtschaft und Statistik* (Wiesbaden); Central Statistical Office, *Monthly Digest of Statistics* (London).

<sup>a</sup> The United Kingdom data cover net new export

orders at 1958 prices for engineering and electrical goods and some heavy transport equipment. The German data do not include cancellations but have a somewhat broader commodity coverage; the original series at current prices has been deflated by the export price index for investment goods.

diagram refers to export orders for investment goods in the United Kingdom and the Federal Republic of Germany, which together account for considerably more than half of western Europe's exports of machinery and equipment. In the course of 1962 the relative improvement in the British position was apparent also in deliveries. The share of the United Kingdom in world exports of manufactures was largely maintained after the last quarter of 1961, while the Federal Republic's share declined for the first time since 1951. France has also lost some ground since 1960. The fall in the shares of western European countries in 1962 was accompanied by a significant increase in that of the United States.

#### THE BALANCE OF PAYMENTS

The balance of trade of the industrial group of countries declined by \$2.2 billion during 1962, but the corresponding fall in the rate of accumulation of official gold and foreign exchange reserves was only \$1.1 billion. By contrast, in 1961 an improvement in the balance of trade of more than \$0.4 billion coincided with a \$1.7 billion drop in the accumulation of reserves.

The change in the aggregate balance of trade was the net result of large declines for North America and the European Economic Community amounting to \$1.2 billion and \$1.7 billion, respectively, and an improvement of \$0.9 billion for Japan, with hardly any shift

Table 1-19. Balance of Trade and Changes in Official Gold and Foreign Exchange Reserves, by Region, 1960-1962

(Millions of dollars)

Area and year	Balance of trade	Change in reserves
<i>Industrial countries<sup>a</sup></i>		
1960.....	-1,899	2,823
1961.....	-1,454	1,090
1962.....	-3,635	6
<i>North America<sup>b</sup></i>		
1960.....	2,876	-1,743
1961.....	4,001	-513
1962.....	2,796	-334
<i>European Economic Community</i>		
1960.....	132	3,284
1961.....	157	1,221
1962.....	-1,536	196
<i>European Free Trade Association</i>		
1960.....	-4,471	789
1961.....	-4,037	720
1962.....	-4,178	-57
<i>Japan</i>		
1960.....	-436	502
1961.....	-1,575	-338
1962.....	-717	201

Source: International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

<sup>a</sup> See table 1-16, foot-note <sup>a</sup>.

<sup>b</sup> Exports excluding military aid. Import data originally reported f.o.b. adjusted to include an estimated allowance for freight and insurance.

in the combined balance of European Free Trade Association member countries. The change in the accumulation of official reserves was made up of considerable relative deteriorations in the European Economic Community and the European Free Trade Association and relative improvements in North America and Japan.

It is to be noted that the data in table 1-19 do not take into account the position of the various regions with the International Monetary Fund or changes in the exchange reserves of commercial banks. Transactions with the International Monetary Fund account for much of the fall in the rate of accumulation of reserves in western Europe in 1962. The data are also affected by special debt repayments in advance of maturities by some countries and various other measures taken explicitly in order to strengthen international monetary co-operation. Partly because of these developments, the balances of international payments of the industrial countries appear to have been less subject to abnormal swings in 1962 than in previous years. Canada and Japan overcame their recent difficulties in the course of the year, and there was a further reduction in the United States deficit and no renewed pressure on sterling. The Italian and Swiss accumulation of reserves was halted and the decline in the reserves of the Federal Republic of Germany continued despite the absence of special debt repayments.

The United States balance of payments improved moderately during 1962. Net monetary reserves fell by \$2.2 billion compared to declines of \$2.4 billion in the preceding year and \$3.9 billion in 1960. The active balance of trade was reduced by \$1.0 billion but this was more than compensated by favourable changes in investment income and capital transactions, as shown in table 1-20.

Income from both private and Government investments abroad rose appreciably, offsetting increases in net Government grants and capital assets and net private direct and long-term portfolio investment. Net military expenditures abroad showed a further slight decline, and there was a substantial increase in government non-liquid liabilities.<sup>7</sup> Thus the balance on current and long-term capital account deteriorated by only \$0.2 billion. Recorded private short-term capital outflows declined by \$0.7 billion, almost all in transactions with Canada and Japan. On the other hand the notable rise in unrecorded transactions probably represented a new outflow of short-term funds to Canada after restoration of confidence in the Canadian dollar in the third quarter, induced by the sharply raised interest rates in that country.

The fall in United States foreign reserves was made up of a decline in gold stock amounting to \$0.9 billion and an increase in foreign holdings of liquid dollar assets of \$1.3 billion. There was hardly any change in

<sup>7</sup> See footnote *b* to table 1-20.

Table 1-20. United States: Balance of Payments, 1960-1962

(Billions of dollars)

Item	1960	1961	1962
Exports of goods <sup>a</sup> .....	19.4	19.9	20.6
Imports of goods.....	-14.7	-14.5	-16.2
Balance of trade <sup>a</sup> .....	4.7	5.4	4.4
Military expenditures, net.....	-2.7	-2.5	-2.4
Income on investments abroad.....	3.2	3.7	4.2
Miscellaneous services, net.....	-2.1	-2.3	-2.3
Government grants and changes in capital assets, net.....	-2.8	-2.8	-3.0
Changes in government non-liquid liabilities <sup>b</sup> .....	..	0.1	0.8
Private direct and long-term portfolio investment, net.....	-2.2	-2.0	-2.3
Balance on current and long-term capital account.....	-1.9	-0.4	-0.6
Recorded private short-term investments, net.....	-1.4	-1.3	-0.6
Unrecorded transactions.....	-0.6	-0.6	-1.0
TOTAL BALANCE <sup>c</sup> .....	-3.9	-2.4	-2.2

Source: United States Department of Commerce, *Survey of Current Business*, March 1962 and March 1963.

<sup>a</sup> Excluding military aid and exports in connexion with such aid.

<sup>b</sup> 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. Not available separately for 1960.

<sup>c</sup> Financed by reduction in gold and convertible currencies and increased liquid liabilities.

holdings of convertible currencies by United States monetary authorities.

The reduction in the over-all deficit was largely a result of the trade and payments policies pursued by the United States and several foreign Governments with this end in view. In the United States measures designed to diminish the dollar outflow in connexion with foreign aid became increasingly important during 1962.

Policies instituted since 1959 have led to procurement restrictions on all new bilateral aid commitments

by the United States in connexion with commodity expenditures. The new restrictions have mainly affected aid administered by the Agency for International Development, since most other categories of aid were already tied. World-wide competitive bidding has been terminated by the exclusion of suppliers in nineteen industrial countries. Procurement in less developed countries is allowed for programmes which in the fiscal year 1961/62 covered three-fourths of all commodity expenditures. The new regulations started to affect disbursements with some delay as shown below.

Fiscal year (1 July-30 June)	Total commodity expenditures (millions of dollars)	Source of purchase (percentage)		
		United States	Nineteen developed countries	Developing countries
1958/59.....	1,032	47	43	10
1959/60.....	1,010	41	49	10
1960/61.....	1,055	44	47	9
1961/62.....	816	64	17	19

Source: Agency for International Development, *Operations Report, 1962* (Washington, D.C.).

In the fiscal year 1962/63 purchases in the United States are expected to make up 72 per cent of the total.<sup>8</sup>

It appears that the spending of a growing share of United States aid funds in the donor country has increased not only deliveries to recipient countries but also total exports, after taking indirect effects into

<sup>8</sup> Joint Economic Committee, Congress of the United States, *Hearings before the Sub-Committee on International Exchange and Payments* (Washington, D.C.), 12 December 1962. Testimony by Frank C. Coffin, Acting Administrator of Agency for International Development, page 63.

account.<sup>9</sup> The United States share in world exports of manufactures did in fact go up in 1962 after a sizable decline in the preceding year.

Besides commodity purchases other forms of aid were also made subject to increased procurement in the

<sup>9</sup> This is largely because the developing countries normally spend a much higher proportion of their foreign exchange receipts on imports than do the western European countries, which have been placing part of their dollar receipts to reserve in recent years, or have been using them to repay dollar indebtedness. See Joint Economic Committee, *ibid.*, page 65.

United States. Estimated total direct purchases within the country for programmes administered by the Agency for International Development have risen both

absolutely and relatively since 1960, and the present trend is expected to continue in the near future, as shown in the following table.

<i>Item and year (fiscal years refer to period 1 July-30 June)</i>	<i>Direct purchases in the United States (millions of dollars)</i>	<i>Percentage of total</i>
Expenditures, calendar year 1960.....	568	35
Expenditures, fiscal year 1961/62.....	886	50
Expenditures, fiscal year 1962/63.....	1,402	65
Obligations, fiscal year 1962/63.....	2,030	76

*Source: Agency for International Development, Operations Report, 1962.*

As in 1961 advance repayments of debts by countries accumulating dollars contributed to the improvement in the United States balance of payments. During the year France, Italy and Sweden repaid post-war loans in an amount of \$0.7 billion. Foreign governments also increased their current and anticipated military purchases in the United States.

During 1962 and early 1963 the Federal Reserve System negotiated currency agreements with the Bank of Canada, nine western European central banks and the Bank for International Settlements in Basel providing for reciprocal credit facilities totalling \$1.1 billion. These swap agreements are on a stand-by basis and do not in themselves constitute outstanding indebtedness. At the end of February 1963 the net debtor position of the Federal Reserve System amounted to considerably less than \$0.1 billion. The network of currency agreements was strengthened by a series of negotiated Treasury issues of special certificates and bonds denominated in the currencies of the European central banks and treasuries to which they were issued.

In Canada, developments in the balance of international payments were affected by the temporary foreign exchange crisis in the middle of 1962. In May 1962 a fixed official exchange rate was substituted for the former higher and fluctuating rate. In June wide-spread speculation on a further devaluation resulted in large losses of reserves. A series of emergency measures were taken by the Government, including borrowing from various international sources to an amount of United States \$1,050 million. The emergency measures restored confidence in the new parity of the Canadian dollar, and stability returned. As the inflow of capital from abroad was resumed, the foreign credit arrangements were reversed or modified.

The balance of trade deteriorated slightly in 1962, but this was largely offset by higher net receipts on other current items. The net inflow of private long-term capital declined considerably, which was only partially compensated by advance debt repayments by the Governments of France and the Netherlands. Movements of short-term capital were very sharp around the middle of

the year, reflecting the currency crisis, but outflows and inflows largely cancelled each other out for the year as a whole. Official reserves were slightly higher at the end of December 1962 than one year earlier.

The large decline in the aggregate balance of trade of the European Economic Community in 1962 resulted from deteriorations in the balances of France, the Federal Republic of Germany and Italy. However, the Federal Republic's trade surplus was very large even after the decline. The position of Belgium-Luxembourg was in the main unaltered after taking into account the distorting influence of the Belgian strikes at the beginning of 1961; and there was also little change in the trade balance of the Netherlands.

Except in Italy, the balance on services account was less favourable than in the preceding year. In the Federal Republic of Germany a large decline in net service receipts was due essentially to higher net expenditures on travel abroad. Receipts from troops of the North Atlantic Treaty Organization stationed in the Federal Republic increased by \$128 million to \$1,084 million. The foreign exchange burden of these expenditures on countries with troops in the Federal Republic was relieved by materially increased imports of defence equipment from these countries.

Net movements of capital levelled out in 1962. Even in France private capital imports slackened despite heavy repatriation of funds from Algeria. In the Federal Republic of Germany a large shift in net long-term capital movements was due solely to changes in special transactions: mainly because of advance repayments of post-war debts there was an outflow amounting to \$1,332 million in 1961, whereas no such repayments were made in 1962. The considerable inflows of short-term capital to European Economic Community member countries in 1961 were not repeated. This can be interpreted as reflecting diminished uncertainty concerning the two reserve currencies, coupled with a growing awareness of the significance of rising costs in the European Economic Community. The effects of these shifts in sentiment were reinforced by reductions in international interest rate differentials and measures adopted earlier

by the Governments of the Federal Republic of Germany and Switzerland to prevent inflows of volatile funds. In April 1963 the Government of France acted to discourage short-term capital imports, which in 1962 appear to have been larger in France than in the other European Economic Community countries although not of disturbing proportions.

The over-all balance of international payments of European Economic Community member countries showed changes similar to those in the trade balance — that is, an improvement for Benelux countries and deteriorations for France, the Federal Republic of Germany and Italy. However, in all countries except the Federal Republic of Germany, the over-all balance would have been more favourable but for the special capital transfers mentioned earlier. Only France added to official reserves at a significant rate: in 1962 they increased by \$522 million compared to a rise of \$869 million in the preceding year. More than half of the increase in French reserves was offset by declines in those of the Federal Republic of Germany and Italy, while the reserves of the Benelux countries were practically unchanged.

European Free Trade Association member countries, both combined and individually, experienced hardly any change in their balance of trade. The slight deterioration in the aggregate was almost exclusively a result of an increase in the Danish deficit. Changes in official reserves were also small, the most notable shift being a rise in Austrian reserves of \$136 million to \$962 million. However, in the United Kingdom the repayment of the outstanding part — \$863 million — of the 1961 drawing from the International Monetary Fund concealed a considerable improvement in the underlying balance.

The slackness of domestic demand in the United Kingdom in 1962 combined with the buoyancy of ex-

ternal demand resulted in a further decline in the trade deficit. The surplus on services account rose by considerably more than in the previous year, mainly because of increased net receipts of interest, profits and dividends, reversing the consistent decline of previous years. The current balance moved from deficit to surplus, improving by \$389 million. Because of a number of special receipts the long-term capital account, which usually shows an outflow was in surplus in 1961. In 1962 the account reverted to a net outflow, which, however, was considerably smaller than in the years 1958-1960 owing to changes in private net investments. The balancing or residual item of the balance of payments showed a notable increase in 1962; this was probably a result of higher unrecorded net receipt on current account. Reserves fell by only \$199 million despite the repayment to the International Monetary Fund mentioned earlier. In preparation for any renewed crisis the United Kingdom authorities negotiated a \$1 billion stand-by credit from the Fund, which would remain in effect until August 1963.

In the field of international co-operation the resources available to meet threats to any currency were reinforced through the International Monetary Fund's General Arrangements to Borrow. In January 1962 the governments of ten leading industrial countries agreed to stand ready to lend their currencies to the Fund up to a total amount of \$6 billion. The Arrangements were to become effective upon ratification by at least seven members with total commitments of \$5.5 billion. The Arrangements came into force in October when these conditions were fulfilled.

At the end of 1961 the major industrial countries set up a gold pool in London to co-ordinate purchases and check price fluctuations. Although no official statement on the operations of the gold pool has yet been made, it is believed to have contributed significantly to stability in the gold markets in the course of 1962.

### Current situation and outlook<sup>10</sup>

The expansion of demand and production in the industrial group of countries carried over into the early months of 1963. Governments of most industrial countries expect the rate of economic growth during 1963 to be of approximately the same order as in the year before. A few countries, primarily those whose production in 1962 was below potential because of deliberate government restraints, anticipate an increase in the rate of growth.

The course of production in 1963 will depend on developments in demand to an even greater extent than in the previous year. In North America, the pace of

expansion during 1962 was not sufficient to bring about any appreciable decrease in the relatively high margin of spare capacity. According to the McGraw-Hill Survey,<sup>11</sup> manufacturers in the United States were operating at 83 per cent of capacity at the end of 1962, or at the same rate as one year earlier and considerably below the preferred rate of operation. In western Europe and Japan, the continued slackening in the rate of growth was generally accompanied by a further easing of pressure of productive resources. Supply limitations affected only the building industry in certain western European countries.

<sup>10</sup> Based in part on replies of Governments to the United Nations questionnaire of November 1962 on economic trends, problems and policies.

<sup>11</sup> "Business' Plans for New Plants and Equipment, 1963-1966", *16th Annual McGraw-Hill Survey* (New York), April 1963.

In the United States at the beginning of 1963 the Government expected a moderate rise in employment, production and purchasing power throughout the year.<sup>12</sup> Developments during the first quarter indicate that gains might be slightly larger than estimated earlier. On the basis of revised expectations, it appears that the average quarterly increase in gross national product may be somewhat greater than during 1962, with a year-to-year increase of about 5 per cent at current prices.

Government purchases of goods and services are expected to be the most buoyant component of the national expenditure, supplying around one-third of the increase in final demand. Federal purchases, reflecting increases in defence and space activities, are expected to go on rising briskly. State and local expenditures will probably increase at the same pace as in recent years.

It is thought that new investment in plant and equipment may be inhibited by under-utilization of existing capacity. Although gross corporate saving exceeded corporate investment in both 1961 and 1962 and recent tax adjustments added further to business liquidity, business investment is expected to show only moderate gains in 1963, increasing at a slightly lower rate than gross national product. Residential construction should expand slightly in 1963, being supported by sustained demand for housing and easy supply and financial conditions.

Private consumer expenditure is expected to rise at approximately the same pace as gross national product. High sales of cars in the first quarter of 1963 point to another good year for the automobile industry. Disposable income is expected to grow at a slightly faster rate than gross national product despite the increase in payroll taxes which became effective on 1 January. If the President's recommendation for a mid-year drop in the withholding rate for individual income taxes is endorsed by Congress, consumer purchasing power should improve further.

In Canada, the foreign trade sector is expected to provide an important source of strength, reflecting the improved competitive position of domestic producers owing to the devaluation of the Canadian dollar and various incentives to industrial growth. Business fixed investment is expected to increase moderately in 1963. Government purchases of goods and services are expected to rise less than in 1961 and 1962 with hardly any change in the level of Federal spending. The up-trend in private consumer expenditure, on the other hand, is expected to continue.

Among European Economic Community countries a slight deceleration of economic growth in 1963 is expected in Belgium and the Federal Republic of Germany, and a mild acceleration in France and the Neth-

erlands. In Italy production is expected to advance at the same pace as in 1962.

In France and the Netherlands projections of a higher rate of growth in 1963 are based largely on expectations of a faster rise in exports. Because of a fortuitous drop in French exports to North Africa during 1962, the acceleration in total French exports is expected to be quite significant. France also expects the increase in gross domestic fixed capital formation to be as great as or greater than in the preceding year.

In the two countries expecting a slackening in the growth rate, namely Belgium and the Federal Republic of Germany, exports and public consumption are expected to increase more slowly in 1963 than in 1962 — even though, in the Federal Republic, current expenditure of the public authorities, especially on defence, will continue to provide by far the most buoyant element in total demand. Both countries, on the other hand, expect consumption to rise more rapidly than the national product, and also at a faster rate than in 1962.

In Italy a marked slowing down in the export growth rate is expected to be counterbalanced by an acceleration in fixed investment and public consumption, so that the over-all rate of expansion may be virtually maintained.

In most other western European countries and Japan no major changes in economic trends are expected in 1963. Governments generally foresee a fall in the rate of increase of private investment, partly offset by a higher rate of public and other government-controlled investment, and small shifts in the rate of growth of exports. In the United Kingdom expansionist Government measures in the course of 1962 and early 1963 are expected to bring about a moderate recovery following a period of stagnation.

The upturn in the United Kingdom is expected to result from a faster rise in exports and public authorities' current expenditure. Manufacturing investment was falling at the beginning of 1963 and was expected to go on falling for some time. This decline is, however, expected to be more than offset by relatively substantial increases in public investment and housing. Private consumption is expected to benefit from the rise in disposable income following large wage settlements in the fourth quarter of 1962 and increases in benefits under national insurance schemes announced in January 1963. The easing of hire-purchase terms at the beginning of the year may also help to stimulate consumption.<sup>13</sup> The tax concessions and selective increases in depreciation allowances announced by the Chancellor of the Exchequer in April 1963 are expected to give an additional impetus to production and demand towards the end of the year. In the event that these measures lead to a

<sup>12</sup> *Economic Report of the President* (Washington, D.C., January 1963).

<sup>13</sup> National Institute of Economic and Social Research, *Economic Review*, London (February 1963).

greater rise in imports than in exports resulting from the building up of inventories related to expansion, the Government would consider it reasonable to finance such a build-up out of reserves or out of borrowing facilities with the International Monetary Fund and elsewhere.<sup>14</sup>

In Norway a slight increase in the rate of growth is expected to result from a more rapid expansion in the

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<sup>14</sup> International Monetary Fund, *International Financial News Survey*, 12 April 1963.

export sector, while fixed capital formation and public consumption slacken somewhat. In Sweden, on the other hand, a marked drop in the rate of growth of exports, private investment and public consumption is expected to be offset by an acceleration in public investment and private consumption, so that the over-all rate of growth is approximately maintained at the 1962 rate. No corresponding elements of strength are foreseen in Finland to offset a slowing down in the expansion of exports, domestic investment and public consumption, so that the aggregate growth rate is expected to fall significantly.

## Chapter 2

### RECENT TRENDS IN THE PRIMARY EXPORTING COUNTRIES

Economic developments in the primary exporting countries in 1962 contrast sharply with those of the period before. Following two years of deteriorating external balance, 1962 saw export earnings rise appreciably more than import expenditure, with a consequent narrowing of the trade deficit. At the same time, however, domestic production tended to slacken; the average rate of growth was appreciably smaller between 1961 and 1962 than it had been in the previous two years and there was a fairly wide-spread increase in inflationary pressures.

The expansion in export earnings reflects chiefly the recovery in import demand in the United States, coupled with the continuing, though somewhat slower, growth in purchases by western Europe and Japan and by the centrally planned countries. The downward drift in the unit value of exports of the primary exporting countries was halted in the second half of the year and for 1962 as a whole the index averaged only 1 per cent below the 1961 level. Thus there was only a small price offset to the 5 per cent rise in export volume.

The more modest expansion in imports reflects chiefly the wide-spread tightening of restraining measures — quantitative controls, credit restrictions; devaluation, and duties and surcharges — as foreign exchange reserves were drawn down in 1960 and 1961. Defensive disinflationary policies — including in some countries, the deferment of investment in the public sector — also served to curb the demand for imports.

The slackening in the rate of growth of production and incomes also tended to restrain the expansion in

imports. In many countries, however, the slowing down of production was itself a consequence of limitation of imports, especially where this extended to producer and capital goods. More significant in many cases was the relatively poor out-turn of 1961/62 harvests: this exerted a depressing effect on the gross domestic product in a number of countries, and made it necessary to import greater quantities of foodstuffs.

By and large 1962/63 crops seem to have been better than those of the 1961/62 season, so that many of the primary exporting countries entered 1963 with larger stocks of food and fibre and brighter prospects for the growth of total production. Some of the poor agricultural results of 1962, moreover, have served to transform — at least temporarily — the balance between production and consumption of several of the export commodities of the less developed countries. The levelling out of the price index of primary commodities exported by the less developed areas in the second half of 1962 was followed by a definite upturn, led by rising prices for sugar, cocoa and sisal. With the price index in the first quarter of 1963 about 3 per cent above the corresponding figure for 1962, the outlook for the export earnings of the primary exporting countries was also brighter than a year earlier.

The external gains in 1962, however, were not uniformly distributed. Consequently some regions — most notably Latin America and southern and south-eastern Asia — entered 1963 with their international liquidity at a lower level than a year earlier, their external debt at a higher level and balance of payments difficulties a matter of enhanced concern.

### Foreign trade and payments

With the revival in demand in the United States and a continuation of growth in the European Economic Community (EEC) and the centrally planned countries, the primary exporting countries exported a significantly greater volume of goods in 1962 than in 1961. Moreover, reflecting an improvement in the balance between production and consumption of a number of primary commodities, the downward drift of prices, more or less continuous since 1957, was halted in the second half of 1962, and for the year as a whole the loss through reduction in export unit value was limited to about one per

cent. Thus the export receipts of the primary exporting countries registered a sizable increase — probably about \$1.5 billion — in 1962.

Imports also increased, but largely because of the various restraints imposed earlier in defence of the balance of payments, the increment was much smaller than in 1960 or 1961 and well below the rise in earnings. The result was a marked reduction in the over-all trade deficit of the primary exporting countries. The improvement was concentrated in the under-developed areas; the trade gap of Outer Europe and Oceania



widened. And within the under-developed areas, the improvement was concentrated in Africa, Latin America and western Asia; the deficit in the West Indies and southern and south-eastern Asia was somewhat greater than in 1961.

In the aggregate, measuring exports f.o.b. and imports c.i.f., the trade gap of the primary exporting countries narrowed by almost \$0.5 billion between 1961 and 1962, the deficit of the under-developed area component having been reduced by about \$0.9 billion and that of the more developed area component increased by rather more than \$0.4 billion. The improvement in the trade balance of the under-developed areas was due in more or less equal measure to a rise in the surplus of the major petroleum exporters and a decline in the deficit of the remainder of the developing countries.

Though no precise over-all measurements are available, there are indications that the flow of private capital to the primary exporting countries from the rest of the world was somewhat lower in 1962 than in 1961, while the flow of investment income and debt servicing in the opposite direction was somewhat higher. As a result, the improvement in trading account was not fully reflected in an increase in international liquidity: there was a sizable repayment of sums borrowed from the International Monetary Fund in the previous year and a marginal net increment in official gold and foreign exchange reserves.

The increase in reserves was concentrated very largely in Outer Europe, western Asia and South Africa. Elsewhere there was a further contraction in 1962, most notably in Latin America and southern and south-eastern Asia, regions in which the burden of external debt was already a matter of serious concern. Thus, notwithstanding the more favourable outcome of the year's trading, balance of payments pressures remained a major preoccupation in the formulation of economic policy for 1963.

#### CHANGES IN EXPORT EARNINGS

After drifting downwards for three years, the rate of growth in the volume of exports from the primary exporting countries rose slightly in 1962: between 1961 and 1962 the export quantum increased by about 5 per cent, rather more than in most post-war years. This expansion was again offset in part by a price decline, but to a much smaller extent than in 1961: the average of export prices, indeed, levelled out during 1962 and in the last quarter was fractionally higher than in the corresponding period in 1961. For the year as a whole, the average unit value of exports was about one per cent below the 1961 level. Export earnings thus increased by about 4 per cent.

As indicated in the previous chapter, the recovery in the rate of growth in exports from the primary exporting countries reflects an expansion in demand in North

America and western Europe, following the slackening that had occurred in 1961. Import demand in Japan and the centrally planned countries also increased, but to a much smaller degree than between 1960 and 1961.

The expansion was fairly widely distributed, both geographically and in terms of commodities. There was a sharp increase in primary exporting countries' shipments of maize, barley, beef, jute and petroleum, and smaller but significant increases in exports of ground-nuts, abaca, tobacco, lead, coffee and mutton. Though world trade in sugar and cotton was lower in 1962 than in 1961, the decline was chiefly in exports from the industrial and centrally planned countries; a number of primary exporting countries shipped more. The primary exporting countries also sold more butter, tea, hard fibres, iron ore and zinc than in 1961. Rice shipments were down in volume but up in value. More tin was sold but this represents the output of a new smelter in Nigeria and was thus offset by a corresponding reduction in shipments of ores and concentrates. The value of copper sales was also more or less maintained. The principal lags were in palm products, wool and rubber, though cocoa shipments also realized somewhat less than in 1961 when a record volume was exported.<sup>1</sup>

The largest increase in export quantum between 1961 and 1962 — about 10 per cent — was registered by western Asia (*see table 2.1*). This was based principally on petroleum but there were also substantial increases in sales of cotton, citrus fruits, barley, dates, hazel nuts and other agricultural produce. As average unit value remained more or less unchanged at about 10 per cent below the 1958 level, there was a comparable increase in export proceeds.

After lagging in 1961, exports from Latin America also rose substantially in 1962. Here too, the expansion was general; only Brazil and Uruguay — two countries whose exports had increased in 1961 — registered significant declines. As a result of market weakness in a number of commodities exported by the region, however — arabica coffee, beef and hides, linseed oil and lead and zinc all realized lower prices in 1962 than in 1961 — the average unit value of exports dropped between one and two per cent to about a fourth below its post-war peak. A 7 per cent increase in volume thus yielded only a 6 per cent increase in earnings.

Southern and south-eastern Asia also experienced a decline in average unit value of exports — of about 2 per cent — though in this region the commodities chiefly responsible were copra and other palm products, jute and rubber. As a result, a rise of about 6 per cent in volume was reduced to one of about 4 per cent in value. And not all the countries in the region shared in this: export receipts fell slightly short of the 1961 figure in the Federation of Malaya and Pakistan, and substan-

<sup>1</sup> A detailed discussion of world trade in primary commodities in 1962 is contained in the United Nations, *Commodity Survey 1962* (Sales No.: 63.II.D.3).

Table 2-1. Primary Exporting Countries: Changes in Index of Quantum, Unit Value and Terms of Trade by Region, 1961 and 1962

(1958 = 100)

Region	Exports				Imports				Terms of Trade <sup>g</sup>	
	Quantum		Unit Value		Quantum		Unit Value		1961	1962 <sup>b</sup>
	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>		
Primary exporting countries <sup>e</sup> ...	120	126	96	95	112	116	98	97	98	98
Latin America <sup>d</sup> .....	112	120	94	93	102	103	98	97	96	96
Africa <sup>e</sup> .....	129	134	90	89	107	104	97	97	93	92
Western Asia <sup>f</sup> .....	130	144	90	90	134	145	97	97	93	93
Southern and south-eastern Asia <sup>g</sup> .....	113	120	104	102	121	125	100	99	104	103
Oceania <sup>h</sup> .....	132	134	97	97	119	125	102	103	95	94
Outer Europe <sup>i</sup> .....	134	135	98	101	131	149	96	95	102	106

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

<sup>a</sup> Unit value index of exports divided by unit value index of imports.

<sup>b</sup> Preliminary, based in many cases on less than twelve months' data.

<sup>c</sup> The listed regions and the West Indies.

<sup>d</sup> The twenty republics; data for Cuba are in part estimated.

<sup>e</sup> Continent and associated islands.

<sup>f</sup> Aden, Cyprus, Iraq, Israel, Jordan, Kuwait, Syria, and Turkey; indices are based on unit value for major items of trade.

<sup>g</sup> Asia, other than western Asia, mainland China, Japan, North Korea and North Viet-Nam.

<sup>h</sup> Australia and New Zealand.

<sup>i</sup> Greece, Ireland, Portugal and Spain.

tially more so in Indonesia. There was less rice available for shipment from Cambodia and Viet-Nam, and also in Thailand where 1961 exports had been at a record level.

There was also a further decline — of about one per cent — in the average unit value of exports from Africa, reflecting lower prices for cocoa, ground-nuts as well as palm products, long staple cotton and iron, chrome and manganese ores. A 4 per cent increase in the volume of exports thus yielded an increase of about 3 per cent in proceeds. Most countries in the region maintained or improved slightly their export earnings, but in Nigeria and Sierra Leone receipts fell somewhat short of the record 1961 figure, while in the United Arab Republic, where the 1961/62 cotton and rice crops were particularly poor, exports dropped for the second successive year to the lowest level since 1956.

In Oceania, price changes tended to neutralize one another: increases in butter, mutton, sugar and merino wools offset reductions in beef, lead, zinc and cross-bred wools. Consequently, a small expansion in export volume yielded a more or less equal expansion in receipts. This carried Australian earnings to a new record but left those of New Zealand behind the 1959 and 1960 levels.

The European group of primary exporting countries—Greece, Ireland, Portugal and Spain — was the only one to enjoy an increase in export prices in 1962. Butter, olive oil, tobacco and some manufactured goods played the principal role in this increase, though fruit and pig-meat prices were also generally firm. There was little change in the over-all volume of exports — increases in Greece and Portugal were offset by reductions in Ire-

land and Spain — but the group's earnings rose by between 3 and 4 per cent.

One measure of the wide distribution of export gains is the decline — of over a third — in the number of countries experiencing a reduction in earnings. Between 1960 and 1961, 37 per cent of all the primary exporting countries registered reductions and the exports they accounted for constituted almost 39 per cent of the total. Between 1961 and 1962, in contrast, only 24 per cent of the primary exporting countries registered reductions in earnings and those countries accounted for only 17 per cent of total exports (*see table 2-2*). The gains were not confined to a few large exporters. The proportion of countries realizing an increase of more than 20 per cent was much the same in the two intervals, though the proportion of exports accounted for by them was raised somewhat in 1962 by the inclusion of a major trading country (Argentina) in this category. Most of the expansion in earnings accrued to countries whose exports increased by up to 10 per cent; the number of such countries was about 30 per cent greater in 1962 than in 1961 and the earnings of the group constituted 56 per cent of the total, as against only 38 per cent in 1961.

The gains were also widely distributed among the various trade flows. There were increases in shipments from the primary exporting regions as a group both to the industrial regions and to the centrally planned regions, and trade among the primary exporting regions themselves was also greater than in 1961 (*see table 2-3*).

Exports from the primary exporting countries to the industrial countries were about 5 per cent higher in 1962 than in 1961. All the regions participated in this expansion, the increases ranging from about 2 per cent

Table 2-2. Primary Exporting Countries:<sup>a</sup> Distribution of Changes in Exports and Imports, 1961 and 1962

Ratio (previous year = 100)	Exports f.o.b.				Imports c.i.f.			
	Number of countries		Export receipts		Number of countries		Import expenditure	
	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>
			(billions of dollars)				(billions of dollars)	
Less than 90.....	7	8	2.4	2.6	7	8	3.5	3.6
Less than 95.....	16	9	5.7	2.7	13	12	5.9	6.1
Less than 100.....	29	19	11.7	5.3	27	24	13.9	11.6
100 or more.....	49	59	18.6	26.2	48	51	20.2	23.4
More than 105.....	33	38	12.5	15.6	34	35	13.9	14.9
More than 110.....	22	24	7.2	8.7	20	19	8.8	7.7
More than 120.....	9	9	1.0	2.3	8	7	3.5	3.1
More than 130.....	3	4	0.3	0.4	4	4	2.1	2.2
TOTAL	78	78	30.3	31.5	75	75	34.1	35.0

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

<sup>a</sup> Listed in ascending order of export index for 1962 (1961 = 100), the countries included are: Sierra Leone, Viet-Nam (Republic of), United Arab Republic, Cambodia, Indonesia, Brazil, Uruguay, Reunion, Malta, Ivory Coast, Ireland, Thailand, Mauritius, Guadeloupe, Guatemala, Netherlands Antilles, Uganda, Senegal, Pakistan, Ghana, Nigeria, Federation of Malaya, Panama, Martinique, Laos, Surinam, South Africa, Trinidad, New Zealand, Angola, Australia, Rhodesia and Nyasaland (Federation of), Morocco,

Bolivia (exports only), India, Costa Rica, Aden, Spain, Barbados, Ceylon, Mozambique, Iraq, Tunisia, Cameroon, Chile, Jamaica, Tanganyika, Colombia, Paraguay, Honduras, Kenya, Venezuela, Singapore, Peru, Turkey, Saudi Arabia (exports only), Philippines, China (Taiwan), Ecuador, Hong Kong, Greece, Kuwait (exports only), Mexico, Portugal, Jordan, Israel, El Salvador, former French Equatorial Africa, Cyprus, Madagascar, Burma, Dominican Republic, Argentina, Sudan, Nicaragua, Haiti, Korea (Republic of) and Syria.

<sup>b</sup> Preliminary, estimated for some countries on the basis of less than twelve months' trade.

in the case of the West Indies and about 3 per cent in the case of Outer Europe and southern and south-eastern Asia to well over 7 per cent in the case of western Asia.

After a jump of over a fourth between 1960 and 1961 — from \$1.4 to \$1.8 billion — exports to the centrally planned countries rose by a further 4 per cent in 1962. These changes, involving smaller amounts and fewer transactions than the other trade flows, were more erratic. Exports from Oceania which had almost doubled between 1960 and 1961, dropped back in 1962. So did exports from Africa, for the second year. Exports from Latin America and southern and south-eastern Asia rose by about an eighth and those from western Asia by over a fifth. In 1962 rather less than 6 per cent of the exports from the primary exporting countries went to the centrally planned countries, the proportions ranging from not much more than 2 per cent in western Asia to over 7 per cent in southern and south-eastern Asia and Latin America.

Trade within the primary exporting group itself showed the smallest advance in 1962 — between 3 and 4 per cent. There were declines in shipments from the West Indies and from African countries to other primary exporting countries and only small increases from Oceania (one per cent), Latin America (2 per cent) and southern and south-eastern Asia (3 per cent). Following on wide-spread reductions between 1960 and 1961, these small gains left these export flows lagging significantly behind other components of the trade of the primary exporting countries. Its modest over-all increase since 1960 (less than 3 per cent) was largely the result of the growth of petroleum shipments from western Asia, both

within the region and to refineries in other primary exporting regions; intra-trade in Latin America, Africa and southern and south-eastern Asia showed no advance.

Over 70 per cent of the exports of the primary exporting countries continued to move to the industrial countries. Between 1960 and 1961 growth in this trade was maintained largely by an upsurge of imports into Japan; imports into the United Kingdom and the United States declined and there was only a minor expansion in imports into the European Economic Community. This pattern was reversed in 1962: there was little further expansion in exports to Japan, but a strong recovery elsewhere, though in the United Kingdom imports from the primary exporting countries only just regained the 1960 level (see table 2-4).

The most vigorous growth in Latin American exports in 1962 was to the European Economic Community (17 per cent), most countries participating. Exports to the United Kingdom and the United States rose by about 6 per cent, but they had declined by more than this between 1960 and 1961. The largest increase in the United States imports from Latin America came from Venezuela (chiefly petroleum); there were also sizable increases from the Dominican Republic (chiefly sugar) and from Mexico (fish and cattle). Though the United States imported slightly more coffee, copper and zinc from Latin America in 1962, total purchases from Brazil, Colombia and Peru were somewhat below the 1961 level. The increase in trade between Latin America and the United Kingdom was largely the result of purchases from Argentina, Peru and Venezuela. Latin American exports to Japan levelled off in 1962 after the

Table 2-3. Primary Exporting Countries: Regional Distribution of International Trade, 1960-1962<sup>a</sup>

Region of origin (of exports) and destination (of imports) <sup>b</sup>	Value in 1960			Value index (1960 = 100)								
	Total <sup>c</sup> billions of dollars f.o.b.	Percentage going to (exports) or coming from (imports)			World		Industrial countries <sup>d</sup>		Centrally planned countries <sup>e</sup>		Primary exporting regions <sup>f</sup>	
		Industrial countries <sup>d</sup>	Centrally planned countries <sup>e</sup>	Primary exporting regions <sup>f</sup>	1961	1962 <sup>g</sup>	1961	1962 <sup>g</sup>	1961	1962 <sup>g</sup>	1961	1962 <sup>g</sup>
Exports from												
Primary exporting countries . . . . .	32.5	71	5	24	102	107	102	107	124	129	100	103
Latin America . . . . .	8.6	77	4	19	101	107	97	103	190	216	98	100
West Indies <sup>h</sup> . . . . .	1.3	77	i	23	110	111	109	111	i	i	113	109
Africa . . . . .	6.2	78	6	16	103	107	106	112	85	80	97	96
Western Asia <sup>i</sup> . . . . .	4.5	71	2	27	104	115	104	112	101	123	105	121
Southern and south-eastern Asia . . . . .	7.6	54	6	40	98	101	97	100	103	115	98	100
Oceania . . . . .	2.8	75	4	20	110	111	108	113	193	137	102	103
Outer Europe . . . . .	1.6	79	4	17	105	108	106	110	101	104	96	103
Imports into												
Latin America . . . . .	7.7	85	3	12	104	104	102	97	221	301	87	98
Africa . . . . .	7.8	81	4	16	98	96	97	93	137	146	101	102
Western Asia <sup>i</sup> . . . . .	3.5	73	5	22	105	110	105	108	114	127	100	111
Southern and south-eastern Asia . . . . .	9.2	63	7	31	104	108	105	107	112	135	100	103
Oceania . . . . .	2.9	76	1	22	87	93	85	92	81	101	94	96
Above primary exporting regions . . . . .	31.1	75	4	21	101	103	100	99	136	164	98	102

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

<sup>a</sup> Because of rounding, slight differences in country and time coverage and the use of partner country data to estimate imports, the figures in this table do not all conform precisely to those given or imputed in table 1.

<sup>b</sup> Regions are as defined in table 1 except as indicated.

<sup>c</sup> Including a small proportion of trade that could not be distributed by destination or origin.

<sup>d</sup> North America, western Europe and Japan.

<sup>e</sup> Eastern Europe, the Soviet Union and mainland China.

<sup>f</sup> Latin America, West Indies, Africa, western Asia, southern and south-eastern Asia and Oceania.

<sup>g</sup> Preliminary, based in some cases on less than twelve months' returns.

<sup>h</sup> Barbados, British Guiana, Guadeloupe, Jamaica, Martinique, Netherlands Antilles, Surinam, Trinidad.

<sup>i</sup> Exports from the West Indies to the centrally planned countries amounted to about \$0.1 million in 1960, \$1.4 million in 1961.

<sup>j</sup> Aden, Bahrain, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Muscat and Oman, Neutral Zone, Qatar, Saudi Arabia, Syria, Trucial Oman, Turkey and Yemen.

Table 2-4. Trade of Selected Industrial Countries with Primary Exporting Countries, 1960-1962

Item and region <sup>a</sup>	Values <sup>b</sup> in 1960					Index of value (1960 = 100)							
	Total billions of dollars	Percentage coming to (imports) or going from (exports)				United States		European Economic Community		United Kingdom		Japan	
		United States	European Economic Community	United Kingdom	Japan	1961	1962 <sup>c</sup>	1961	1962 <sup>c</sup>	1961	1962 <sup>c</sup>	1961	1962 <sup>c</sup>
<b>Imports from</b>													
Primary exporting countries . . . . .	23.9	28	38	25	9	99	107	102	110	96	100	121	123
Latin America . . . . .	6.4	55	26	14	5	91	96	99	116	90	96	156	154
West Indies . . . . .	0.9	49	17	34	1	118	125	112	130	93	89	108	164
Africa . . . . .	4.9	11	60	26	3	125	142	105	114	99	103	116	133
Western Asia . . . . .	3.7	10	53	25	11	107	104	102	107	100	105	115	139
Southern and south-eastern Asia . . . . .	4.3	29	26	24	21	96	104	98	100	98	99	107	106
Oceania . . . . .	2.4	11	26	46	17	120	165	97	103	88	93	131	122
Outer Europe . . . . .	1.3	14	41	44	2	110	110	108	111	111	109	95	69
<b>Exports to</b>													
Primary exporting countries . . . . .	23.9	32	35	23	10	102	107	91	97	100	97	105	108
Latin America . . . . .	5.6	62	25	9	5	99	93	111	102	97	94	116	114
West Indies . . . . .	0.8	34	22	41	3	104	115	105	130	87	82	92	141
Africa . . . . .	5.8	13	57	24	6	109	128	93	83	99	94	109	95
Western Asia . . . . .	2.3	27	46	21	6	109	126	97	91	111	103	120	116
Southern and south-eastern Asia . . . . .	5.6	33	24	20	23	102	118	111	102	104	95	106	112
Oceania . . . . .	2.1	22	17	51	9	85	99	87	91	86	89	77	90
Outer Europe . . . . .	1.7	19	46	31	4	135	125	126	145	124	136	96	92

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the European Economic Communities, *Foreign Trade Monthly Statistics* (Brussels); Ministry of Finance of Japan, *Trade of Japan* (Tokyo); Board of Trade of the United Kingdom, *Accounts Relating to Trade and Navigation of the United Kingdom* (London); United States Department of Commerce, *United States Foreign Trade* (Washington, D.C.).

<sup>a</sup> As defined in table 2-3.

<sup>b</sup> Imports from the primary exporting countries are valued c.i.f. for the European Economic Community, United Kingdom and Japan but f.o.b. for the United States; to this extent the indicated percentages understate the share of the United States. Exports to the primary exporting countries are valued f.o.b.

<sup>c</sup> Preliminary.

notable spurt in 1961; the increases were in shipments from Chile, Cuba and Venezuela.

There was a rapid rise in exports from the West Indies to the United States, the EEC and Japan in the period 1960 to 1962, associated chiefly with the realignment of trade in sugar following the diversion of Cuban supplies to the centrally planned countries. In absolute terms, the largest increment in shipments to the EEC was of petroleum from the Netherlands Antilles. In contrast to this expansion, exports of the West Indies to the United Kingdom declined, both in 1961 and in 1962, reflecting principally a diversion of petroleum from Trinidad to the United States.

In the case of Africa, the most vigorous growth in exports was to the United States (25 per cent in 1961, 13 per cent in 1962), though shipments to Japan also increased sharply (by about 16 per cent in both intervals); exports to the EEC rose by 9 per cent between 1961 and 1962 and to the United Kingdom by about 4 per cent. In the period 1960-1962, EEC imports from the Congo (Leopoldville) declined by about a fourth while imports from the rest of the region increased by about a fifth. Exports to the EEC from the associated states in Africa, other than the Congo (Leopoldville), rose by about an eighth between 1960 and 1961 and by almost as much between 1961 and 1962.

The principal increase in the United Kingdom imports from Africa was of petroleum from Libya. The increase in shipments to Japan was largely from South Africa and it included sugar, maize and ores. The principal increases in United States purchases were of diamonds, petroleum, sugar, coffee and uranium.

Of exports from western Asia to the industrial countries, the most notable increase in 1962 as in 1961 was in shipments to Japan, chiefly from Kuwait and Saudi Arabia. Exports to the United States were lower in 1962, largely because of smaller purchases from Kuwait. Exports to western Europe were about 5 per cent above the 1961 level. The figures reflecting c.i.f. values were depressed during the 1960-1962 period by a lowering of posted prices for crude petroleum in 1961 and by a continuous decline in freight rates: in 1962 these averaged 10 per cent below the 1960 average and a fourth below the 1958 average.

The rise in exports from southern and south-eastern Asia in 1962 was largely a reflection of increased purchases by the United States; shipments to the EEC were only 2 per cent higher and those to the United Kingdom rose only fractionally while Japanese purchases from the region were slightly less than in 1961. Most countries in the region — with the principal exception of Indonesia — sold more to the United States in 1962; the largest gains were registered by Hong Kong (chiefly textiles) and the Federation of Malaya (rubber). Hong Kong also exported more to the other industrial countries, but exports from the Federation of Malaya were below the

1961 level in the case of the EEC, Japan and the United Kingdom. The EEC took more from India and Thailand but less from Indonesia; the United Kingdom on the other hand took more from Indonesia and Pakistan but less from India and Singapore. Japan also took more from Indonesia and less from India, but the largest increase in its purchases was from the Philippines, principally wood and metal ores.

After a great upsurge in trade between Australia and Japan in 1961, Japanese imports from Oceania receded somewhat in 1962, largely as a result of a reduction in wool purchases. Oceania's exports to other industrial destinations rose — by about 6 per cent in the case of the EEC and the United Kingdom but, largely as a result of greater meat sales, by over a third in the case of the United States.

There were modest increases — of about 3 per cent between 1961 and 1962 — in exports from Outer Europe to the EEC, but reductions in exports to the other industrial countries. The decline was fractional in the case of the United States — reflecting smaller purchases from Greece — and only slightly in the case of the United Kingdom, but as much as a fourth in the case of Japan, largely as a result of a decline in imports from Spain.

#### CHANGES IN IMPORT EXPENDITURE

Restraints on imports, imposed or intensified in a number of primary exporting countries in 1961 in the wake of deteriorating external balances in 1960, continued to hold down import expenditures in 1962. In the aggregate, the primary exporting countries spent about 3 per cent more on imports in 1962 than in 1961; as there was a further slight decline in prices, however, the volume of goods obtained was almost 4 per cent above the 1961 level (see table 2-1). This was almost twice as large an increment as had been registered in the previous interval, but less than half of that which occurred between 1959 and 1960. Africa actually imported less in 1962 than in 1961 and there was only a fractional rise in imports into Latin America. In the other regions, however, there were more substantial increases, ranging from about 3 per cent in southern and south-eastern Asia to 14 per cent in Outer Europe.

The decline in imports into Africa was steepest in the north and west. There were sharp reductions in Algeria and Morocco and also in Ghana, Ivory Coast, Nigeria and Sierra Leone — where imports had been at record levels in 1961 — and smaller reductions in former French Equatorial Africa, Mauritius and Uganda, and there was a further decline in imports into the Federation of Rhodesia and Nyasaland. Elsewhere purchases were higher, though only in Angola, Libya and Madagascar did the increase exceed 10 per cent.

Most Latin American countries imported more in 1962 than in 1961 but the increases were generally small; apart from Peru, increases of over 10 per cent

were confined to the Caribbean countries — the Dominican Republic, El Salvador, Honduras and Nicaragua. And more or less offsetting these increases were reductions in the purchases of Argentina and Chile (from record 1961 levels), and to a smaller extent of Colombia.

In the southern and south-eastern Asian region most countries bought more from abroad in 1962 than in 1961, the largest relative increases being registered by the Republic of Korea and — to record levels of imports — by the Federation of Malaya, Pakistan and Thailand. But there were also some significant reductions, most notably in China (Taiwan) — from a record 1961 level — and Indonesia, and to less degree Ceylon (for the third successive year), India (for the second year) and the Philippines.

The rise in imports into Oceania was confined to Australia, following a sharp cutback in 1961. In New Zealand, by contrast, the cutback came in 1962 from a record 1961 figure.

In western Asia, expansion was general, and in most countries imports in 1962 were at an all-time high. The principal exception was Iraq where there was a sharp reduction from a record 1961 level.

The expansion in imports into the Outer European group of countries was largely a reflection of a great upsurge in purchases by Spain: an increase of almost \$0.5 billion brought imports into Spain up to almost \$1.6 billion in 1962. Ireland also bought more from abroad in 1962, but there were reductions in Greece and Portugal, marginal in the former but of over 10 per cent in the latter.

In the aggregate, the 1962 distribution of countries according to change in trade from the preceding year differed much less from the 1961 distribution in the case of imports than in the case of exports (*see table 2-2*). The proportion of countries importing less than in the previous year dropped slightly (from about 36 per cent to 32 per cent) and the corresponding increase (from 37 per cent to 43 per cent) was in the proportion importing up to 10 per cent more than in the previous year. There was a somewhat wider swing (from 41 per cent to 33 per cent and from 33 per cent to 45 per cent, respectively) in the proportion of total import expenditure accounted for by these groups.

The over-all increase in the import expenditure of the primary exporting countries between 1961 and 1962 was of the order of \$1 billion. This reflects a sizable expansion in purchases from the centrally planned countries and a greater movement of goods among the primary exporting countries themselves (*see table 2-3*). Imports from the industrial countries remained more or less at the 1961 level: there was a decline in the purchases of Latin America and Africa, but this was offset by an increase in those of Outer Europe, Oceania and the primary exporting countries of Asia.

In the case of Latin America the reduction in imports from the industrial countries was more or less counter-balanced by increased purchases from the centrally planned countries and to a less extent other primary exporting countries. In the case of Africa, there were also increases in imports from the centrally planned countries and the other primary exporting countries, but these were small in absolute terms, offsetting less than a sixth of the reduction in imports from the industrial countries. The primary exporting countries of Asia and Oceania also imported more from the centrally planned regions and — on a smaller relative but larger absolute scale — from one another as well.

The reduction in Latin American purchases from the industrial countries was greatest proportionately in the case of the EEC (*see table 2-4*), but there was a greater absolute decline in the flow of goods, notably grains and several categories of manufactures — trucks, electrical apparatus, iron and steel and textiles — from the United States. Africa, on the other hand, imported substantially more from the United States — including foodstuffs as well as machinery — but much less from Europe and Japan. Though shipments from the EEC to Africa as a whole were about \$300 million lower than in 1961, those to the associated states were better sustained; they had risen by about a sixth between 1960 and 1961, notwithstanding a sharp decline in purchases by the Congo (Leopoldville), and there was a small, but widely spread, advance between 1961 and 1962, so that at \$666 million this trade flow stood at well over \$100 million more in 1962 than two years earlier.

The West Indies imported substantially more from all the major industrial areas except the United Kingdom, the region's leading supplier. The primary exporting countries of Asia imported more from Japan and from the United States particularly foodstuffs and capital goods — but less from western Europe. After the sharp cutback of 1961, Oceania imported more from each of the major industrial areas, though trade still fell short of the 1960 total. The notable expansion in the imports of Outer Europe reflects trade with the EEC and the United Kingdom; imports from the United States dropped back from the high 1961 level, and imports from Japan receded for the second year.

#### CHANGES IN TRADE BALANCES

With export receipts (measured f.o.b.) rising by about \$1.5 billion between 1961 and 1962 and import expenditure (measured c.i.f.) up by rather less than \$1.1 billion, the combined visible trade deficit of the primary exporting countries was between \$0.4 and \$0.5 billion lower than in 1961. The improvement was confined entirely to Latin America and western Asia (where the surplus increased by about \$0.5 billion and \$0.3 billion respectively) and Africa (where the deficit was reduced by about \$0.4 billion). The deficit was slightly larger in the West Indies, southern and south-eastern

Asia and Oceania and about \$370 million larger in Outer Europe (see table 2-5).

The increase in the active balance of trade in Latin America was due in part to the expansion in exports — and in the trade surplus — in Venezuela, but there were also sharp reductions in the deficits of Argentina, Colombia and Mexico as well as a swing from passive to active balance in Chile and small gains in Ecuador, Haiti and Paraguay. In all these countries export receipts were substantially above the generally low 1961 level, while in Argentina, Chile and Colombia imports were sharply reduced from high 1961 levels in the face of mounting payments difficulties. In most other countries in the region, the visible balance worsened: the surplus was reduced by an upsurge in imports in the Dominican Republic and Peru and the deficit increased in Brazil and Uruguay — where exports were down and imports up — and, on a smaller scale, Bolivia, Costa Rica, Honduras, Nicaragua and Panama, as a result of a rise in imports.

The improvement in trade balances in Africa was wide-spread: there were reductions in the deficit in Algeria, Equatorial Africa, Ethiopia, Ghana, Kenya, Libya, Morocco, Nigeria and the Sudan and increases in the surplus in the Ivory Coast, the Federation of Rhodesia and Nyasaland and Tanganyika. These more than offset increases in the deficit in the Congo (Leopoldville), South Africa and the United Arab Republic and, on a smaller scale, in Madagascar, Mozambique, Reunion, Senegal and Sierra Leone and reductions in the surplus in Angola, Cameroon and Uganda.

The major improvements in balance were the consequence of cuts in imports — as in Algeria, Ghana, Ivory Coast, Morocco and Nigeria — generally from record 1961 levels. But a rise in exports was the principal factor in Libya, where petroleum production continued to

expand, and in the Sudan, in the wake of a much better cotton crop, and on a smaller scale in Equatorial Africa, Ethiopia, Kenya and Tanganyika. In the Federation of Rhodesia and Nyasaland exports were higher and imports lower. Where the merchandise balance worsened it was generally because of an increase in import expenditure, but a decline in exports also played a part in Reunion, Sierra Leone and the United Arab Republic.

The only other region to improve its merchandise balance in 1962 was western Asia. Here most of the gain is attributable to larger petroleum sales, from all producers except Iraq. Kuwait, Saudi Arabia and the sheikdoms of the Persian Gulf all increased their trade surpluses. Outside the Arabian Peninsula there was a small reduction in the combined deficit. This was largely the result of a substantial increase in the active balance in Iraq (where, thanks to greater shipments of barley and dates, exports were 5 per cent higher, with imports 11 per cent lower) and, on a smaller scale, a decline in the deficit in Syria where there was a vigorous recovery in trade from the low levels in 1961. These more than offset a sizable increase in the passive balance in Turkey (where imports rose by no less than 22 per cent and exports by only 10 per cent).

In the remaining regions the trade gap widened, imports rising to a greater extent than exports. In the West Indies an increase in earnings from sugar and bauxite was largely offset by a decline in shipments of petroleum products from the Netherlands Antilles. The decline in imports of crude petroleum into the Netherlands Antilles was outweighed by increases in the imports of most of the other countries and territories.

In southern and south-eastern Asia trading results were very varied in 1962; the merchandise balance improved in as many countries as it worsened. The improvements reflect higher exports in Burma and Sing-

Table 2-5. Primary Exporting Countries: Changes in Trade Balances, by Region, 1961-1962

(Billions of dollars)

Region <sup>a</sup>	Exports f.o.b.		Imports c.i.f.		Balance of trade	
	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>	1961	1962 <sup>b</sup>
Latin America.....	8.66	9.20	8.56	8.60	0.10	0.60
Africa.....	6.56	6.75	7.89	7.66	-1.33	-0.91
Western Asia.....	4.76	5.24	3.88	4.07	0.88	1.17
Southern and south-eastern Asia.....	7.50	7.73	10.02	10.43	-2.52	-2.70
West Indies and Pacific Islands.....	1.72	1.71	2.36	2.41	-0.64	-0.70
Oceania.....	3.12	3.15	3.30	3.36	-0.18	-0.21
Outer Europe.....	1.76	1.82	3.19	3.62	-1.43	-1.80
Under-developed areas <sup>c</sup> .....	27.60	29.00	30.80	31.30	-3.20	-2.30
Primary exporting countries.....	33.62	35.15	38.61	39.68	-4.99	-4.53

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*.

<sup>a</sup> As defined in tables 2-1 and 2-3, plus some smaller countries and territories for which esti-

mates have been made on the basis of incomplete data.

<sup>b</sup> Preliminary, based in some cases on less than twelve months' returns.

<sup>c</sup> Primary exporting countries other than Outer Europe, Oceania and South Africa.



apore, lower imports in Indonesia and both movements in Ceylon, China (Taiwan), India and the Philippines. In most other countries in the region, the balance grew more passive, generally owing to an expansion in imports, though in Cambodia, Thailand and Viet-Nam, largely as a result of poorer rice harvests and lower rubber prices, export earnings were also smaller than in 1961. Lower jute prices more than offset the effect of a larger volume of shipments from Pakistan, and the trade gap widened under the impact of a jump in imports to a record height. In the Federation of Malaya, on the other hand, export earnings were more or less sustained by the shipment of a larger volume of rubber, though higher import expenditure sharply reduced the active trade balance.

In the economically more developed of the primary exporting regions the merchandise deficit increased relatively more. In Outer Europe this was chiefly the result of developments in Spain where imports in 1962 were over 40 per cent greater than in 1961. There was also an increase in the deficit in Ireland, where exports declined and imports rose, but this was more than offset by reductions in the deficit in Greece and Portugal, where movements were in the opposite direction.

In Oceania, as in Outer Europe, the deterioration in the regional balance was compounded of divergent movements in the major trading countries: in Australia imports were allowed to expand after a sharp cutback in 1961, and there was a large increase in the deficit; in New Zealand imports were cut back after a marked expansion in 1961, and the trade balance moved from passive to active.

The more developed areas among the primary exporting regions — Outer Europe, Oceania and South Africa — are thus seen to have registered a considerable expansion in their combined trade deficit; largely owing to a rise of about \$570 million in their imports, the deficit increased from less than \$1.8 billion to more than \$2.2 billion. Subtracting these changes from the total, the trade balance of the under-developed areas is seen to have been significantly improved. A 5 per cent increase in export earnings was only partly offset by an increase in imports of less than 2 per cent and the deficit was cut by about \$0.9 billion.

About half of this improvement in the balance of trade of the under-developed areas is attributable to the expansion in the surplus earned by the major petroleum exporters — Venezuela and the Arabian Peninsula. Export earnings of the rest of the under-developed areas rose by just over \$0.9 billion (about 4 per cent) and import expenditure by rather less than \$0.5 billion, the deficit narrowing from almost \$4.8 billion in 1961 to somewhat more than \$4.3 billion in 1962.

#### FINANCING THE DEFICIT

In 1962, as in 1961, the combined deficit in the balance of trade of the primary exporting countries was

financed without drawing on official reserves. There were considerable increases in invisible earnings — from tourism, from migrant labour, from sales of newly mined gold, from transit charges, from rentals and from the performance of other services — as well as smaller increases in grants and donations and other remittances, public and private. Payments for services were substantially higher than in 1961, partly associated with the increase in imports and partly because of an increase in the outflow of interest and profits on foreign loans and investments. On balance, however, the over-all deficit on current account, reflecting the narrowing of the trade gap, was appreciably smaller than in 1961 and, total reserves — official and bank — being virtually the same at the end of 1962 as at the beginning, it was financed by a correspondingly smaller net inflow of capital.

In the absence of adequate data — particularly for Africa and western Asia where there are major gaps in information concerning imports and reserves — these developments cannot be quantified with any precision. But from the information that is available, some idea can be obtained of the diverse elements from which the over-all changes are compounded. Some of this information is brought together in table 2-6 which shows movements between 1961 and 1962 in trade balances and international liquidity for the countries for which the latter can be assessed from changes in official gold and foreign exchange holdings on the one hand and in potential drawing rights from the International Monetary Fund (IMF) on the other.<sup>2</sup>

Transactions with the International Monetary Fund provide perhaps the most revealing indicator of the state of external balance in the primary exporting countries. The balance of payments strains of 1961 were accompanied by a record rate of borrowing from the Fund; the narrowing of the trade gap in 1962 permitted the repayment of these drawings by a number of countries and greatly reduced the amount of new borrowing. As a result, a net outflow from the Fund of \$563 million in 1961 was followed by a net inflow of \$163 million in 1962. The swing was chiefly in Latin America and Oceania; the primary exporting countries of Asia continued to be net borrowers from the Fund in 1962, though on a reduced scale, while Africa drew more in 1962 than in 1961, repayments by South Africa being overshadowed by borrowings by the United Arab Republic. Outer Europe had no transactions with the Fund in 1962, Spain having repaid its 1959 drawing in 1961.

The official gold and foreign exchange holdings of the primary exporting countries, which had increased by over \$0.4 billion in 1961, were much the same at the

<sup>2</sup> Because of poor representation of Africa and western Asia — two of the three regions in which trade balances improved between 1961 and 1962 — table 2-6 does not accurately reflect changes either in these two regions or in the total for all regions. In interpreting the table as a summary of the essential nature of movements in liquidity in 1962, therefore, due allowance must be made for the limited country coverage in Africa and western Asia.

Table 2-6. Selected Primary Exporting Countries: Regional Changes in the Trade Balances and Liquidity

(Millions of dollars)

Selected countries <sup>a</sup> in	Exports f.o.b.		Imports c.i.f.		Balance of trade		Change in official gold and foreign exchange holdings		Net change in other balance of payments items		Change in gross IMF position <sup>b</sup>	
	1961	1962	1961	1962	1961	1962	1961	1962	1961	1962	1961	1962
Latin America <sup>c</sup> .....	8,085	8,589	8,046	8,110	396	479	-104	-457	-143	-936	-206	71
Excluding Venezuela.....	5,672	6,004	6,868	6,922	-1,196	-918	-76	-459	1,120	459	-206	71
Africa <sup>d</sup> .....	3,165	3,236	3,876	3,966	-711	-730	69	185	780	915	-6	-13
Excluding South Africa.....	1,798	1,870	2,329	2,386	-531	-516	-81	-29	450	487	19	-51
Western Asia <sup>e</sup> .....	1,379	1,542	1,819	1,966	-440	-424	-2	131	438	555	-8	-7
Southern and south-eastern Asia <sup>f</sup> .....	5,298	5,334	7,101	7,222	-1,803	-1,888	-160	-105	1,643	1,783	-163	-86
Oceania <sup>g</sup> .....	3,117	3,146	3,295	3,355	-178	-209	423	-1	601	208	-175	176
Outer Europe <sup>h</sup> .....	1,763	1,837	3,194	3,622	-1,431	-1,785	220	298	1,651	2,083	50	16
Excluding Spain.....	1,054	1,103	2,102	2,053	-1,048	-950	-59	138	989	1,088	—	—
Total, selected primary exporting countries..	22,807	23,684	27,331	28,241	-4,524	-4,557	446	51	4,970	4,608	-508	157
Excluding Outer Europe.....	21,044	21,847	24,137	24,619	-3,093	-2,772	226	-247	3,319	2,525	-558	141
Excluding Outer Europe and Oceania.....	17,927	18,701	20,842	21,264	-2,915	-2,563	-197	-246	2,718	2,317	-383	-35
Excluding Outer Europe, Oceania and South Africa.....	16,560	17,335	19,295	19,684	-2,735	-2,349	-247	-460	2,388	1,889	-358	-73
Excluding Outer Europe, Oceania, South Africa and Venezuela.....	14,147	14,750	18,117	18,496	-3,970	-3,746	-319	-462	3,651	3,284	-358	-73

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

<sup>a</sup> Selected on the basis of availability of data on official gold and foreign exchange reserves.

<sup>b</sup> The gross IMF position (or "total tranche position") of a country is equivalent to twice its quota minus the Fund's holdings of its currency and is a measure of potential drawing rights.

<sup>c</sup> Nineteen republics (Cuba is not included).

<sup>d</sup> Ethiopia, Libya, Morocco, Federation of Rhodesia and Nyasaland, South Africa, Sudan, Tunisia and the United Arab Republic.

<sup>e</sup> Iraq, Israel, Jordan, Syria and Turkey.

<sup>f</sup> Burma, Ceylon, China (Taiwan), India, Indonesia, Republic of Korea, Federation of Malaya, Pakistan, Philippines, Thailand, Viet-Nam (Republic of).

<sup>g</sup> Australia and New Zealand.

<sup>h</sup> Greece, Ireland, Portugal and Spain.

end of 1962 as at the beginning. These reserve movements, however, were largely the counterpart of transactions with the IMF: total liquidity, measured by change in both official reserves and gross IMF position, declined by about \$100 million in 1961 and rose by about \$160 million in 1962.<sup>3</sup>

This global figure was strongly influenced by changes in a few countries in which there were particularly wide swings in current account. Excluding the upsurge in reserves in Outer Europe, for example, it is seen that liquidity in the other primary exporting regions was reduced in 1962 as well as in 1961, though to a smaller extent: over \$330 million in 1961, rather less than \$110 million in 1962, or taking changes in commercial bank holdings of foreign currency into account, about \$240 million in 1961 and \$150 million in 1962. The exclusion of Oceania makes for an even sharper decline in total liquidity: about \$480 million in 1961, \$330 million in 1962. The exclusion of South Africa accentuates the decline still more: it was almost \$610 million in 1961 and almost \$630 million in 1962. This is a rough measure of the reduction in liquidity in the under-developed areas,<sup>4</sup> though the great bulk of this loss was incurred in three countries — Argentina, India and Indonesia — both in 1961 and in 1962.

Latin America, notwithstanding the improvement in its merchandise account noted in the previous section, lost foreign currency reserves to a greater extent in 1962 than in 1961. Part of this loss represents the repayment of earlier borrowings from the IMF — as against drawings of \$260 million in 1961, there was a net repayment of \$69 million in 1962 — but even allowing for the change in the region's total tranche position with the Fund, the loss of official liquidity was appreciably greater in 1962 than in 1961. In 1961 moreover, the reduction in official reserves was offset to a degree by an accretion to commercial bank exchange holdings; in 1962 this offset was significantly smaller. The over-all loss of liquidity thus rose from about \$250 million to about \$370 million.

This reduction in liquidity reflects changes in the non-trade components of the balance of payments — in particular, an increase in remittances of earnings by foreign investors, an outflow of capital from several countries in which the external balance had deteriorated and a decline in the inflow of capital.

These movements represent, for the most part, the net effect of changes in transactions with the United States.

<sup>3</sup> This swing between 1961 and 1962 was probably moderated somewhat by contrary movements in the gold and foreign currency holdings of commercial banks: reflecting principally expansion and contraction in Indonesia, these rose substantially in 1961 and declined in 1962.

<sup>4</sup> The area covered by these data does not include Cuba, the West Indies, Cambodia, Hong Kong, Singapore and a number of islands in the Indian and Pacific Ocean (where over-all liquidity probably declined in 1962) or west, central and east Africa, Iran and the Arabian Peninsula (where liquidity probably increased) but it includes Turkey, where liquidity was reduced both in 1961 and 1962.

On current account, there was an increase in the flow of investment income from Latin America (of about \$110 million to over \$1 billion) and of travel and purchases of services in the United States (of about \$30 million), against which the only offset was an increase in unilateral non-military transfers (chiefly United States Government grants) of about \$40 million to \$270 million. There was also a rise in Latin American earnings from tourism — most notably in Mexico where tourist spending was about 17 per cent greater than in 1961 — but this was neutralized by a reduction in United States purchases of transport and other services. On capital account, there was an over-all increase of about \$50 million in the movement from Latin America to the United States, but a net reduction of almost \$300 million in the movement from the United States to Latin America — about \$100 million in private capital (chiefly direct investment) and about \$190 million in public capital (long-term loans minus repayments). Short-term capital movements were also down — by about \$60 million. In the aggregate, thus, the net non-trade receipts of Latin America from the United States were about \$0.5 billion lower in 1962 than in 1961.

The decline in international liquidity in Latin America was confined largely to Argentina, Brazil and Colombia, though there were smaller reductions in Bolivia, Guatemala, Haiti and Mexico. In Argentina the draft on reserves was used to finance not only the deficit in merchandise trade — which, as indicated above, was significantly reduced between 1961 and 1962 — but also an outflow of capital occasioned by serious economic disequilibrium, both internal and external, one consequence of which was a decline in the value of the peso by almost 40 per cent in the course of 1962. In Brazil the principal factor was a sharp swing in exports — up in 1961, down in 1962 — but financing of the current deficit in 1962 was made more difficult by a marked reduction in the inflow of long-term capital. In Mexico the effect of the improvement in merchandise balance noted above was offset to some extent by a less favourable outcome on the rest of the current account, as well as by a reduction in net capital receipts. This offset was much more marked in Colombia where official reserves declined for the third successive year: at the end of 1962 they were equivalent to less than two months' imports at current rates, compared with over six months at the end of 1959. The free market value of the peso had fallen from about 7 per United States dollar in 1959 to over 11 by the end of 1962.

Currency depreciation, followed by an official devaluation later in the year, was also a feature of the situation in Chile. Here, the payments pressures had mounted in 1961 and, in the wake of a sharp cut in imports, liquidity had recovered slightly in the second half of 1962. A similar recovery occurred in a number of other countries, including Costa Rica, Dominican Republic, Ecuador, El Salvador and Panama, though

this was less directly related to movements in the balance of trade. In Peru, part of the continuing but smaller trade surplus went into a further increment in reserves, raising them to a record level.

Among the African countries for which data are available — accounting for rather more than half the region's trade — a relatively small (\$20 million) expansion in the combined trade deficit was accompanied by an appreciably greater expansion in official reserves. Compared with an increase of about \$50 million in total gold and foreign exchange holdings (government and banking) in 1961, there was an increase of over \$240 million in 1962, with little change in the region's potential borrowing power from the IMF. The improvement was concentrated largely in South Africa; the rest of the group used their reserves to finance part of the deficit both in 1961 and in 1962.

In South Africa, the increase in sales of non-monetary gold — production of which rose from about \$823 million in 1961 to \$892 million in 1962 — was sufficient to finance a small increase in the trade deficit and a larger outflow of private capital; as expenditure on other current items was appreciably lower, there was a substantial rise in liquidity, official reserves reaching a record height, equivalent to almost five months' imports. In the Sudan, on the other hand, there was a further, though smaller loss of reserves, the increase in exports being more than offset by a rise in expenditure on services and a reduction in the inflow of private capital. Official reserves were also drawn down slightly in Morocco, largely because of a decline in other current income available to finance the trade deficit; as in 1961 an inflow of government capital financed a further outflow of private capital. In Ethiopia the reduction in the trade deficit — along with an increase in government capital inflow, which more than compensated for a decline in private capital receipts — contributed to a rise in liquidity. Reserves also rose in the Federation of Rhodesia and Nyasaland, in the wake of another trade surplus. In Tunisia and the United Arab Republic, on the other hand, liquidity declined again, chiefly as a result of another large passive trade balance, only partly offset by other earnings and receipts of aid and capital.

In Ghana (which is not included in the group of countries referred to in the preceding paragraphs) it is probable that reserves recovered somewhat after the sharp decline of 1960 and 1961: though government borrowing was on a much smaller scale, the reduction in the trade deficit was a large one and it was accompanied by a reduction in the outflow of investment income and an increase in the inflow of private capital.

Developments on merchandise account were partly responsible for a sharp rise in official reserves in the countries of western Asia for which data are available. But the major element in this rise was an increased inflow of capital into Israel, following the devaluation

of the pound early in 1962. The increase was in part a reflection of the activities of the Government Investment Authority which was more selective in its bestowal of tax privileges on foreign concerns, giving priority to those bringing in foreign currency capital and depending less on local borrowing. Elsewhere, changes in gold and foreign exchange holdings were relatively small: there was a reduction in the rate of loss in Iraq and Turkey (where official reserves had declined, respectively, for three and four years) a slightly greater gain in Jordan (where larger capital and aid receipts more than offset the widening in the trade gap) and a reversal — from outflow in 1961 to inflow in 1962 — in Syria, in the wake of the recovery in exports. The slowing down in the rate of decline in reserves in Turkey reflects chiefly a reversal in the flow of private capital — outward in 1961, inward in 1962; but there was also a sharp increase in receipts of government capital.

There also seems to have been a reversal in the movement of private capital in Iran (not included in the group above). This, in combination with an improvement in the trading account, helped to finance a larger outflow of investment payments without loss of reserves, even though government receipts, current and loan, were at a greatly reduced level.

Dominated by deterioration in the external balance in India and Indonesia, the southern and south-eastern Asian region registered another sharp decline in official liquidity. At about \$230 million the loss in 1962 was smaller than that occurring in 1961 but whereas the latter was accompanied by a net gain in bank holdings of foreign exchange, in 1962 there was a sizable reduction in unofficial holdings.

In India, the trade deficit was reduced in 1962, but less of it was financed by incoming capital; there was also an increase in payments on investment account, but this was more than offset by larger receipts from donations and other transfers. Indonesia also had a smaller inflow of capital in 1962 than in 1961, but the main cause of the drain in reserves was two years of deficit on trading account — in a country which normally runs a sizable active balance. The principal import rate for the rupiah was raised by 35 per cent in September 1962 with a view to bringing imports into line with lagging export earnings. In both countries reserves were drawn down again despite further borrowing from the IMF: by the end of the year official holdings in India were sufficient to finance less than three months' imports and in Indonesia they stood at less than half that level.

Among the southern and south-eastern Asian countries whose trade balances improved in 1962, only Burma registered an increase in liquidity: the increase in the merchandise surplus was accompanied by a reduction in expenditure on services and an increase in government receipts, both current and capital, as a result of which reserves more than recovered the loss

sustained in 1961. Elsewhere the deficit on current account was financed in part by drawing on reserves. There was a steady decline in reserves in China (Taiwan) and by the end of the year official gold and foreign exchange holdings stood at the lowest level since the end of 1956. In Ceylon, there was a widening of the current account gap despite an increase in the active trade balance. As a result, liquidity was again reduced and official gold and foreign exchange holdings were drawn down for the sixth successive year. In the Philippines, official reserves recovered slightly in 1962, but only because of drawings from the IMF; though there was a sharp reduction in the trade deficit and a net decline in other current outgoings, income from invisibles and transfers was somewhat lower than in 1962 and there was a further net outflow of capital. The reduction in the trade deficit was in part the consequence of a devaluation of the peso at the beginning of 1962, but the state of external equilibrium remained precarious and on the free market the value of the peso drifted slowly downward during the year.

Most of the southern and south-eastern Asian countries experiencing a widening of the trade gap had its impact cushioned by foreign aid. There was some loss of reserves following the rise of imports into the republics of Korea and Viet-Nam, but in Pakistan receipts of grants and loans more than met the increment in the import bill. In Thailand, where there was a substantial increase in current government receipts and in private capital inflow, official exchange holdings rose to an all-time high. Reserves also reached record proportions — equivalent to over a year's imports — in the Federation of Malaya, where, though largely as a result of lower rubber prices the surplus on merchandise account was smaller, it was accompanied by a reduction in the outflow of investment income and private remittances and by an increased inflow of capital, both private and public.

In Outer Europe the notable widening of the trade gap pointed out in the previous section was fully compensated by increases in invisible earnings — chiefly from tourism and shipping and also from remittances from migrant workers — and by an over-all increase in the inflow of private capital. Despite the 40 per cent expansion in imports into Spain, the current account balance remained active, the surplus dropping from the equivalent of \$232 million in 1961 to \$57 million in 1962. The inflow of long-term capital was most significant in Greece (rising by over \$20 million to about \$90 million) and in Spain (rising by about \$25 million to nearly \$160 million). Greece was also in receipt of a markedly larger volume of import credits, principally from suppliers in the European Economic Community.

In the aggregate, thus, the group's combined reserves again rose strongly. There was a recovery in official gold and foreign exchange holdings in Portugal after their sharp decline in 1961 and further gains in the other

countries, small in absolute terms in Greece and Ireland, much larger in Spain where by the end of 1962 they were in excess of \$1 billion, equivalent to about 9 months' imports.

In Oceania, as in Outer Europe, the worsening of the trade balance in 1962 was accompanied by a further increase in total liquidity based in large measure on the inflow of private capital. The regional changes were compounded of opposite movements in the trade balances of Australia and New Zealand. The surplus on the New Zealand current account — the first since 1959 and virtually all the result of the cut in imports — was large enough to make good part of the loss in reserves that had occurred in 1961, notwithstanding a sharp reduction in the amount of official overseas borrowing. In Australia, official gold and foreign exchange holdings were drawn down somewhat to finance the deficit in 1962 following a massive \$500 million build-up in 1961. These swings subsume a large borrowing and repayment transaction with the IMF; allowing for that, total liquidity is seen to have risen in 1962 by rather less than half as much as in 1961. This reduction reflects not only the larger current account deficit but also some slackening in the net inflow of foreign capital.

The gains in international liquidity in 1962 were thus far from uniformly distributed: they were concentrated very largely in Outer Europe, western Asia and South Africa, while in Latin America and southern and south-eastern Asia there was a further loss of reserves and an accentuation of balance of payments strain.

Though the external situation of the primary exporting countries in 1962 was thus characterized by the usual diversity, it is probable that in the aggregate — and integrating changes in IMF position with changes in official gold and foreign exchange holdings — their net receipts of funds from the rest of the world, whether on current non-trade account or on capital account, were no greater than in 1961 and may have been less. Because of the improvement in the trade balance, this flow permitted a slight re-building of liquidity in 1962, whereas in 1961 it had to be supplemented by drawings from the IMF to close the trade gap.

While there seems to have been little change in the over-all magnitude of this non-trade flow, its nature and origin were somewhat different in 1962 from what they had been in 1961. It is probable that rather more of it was derived from invisible earnings, notably tourism, remittances of migrant workers and transit dues and rather less from long-term private capital. It is probable that less of it came from the United States and rather more from western Europe. It is also probable that a rather higher proportion of it was channelled through international institutions or other multilateral mechanisms.

Disbursements by the International Bank for Reconstruction and Development (IBRD) rose from \$314

million to \$441 million or, on a net basis allowing for repayments, from \$169 million to \$276 million. Of the latter amount, about \$99 million went to southern and south-eastern Asia (where India was the principal recipient), \$96 million to Latin America (where the largest amounts went to Argentina, Colombia and Mexico) and \$61 million to Africa (of which more than half went to Mauritania).

Disbursements by the International Finance Corporation (IFC) amounted to about \$11 million in 1962, compared with \$8 million in 1961. The major investments were (in descending order) in Argentina, Colombia, Tanganyika, Spain and Peru.

The International Development Association (IDA) extended credits to the extent of about \$186 million, the bulk of them going to southern and south-eastern Asia, particularly India which was in receipt of six separate loans involving about \$124 million in the aggregate. Smaller amounts were advanced to a number of countries in Africa and the Caribbean area. Of special significance were some of the advances to other lending agencies: for example \$6.5 million for purposes of loans to small and medium scale industries in Pakistan and \$5 million for re-lending to private industrial enterprises in Turkey.

Expenditure by the United Nations in its technical assistance operations in the primary exporting countries exceeded \$50 million in 1962, compared with about \$35 million in 1961. The sharpest increase was in aid to Africa which, at about \$17 million, was more or less double the 1961 figure. Smaller increases in the other regions raised the amounts devoted to projects in southern and south-eastern Asia to about \$15 million, Latin America about \$10 million, western Asia about \$4 million and Outer Europe about \$3 million. The field of activity to show the largest increase in 1962 was social service — rising from \$10 million to over \$14 million — but there were also significant increases in expenditure in agriculture (to over \$9 million) industry, public utilities, community development, public administration, statistics and education (to between \$2 and \$3 million each) and smaller increases in most other activities.

During the year the World Food Programme, sponsored jointly by the United Nations and the Food and Agriculture Organization of the United Nations, was organized on the basis of member country pledges of about \$90 million over three years, of which about a fifth would be in cash, the remainder in commodities. Up to April 1963 rather more than \$4 million had been disbursed in emergency operations and projects involving about \$7 million in commodities were about to be launched in Bolivia, Morocco, the Sudan, Syria, Tanganyika and the United Arab Republic.

Allocations from the European Development Fund totalled about \$170 million in 1962. This was widely

distributed among the former dependencies of the member countries of the European Economic Community, chiefly in Africa, the largest amounts going to Cameroon (the equivalent of about \$27 million), Madagascar (\$23 million) and Senegal (\$20 million).

Loans from the Inter-American Development Bank (IADB) increased from \$294 million in 1961 to \$329 million in 1962. About two-thirds of this amount was provided from the Social Progress Trust Fund for housing, education and other forms of not immediately productive investment. The borrowing countries committed themselves to providing a somewhat larger amount from their own resources. Of the rest of IADB lending in 1962, \$84 million was on ordinary terms for economic projects and about \$40 million on more flexible terms to countries likely to find repayment more difficult.

The resources of the Social Progress Trust Fund came from the United States; and in the last quarter of 1962 the IADB raised \$75 million from the sale of bonds in the United States. Nevertheless, as indicated above, United States long-term lending to Latin America, private and public, was almost \$300 million lower in 1962 than in 1961. The reduction was almost counter-balanced by an expansion in total long-term capital outflow to Africa, Asia and Oceania. The increase was entirely in government lending which, net of repayments, rose from \$0.6 to \$0.9 billion; private lending — particularly by way of direct investment was below the 1961 level. At about \$2.7 billion, United States purchases of services (including tourism, transport and military) from the primary exporting regions<sup>5</sup> — were slightly higher than in 1961. There was also a small increase — to \$1.9 billion — in unilateral transfers other than military. These increases in the outflow of current funds from the United States were more than offset, however, by increases in the flow of funds into the United States: a \$0.1 billion rise in the purchase of services from the United States (to about \$1.8 billion) and a \$0.4 billion rise in the yield of United States investments in the primary exporting countries<sup>5</sup> — (to about \$2.5 billion). On balance, thus, the net outflow of United States current funds dropped sharply from over \$0.7 billion to under \$0.4 billion. There was also a net decline in the outflow of long-term capital, arising less from the reduction in total foreign lending — which at just below \$2.2 billion was only fractionally lower than in 1961 — than from a sharp increase in investment in the United States, which rose from a net figure of less than \$0.2 billion in 1961 to almost \$0.7 billion in 1962.

Part of this investment in the United States came from Japan, but much of it reflects the outflow of capital from some of the less developed countries, particularly in Latin America. Japan also increased its investment in the primary exporting countries: the outflow of direct private capital in 1962 amounted to the equivalent of

<sup>5</sup> Excluding Outer Europe, but including Japan.

about \$74 million, while shorter-term lending through deferment of payment for exports amounted to about \$238 million. These credits were widely distributed in Latin America, Africa and southern and south-eastern Asia.

Credits related to exports were the principal form of capital flow from the centrally planned countries to the primary exporting countries. Such credits — chiefly medium-term, at relatively low rates of interest and covering supplies for specific industrial projects — were made available by mainland China, the Soviet Union and many of the countries of eastern Europe to a number of under-developed countries in Africa and Asia, including Algeria, Burma, India, Indonesia, Mali and Syria.

Official export credits were a major element in the

flow of capital from the Federal Republic of Germany: they increased by about 8 per cent to the equivalent of \$238 million in 1962, the main increment being in longer-term credits of over 10 years. There was also a small increase — to about \$109 million — in official German grants. Against this, however, the outflow of new private capital — at about \$183 million — was below the 1961 level, reflecting a sharp decline in private export credits. Thus, at \$530 million, total bilateral aid was somewhat less than in 1961.

Government aid provided by the United Kingdom in 1962, chiefly to Commonwealth countries, amounted to the equivalent of \$430 million, about half in the form of loans, the remainder in grants and technical assistance, including the training of administrators and the subvention of the salaries of expatriate officers in newly independent countries.

## Domestic developments

After two years of fairly vigorous growth in the primary exporting countries the pace slackened somewhat in 1962. On the average the gross domestic product probably increased by rather less than 4 per cent between 1961 and 1962. As rates of growth were slightly higher than this in the more developed countries in the primary exporting group, it is probable that in the less developed countries the average increase was not significantly greater than the rise in population.

Two main factors account for the slowing down — the generally poorer out-turn of 1961/62 crops and the disinflationary restraints imposed by many Governments in order to contain import demand as balance of payments difficulties mounted in 1961. Lower production and incomes in agriculture, reduction in the supply of imported materials and components and some cuts and deferment of investment all contributed to hold down the rate of growth in industry. In many primary exporting countries export activities were the most dynamic element in the economy in 1962.

In the absence of any compensatory increase in imports, the expansion in total supplies was also relatively modest. It is probable that, on the average, per capita consumption was just about maintained. Investment rose, but not as much as in the two previous years, except in those countries in which there was a sharp recovery in crops in 1962/63 and inventories were replenished.

Notwithstanding the restraints in the public sector, monetary demand — fed by an increase in private credit and in many cases by the net rise in foreign assets — tended to increase more than the supply of goods, and prices generally advanced. In some of the countries in which inflationary pressures had been building up again in 1961, the very limited expansion in supplies — from

domestic products as well as imports — made it difficult to hold back the wage-cost spiral, and here there was a marked deterioration in internal balance.

### CHANGES IN PRODUCTION AND SUPPLIES

The rate of growth in total production in the primary exporting countries, after accelerating noticeably between 1960 and 1961, slowed down in 1962. The principal retarding factor was agriculture: while the generally good crops of 1960/61 had been a major expansionary influence in the 4 to 5 per cent growth of gross output between 1960 and 1961, the much poorer 1961/62 crops acted as a drag on growth between 1961 and 1962. The impact of the lower rate of agricultural expansion was accentuated by the policies which were adopted by a number of countries in their effort to ease the balance of payments pressures that had cumulated in 1961: these included deflationary internal measures and more stringent import control. As a result of the slowdown in the growth of demand from the agricultural sector, restraints on credit or spending in the public sector and, in some cases, difficulty in obtaining imported materials or components to expand investment or output in the manufacturing sector, industrial activity was less of a dynamic influence in many of the primary exporting economies than it had been in the earlier period. More expansionary than in 1961, however, was the mining sector: in so far as it was based on export demand, it registered a higher rate of growth between 1961 and 1962 than it had between 1960 and 1961.

As implied above, the availability of imports did not in general compensate for slackening in the growth of domestic production. In about half the primary exporting countries, indeed, import changes acted negatively on the growth of total supplies, that is, imports declined between 1961 and 1962 or increased to a less degree

than domestic production.<sup>6</sup> In only about a third did the relative expansion of imports exceed that of domestic production, thus raising the rate of increase (or, in a few cases, lessening the decline) in available supplies.

#### AGRICULTURAL PRODUCTION

The incidence of relatively poor harvests in 1961/62 was fairly wide-spread. Total agricultural production was less than in the previous season in a number of countries in the Caribbean area, along the North African littoral and in Greece and Turkey, in much of west and central Africa and in a swathe of southern and south-eastern Asian countries, including Pakistan, the Indo-Chinese peninsula and the Philippines as well as the Republic of Korea. Among eighty primary exporting countries for which estimates of total agricultural output have been made, the proportion registering a decline in per capita production rose from about 42 per cent between 1959/60 and 1960/61 to over 61 per cent between 1960/61 and 1961/62 (*see table 2-7*). A comparison between the two intervals shows that in the later one there were many more declines than in the earlier one among the countries whose agriculture had been expanding fairly rapidly in the nineteen fifties. Between 1959/60 and 1960/61 less than 15 per cent of the countries registering reductions in per capita output were in the group whose agricultural production was over 30 per cent above the 1952/53-1954/55 average; between 1960/61 and 1961/62 by contrast over 40 per cent of the reductions were in this group. This appears to indicate that the downturn or slackening in agriculture in 1961/62 was for the most part a consequence of short-

<sup>6</sup> This conclusion—and many of those that follow in this section—is drawn from preliminary estimates, for some forty countries, of the gross domestic product, its sectoral origin and its use. Based, as these estimates necessarily are, on partial data and on broad indicators—limited for the most part to the major primary exporting countries—the results are to be regarded as suggestive rather than definitive.

term climatic conditions rather than of a more permanent influence.

Some confirmation of this may be derived from the fact that, in general, the northern hemisphere harvests of 1962/63 were much more favourable than those of the preceding year, so that in a number of countries, supplies in the second half of 1962 were more abundant than those in the first half. In several countries — notably in the Mediterranean area — however, supplementary supplies were obtained from abroad in the first half of 1962, chiefly by way of food aid shipments from the United States. This helped to sustain consumption levels.

In the case of wheat, production in the primary exporting countries in 1961/62 was about 3 per cent below the 1960/61 figure; only Latin America (chiefly Argentina) and southern and south-eastern Asia (chiefly India) reaped a larger crop, while drought more or less halved the output in Algeria, Morocco and Tunisia. In the case of rice, a notable increase in production between 1959/60 and 1960/61 was followed by a leveling out in the primary exporting countries as a group: the 1961/62 crop in southern and south-eastern Asia was barely 1 per cent above the 1960/61 figure and that in Latin America about 2 per cent higher, and though there were large gains in Outer Europe and Oceania these were offset by a sharp reduction in the Middle East (particularly the United Arab Republic). The 1961/62 barley crop in the primary exporting countries was about 10 per cent below that of 1960/61, largely as a result of a reduction in North Africa and Oceania. There was a small (about 3 per cent) increase in maize production between 1960/61 and 1961/62, thanks largely to good crops in the net exporting countries of South America and southern Africa; production in North Africa and Asia (notably Indonesia and Turkey) was lower.

Table 2-7. Primary Exporting Countries: Distribution of Changes in Agricultural Production

Index of production in indicated year (1952/53-1954/55 = 100)	Number of countries in which, relative to the preceding year, the index of agricultural production was									
	less than 95		95-99		100-102		103-107		108 and over	
	1960/61	1961/62	1960/61	1961/62	1960/61	1961/62	1960/61	1961/62	1960/61	1961/62
Less than 100....	5	4	—	2	2	1	1	—	1	1
100-109.....	2	1	2	—	1	4	1	1	—	2
110-119.....	1	2	5	3	2	4	4	3	3	2
120-129.....	1	1	2	5	6	2	5	6	3	—
130-139.....	1	1	—	2	1	3	7	3	6	1
140-149.....	—	—	2	2	—	4	4	4	5	2
150 and over....	—	2	1	2	—	4	5	—	1	6
TOTAL	10	11	12	16	12	22	27	17	19	14

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Economic Survey of Asia and the Far East, 1962* (Sales No.: 63.II.F.1); Organisation for Economic Co-operation and Development, *Agricultural and Food Statistics* (Paris, 1962); United States Department of Agriculture, *The 1963 World Agricultural Situation*, supplements No. 1, 4 and 5; table 2-8, below.



The relatively poor out-turn of basic food crops in 1961/62 was reflected in trade flows: exports were generally reduced and imports increased. There was a sharp contraction in shipments of rice from Cambodia, Thailand, Republic of Viet-Nam and the United Arab Republic and of wheat and barley from North Africa and western Asia, while imports of grain from the United States rose to almost \$900 million in 1961 and over \$1 billion in 1962, the most notable increases between 1961 and 1962 being in the receipts of southern and south-eastern Asia (up over an eighth) and of the Middle East and North Africa (up about a fifth).

Supplies were also supplemented later in 1962 by recovery in domestic crops. In the case of wheat, the 1960/61 output was regained in North Africa and surpassed elsewhere. In the case of rice, preliminary returns suggest a further one per cent rise in production: there was no increase in southern and south-eastern Asia but a sharp recovery in the Middle East, most notably in the United Arab Republic. There was also a recovery in the barley harvest in North Africa and western Asia, though because of further declines in the southern hemisphere, the total output of the primary exporting countries failed to regain the 1960/61 level. Maize production registered a further expansion — of about 5 per cent in the aggregate — lagging only in Spain and Turkey. The basic food situation was thus somewhat better at the end of 1962 than at the beginning: the most serious lag was in rice production in southern and south-eastern Asia where the crop had barely increased in two seasons.

The output of centrifugal sugar in the primary exporting countries in 1961/62 was about 6 per cent below the 1960/61 level. The reduction — of about 2 million tons — was entirely in Cuba; elsewhere, the changes were mutually compensating and much smaller in absolute terms. An 18 per cent increase in Africa was largely a reflection of recovery in production in Mauritius; an 8 per cent reduction in Asia reflects lower output in China (Taiwan) and Turkey. The decline in Asia was more than offset by a substantial increase in the output of non-centrifugal sugar, most notably in India. Notwithstanding a further contraction in Cuba, the 1962/63 sugar crop in the primary exporting countries was about 2 per cent above the previous one: there were small increases in all regions except the Caribbean and western Asia where Turkish production again declined.

Changes in coffee production were dominated by swings in the crop in Brazil. Production in the primary exporting countries in 1961/62 was about 7 per cent above the 1960/61 level, largely as a result of a 6 million bag increase in Brazil; gains elsewhere in Latin America were offset by losses in Africa. The 1962/63 out-turn appears to have been more or less back to the 1960/61 level, the Brazilian crop having declined by 8 million bags and African production having increased by 2 million bags. The 1961/62 cocoa crop was about 3 per cent below that of the previous season and about

half that loss was recovered in 1962/63. The 1961/62 reduction was chiefly in Ghana and the Ivory Coast, but the recovery was confined to the latter. Tea production was slightly higher in 1962 than in 1961, most of the increase coming from Ceylon.

The 1961/62 output of oil-seeds in the primary exporting countries was probably somewhat below that of the previous year, largely as a result of poor growing conditions in South East Asia which affected the yield of copra and palm kernels, especially in the Philippines, and also of flaxseed in India. The Mediterranean olive crop was also lower, particularly in Greece, Spain and Turkey, yielding a 1962/63 oil output well below the average of the second half of the nineteen fifties. Offsetting these reductions to some extent were increases in the ground-nut harvest in West Africa and in the output of sunflower and other oil-seeds in Argentina. The Indian ground-nut crop — by far the largest in the world — was up sharply in 1961/62 but it receded slightly in 1962/63.

Among the non-food crops, there were small increases in the output of tobacco, rubber and fibres, expansion in some primary exporting countries being partly counter-balanced by contraction in others. In the case of tobacco, the principal gains in leaf harvested in 1962<sup>7</sup> were in Greece, India, Pakistan, the Philippines and the Federation of Rhodesia and Nyasaland but these were offset in part by reductions in Latin America and Oceania and also in Indonesia and South Africa. There was a rise of about one per cent in the output of rubber — a much smaller increase than between 1960 and 1961: there were smaller gains in Cambodia, Ceylon, the Federation of Malaya and Thailand and these were offset in large measure by reductions in Indonesia, North Borneo, Sarawak and Viet-Nam.

Cotton production in 1961/62 was slightly (less than 2 per cent) above the 1960/61 level: increases in Brazil, Greece, Iran, Spain, the Sudan and Turkey outweighed reductions in India, Nigeria, Uganda and the United Arab Republic. The 1962/63 harvest brought a recovery in the latter group of countries which more than compensated for reductions in the former and total primary exporting countries' output rose by 10 per cent to a record figure of over 21 million bales. The 1961/62 wool clip was also about 2 per cent above that of the preceding year, the only significant expansion being registered by Australia. The 1962/63 clip brought little further growth, another small gain in Oceania being offset by fractional reduction in most other regions. The increase in hard fibre production was also of the order of 2 per cent. Henequen output dropped below the 1960 and 1961 levels in Mexico; abaca output recovered partially from the sharp contraction experienced in 1961 in the Philippines; sisal output was up about 3 per cent, largely as a result of an increase in Tanganyika. The

<sup>7</sup> In the first half in tropical and southern hemisphere countries, in second half in northern countries.

only fibre to record a substantial gain in 1962 was jute and this represents a recovery after two very poor seasons in India and Pakistan.

#### INDUSTRIAL PRODUCTION

In contrast to the generally poor agricultural out-turn in the 1961/62 or 1962 seasons, which was not always made good by larger 1962/63 crops, mineral production increased rather more between 1961 and 1962 than it had between 1960 and 1961. This was particularly so among the export commodities, which tended to benefit from a revival of United States demand as well as a continuing high rate of absorption in western Europe and Japan.

In the case of the fuels, coal production was up 6 per cent, lignite production up 3 per cent, petroleum production up 10 per cent and natural gas production up 6 per cent. These were all higher rates of increase than in the preceding interval. Among the major coal producers there were increases in Australia (2 per cent), China (Taiwan) (7 per cent), India (10 per cent), Republic of Korea (27 per cent), South Africa (4 per cent) and Turkey (4 per cent); against these were contractions in several of the smaller producers, but also in the Federation of Rhodesia and Nyasaland and in Spain where there was a more or less compensating expansion in the output of lignite. The principal increases in natural gas output were in Argentina (23 per cent), Mexico (3 per cent), Pakistan (21 per cent) and Venezuela (8 per cent). The growth in petroleum production was almost universal; the only exceptions were Brunei, where the Seria field is on the wane, and a group of Latin American countries — Bolivia, Brazil, Colombia and Ecuador. In absolute terms the largest contributions to the total increment of about 50 million tons came from Algeria (5 million), Argentina (2 million), Iran (6 million), Kuwait (10 million), Neutral Zone (4 million), Nigeria (1 million), Saudi Arabia (6 million) and Venezuela (15 million).

After remaining almost static between 1960 and 1961, the output of non-ferrous metals in the primary exporting countries rose sharply between 1961 and 1962.<sup>8</sup> The dominant element was an expansion of about a fifth in primary zinc (to which Australia and Spain made the principal contributions), but lead production was up 9 per cent (chiefly from Australia and Mexico and in the face of declines in India, the Federation of Rhodesia and Nyasaland, Peru, Spain and Tunisia) as was tin production (reflecting the opening of a new smelter in Nigeria for handling local ores, as well as an increase in the Federation of Malaya) while on a smaller absolute scale was a 40 per cent rise in total aluminium production in Cameroon, China (Taiwan), India and

<sup>8</sup> Not all the rise was attributable to an increase in mining activity; in the case of lead and zinc, part of it was derived from the smelting of ores that had been stockpiled when restraints were being applied to the amount marketed in 1960 and 1961.

Spain. After dipping slightly in 1961, aluminium production also surged ahead again in the industrial countries — by between 8 and 9 per cent — much of the advance being supported by increased bauxite supplies from the primary exporting countries. The only major non-ferrous metal to register relatively little advance over 1961 in the primary exporting countries was copper: production was affected by strikes in some mines and elsewhere was kept under restraint in order to sustain prices. In the aggregate, it was less than 2 per cent above the 1961 level; reductions in Mexico, Northern Rhodesia, Peru and South Africa offset most of the expansion in Australia, Chile, India, Turkey and Uganda.

The one export mineral which registered a smaller increase in production between 1961 and 1962 than between 1960 and 1961 was iron ore, demand for which reflected the slackening in the rate of growth in steel output in the industrial countries. Among suppliers of European steel producers, output fell in Algeria, Morocco, Portugal, Spain and Tunisia; among United States suppliers there was a sharp contraction in Venezuela; and among suppliers of Japan, output was reduced in the Federation of Malaya, Hong Kong, Republic of Korea and Thailand. These reductions almost counterbalanced expansion in other countries.

Though mining production declined between 1961 and 1962 in a number of countries (including Brazil, Ireland, Kenya, Morocco, New Zealand, Peru, Philippines, Portugal, Federation of Rhodesia and Nyasaland and Spain) and remained fairly static in others (including Colombia, Cyprus, Ghana, Iraq, the Federation of Malaya and Tunisia), there were large and wide-spread gains which more than made up for this. These gains were not only among the major petroleum producers (notably Iran, Kuwait, Saudi Arabia and Venezuela) but also in a number of other countries (including Australia, China (Taiwan), India, Republic of Korea, Pakistan, South Africa, Thailand, United Arab Republic and Uganda). In the less industrialized countries as a group, mining production in 1962 was about 11 per cent above the 1961 level,<sup>9</sup> and the increase was not far short of that for all the primary exporting countries taken together.

The acceleration in the rate of growth in mineral production (mining, smelting and refining) was directed almost entirely to external markets and is reflected in the expansion in exports discussed in the first part of this chapter. The lag in agriculture, on the other hand, tended to have more immediate domestic repercussions. It reduced the rate of expansion in associated industries

<sup>9</sup> United Nations, *Monthly Bulletin of Statistics*, May 1963, page x. The "less industrialized countries" are defined as those in which the per capita value added in manufacturing in 1958 was less than \$125. They include Yugoslavia and all the primary exporting countries considered in the present chapter, with the exception of Australia, Ireland, Israel, New Zealand and South Africa.

— ginning, milling, expressing and so on — and by curbing the growth in rural incomes tended to limit demand for the products of domestic industry. In some countries, where there was need to divert scarce foreign exchange for the purchase of supplementary food, it tended to reduce the expansion of imported supplies of components and producer goods required as inputs of local industries; this in turn was reflected in lower rates of utilization of existing capacity and in some cases in delays in completing investment in new facilities. Thus there was a discernible tendency for the rate of increase in manufacturing production to fall behind those registered in the two preceding intervals.

The increase between 1961 and 1962 in primary exporting countries' output of cement (5 per cent), steel (5 per cent) and pig iron and ferro-alloys (7 per cent) was in each case less than the corresponding increase between 1960 and 1961, while the output of mill woven cotton cloth (excluding hand loom production) was actually lower in 1962 than in 1961. The growth in electricity production, however, continued at about 9 per cent a year.

The slowing down in the rate of expansion in cement production reflects a much wider spread of declines than there was between 1960 and 1961. There were reductions in all regions: in El Salvador, Guatemala and Jamaica; in Algeria, Mozambique, Nigeria and Uganda; in Burma, China (Taiwan), the Federation of Malaya and the Philippines; in Australia and New Zealand and in Ireland. For every such reduction, however — in about 30 per cent of the countries for which data are available — there was an increase of over 10 per cent, similarly widespread. In the case of iron and steel production, the slowing down reflects reductions in output in Colombia, Spain and Turkey and a much slower rate of increase in India and Mexico; the largest relative gains were registered in the smaller producers, notably Argentina, Chile and the Republic of Korea. The decline in cotton fabric output was concentrated largely in India, though production was also lower in Argentina, Mexico, Portugal and Senegal. In the case of electricity the expansion was again almost universal; the only reported cutbacks were in Algeria, Ceylon and Madagascar. Despite this, the advance in the primary exporting countries fell somewhat short of that achieved in the rest of the world (excluding mainland China); their share fell fractionally to 6.1 per cent. This was also true of cement production, the primary exporting countries' share dropping slightly to 15.5 per cent. In the case of steel, on the other hand, the slackening in growth was more marked in the rest of the world and the primary exporting countries' share rose slightly to 4.6 per cent.

In southern and south-eastern Asia, manufacturing production as a whole tended to level out during the year: in the last quarter it was only about 2 per cent above the corresponding 1961 figure and the average increase for 1962 as a whole was about 6 per cent,

compared with 7 per cent between 1960 and 1961 and as much as 12 per cent between 1959 and 1960. In Latin America, where industrial production (manufacturing and mining) had been rising at about 6 per cent a year, the increase between 1961 and 1962 was only about 1 per cent.<sup>10</sup> For the less industrialized countries as a group the rate of growth in manufacturing slackened perceptibly during the year: in the first quarter of 1962 output was about 5 per cent above the corresponding 1961 level, in the second and third quarters less than 3 per cent and in the final quarter only about 1 per cent.<sup>11</sup>

The most serious lag was in Argentina where, as a result of shortages in supplies and industrial unrest, factory production dropped significantly in 1962. Manufacturing output was also lower than in 1961 in several other countries (including Cambodia, Guatemala and the Federation of Rhodesia and Nyasaland) while it appears to have increased to a less extent than population in a number of others (including Australia, Cyprus, El Salvador, Kenya, Morocco, New Zealand and Uganda). External imbalance played a part in these lags, too. In Australia, industry was slow to recover from the disinflationary measures taken to protect the balance of payments in 1961; in New Zealand the restraints were being applied in 1962 and, except in the food and transport equipment industries, output was generally below the 1961 level.

At the other end of the scale, manufacturing output expanded by an eighth or more in several countries (including Israel, Republic of Korea, Pakistan, the Sudan and Venezuela), partly as a result of the establishment of new industries: sugar, textile and cardboard in Sudan, for example, and steel in Venezuela. And relatively high rates of manufacturing expansion were also registered in Chile, India, Iraq, Syria, United Arab Republic and the Republic of Viet-Nam, reflecting the increases in investment that had occurred in 1961 and 1960.

#### CHANGES IN TOTAL SUPPLY

The results of these production changes are epitomized in table 2-8 which shows the movement between 1961 and 1962 in the major components of the gross domestic product of forty primary exporting countries. For a number of countries — particularly those in the northern hemisphere — the crops taken into these accounts are those reaped in the second half of the year, that is, for agriculture 1962/63 out-turn is compared with that of 1961/62. As implied earlier in this section, the effect of this is generally to raise the index of production increase — very considerably in those Mediterranean countries in which 1961/62 harvests were particularly poor. Even so, in about 10 per cent of the

<sup>10</sup> United Nations, *Current Economic Indicators*, vol. 3, No. 4, page 13.

<sup>11</sup> United Nations, *Monthly Bulletin of Statistics*, May 1963, page x.

countries considered, the gross domestic product was lower in 1962 than in 1961 and in over 40 per cent it failed to keep pace with the probable growth in population of 2 to 3 per cent.

Compensating in some degree for these low rates of increase were a few much higher rates. In a number of countries domestic product in 1962 was 7 per cent or more above the 1961 level in real terms; these include not only the North African countries and Turkey, recovering from the poor outcome of the previous year, but also Israel, where there was a large increase in industry and construction, and Venezuela where the stimulus came chiefly from increased demand for petroleum. And in several important trading countries — Australia, Mexico, South Africa, Spain for example — an expansion of 5 to 6 per cent was registered.

Between 1961 and 1962, the combined gross domestic product of the primary exporting countries probably rose by about 4 per cent. Since it was by approximately that proportion that the quantum of imports rose, it is probable that, in the aggregate, the volume of physical supplies available to the primary exporting countries for domestic use and exports was about 4 per cent greater in 1962 than in 1961.

While total domestic supplies and total imported supplies expanded more or less equally, movements in indi-

vidual countries diverged widely. In about half of the primary exporting countries imports were reduced, or increased to a significantly smaller extent than domestic production, while in 30 per cent of the countries the higher rate of expansion in imports served to raise the relative increase in total supplies.

In almost half the primary exporting countries total supplies increased less than population, that is, on the average the volume of goods at the disposal of each person was lower in 1962 than in 1961. In a few cases — notably Burma, Cambodia, Viet-Nam, where the 1961/62 rice out-turn was poor — the lag in supplies occurred in the face of an expansion in imports. In a few cases the movement in imports paralleled that in domestic product — in Argentina and Uganda both declined, in Ecuador and India both registered relatively small increases. In the majority of cases, however, a reduction in imports was a major factor holding down total supplies, particularly in Brazil, Ceylon, Colombia, Guatemala, Iraq, New Zealand, Portugal, the Federation of Rhodesia and Nyasaland and Tanganyika, but also in Chile, Ghana, Greece and the Philippines where it accentuated the effect of poorer crops.

At the other end of the scale, supplies were considerably more abundant in about a fifth of the primary exporting countries. These included not only those whose

Table 2-8. Primary Exporting Countries: Indicated Change Between 1961 and 1962 in Total Supplies and Selected Components<sup>a</sup>

Country <sup>b</sup>	Agriculture <sup>c</sup>	Industry <sup>d</sup>	Electricity	Gross domestic product	Imports <sup>e</sup>	Total supplies <sup>f</sup>
Spain.....	C	B	C	C	F	C
Korea (Republic of).....	-C	E	D	B	F	B
Pakistan.....	-B	D	...	B	E	B
United Arab Republic.....	C	C	...	C	C	C
Turkey.....	B	B	E	B	F	C
Cambodia.....	-C	A	E	A	C	A
Thailand.....	B	B	F	B	D	C
Viet-Nam (Republic of).....	-C	C	B	A	B	A
Brazil.....	A	C	C	B	A	B
Malaya (Federation of).....	A	B	C	B	C	B
Ireland.....	B	B	D	B	B	B
Australia.....	C	C	C	C	C	C
Cyprus.....	C	B	C	B	E	C
Peru.....	C	-B	...	...	E	...
South Africa.....	B	C	C	B	A	B
Guatemala.....	C	-B	D	B	-B	A
Uganda.....	-B	B	B	A	A	A
El Salvador.....	D	A	C	C	D	C
Tunisia.....	F	B	B	D	B	C
Indonesia.....	B	...	...	...	-E	...
Israel.....	C	D	D	D	E	D
India.....	A	C	D	B	B	B
Kenya.....	B	A	D	B	B	B
Tanganyika.....	B	B	C	B	A	B
Morocco.....	F	A	B	D	-B	C

(continued)

Table 2-8 (continued)

Country <sup>b</sup>	Agriculture <sup>c</sup>	Industry <sup>d</sup>	Electricity	Gross domestic product	Imports <sup>e</sup>	Total supplies <sup>f</sup>
Ceylon.....	B	...	-C	B	-B	B
Greece.....	-B	B	D	B	-B	B
Ecuador.....	C	...	...	B	B	B
Rhodesia and Nyasaland.....	B	-B	B	A	-C	-B
Venezuela.....	D	C	C	C	A	C
Colombia.....	B	B	C	B	-B	B
Mexico.....	C	B	C	C	A	B
Iran.....	C	C	...	...	...	...
Syria.....	F	C	F	F	F	F
Philippines.....	A	B	B	A	-B	A
Iraq <sup>g</sup> .....	D	B	...	B	-B	B
Sudan <sup>g</sup> .....	F	D	...	C	C	C
Ghana.....	A	A	D	A	-E	-B
Chile.....	-B	C	C	B	-D	A
New Zealand.....	B	B	C	B	-D	A
Burma <sup>g</sup> .....	A	A	...	A	C	B
China (Taiwan).....	B	C	D	B	A	B
Portugal.....	B	A	B	A	-C	A
Argentina.....	A	-C	D	-B	-B	-B
Average <sup>h</sup> .....	2	6	9	4	4	4

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 to the United Nations questionnaire of November 1962 on economic trends, problems of policies; national publications.

<sup>a</sup> 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 recent years. 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 and over.

<sup>b</sup> Countries are arrayed in ascending order of movement in the trade balance from the largest

deterioration to the largest improvement, measured in each case by the change between 1961 and 1962 expressed as a percentage of total trade (exports f.o.b.+imports c.i.f.) in 1961.

<sup>c</sup> Including livestock, except in Burma, Ceylon, Chile, Guatemala, India, Indonesia, Iraq, Pakistan and United Arab Republic; excluding forestry and fishing except in Argentina, Burma, Cambodia, China (Taiwan), Kenya, Korea (Republic of), Malaya (Federation of), Pakistan, Tanganyika, Thailand, Uganda and Viet-Nam (Republic of). The crops taken into the 1962 gross domestic product are generally those harvested in the second half of the 1961/62 season or in the first half of the 1962/63 season. The symbols therefore do not always conform to changes between 1961/62 and 1962/63 crops.

<sup>d</sup> Manufacturing and mining.

<sup>e</sup> Quantum index.

<sup>f</sup> Weighted aggregate of gross domestic product and imports; the weight attached to imports was derived from the national accounts for 1959.

<sup>g</sup> Change between fiscal years: July/June for Iraq and Sudan, October/September for Burma.

<sup>h</sup> Production of countries for which symbols are shown weighted by the output of the sector in question in dollars in 1959.

1962/63 harvests were so greatly superior to the drought-reduced turn-out of the previous season — Morocco, the Sudan, Syria, Tunisia and the United Arab Republic — but also El Salvador, Israel and Spain where a substantial increase in imports added significantly to available supplies.

Among the one-third of the primary exporting countries in which there was a moderate increase — 1 to 4 per cent — in the per capita volume of total supplies, imports were again a significant contributory factor in most cases. In only a few countries — notably Mexico and South Africa — did movements in imports tend to offset the growth in domestic production. In Australia, China (Taiwan), Ireland and Kenya imports rose to

about the same extent as supplies produced locally, while in Cyprus, Republic of Korea, Federation of Malaya, Pakistan, Thailand, Turkey and Venezuela, the growth of imports added appreciably to the volume of supplies available in 1962.

#### CHANGES IN CONSUMPTION, INVESTMENT AND ECONOMIC BALANCE

The retardation in the over-all growth of supplies affected the course of both consumption and fixed capital formation: the average increase in gross domestic expenditure between 1961 and 1962 was appreciably below that recorded in the preceding interval. The lag in agriculture in 1961/62 exerted its main effect on

personal consumption in the first half of 1962; the better 1962/63 crops in a number of countries mitigated this effect as the year advanced. The general stringency of external liquidity exercised a restraining force on imports; in some countries this tended to affect investment, especially where extra food imports had to be paid for.

The proportion of primary exporting countries registering an increase in gross per capita consumption between 1961 and 1962 was not much more than a third. Consumption in the public sector, as measured by available evidence of current government expenditure, though not expanding as rapidly as in the previous two or three years, seems to have risen almost everywhere more rapidly than population. It seems probable, therefore, that there was no advance in per capita personal consumption in at least two-thirds of the primary exporting countries, and that in about half the primary exporting countries per capita personal consumption in 1962 was lower than in 1961. The average indicated increase in gross consumption in the thirty-nine countries listed in table 2-9 was about 3 per cent — barely above the probable growth in population, and substantially below the rate of expansion in the previous interval.

The indicated increase in fixed investment was also lower than between 1960 and 1961. Although a similar proportion of countries (about 36 per cent of the total) registered increases of over 10 per cent, relatively more (over a fourth as against a fifth in 1961 and a sixth in 1960) registered reductions. And in several of the major primary exporting countries — Brazil, Mexico and South Africa, for example — the expansion in investment was only marginal. Thus, at about 6 per cent, the average rate of increase between 1961 and 1962 was appreciably lower than in the two preceding intervals.

The course of investment was directly related to the availability of supplies. None of the countries in which fixed investment was reduced registered an increase in per capita supplies and half of them had a smaller total volume of supplies at their disposal in 1962 than in 1961. Conversely, with only one exception, all the countries in which fixed investment expanded to more than the average extent — about 44 per cent of the total — enjoyed an increase in per capita supplies. In the first group almost all countries registered a decline in per capita consumption, an expansion in exports and an improvement in the balance of trade. In the higher investment group, by contrast, about half the countries achieved an increase in per capita consumption and though most also increased their exports, a majority registered some deterioration in the balance of trade. In the intermediate group in which fixed investment in 1962 was moderately greater than in 1961, available supplies were generally higher, even on a per capita basis in a majority of countries, but relatively more

went into consumption: there were per capita reductions in only a fourth of the countries.

Where supplies failed to increase between 1961 and 1962 — as in Argentina, Chile, Ghana, New Zealand, the Philippines, Portugal, Rhodesia, Uganda and the Republic of Viet-Nam — both per capita consumption and gross fixed capital formation were generally reduced; exports were less uniformly affected, but in only a third of the countries in which there was no increase in available supplies did exports rise more than the 6 per cent average. This reflects the fact that in general where there was a contraction in supplies it was more often a result of a cut in imports or production for domestic use than in the output of export commodities. In Uganda and the Republic of Viet-Nam, however, a poorer out-turn of export crops — cotton and coffee in the former, rice in the latter — was a major factor depressing total supplies as well as exports. In Uganda, however, local food supplies were generally somewhat greater than in 1961 and prices declined. The Republic of Viet-Nam was also exceptional in increasing its fixed investment, financing the increase partly by a widening of the external deficit. Fixed investment was also larger in Chile where intensification of inflationary pressures — reflected in a sharp acceleration in the rate of price increase — helped in the diversion of resources from consumption. Notwithstanding the increase in exports and more stringent control of imports, the deteriorating internal balance induced a steady depreciation of the escudo, culminating late in the year in a formal devaluation. Much the same happened in Argentina, though here gross domestic expenditure was reduced; the devaluation was early in the year and the internal balance was subject to additional strain from strikes and rising unemployment.

In Ghana and Portugal exports were also increased and domestic expenditure cut. Here, however, the improvement in the external balance was not accompanied by any marked deterioration in the internal balance. In Ghana, indeed, domestic restraints — including tax increases as well as a cutback in gross capital formation — tended to curb the inflationary forces which had emerged in 1961.

In New Zealand, the Philippines and Rhodesia, there was also a sharp cut in fixed capital formation, a modest rise in exports and an improvement in the external balance brought about chiefly by controls over imports in New Zealand, a devaluation of the peso early in 1962 in the Philippines and a further slackening in development in Rhodesia. Retail prices continued to rise gently — at about 2 per cent a year in New Zealand and Rhodesia — but there was some acceleration in the upward movement of internal prices in the Philippines following the relatively poor out-turn of 1961/62 crops and the rise in the peso cost of imports.

Among the countries in which supplies increased between 1961 and 1962, but to less than average degree — as in Brazil, Burma, Cambodia, Ceylon, China (Tai-

Table 2-9. Primary Exporting Countries: Indicated Change Between 1961 and 1962 in the Use of Supplies<sup>a</sup>

Country <sup>b</sup>	Total supplies	Consumption	Gross capital formation		Gross domestic expenditure	Exports		
			Fixed investment	Rate of stock accumulation		In current prices	In 1961 prices	In import equivalent
Syria.....	F	C	E	+	E	G	G	G
Burma <sup>c</sup> .....	B	A	A	-	A	F	E	F
Uganda.....	A	A	-B	...	A	-C	-B	-C
UAR.....	C	B	G	+	C	-C	-B	-D
Pakistan.....	B	A	E	...	B	A	F	A
Tunisia.....	D	B	G	+	D	B	C	B
Venezuela.....	C	B	C	...	B	C	C	B
Australia.....	C	B	C	+	B	A	A	A
Ceylon.....	B	A	-B	...	A	B	C	B
Iraq <sup>d</sup> .....	B	B	-C	...	A	B	C	B
Mexico.....	B	B	B	-	B	D	D	D
Tanganyika.....	B	B	-B	...	B	A	B	A
Cyprus.....	C	B	D	...	B	E	F	E
Malaya (Federation of).....	B	B	D	...	B	A	B	B
Greece.....	B	A	D	...	B	D	C	D
Thailand.....	C	C	C	...	C	-B	B	-B
Cambodia.....	A	B	A	-	B	-D	-D	-C
Guatemala.....	A	A	-C	+	A	-B	A	-B
New Zealand.....	A	B	-C	-	A	A	A	A
Rhodesia.....	-B	A	-D	-	-B	A	B	A
South Africa.....	B	C	B	-	B	-B	A	-B
China (Taiwan).....	B	A	C	...	B	D	D	D
Portugal.....	A	A	-C	...	-B	D	D	D
Colombia.....	B	A	B	...	B	C	D	C
Ghana.....	-B	A	-D	-	-B	A	C	-B
India.....	B	B	B	...	B	B	C	C
Ireland.....	B	C	D	...	C	-B	A	-B
Kenya.....	B	A	D	...	B	B	C	B
Sudan <sup>d</sup> .....	C	B	D	+	B	F	F	F
Turkey.....	C	B	C	+	B	C	D	C
Viet-Nam (Republic of).....	A	A	E	...	A	-F	-E	-F
Morocco.....	C	C	B	+	D	B	C	B
Philippines.....	A	A	-C	-	A	C	C	C
Spain.....	C	C	F	+	C	B	-B	A
Israel.....	D	D	D	...	D	D	E	D
Korea (Republic of).....	B	B	D	-	B	D	E	D
Chile.....	A	-B	B	-	A	B	B	A
Argentina.....	-B	-C	-B	-	-B	F	F	F
Brazil.....	B	B	B	-	B	-D	-C	-D
Average <sup>e</sup> .....	104	103	106		104	104	106	103

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat; replies to the United Nations questionnaire of November 1962 on economic trends, problems and policies.

<sup>a</sup> 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 (1961) 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 1962 with those for the corresponding period in 1961. 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.

<sup>b</sup> Countries are arrayed in ascending order of increase in the cost-of-living index, averaging the change between 1961 and 1962 and the change during 1962.

<sup>c</sup> Change between 1960/61 and 1961/62 (October-September).

<sup>d</sup> Change between 1960/61 and 1961/62 (July-June).

<sup>e</sup> 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 1961.

wan), Colombia, Greece, Guatemala, India, Iraq, Mexico, Pakistan, South Africa and Tanganyika — the characteristic change in the pattern of their use was a decline in per capita consumption, a less than average rise in fixed capital formation and a more than average expansion in exports. In several countries — Burma, Ceylon, Greece, Guatemala, Pakistan, for example — gross consumption failed to increase above the 1961 level. This reflects a relatively low level of imports, except in Pakistan, and a somewhat larger representation of export commodities in the increment in gross domestic product. (In Pakistan, imports were at a record level, helping to sustain a large increase in fixed capital formation and though exports increased sharply in volume in the wake of a larger jute crop they were lower in value, jute prices having receded from the abnormally high 1961 range.) In Burma and Ceylon the increment in supplies went almost wholly into exports; fixed investment changed only marginally. In Guatemala, fixed investment was reduced, but it is probable that total capital formation was much the same as in 1961 since part of 1961/62 production — particularly of coffee — did not move directly into exports but was held in port stocks. In Greece, as in Pakistan, however, there was a marked expansion in fixed investment and this was largely instrumental in reversing the movement of prices which had been downwards in 1961.

In China (Taiwan), Colombia, India, Iraq and Tanganyika indicated consumption increased between 1961 and 1962, but no faster than population. In all these countries a higher proportion of supplies was devoted to exports, narrowing the trade gap in the first three and increasing the surplus in the other two. It was in the first three — China (Taiwan), Colombia and India — that there was a further, though moderate, expansion in fixed capital formation. Equilibrium remained precarious: internally, prices continued to rise, externally, liquidity continued to decline, despite more stringent control over imports and, in the case of Colombia, devaluation of the peso. In Iraq and Tanganyika, by contrast, indicated investment was lower in 1962 than in 1961 and internal prices remained fairly stable, though external resources continued under strain.

In a third group of the countries in which total supplies registered an increase of rather less than average dimensions, the largest share of the increment generally went to consumption, which rose by more than the average for all primary exporting countries. Indicated fixed investment in this group — Brazil, Cambodia, Mexico and South Africa — was very little higher in 1962 than in 1961. In Brazil a decline in construction largely offset expansion in new plant and equipment, in Cambodia and Mexico it was the new machinery component that lagged, in South Africa railway and mining investment and residential building. Except in Mexico a smaller proportion of available supplies was devoted to exports;

these dropped marginally in South Africa, substantially in Brazil, as the gap between the coffee cruzeiro and the free market rate widened, and in Cambodia in the wake of a poorer out-turn of export crops. Despite the narrowing of the trade gap, external liquidity declined again in Mexico; it was also reduced in Cambodia and — on a much more serious scale — in Brazil. In South Africa, by contrast, there was a spectacular recovery — reflecting a curb on imports and a significant expansion in the output of gold. With the Government seeking to stimulate the economy after its lag in 1961, prices inched slightly upward. There was also a slight rise in domestic prices in Cambodia and Mexico. In Brazil, on the other hand, under the influence of a depreciating cruzeiro and a continuing steep rise in credit in both public and private sectors, the price increase accelerated markedly and there was a sharp deterioration in internal as well as external equilibrium.

Finally there are the countries which enjoyed an over-average expansion in supplies. Almost all these countries were able to increase their exports as well as their domestic expenditure on consumption and investment; however, as the expansion in supplies derived partly — and in some cases even mainly — from larger imports, trade balances generally deteriorated.

In the minority group of countries registering an improvement in trade balance were Kenya, Morocco, Sudan, Syria and Venezuela. In the first three the principal factor was agricultural recovery from the drought of the previous season, in the other two there was a significant increase in production of leading export commodities — wheat and cotton in Syria, petroleum in Venezuela. Consumption rose in all five countries but probably not as fast as population in Kenya and the Sudan where relatively more resources were devoted to capital formation. The sharpest rise in fixed investment was in Syria, but in all five countries there was an increase in the rate of accumulation of inventories — a very large one where the crop swings had been widest, causing a drain of stocks in 1961 and a rebuilding in 1962. The improved supply position was reflected in lower prices in Syria and Venezuela, and also in the Sudan in the 1961/62 crop year though, with expenditures continuing to expand, prices turned upward in the second half of 1962. In Morocco, prices were at a peak early in 1962; they declined as supplies became more plentiful but began rising again later in the year.

In the other countries registering a substantial increase in supplies trade balances deteriorated. In some, however (including Australia, Ireland, Israel, Federation of Malaya and Spain) this did not prevent external liquidity — fed from other sources — from rising. In these countries there was a considerable increase in imports and only in the case of Israel, following the devaluation of the pound early in 1962, was there a commensurate expansion in exports. Per capita consumption was greater than in 1961 in all five countries, but capital



formation generally increased relatively more. There was an upward movement of wages in Ireland, Israel and Spain and combined with the rise in demand from other sectors, it induced a distinct acceleration in the rate of increase in prices. This was absent in Australia and the Federation of Malaya. In Australia, indeed, unemployment, which had jumped in the wake of the disinflationary policies pursued in 1960/61, was a matter of greatest concern; official action was generally expansionary but the rate of unemployment was slow in coming down and in early 1963 was still well above the post-war average.

In the last group of countries — the Republic of Korea, Tunisia, Turkey and the United Arab Republic — an over-average increase in supplies was not sufficient to prevent a deterioration in both the balance of trade and in international liquidity. The strain was not the result of any great increase in consumption: per capita levels were just about maintained in all four countries. The explanation lies more in the source and timing of the expansion in supplies and — partly related — the relative volume of resources entailed in gross investment. In the Republic of Korea, imports made a much greater absolute contribution to the increase in supplies than did domestic production — expansion in most sectors being largely offset by a contraction in agriculture — and the associated worsening of the merchandise balance was financed by drawing on reserves rather than by an increase in aid and other receipts. The increase in imports, compensating for the poor local crops, went partly into consumption — which was restrained by a sharp rise in prices — and partly into fixed investment which was substantially higher than in 1961. In contrast to the Republic of Korea, the other three countries drew down stocks in 1961 and built them up very considerably, with the swing in harvests, in 1962. The reduction in liquidity induced primarily by the record level of imports — required to sustain consumption in the first half of the year as well as to support a large increase in fixed capital formation — had, in effect, a counterpart in the accumulation of stocks.

Though there was an appreciably smaller increase in domestic production to be financed in the primary exporting countries as a group, there is little evidence that, in general, the supply of money expanded significantly less between 1961 and 1962 than between 1960 and 1961 or in 1962 than in 1961. Among the countries for which appropriate data are available, the proportion in which the increase in average money supply between 1961 and 1962 was greater than the increase between 1960 and 1961 was about 56 per cent, compared with about 36 per cent in which there was some deceleration. The proportion with high (over 10 per cent) rates of increase — including such countries as Bolivia, Brazil, China (Taiwan), Ghana, Greece, Indonesia, Israel, Republic of Korea and the Sudan — was little changed at rather more than 35 per cent, but

the proportion registering a decline fell away sharply from 19 per cent to 5 per cent: between 1960 and 1961 Australia, New Zealand, Portugal and South Africa as well as a number of Central American countries had fallen into this category but in 1962, of this group only New Zealand, where disinflationary measures were still in force, registered a further small decline. Thus there was a significantly higher proportion of countries in the category of more normal — up to 10 per cent — growth rate: 64 per cent in 1962 as against 47 per cent in 1961.

Movements in the trend of money supply during the year bear out this conclusion. The proportion of countries in which there was significant acceleration in the rate of increase or reversal from a downward to an upward trend was virtually the same (50 per cent) in 1962 as in 1961, but the acceleration occurred less among the high rates of increase in money supply (over 10 per cent a year) than among the lower rates (*see* table 2-10). The proportion of decelerations was slightly lower in 1962, but it included a number of countries in which money supply had risen very rapidly in 1961, notably Bolivia, China (Taiwan), Ghana, Republic of Korea, Paraguay, Peru, Philippines, Syria and Uruguay.

On the other hand, a marked acceleration in the rate of increase in money supply occurred not only in countries in which larger harvests had to be financed (Morocco, Nicaragua and Tunisia, for example) and in countries in which reserves were recovering (Costa Rica, Dominican Republic and South Africa for example), but also in a number of countries in which its origin lay more in the inflationary expansion of domestic credit (notably in Brazil, Chile, Indonesia, Israel and the Republic of Viet-Nam). The continuing high rate of increase in Colombia — and to some extent Spain and the Sudan — also reflects domestic credit inflation, though in Spain, as in Israel, a good deal of the increase in money supply derived from the continued accumulation of foreign currency reserves.

In the wake of improving trade balances, indeed, the external sector was the main source of increase in money supply in many countries in 1962. There was also a wide-spread expansion in credit advanced to the private sector. Much less expansionary was the public sector. After two years of mounting foreign exchange stringency, many Governments were much more restrained in their borrowing from the banking system. Among the countries for which data are available, the proportion of those in which there was a decline in net government indebtedness during the year increased from about 28 per cent in 1961 to about 35 per cent in 1962; the proportion in which there was a deceleration in the rate of increase in indebtedness doubled (from 22 per cent to 44 per cent) and the proportion in which a rise in indebtedness began or accelerated dropped from 50 per cent to 21 per cent (*see* table 2-11).

Table 2-10. Primary Exporting Countries: Distribution of Changes in the Supply of Money

Index of change in money supply <sup>a</sup> (corresponding figure in preceding year—100)	Countries in which, in relation to the change during the preceding year, the change during the indicated year <sup>b</sup> registered													
	Total		Continuation of trend		Reversal of trend		Deceleration		Acceleration					
	1961	1962	1961	1962	1961	1962	1961	1962	1961	1962				
Less than 97.5 . . . .	3	1	El Salvador		Australia <sup>c</sup>	Uruguay								
98-100	4	4		New Zealand	Guatemala <sup>d</sup>	Thailand <sup>c</sup>	Portugal		Haiti					
					Honduras <sup>d</sup>	Venezuela <sup>c</sup>								
					New Zealand <sup>c</sup>									
101-103	5	8			Burma <sup>d</sup>	Australia <sup>d</sup>	Dominican Republic						Guatemala	
					South Africa <sup>d</sup>	El Salvador <sup>d</sup>	Federation of Malaya						Federation of Malaya	
						Paraguay <sup>c</sup>	Pakistan							
						Peru <sup>c</sup>								
						UAR <sup>c</sup>								
104-110 . . . . .	16	15	Ireland	Ceylon	Haiti <sup>d</sup>	Ghana <sup>c</sup>	Chile		Greece		Ceylon		Burma	
			Thailand	Ireland	UAR <sup>d</sup>		Ecuador		Mexico		Jordan		Dominican Republic	
			Turkey	Turkey	Venezuela <sup>d</sup>		India		Philippines		Nicaragua		Ecuador	
							Lebanon		Syria				India	
							Mexico						Pakistan	
							Morocco						Tunisia	
							Republic of Viet-Nam						Republic of Viet-Nam	
111-117 . . . . .	8	10	Greece	Spain		Costa Rica <sup>d</sup>	Israel		Bolivia		China (Taiwan)		Honduras	
				Sudan			Tunisia		China (Taiwan)		Peru		Jordan	
											Philippines		Lebanon	
											Spain		Morocco	
											Sudan		South Africa	
118 and over . . . . .	9	7	Indonesia	Colombia			Uruguay		Republic of Korea		Bolivia		Brazil	
											Brazil		Chile	
											Colombia		Indonesia	
											Ghana		Israel	
											Republic of Korea		Nicaragua	
											Paraguay			
											Syria			
TOTAL	45	45	6	7	10	10	14	8	15	20				

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics* (Washington, D.C.) and national sources.

<sup>a</sup> 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.

<sup>b</sup> Measured between successive year ends.

<sup>c</sup> From upwards to downwards.

<sup>d</sup> From downwards to upwards.

Table 2-11. Primary Exporting Countries: Distribution of Change in Government Budgetary Position<sup>a</sup>

Movement in government indebtedness in 1962 compared with that in 1961	Total	Change in government indebtedness during 1962 as a percentage of government expenditure in 1961			
		0-5	6-10	11-15	Over 15
Change from rise to fall....	4	Turkey	Dominican Republic Ireland	Sudan	
Smaller fall.....	4	Peru	South Africa		Israel
Larger fall	4	Greece Portugal	Burma		Paraguay
Change from fall to rise....	5	Pakistan New Zealand	Federation of Malaya Venezuela	Guatemala	
Smaller rise.....	15	China (Taiwan) Costa Rica Tunisia	Bolivia Ceylon El Salvador Honduras Spain Syria	Haiti India Nicaragua	Colombia Ghana UAR
Larger rise.....	2	Republic of Korea	Uruguay		
	TOTAL 34	11	13	5	5

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics* (Washington, D.C.) and

national sources.

<sup>a</sup> As measured by net change—claims minus deposits—in government dealings with the banking system.

It is probable that among the countries not represented in table 2-10 the incidence of government deficits was greater. In particular, among the omissions from the table (for lack of relevant data) are the six countries that registered the most rapid rise in retail prices in 1962—Argentina, Brazil, Chile, Congo (Leopoldville), Indonesia and Laos. In these countries, activities in the public sector doubtless contributed to the strengthening of inflationary forces.

Movements in retail prices provide little or no evidence of any over-all slackening in inflationary pressures (see table 2-12). In 1962, as in 1960 and 1961, about one-fourth of all primary exporting countries recorded increases of over 5 per cent in cost of living index; and in 52 per cent of these—as against 40 per cent in 1961—the increase was over 10 per cent. In about 40 per cent of all primary exporting countries there was some acceleration in the rate of increase in the cost of living in 1962; this was only marginally higher than in 1961. Among the countries recording price increases of over 5 per cent in 1962, however, over 80 per cent experienced an acceleration in the rate of increase, whereas in 1961 the proportion was about two-thirds and in 1960 only half.

These results point up the diversity of conditions in the primary exporting countries. The year 1962 was not dominated by any single event or force or trend. The impact of deteriorating terms of trade was much less general than in earlier years. There were wide-spread improvements in the balance of trade; nevertheless payments difficulties were more acute than ever in some

countries. Where trade deficits were reduced by import cuts, there were often domestic repercussions, ranging from minor shortages and price increases among imported goods to serious under-utilization of industrial capacity for lack of imported materials and components. Some price increases came by way of imports: the cost of rice was appreciably above the 1961 level, as was that of wheat and sugar, while the unit value of manufactures in international trade was up another 1 per cent. More important in many countries was the poor out-turn of 1961/62 crops which tended to raise the price of local food. But the major price increases do not reflect marginal adjustments of individual components, but rather an over-all imbalance between monetary demand and available supplies, of long standing in most instances, and rendered cumulative partly by the interaction between rising prices, rising wages and rising costs and partly by the periodic injection into the economy of new credit, including the means of financing government expenditure.

For the countries suffering from this longer-term imbalance—but not for the great majority of primary exporting countries—1962 brought an increase in the inflationary pressures and an accentuation of external payments difficulties. In some of these countries, stabilization programmes adopted in 1959 or 1960 and held to in the face of mounting strains in 1961 were explicitly or implicitly modified in 1962. Their success had been premised on increased production, but the gains registered either domestically or in exports (or both) were not sufficient to absorb the expansion in money incomes.

Table 2-12. Primary Exporting Countries: Distribution of Change in the Cost of Living<sup>a</sup>

Trend in 1962 <sup>b</sup>	Total	Countries in which, in relation to the corresponding period in 1961, the cost of living index at the end of 1962 was						
		98 or less	99-101	102-105	106-109	110-120	over 120	
1 Trend continued . . . . .	26	Niger	Australia British Honduras Iran Federation of Malaya Mauritius Netherlands Antilles Sierra Leone Tanganyika Tunisia	Aden Barbados Cambodia Colombia India New Caledonia New Zealand Northern Rhodesia Peru Portugal Puerto Rico South Africa Southern Rhodesia	Bolivia	Israel Uruguay		
Trend reversed . . . . .	20	Burma Pakistan Surinam Syria Thailand Uganda UAR Venezuela	Iraq Nicaragua	Cyprus El Salvador Fiji Island Gibraltar Greece Guatemala Mexico	Mozambique	Dominican Republic	Laos	
2 Rise decelerated . . . . .	15		Central Africa Ceylon Ghana Hong Kong Ivory Coast Jamaica Malta Upper Volta	China (Taiwan) Grenada Nigeria Senegal Turkey Republic of Viet-Nam	Iceland			
3 Rise accelerated . . . . .	23			British Guiana Costa Rica Ecuador Honduras Ireland Kenya Madagascar Morocco Trinidad and Tobago	Algeria Angola Cameroon Chad Gabon Philippines Sudan	Republic of Korea Spain	Argentina Brazil Chile Congo (Leopoldville) Indonesia	
	TOTAL	84	9	19	35	10	5	6

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*.

<sup>a</sup> Usually in the principal urban centre or centres; referring, in some cases, to particular population or income groups and, in some cases, with restricted commodity coverage.

<sup>b</sup> The change between the end of 1962 and the end of 1961 is compared with the change between the end of 1961 and the end of 1960.

<sup>c</sup> In most cases the average for the month of December, but in some cases an earlier month and in some cases the average for the last quarter.

And the result was an accelerating internal price rise and externally a depreciating currency. The end of 1962 found countries such as Argentina, Brazil, Chile and Indonesia greatly exercised by the problems of stabilization, applying new restraints on imports and taking steps to raise taxes, reduce expenditure and curb the expansion of credit.

In most other primary exporting countries concern was less over internal instability than over the problem of maintaining and increasing the rate of economic

growth in the face of continuing foreign exchange stringency. The respite that 1962 had brought to many countries, halting the decline in liquidity, had been achieved in part by means of restraints on imports. But in most cases, at least among the under-developed countries, a curb on imports is a curb on investment and growth. Hence the importance attached to expanding export earnings, and the increased attention being given to the role of export activities and import substituting industries in development planning.

## Outlook<sup>12</sup>

The problems that were of most wide-spread concern among the primary exporting countries in 1962 were domestic agriculture and foreign exchange earnings. Both are essentially long-term problems, but just as their incidence was magnified in many countries in 1962 by the relatively poor results of the 1961/62 harvest and by the further slipping of primary commodity prices, so 1963 seems likely to bring some relief in both areas. On the one hand, in many of the countries in which 1961/62 crops had been particularly poor, 1962/63 crops are estimated to be materially better. And on the other hand, there was a distinct firming of commodity prices, beginning towards the end of 1962 and continuing in the early months of 1963. While these developments will undoubtedly help to improve the state of balance — both internal and external — in the primary exporting countries in 1963, their impact is likely to be far from general and may be quite temporary: the underlying problems will remain.

The agricultural decline and recovery were most marked in Africa and the Mediterranean region and here most of the countries entered 1963 in a much stronger position than they had entered 1962: food and fibre inventories were generally much higher and farm prospects much brighter. Elsewhere the contrasts between 1962 and 1963 are more varied. In Oceania 1962/63 cereal crops were generally well above those of 1961/62. In Latin America, however, though maize crops registered another 4 to 5 per cent increase in 1962/63 (despite a decline in Mexico), the output of wheat and rice was very little above the 1961/62 level.

In southern and south-eastern Asia wheat production increased somewhat more between 1961/62 and 1962/63 than it had in the previous interval, barley production somewhat less; maize production recovered from a setback, but the over-all growth of crucial rice supplies continued to lag behind the increase in population: recovery in Cambodia and the Republic of Viet-Nam was counterbalanced by reductions in the Republic of Korea, Pakistan and elsewhere. Centrifugal sugar production in 1962/63 is estimated to be about 2 per cent above the 1961/62 level: expansion is reported in all regions except the Caribbean, where Cuban output is again somewhat lower, and western Asia, where Turkish output has also declined again. In the case of cotton, 1962/63 brought recovery not only to most African producers, notably Nigeria, Uganda and the United Arab Republic, but also to some major producers in other regions — Argentina, India and Mexico for example. In Brazil, Greece and the Sudan, however, the large crop was in 1961/62 — the later one was substantially smaller.

<sup>12</sup> This section is based in part on replies received from Governments to the United Nations questionnaire of November 1962 on economic trends, problems and policies.

Though the main impact of the wide-spread drop in production in 1961/62 was internal, in a number of cases it did affect the international market. The prices of many agricultural commodities rose during the year, averaged more in 1962 than in 1961 and continued rising in the early months of 1963 (see table 2-13).

Most spectacular was the rise in sugar prices, reflecting the conjunction of low production in Cuba and Europe and cutbacks in several other areas prompted by the low price/high inventory position that characterized the sugar market at the beginning of 1962. As European as well as Cuban production is thought to have receded further in 1962/63, a considerable drawing down of inventories seemed likely in order to meet rising consumption. As a result, a wave of speculation in futures was set off, accentuating the effect of a precautionary increase in current buying: free market prices in the first four months of 1963 averaged between two and three times the corresponding 1962 figure.

There was also a sharp rise in robusta coffee prices, induced largely by the poor out-turn of coffee in Africa in the 1961/62 season, especially in the Ivory Coast. In the first four months of 1963 they averaged over a fourth more than in the corresponding portion of 1962. This occurred in the face of a continuing decline in arabica prices and further accumulation of stocks in Latin America. An even sharper rise in olive oil prices — in April 1963 they were twice the corresponding 1962 figure — reflects the reduced olive crops gathered in the Mediterranean area in 1962, particularly in Greece, Portugal, Tunisia and Turkey. Rice prices also increased in 1962 in the wake of the disappointing 1961/62 harvest; and though they declined as supplies from the 1962/63 crop became available, they were generally still somewhat higher in the first quarter of 1963 than in the corresponding period in 1962. Cocoa prices began to rise as estimates of the 1962/63 crop began to indicate that output in Ghana and Nigeria (and later Brazil) was unlikely to reach the level of the two preceding seasons; in the first four months of 1963 they averaged about 14 per cent above the corresponding 1962 figure. A lag in production in east Africa, and to a less extent Brazil, was similarly responsible for an upsurge in sisal prices, raising the average over the first four months of 1963 to almost 50 per cent above the corresponding 1962 figure.

Among the other commodities whose prices were significantly higher in the early months of 1963 than a year before were copra and palm kernels (output down in 1962), mutton and lamb (output down in 1962 in New Zealand, the major exporter), butter (output down in the principal exporting countries, Argentina, Denmark and New Zealand) and wool (the clip having expanded very little since 1960/61). The over-all result, comparing the first quarters of 1963 and 1962, was an

Table 2-13. Primary Commodities: Distribution of Price Changes in 1962 and the First Quarter of 1963<sup>a</sup>

Price index 1962 (1961=100)	Commodity whose price index in the first quarter of 1963 (first quarter of 1962=100) was						
	90 or less	91-95	96-100	101-105	106-110	111-115	116 and over
80 or less.....	Abaca (96)	Jute (116)					
81-90.....	Linseed oil (107) Ground-nut oil (71)	Lead (62)	Ground-nuts (79)	Zinc (90)			
91-95.....		Coffee (Arabica) (68) Palm oil (108) Cotton (extra long staple) (80)			Soya beans (84)	Cocoa (57)	
96-100.....		Tin (123)	Rubber (125) Petroleum (99) Aluminium (115) Copper (91) Cotton (short staple) (80)	Maize (73)	Wool (cross-bred) (85)	Copra (74) Palm kernels (77)	Mutton and lamb (103)
101-105.....	Beef and veal (113)	Tea (Ceylon high) (106) Tobacco (United States) (123)	Wheat (Canada) (87)	Tea (India Average) (124)		Coconut oil (74) Wool (merino) (65)	Sugar (87)
106-110.....			Wheat (Australia) (75)				Coffee (Robusta) (44) Sisal (109)
111 and over.....			Barley (United Kingdom imports) (93)		Rice (88)	Butter (96) Coal (United Kingdom ex- ports) (107)	Olive oil (101)

Source: United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics* (Washington, D.C.); United Kingdom, *Trade and Navigation Accounts*.

<sup>a</sup> The indices are of prices on major international markets for standard grades of each commodity (see source for details). The figure in parentheses represents the price index for 1962 (1953=100, except in the case of beef for which 1954=100).

increase of 2 per cent in fats and oils, 6 per cent in fibres and 8 per cent in foodstuffs. On the average, the price of all primary commodities moving in international trade was up 3 per cent and that of the commodities exported by the under-developed areas about 4 per cent.

A reversal of the long downward drift of the prices of most of the products on which the primary exporting countries so heavily depend for their foreign exchange earnings is a matter of major economic importance. It will almost certainly serve to increase export receipts and improve the terms of trade in 1963. Assessments of the implications of recent price movements, however, need to be tempered by giving due weight to a number of significant aspects of the situation which will affect the amount and distribution of export earnings in the months ahead.

First is the highly selective nature of the price increases: as illustrated in table 2-12 they have been confined largely to a range of foodstuffs and fibres; few of the raw materials and practically none of the minerals were selling at higher prices in the early months of 1963 than a year before. Notable absentees from the list of commodities whose prices have risen are the major exports of those countries in which a rise in import capacity is most critically needed for halting the deterioration in economic balance; wheat, beef, linseed and ground-nut oil (Argentina), arabica coffee and cotton (Brazil), copper (Chile), jute (India), rubber and tin (Indonesia).

Second is the relatively low base from which recent price increases have occurred. In very few cases — sisal, lamb, olive oil — was the average 1962 price of the affected commodities above the level of ten years earlier. And in a number of cases the price had, for one reason or another, been lagging behind that of competitive commodities: robusta coffee prices had fallen relative to those of arabica, copra relative to several substitutable oil seeds, merino wools relative to cross-bred and carpet grades, maize relative to barley.

And third, and most significant from the point of view of the longer-term implications of these price changes, is the fact that they were induced almost entirely by more or less fortuitous developments on the supply side. There is little evidence that demand has done more than maintain its previous rate of growth. In some cases — probably cocoa, sisal, copra and robusta coffee for example — this means that, there being less to export in 1963, earnings will not rise parallel with price. It is only where the decline in production has been in the net importing countries — as, to some extent, in the case of sugar — that the price gain will not be offset at least in part by volume losses. However, as the bulk of the sugar moving in world trade is sold at prices not directly related to those on the “free” market, the impact of the upsurge in the latter on average unit values and aggregate earnings is likely to be materially moderated.

The course of prices (and earnings) in the period ahead will depend in large measure on the reaction of producers to the price rise. In some cases — sugar and butter for example — past experience suggests that the response to higher prices is fairly rapid; but no more may be required than an improvement in the weather. These commodities were in serious surplus at the end of 1961 and could easily return to that state by the end of 1964. Where the recent lag in production has been caused by plant diseases and institutional problems — as in the case of cocoa, copra and sisal — the future course of supply is less readily predictable. There are many producing countries, however, and difficulties in one or two, even if they are major sources of supply, are not likely to inhibit expansion elsewhere.

In general conditions of abundance, moreover, consumers also are often quick to react to higher prices, partly by moving to substitutes, whether natural or man-made. This is likely to act as a brake on the rate and extent of price increases during the remainder of 1963.

While the underlying commodity situation does not seem to have been significantly altered, however, the fact remains that as a result of the changed balance between production and consumption, even if only temporary, the export earnings of the primary exporting countries as a group — and much more the earnings of countries in which output has been well maintained — are likely to benefit substantially in 1963.

To judge from the replies of Governments to the United Nations Questionnaire on Economic Trends, Problems and Policies, however, few primary exporting countries are expected to receive significantly more for their exports in 1963 than in 1962. New Zealand looks forward to a somewhat better return from wool, Ghana from cocoa (because of higher prices) and timber (from a recovery in volume). Uganda, the United Arab Republic and the Republic of Viet-Nam all expect to increase exports in the wake of improved cotton and rice harvests. South Africa hopes to at least maintain its export earnings. The Republic of Korea on the other hand expects to have less rice for disposal; so does Thailand, where returns from rubber, tin ore, teak and kenaf are also expected to decline. The Federation of Malaya is also prepared for an increase in its current account deficit with an expansion in the volume of rubber exports — derived from the maturing acreages of higher yielding trees — being more than offset by a drop in price, together with a decline in shipments of tin and iron ore. The Federation of Rhodesia is likely to ship less tobacco, maize and chromite than in 1962. Colombia expects to earn less from coffee and petroleum exports.

Many primary exporting countries are seeking to strengthen export incentives. Apart from those that devalued their currency, or the export rates, in 1962, several are offering tax remissions on goods exported. Pakistan operates an export bonus scheme, tying import

licences to export performance. The United Arab Republic, avoiding further barter deals, is relying on a reduction in costs, following the nationalization of the cotton trade, and a 25 per cent premium on foreign exchange receipts. The Philippines is also seeking to diversify its export pattern geographically.

The corollary to the general expectation of continuing difficulty on the export side is continuing restraint on imports. Among countries reporting, only Ecuador, the Federation of Malaya, South Africa, Spain and Trinidad are counting on a higher level of imports in 1963 than in 1962. Elsewhere, higher tariffs, devaluation of currency and stricter licensing are intended to hold down purchases, particularly of "finished goods", "consumer goods" and "non-essentials". Almost everywhere priority is being given to raw materials and spares required by domestic industry and capital goods needed for new investment. Ghana has set the elimination of food imports as a target. The United Arab Republic expects food imports to continue in terms of arrangements made with the United States under PL 480. India is confining imports almost exclusively to the needs of defence and development.

In many countries the 1963 import bill will depend to a large extent on the availability of the means of payment. Cyprus and Turkey are counting on a relatively large inflow of public capital. Argentina has arranged to defer repayment of debts owed to the United States and western Europe. A number of countries — Ghana, the Philippines and the Republic of Viet-Nam for example — are enacting measures to attract foreign investment. South Africa, on the other hand, is expecting a deficit on capital account with loan repayments, private and public, exceeding the inflow of new funds. The Federation of Rhodesia is maintaining exchange control in order to regulate the outflow of capital. In India and Pakistan, imports required for implementation of development plans are largely contingent on the finance provided by consortia of industrial countries, the International Bank for Reconstruction and Development and the International Development Association; the combined amount is likely to exceed \$1.7 billion in 1963.

Though heavily dependent on crucial imports of capital goods, most development plans continue to be based overwhelmingly on local resources. In general, these plans continue to emphasize industrial activities, offering new tariff protection (as in Cyprus, the Philippines and Venezuela) or fiscal incentives such as tax holidays and low interest credit (as in the Philippines, Thailand, Turkey and Uganda) or both, and in many cases promoted through special institutions such as development corporations or industrial finance agencies (as in Cyprus, Ghana, the Federation of Malaya and Thailand).

While manufacturing continues to get high priority as

part of the diversification policy implicit in many development programmes, an increase in the attention given to agriculture is discernible in a number of countries. Cyprus is investing more in irrigation, as are Iran and the Sudan in order to expand farm acreage. Uganda has launched a campaign to raise the productivity of small farmers, by pest control and increased mechanization, involving an extension of rural credit. Thailand is intensifying its efforts to diversify agriculture and raise yields. The Republic of Viet-Nam is also shifting more of its investment resources to agriculture.

In South Africa the main stimulus to investment in 1963 will be in the public sector, particularly transport. In Israel capital formation is being held steady — a cut in housing offsetting increases in other sectors — as part of a programme to contain the inflationary pressures which were mounting in 1962; the programme also includes increased incentives to saving and restraints on credit, prices and wages. The Republic of Korea, though expecting a sizable increase in private capital formation, also intends to hold down government investment as part of a stabilization programme which includes higher indirect taxes and a more progressive income tax. The slowdown in development expenditure which was a feature of stabilization measures in Iran in 1962 is likely to be carried forward into 1963.

In Cambodia the 1963 budget has been cut by 20 per cent in an effort to contain the expansion in monetary demand which characterized 1962. In India a doubling of defence expenditure has imposed new budgetary strains, but it is being met in part by new taxes, both direct and indirect, which are intended to reduce the deficit, and in part by a new system of compulsory savings. New taxes have also been imposed in Argentina — including a 20 per cent surcharge on income tax and a 5 per cent tax on imports and on a number of farm products — but the 1963 budget remains in substantial deficit. This is also the case in Brazil where efforts have been made to curb government expenditure in order to reduce the large inflationary gap in the public sector.

The prospects for restoring economic equilibrium in the countries which have got furthest out of balance do not seem very bright in 1963. The probable increase in supplies — chiefly from domestic production, but also from imports — taken in conjunction with the largest feasible reduction in monetary demand still leaves a formidable gap. Even if imports can be increased — and in a number of cases this will involve further borrowing and deferment of existing repayment obligations — the problem of raising local output in the face of a switch from an inflationary to a deflationary fiscal and monetary régime remains to be solved.

In the majority of primary exporting countries, however, the state of economic balance is more amenable to the sort of adjustments which are feasible within a relatively short period. For most of these countries, 1963



may well be a somewhat better year than 1962: opening stocks of food and fibre are generally higher, international liquidity generally somewhat greater and prospects for the availability of capital in various forms at least as good, many commodity markets appreciably

firmer and prospects for demand for their exports generally brighter. In terms of institutions and programmes, moreover, most countries seem to have improved their capacity to tackle the manifold problems of economic development.

## Chapter 3

### RECENT TRENDS IN THE CENTRALLY PLANNED ECONOMIES

Industrial production continued to increase in 1962 at high rates in all the centrally planned economies of eastern Europe. These increases, moreover, were generally higher than the rates of expansion planned for this year, though in some countries the pace of advance was slower than in the preceding year. Agricultural production, strongly influenced by unfavourable weather, however, declined in several eastern European countries; it increased only slightly in others. A significant change in agriculture took place in mainland China, where production increased substantially after two years of very low levels of output.

As a consequence of these changes, in most centrally planned economies, the growth of national income was slower in 1962 than in 1961. The deceleration was particularly significant in countries which experienced a fall in agricultural production.

Investment activity in 1962, on the other hand, followed a more diversified pattern; it accelerated in some countries, while it grew at reduced rates in others. Retail

sales and personal consumption expanded at a somewhat higher rate than in 1961 only in a few countries; in the majority of the centrally planned economies, the advance slowed down.

The balance between supply and demand for consumer goods seems to have deteriorated in some eastern European countries, largely under the impact of a fall or insufficient growth of agricultural supplies. This was reflected in specific shortages, especially of livestock products, and has resulted in a rise in the cost of living in several countries. In consequence, real wages rose only slightly in most countries, and remained virtually unchanged in others. In mainland China, the relation between supply and demand and real per capita consumption improved in 1962.

Foreign trade of the European centrally planned economies expanded at an accelerated rate, while that of mainland China seems to have declined, although at a slower rate than in the preceding year.

### Developments in agriculture

#### CHANGES IN OUTPUT AND SUPPLY

Developments in agriculture in 1962 were strongly influenced by unfavourable weather which had an adverse effect on crops in virtually all centrally planned economies. Fodder shortages resulting from inadequate harvests of 1961 and 1962 were largely responsible for the difficulties encountered in increasing output of animal husbandry. The adverse impact of these factors was particularly marked in Poland and Czechoslovakia where agricultural production declined by 8.5 and 6 per cent, respectively. In Romania also, agricultural production appears to have declined. In Hungary, agricultural output remained at the level of 1960 and 1961. In Bulgaria and the Union of Soviet Socialist Republics, production increased by 2 and 1 per cent, respectively (see table 3-1). In all centrally planned countries, agricultural production in 1962 was considerably smaller than the targets set in the plans for this year.

The most significant change took place in mainland China where agricultural production increased substantially after two years of disastrously low level of output. It may be recalled that in 1961, despite some improvement, the total output of grains in mainland China was

below the level reached five years earlier; and because of the rapid growth of population, the level of per capita output was proportionally much lower. Although official production data have not been announced, indirect evidence based on official statements and non-official estimates indicates that in 1962 the output of grains seems to have recovered the level reached before the "great leap" of 1958 and that of cotton came close to this level. Output of non-grain crops also improved, partly through a rise of production on private plots allocated to the members of collective farms in 1961. While the increase in agricultural output resulted largely from improved natural conditions, the recovery of 1962 was considerably influenced by government policy and institutional changes initiated in 1960 and 1961.

These changes, aimed at the elimination of factors which contributed to the fall in agricultural output in earlier years, were of a dual character. The abolition of the commune system — in effect, if not formally — and the restoration of former collective farms as basic production units were associated with the setting up of an incentive system linking the distribution of income with production results and individual performance of the members of collective farms. No less important was the

Table 3-1. Indices of Agricultural Production, 1960-1962  
(Preceding year = 100)

Country and item	1960	1961	1962	1962 Plan
<i>Bulgaria</i>				
Gross agricultural output . . . . .	103.3	96.5	102.3	125.4
Crops . . . . .	101.8	90.7	105.2	...
Animal products . . . . .	106.4	108.4	97.2	...
<i>Czechoslovakia</i>				
Gross agricultural output . . . . .	106.0	100.0	94.0	105.1
Crops . . . . .	110.0	97.1	91.0 <sup>a</sup>	...
Animal products . . . . .	101.0	102.9	98.1	...
<i>Hungary</i>				
Gross agricultural output . . . . .	95.1	100.7	100.0	109.2
Crops . . . . .	93.9	96.1	...	...
Animal products . . . . .	94.9	106.4	...	...
<i>Poland</i>				
Gross agricultural output . . . . .	105.4	110.4	91.5	100.9
Crops . . . . .	107.9	111.6	85.8	97.9
Animal products . . . . .	101.9	108.6	100.0	105.5
<i>Romania</i>				
Gross agricultural output . . . . .	101.6	108.6	...	112.0
Crops . . . . .	98.3	103.4	...	...
Animal products . . . . .	109.4	118.7	...	...
<i>USSR</i>				
Gross agricultural output . . . . .	102.3	103.0	101.3	125.0
Crops . . . . .	103.6	101.6	99.4	...
Animal products . . . . .	99.0	104.7	103.7	...

Source: Reports on fulfilment of plans; national statistical yearbooks and statistical bulletins, and replies of Governments to the United Nations

questionnaire of November 1962 on economic trends, problems and policies.

<sup>a</sup> Estimated.

allocation of private plots to the peasants with the right to sell the products of these plots on recently opened free markets. These measures aiming at increasing incentives to work were complemented by an increase in the labour force allocated to agricultural production; this increase was made possible through elimination of or at least considerable reductions in the large development projects using rural labour, as well as by the transfer to the rural areas of great numbers of workers who during 1958 and 1959 had left the countryside for work in industry. Another important contributing factor was the diversion of industrial supplies from other sectors to agriculture. While most of these measures had already been initiated in 1960 and 1961, their full impact became apparent only in 1962.

In the Soviet Union, the increase in agricultural production was brought about by the larger output of animal husbandry; crop production declined slightly. Among other centrally planned economies of eastern Europe, crop production rose in Bulgaria and Eastern Germany, and to a lesser extent in Hungary; the relatively large increase in Eastern Germany, however, should be viewed against the fact that the harvest of 1961 was particularly poor. Output of animal husbandry fell in all of these countries with the exception of Poland, where it remained close to the level of 1961.

In the Soviet Union, despite poor weather in several major agricultural regions, production of grain, amounting to 139.9 million tons, exceeded the 1961 figure by 4.4 per cent (see table 3-2) and was somewhat higher than the previous peak in 1958. Production of potatoes declined, however, by as much as 18 per cent and that of beets grown for sugar by 7 per cent; output of cotton and sunflower seeds remained near the level of 1961. Among other crops, significant increases were registered in the output of pulses which nearly doubled, beet grown for feed, and, judging from the data on state procurements, of fruits and vegetables.

The rise in total output of grains resulted from a substantial increase in the sown area, which expanded by a larger percentage than did output. The extension of the area under wheat and pulses as well as under corn for silos, and under some other crops was achieved largely by the shift from the area under sown grass and fallow land, although total area brought under cultivation also increased. In 1961, around 52 million hectares out of a total of 221 million hectares of cultivated land were under sown grass or lying fallow. In 1962, around 17 million hectares of this area were shifted to other cultures, mainly wheat, feed corn, pulses, and beets grown for fodder, leaving 35 million hectares for sown grass and fallow land. The changes in the allocation of

Table 3-2. Output and Procurements of Major Crops, 1955-1962  
(Millions of tons)

Country and item	Grains <sup>a</sup>				Sugar-beets				Potatoes			
	Average 1955-1959	1960	1961	1962	Average 1955-1959	1960	1961	1962	Average 1955-1959	1960	1961	1962
<i>Bulgaria</i>												
Output.....	4.20	4.80	4.24	4.38	1.06	1.65	1.43	1.30	.31	.48	...	...
Procurement.....	1.1	1.3	...	...	1.05	1.61	1.42	...	...	...	...	...
<i>Czechoslovakia</i>												
Output.....	5.21	5.76	5.66	5.73	5.88	8.37	6.89	6.01	7.84	5.09	5.33	5.22
Procurement.....	...	...	...	...	...	...	...	...	...	...	...	...
<i>Eastern Germany</i>												
Output.....	6.01	6.38	4.84	5.94	7.02	6.84	4.66	...	12.64	14.82	8.43	...
Procurement.....	2.0	1.9	1.7	1.9	6.53	6.52	4.41	...	3.52	3.44	2.96	3.73
<i>Hungary</i>												
Output.....	6.31	6.82	6.07	6.43	2.16	3.37	2.36	...	2.44	2.66	1.63	...
Procurement.....	1.5	1.3	1.5	1.5	2.08	3.29	2.30	...	.35	.49	.43	.42
<i>Poland<sup>b</sup></i>												
Output.....	13.18	14.27	15.43	13.40	7.14	10.26	11.56	10.10	34.14	37.86	45.20	37.80
Procurement.....	2.4	2.2	2.6	2.0	7.14	10.26	11.56	10.10	2.99	3.47	4.19	4.11
<i>Romania</i>												
Output.....	9.16	9.83	10.60	9.68 <sup>c</sup>	2.14	3.40	2.91	...	2.80	3.01	2.88	...
Procurement.....	...	...	...	...	...	...	...	...	...	...	...	...
<i>USSR<sup>d</sup></i>												
Output.....	113.2	131.7	134.0	139.9	35.5	57.7	50.9	47.2	83.4	84.4	84.3	68.8
Procurement.....	43.3	46.3	51.4	55.1	34.2	52.2	47.7	43.9	7.3	7.1	7.0	5.7

Source: See table 3-1.

<sup>a</sup> Wheat, rye, barley, oats, corn, mixed grains, buckwheat and millet.

<sup>b</sup> Excluding mixed grains and millet.

<sup>c</sup> Estimated, reported to be 1.7 million tons higher than the 1934-1938 average.

<sup>d</sup> Average indicated in the first column for each commodity refers to 1954-1958.

Official Soviet data on grains include pulses; however, this item is excluded here in order to make the figures comparable with those for other countries. Output of pulses (in millions of tons) amounted to 2.7 in 1960, 4.0 in 1961 and 7.6 in 1962. Procurement of pulses (in millions of tons) was equal to 0.4, 0.7 and 11.5, respectively.

cultivated area (in millions of hectares) are shown in the following table:

	1961	1962
Total.....	220.7	223.4
Grain land.....	124.0	128.7
Wheat.....	63.0	67.4
Rye.....	16.7	16.9
Barley.....	13.4	16.2
Oats.....	11.5	6.9
Corn <sup>a</sup> .....	13.2	14.2
Other <sup>b</sup> .....	6.2	7.1
Technical crops.....	13.6	14.3
Potatoes and vegetables.....	10.8	10.7
Pulses.....	4.3	7.2
Corn for silage.....	12.5	22.9
Miscellaneous fodder <sup>c</sup> .....	3.3	4.9
Sown grass.....	36.1	27.3
Fallow land.....	16.1	7.4

Source: See table 3-1.

<sup>a</sup> Includes area under corn for grain to be harvested before ripening.

<sup>b</sup> Includes buckwheat, millet and mixed grains.

<sup>c</sup> Of which sugar beet for fodder, 1.3 in 1961 and 2.8 in 1962.

These changes represent the initial impact of a far-reaching reform in the system of crop rotation which was initiated in 1962 and is intended to be completed within the next few years. The programme will eventually eliminate the grass rotation system of farming, greatly restrict the practice of fallowing and reduce the area seeded to oats. The allocation of the areas thus released for the cultivation of corn, sugar beets, peas and beans is expected to result in a considerable rise in the supply of fodder required for further substantial increases in the output of meat and milk.

It should be added that this programme could be conceived as a continuation of the efforts launched in 1954 with a view to increasing the supply of fodder; these efforts have aimed at increasing the area under maize for the purposes of grain, silage and green feed.

From 1961 to 1962, grain output increased slightly in Bulgaria and Czechoslovakia, significantly in Hungary, and considerably in Eastern Germany. It declined by as much as 13 per cent in Poland and by 9 per cent in Romania. These changes notwithstanding, in most of these countries, the 1962 output was close to the 1955-1959 average. It was significantly above this average in Czechoslovakia and Romania. In Bulgaria, despite unfavourable weather, average yields of both bread grains and coarse grains were somewhat higher than in 1961. Bread grain output was maintained at the 1961 level on a 5 per cent smaller area, while output of coarse grain was 7.4 per cent higher on a 5 per cent larger area. Total area under grain apparently declined somewhat. In Czechoslovakia and Hungary, the increases in grain output were due to better yields of coarse grains. In both countries, yields of bread grains declined. In Hungary, output of bread grains declined by 2 per cent despite a 5 per cent increase in sown area, while output of coarse grains rose around 10 per cent even though the area under cultivation fell by 2 per cent; the increase in total area under grains was not significant. In Eastern Ger-

many, the rise in production was due to an increase in yields of all major grains; the total sown area and its distribution apparently underwent little change. In Romania, output of fodder crops was particularly disappointing although a larger area had been sown.

In Poland, a factor contributing to the reduction in grain output was the 3 per cent decline in the sown area.<sup>1</sup> The decisive cause of the decline was, however, the unfavourable weather of 1962 which adversely affected all grains except barley; the effect was particularly severe on rye, Poland's main cereal crop. Output of bread grains declined by 16 per cent and that of coarse grains by 7 per cent, the area under each of these crops having declined at an equal rate. The considerable reduction in grain output necessitated additional imports, thus complicating Poland's balance of payments position. In 1962, grain imports exceeded considerably the all-time peak reached in 1961 and they are scheduled to increase further in 1963.<sup>2</sup>

Among the major other crops, sugar beets and potatoes showed poor results in all centrally planned economies except in Eastern Germany. Of particular significance was the decline in Poland, where however bumper harvests were gathered in 1961. In Bulgaria, excellent crops of tobacco, the output of which rose 89 per cent exceeding the peak of 1959, and the 25 per cent rise in output of fruits contributed significantly to the increase in total output of crops and to higher export receipts.

The gain in output of livestock products in the Soviet Union was due mainly to an 8 per cent increase in the production of meat which, after reaching a peak in 1959, fell in 1960 and only partly recovered in 1961. The 1962 output of meat exceeded that of 1959 by more than 5 per cent (see table 3-3). Progress in milk and egg production, rapid in the previous years, was relatively slow in 1962. The gain in milk production was brought about by an increase in the number of livestock (see table 3-4); yields have declined slightly. In the other centrally planned economies, the poor performance in the livestock sector reflected a reduction or, in the more favourable cases, an unchanged level of output of all major products. In Eastern Germany, output of meat, milk and eggs declined very considerably, the former by as much as 22 per cent. The number of cows fell by 4 per cent and that of pigs by 10 per cent. During the second half of 1962, slaughtering had to be restricted in order to keep up livestock numbers. In other countries, livestock numbers and production of meat seem to have been generally maintained in 1962 despite poor fodder supplies. Output of milk declined, however, in Czecho-

<sup>1</sup> The area sown under grains in Poland has, in fact, been declining since 1958 at the following annual percentage rates: 1959: 2.3; 1960: 1.2; 1961: 3.0; 1962: 2.9.

<sup>2</sup> While output of grain fell from 15.4 to 13.4 million tons, imports of grain, which amounted to 1.8 million in 1960 and to 2 million in 1961, reached 2.5 million tons in 1962. Although the plan for 1963 anticipates an output of 14.9 million tons, the fall in production in 1962 made it necessary to plan a still larger volume of imports for 1963, amounting to 2.85 million tons.

Table 3-3. Output and Procurements of Livestock Products, 1955-1962

Country and item	Meats				Milk <sup>b</sup>				Eggs <sup>c</sup>			
	Average 1955-1959	1960	1961	1962	Average 1955-1959	1960	1961	1962	Average 1950-1959	1960	1961	1962
<i>Bulgaria</i>												
Output.....	.43	.42	.49	.49	.87	1.08	1.15	1.14	.88	1.22	1.40	1.31
Procurement.....	.22	.25	.29	.30	.36	.66	.71	.72	.46	.78	.90	.82 <sup>d</sup>
<i>Czechoslovakia</i>												
Output.....	.86	.93	.96	.99 <sup>d</sup>	3.59	3.72	3.83	3.39	1.98	2.27	2.35	2.38
Procurement.....	...	.76	.79	.83	...	...	...	... <sup>e</sup>	...	1.09	1.22	...
<i>Eastern Germany</i>												
Output.....	1.24	1.36	1.41	1.10	5.34	5.73	5.61	5.22	2.67	3.51	3.60	...
Procurement.....	.92	1.06	1.11	.99	3.81	4.88	4.95	4.63	1.43	2.18	2.35	2.06
<i>Hungary</i>												
Output.....	...	...	...	...	1.68	1.90	1.84	...	1.55	1.85	1.89	...
Procurement.....	.44 <sup>f</sup>	.52	.54	.63	.59	.74	.75	.75	.42	.41	.49	.44
<i>Poland</i>												
Output.....	2.00	2.14	2.39	2.44	10.75	12.12	12.39	12.40	4.49	5.59	6.14	6.04
Procurement.....	1.23	1.48	1.73	1.76	3.04	3.73	3.86	3.84	1.79	2.53	2.90	2.82
<i>Romania</i>												
Output.....	.85	.97	1.06	...	2.20	2.74	2.95	...	1.89	2.36	2.60	...
Procurement.....	...	...	...	...	...	...	...	...	...	...	...	...
<i>USSR</i>												
Output <sup>g</sup> .....	13.3	15.6	15.7	16.9	53.4	61.7	62.6	64.2	21.8	27.4	29.3	30.2
Procurement.....	5.37	7.88	7.33	8.60	19.7	26.3	27.5	29.2	4.12	6.45	7.38	8.50

Source: See table 3-1.

<sup>a</sup> In millions of tons in terms of live weight including poultry.

<sup>b</sup> In billions of litres.

<sup>c</sup> In billions.

<sup>d</sup> Estimated on basis of returns for nine months.

<sup>e</sup> Reported to have been 6.8 per cent lower than in 1961.

<sup>f</sup> Excluding poultry.

<sup>g</sup> Figures for meat partly estimated; original data given in terms of carcass weight.

Table 3-4. Livestock Numbers,<sup>a</sup> 1960-1962  
(Millions)

Country and period	Cattle		Pigs	Sheep
	Total	Cows		
<i>Bulgaria</i>				
1960.....	1.45	.55	2.55	9.33
1961.....	1.58	.60	2.33	10.16
1962.....	...	...	...	...
<i>Czechoslovakia</i>				
1960.....	4.39	2.05	5.96	.65
1961.....	4.52	2.06	5.90	.60
1962.....	4.51	2.06	...	.53
<i>Eastern Germany</i>				
1960.....	4.68	2.18	8.32	2.02
1961.....	4.54	2.17	8.86	1.93
1962.....	4.51	2.09	8.05	...
<i>Hungary</i>				
1960.....	1.97	.91	7.30	2.38
1961.....	2.02	.90	8.42	2.64
1962.....	2.00	.85	7.77	2.85
<i>Poland</i>				
1960.....	8.70	5.89	12.62	3.66
1961.....	9.17	5.92	13.43	3.49
1962.....	9.59	6.02	13.62	3.30
<i>Romania</i>				
1960.....	4.53	2.24	4.30	11.50
1961.....	4.71	2.14	4.67	12.28
1962.....	...	...	...	...
<i>USSR</i>				
1960.....	75.8	34.8	58.7	140.3 <sup>b</sup>
1961.....	82.1	36.3	66.7	144.5 <sup>b</sup>
1962.....	86.8	37.9	69.7	146.3 <sup>b</sup>

Source: See table 3-1.

<sup>a</sup> 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 census for Poland.

<sup>b</sup> Including goats.

slovakia, owing to a fall in yields, and possibly in Hungary, owing to a reduction in the number of cows. Production of eggs declined everywhere except Czechoslovakia.

In the Soviet Union, state procurements of all major products rose proportionally more than output and exceeded the levels attained in the preceding years (see tables 3-2 and 3-3). For grain, however, the procurement in 1962 was still somewhat below the peak reached in 1958. Procurement of meat increased by 18 per cent and reached a record level. In the other centrally planned economies, procurements of grain showed little change, except in Poland where they declined to an even larger extent than did output. Procurements of meat increased by more than 16 per cent in Hungary, by 5 per cent in Czechoslovakia and by 3 per cent in Bulgaria. In Poland, the increase was less than 2 per cent. In Eastern Germany, procurement fell by some 10 per cent; the decline was, however, half as much as in output. Changes in the volume of procurements of milk and eggs were generally in line with the changes in output.

State investment in agriculture continued to expand

at a high rate in most centrally planned economies in 1962. In the Soviet Union, state investment, mainly allocated to state farms, rose as in the previous year by 22 per cent — that is, at a rate considerably exceeding that of the increase in total state investment. The proportion of investment allocated to agriculture declined in a number of countries, however, as investment by collective farms lagged following the slowing down of the growth of agricultural income. The use of fertilizers expanded considerably in Czechoslovakia, Hungary and Poland, the percentage increases being 15, 25 and 12, respectively. In the Soviet Union, output of fertilizers rose 13 per cent, compared with 11 per cent in 1961. In Bulgaria, the 5 per cent rise in consumption of fertilizers was not sufficient to regain the level reached in 1959. The stock of tractors in use expanded 18 per cent in Poland and by 10 and 8 per cent, respectively, in Romania and Bulgaria.

#### POLICY MEASURES AND INSTITUTIONAL CHANGES

Important steps to encourage investment of collective farms and to stimulate production, particularly of live-

stock products, were undertaken in Bulgaria and the Soviet Union. In both countries, investment of collective farms during recent years was not increasing at a rate considered necessary for the achievement of output targets; in part, this was explained to have been caused by the inadequate level and rate of growth of income.<sup>3</sup> Moreover, in both countries, the prevailing relationships between prices received for some agricultural products, especially for animal husbandry and other agricultural products, were such as to render the former greatly unprofitable.<sup>4</sup> In order to stimulate output and raise investment of the collective farms, prices paid to these farms for state procurement were increased in the Soviet Union as of 1 June 1962 by an average of 35 per cent for cattle, pigs, sheep and poultry, by 10 per cent for butter and by 5 per cent for cream.<sup>5</sup> The increment in money income of collective farms due to these increases was officially estimated at 1.2 billion roubles on an annual basis, amounting to some 9 per cent of their money income in 1961. In addition, beginning with the crop of 1963, the purchase price of cotton delivered by collective farms was raised by 20 per cent and by state farms by 12 per cent. Furthermore, in order to increase the inducement to invest, prices of several producer goods, such as tools, repair parts, construction materials, metals and metal products, were reduced at the end of 1961 and in the beginning of 1962. The total savings, due to these price reductions, together with the cut in farm taxes, were estimated at 1.15 billion roubles.

In Bulgaria, procurement prices of a variety of agricultural products were significantly increased as of 30 July 1962, and prices of some producers' goods purchased by the collective farms were reduced.<sup>6</sup> In addition, income taxes paid by collective farms were reduced by an average of around 20 per cent. It was also decided to introduce some form of guaranteed minimum remuneration for work in the collective farms.

Eastern Germany was another country where significant adjustments in procurement prices of agricultural products in particularly scarce supply were made in the course of 1962. The abolition of the differences between prices paid for obligatory deliveries and free sales to the State of potatoes resulted in an estimated

<sup>3</sup> Investment of collective farms amounted to 3.53 billion roubles in 1959, 3.17 billion roubles in 1960, 3.16 billion roubles in 1961 and 3.4 billion roubles in 1962. The changes reflected in these data were, however, influenced by the reduction of the size of the collective farm sector resulting from the transformation of a number of collective farms into state farms. A rough estimate allowing for changes in the size of the collective farm sector indicates that the decline in investment in 1960 was much smaller than it would appear from the non-adjusted data quoted above, and was followed by an increase in 1961 bringing the level of investment of this year to that of 1959.

In Bulgaria, investment of collective farms (in millions of leva) amounted to 251 in 1959, 245 in 1960 and 272 in 1961.

<sup>4</sup> In 1960, the ratio of prices received by the collective farms from the State to their costs—the wage component of which was calculated on the basis of wage cost of the state farms—was as follows: cereals, 1.55; potatoes, 1.47; milk, .86; cattle, pigs and poultry in live weight, .64, .67, and .59, respectively.

one-third increase in the average prices paid for this commodity to collective farms. In August, new prices for slaughter pigs, applicable to deliveries above obligatory quotas, came into effect, raising the average price of procurements by about 13 per cent. For state farms, an increase in purchase price for the same product of 27 per cent became effective from January 1963.

Important changes in planning and management of agriculture were introduced in Eastern Germany, Romania and the Soviet Union with a view to strengthening the link between the producing units and state economic organs and to enhancing their role in promoting the expansion of agricultural production.

In the Soviet Union, the basic innovation consisted of the establishment of "territorial kolkhoz-sovkhoz production boards" entrusted with the supervision of state and collective farms, each board being responsible on the average for 30 to 60 farms. The task of the production boards is to stimulate the rise in productivity through improvements in techniques and in internal organization of work of collective and state farms. They are also responsible for the preparation of production plans, for the formation of stocks of agricultural produce for deliveries to the State, and for the preparation and introduction of incentive methods of remuneration of farm labour. The boards will have under their supervision laboratories, veterinarian and experimental stations, and other specialized units responsible for introduction and dissemination of modern techniques of land cultivation and animal husbandry. They are also expected to improve the specialization and division of work among the farms and increase the degree of co-ordination in planning and production of agriculture.

The territorial production boards will be supervised by regional agricultural committees which, in turn, will be responsible to agricultural committees of the republics, and the latter to the agricultural committee of the Soviet Union. An important aspect of this reform is that, while in the past the only obligatory targets set for collective farms were delivery quotas, the territorial production board will plan and direct agricultural activities in their territories, and that a production plan elaborated by the collective farms under the supervision

<sup>5</sup> Prices paid to state farms were fixed at 10 per cent below the level of the new prices paid to the collective farms. It will be noted that the function of producers' prices paid to the state enterprises differs basically from that played by prices paid to collective farms. The remuneration of workers in state farms consists of wages which, as in the case of industrial employees, does not depend on the price of the output. Moreover, cost per unit of output in the state farms is generally lower than in collective farms and their investments are largely financed by budgetary grants.

<sup>6</sup> The percentage increases in prices paid to the collective farms were as follows: cow milk, 9; poultry, 13; eggs, 11; tomatoes, 18; paprika, 6; onions, 32; berries, 27.

Among goods for which data are available, prices for petroleum products were reduced on the average by 46 per cent and prices of fertilizers and pesticides by 25 per cent. Prices paid by the collective farms for building materials and some other industrial products were lowered to the levels at which they are sold to the state enterprises.



of the new boards will represent a firm commitment. The introduction of this new system of management of agriculture was motivated by the need to bring about radical changes in the technique and internal organization of work which apparently could not be achieved under the conditions prevailing before the reform. Unlike in the recent past when production decisions of collective farms were not submitted to direct control of higher authorities, the basic task of the agricultural administration under the new system is to direct the production of both collective and state farms.

The governing councils of the territorial production boards are composed of chairmen of the collective farms under their supervision as well as of local party and state officials. Their task is not to supplant the collective farm assemblies and their chairmen in planning and management, but rather to assist, influence and control their activities in order to bring them into greater conformity with the general state policy.

The importance attached to the strengthening of the direction of agricultural activities has been reflected in

the recent reorganization of the communist party which has led to the creation of separate organizational units and committees for agriculture and industry. This functional division within the party parallel to the division of the state economic organs into *sovnarkhozes* dealing with industry and territorial production boards dealing with agriculture was largely aimed at increasing the activity of the party organizations in the agricultural sector to which insufficient attention was paid before the creation of separate agricultural units.

The reforms in Romania and Eastern Germany were similar in many respects to those which were introduced in the Soviet Union. Their common characteristic was the creation of territorial production boards responsible for the planning and direction of productive activities of the farms, although their links with the higher authorities were established differently. Thus, for instance, in Romania, the territorial boards are subordinated to local administrative bodies and not, as in the Soviet Union, to special agricultural committees. Similar reforms are contemplated but have not yet been introduced in Czechoslovakia.

## Developments in industry

### CHANGES IN OUTPUT AND EMPLOYMENT

In contrast to developments in agriculture, industrial production continued to expand at high rates in 1962. The rates of increase achieved during this year ranged from 6 per cent in Czechoslovakia and Eastern Germany to about 15 per cent in Romania, and were generally higher than the rates of expansion planned for this year. Only in Czechoslovakia did production fall considerably short of the 1962 target (see table 3-5).

During 1961 and 1962, the rates of increase in industrial production were smaller than in 1960, indicating a certain slowing down of industrial expansion. In 1961, the slowing down was apparent in all countries under review; in 1962, a further deceleration occurred in Czechoslovakia, Hungary, Poland and Romania. The rate of industrial growth has remained practically unchanged in Bulgaria, Eastern Germany and the Soviet Union. In mainland China, though data are lacking, indirect evidence seems to indicate that, under the impact of improvements in agricultural output and of a more realistic reallocation of resources between various industries, a process of recovery from the reduced level of the preceding two years was taking place.

The developments within the industrial sector were influenced by the changes which occurred in agriculture and foreign trade in the course of the year as well as by the cumulative results of certain developments in the industrial sector itself during the preceding years. The poor performance of agriculture in 1961 and 1962 contributed, in several countries, to decelerating

the industrial growth both directly, through its effect on industries processing agricultural raw materials, and indirectly, through its effect on exports and thus on the ability to import industrial raw materials and equipment.

The situation in the industrial sector in 1962, as during the preceding years, was also influenced by the accumulation of stocks in some industries and of shortages in others, resulting in many instances from insufficient co-ordination between the growth of various interconnected industries and foreign trade owing to inadequacies in planning and in implementation of plans. No less significant was the non-fulfilment of plans for putting into operation of new capacity which obviously had a decelerating effect on the growth of industrial production.

The effect of these factors on the industrial situation was by no means identical in all countries. In the Soviet Union, which, in view of its size, the richness and variety of its natural resources and great diversification of industrial output, is less dependent on foreign trade, developments in industrial sectors were relatively smooth. Similarly, the two least industrialized countries of eastern Europe, Bulgaria and Romania, were able to achieve very high rates of industrial expansion without any significant disturbances. In the more industrialized countries of the region, however, such as Eastern Germany, Czechoslovakia and Poland, serious difficulties became apparent — in Eastern Germany, in fact, already in 1961.

Table 3-5. Changes in Gross Industrial Output,<sup>a</sup> 1960-1962  
(Percentage change over the preceding year)

Country	1960	1961	1962	1962 Plan
Bulgaria . . . . .	13.3	11.7	11.1 <sup>b</sup>	7.4 <sup>b c</sup>
Czechoslovakia . . . . .	11.7	8.9	6.2	9.9 <sup>d</sup>
Eastern Germany . . . . .	8.2	5.9	6.1	6.4
Hungary . . . . .	12.4	10.4	8.5 <sup>b</sup>	8.0 <sup>b</sup>
Poland . . . . .	11.1	10.3	8.4 <sup>b</sup>	7.8 <sup>b</sup>
Romania . . . . .	16.8	15.5	14.7	13.5
USSR . . . . .	10.0	9.2	9.5	8.1

Source: See table 3-1.

<sup>a</sup> Unless otherwise indicated, the data refer to total industry including state, co-operative and private industry, mostly consisting of small handicrafts. Data for Eastern Germany exclude handicrafts.

<sup>b</sup> State and co-operative industry.

<sup>c</sup> Derived on the basis of the actual output fig-

ures and the reported percentage of plan fulfilment. The originally published target was 9.9 per cent. It is not clear whether this discrepancy is due to differences in coverage or to a revision of the plan in the course of the year.

<sup>d</sup> Original plan. The target set for 1962 was reduced in the course of the year.

It is true that these developments were not reflected in the indices of industrial production in Eastern Germany and Poland which were able to meet the global targets set for 1962. Only in Czechoslovakia where the situation deteriorated more than in the other countries did the production data indicate that industrial output fell considerably short of the target. But the importance of these developments was clearly reflected in the far-reaching alteration of the plans of these countries for the following years. Czechoslovakia and Eastern Germany abandoned their long-term plans three years ahead of their completion, and decided to start their new long-term plans in 1964 after an intermediate year devoted to readjustments and elimination of imbalances necessary for the preparation of the ground for further economic growth. In Poland, the current Five-Year Plan has been retained, but far-reaching alterations in investment programmes for the remaining years have been introduced; these involve drastic reductions in some sectors — mainly in non-productive sectors and in consumer goods industries — and substantial increases in others. The rate of increase in industrial production planned for 1963 was reduced in Poland to 5 per cent as compared to an 8 per cent increase in 1962. In Czechoslovakia, the deceleration was much more drastic, as the rate planned for 1963 was set at an unprecedentedly low level of less than 1 per cent.

The fall in agricultural production in Czechoslovakia and in Poland had a particularly depressing effect on the ability to import industrial raw materials and equipment. In Czechoslovakia, export revenues and the ability to import were also influenced by the fact that mainland China was not prepared to accept the deliveries of previously ordered machinery and equipment because of shortages of exportable goods and the modifications in its industrial plans. As the goods earmarked for export to mainland China consisted largely of complete plants and equipment produced according to particular specifications, they could not be exported to other countries;

nor could they, in all cases, be utilized domestically. In addition, there were also difficulties of a more lasting character, especially in the trade with western Europe. In Poland, the ability to import was considerably affected by a further deterioration in the terms of trade, largely as a result of the decline in prices of food and coal which figure prominently in export trade. Furthermore, Czechoslovakia, Eastern Germany and Poland were not able to attain the goals set in their plans for export of machinery and equipment to private enterprise economies. Importation of goods required for domestic industry was also affected by the non-fulfilment of plans for production of goods earmarked for exports to other centrally planned economies. In Poland, for example, exports of machinery to the Soviet Union were hampered by delays in the completion of investment projects and, therefore, in the production of the required goods. The ability to import, especially in Czechoslovakia, was also influenced by the credits granted to other countries.

In Czechoslovakia and Poland, the process of readjustment within the industrial sector and between industry and foreign trade necessitated by the developments culminating in 1962 has only begun. In Eastern Germany, on the other hand, certain steps in this direction had already been initiated in 1961; this process was greatly facilitated by the credits from the Soviet Union.

As already stated, the emergence, and even accentuation, of imbalances in the process of economic expansion was not confined to Czechoslovakia, Eastern Germany and Poland only. But for a variety of reasons — particularly their relatively large dependence on foreign trade and the complexity of their industrial structure — their impact on industrial development was much greater in these three countries than elsewhere. For instance, the Soviet Union, because of its small dependence on foreign trade, and Bulgaria and Romania, be-

cause of a much lower level of industrialization, are less vulnerable to disturbances caused by inter-industry imbalances than are Czechoslovakia, Eastern Germany, Hungary and Poland. It is, therefore, significant that the developments in Hungary were recently relatively undisturbed despite certain imbalances similar in nature, though not in magnitude, to those existing in other countries. This difference arose largely because in this country the process of readjustment and of co-ordination of output of various industries and foreign trade was started at an earlier date, and was associated with certain reforms in planning and management which proved to be effective.

Within the producer goods sector, output of electric energy increased in virtually all countries at higher rates than did industrial production (*see* table 3-6). Moreover, the situation in this sector was favourably influenced by the integration of the electric networks in Czechoslovakia, Eastern Germany, Hungary, Poland and the Ukraine into a common system which made it possible to adjust the allocation of energy to the fluctuations in output and consumption in various countries. In the centrally planned economies taken as a group, output of oil and natural gas has increased at a higher rate than has the output of coal, largely as a result of changes in the composition of fuel output in the Soviet Union and a rise in oil production in Romania. The construction of an additional segment of the pipeline linking the Soviet Union with other eastern European countries has contributed to a further increase in the supply of Soviet oil to these countries. Output of pig-iron, steel and other raw materials also increased substantially.

As in the preceding year, the highest priority in most countries was allocated to engineering goods and chemicals (*see* table 3-7). In the Soviet Union, the importance attached to the expansion of chemical industries is evident from the official pronouncement which rescinded the earlier policy of granting top priority to steel production. The expansion of the chemical industry has been emphasized in all the centrally planned economies in order to increase considerably the output

of artificial fibres, plastics and other substitutes for agricultural or extractive raw materials and fertilizers. The increases in the output of chemical industries in 1962 were higher than in any other industrial branch. In the Soviet Union and in Poland, output of the chemical industry rose by about 15 per cent; in Bulgaria and Hungary, by about 20 per cent; and in Romania, by as much as 24 per cent. In Czechoslovakia and Eastern Germany, the rates of expansion were substantially lower, partly because the chemical industry had already reached a relatively high level in these countries. It is also significant that increases in chemical output achieved in 1962 have in almost all countries substantially exceeded the planned targets.

Similarly, in 1962, the targets set for engineering industries were substantially exceeded in all countries except in Czechoslovakia. Compared with the preceding year, the growth of engineering industries shows a certain slowing down in most countries. Nevertheless, the rates of expansion have remained exceedingly high. Here again, as in the case of chemicals, the rate of expansion was the smallest in the two most industrialized countries of the group, Eastern Germany and Czechoslovakia, which possess well-developed engineering industries, and the highest in the two least industrialized countries, namely, Bulgaria and Romania. But even in the Soviet Union with its large engineering industry, the output increased in 1962 by 15 per cent, and in Poland and Hungary by about 16 and 12 per cent, respectively.

Developments in industries producing construction materials were less favourable than in industries producing engineering goods and chemicals despite the importance attached to the supply of building materials for speeding the construction of new productive capacity. In several countries, production targets set for 1962 were not reached. As in the case of other producer goods, the highest rates of increase were achieved by Bulgaria and Romania — 14 and 18 per cent, respectively. In the Soviet Union, the increase in 1962 amounted to 9 per cent as against the 12 per cent increase achieved in 1961. Similarly, in Poland the rate

Table 3-6. Changes in Output of Fuel, Power and Selected Basic Materials, 1960-1962  
(Percentage change over the preceding year)

Item	USSR			Other eastern European countries		
	1960	1961	1962	1960	1961	1962
Coal <sup>a</sup> . . . . .	1.3	—	1.3	5.5	5.3	4.4
Crude oil . . . . .	14.1	12.3	12.0	2.3	3.0	6.0
Natural gas . . . . .	26.5	30.2	27.3	14.2	9.0	9.5
Electric power . . . . .	10.3	12.0	12.6	13.0	9.0	8.0
Pig-iron . . . . .	8.7	9.0	9.0	8.3	5.0	9.0
Rolled steel . . . . .	8.5	8.4	7.0	11.7	8.7	6.6
Cement . . . . .	17.3	11.8	12.7	14.6	7.7	4.2

Source: See table 3-1.

<sup>a</sup> Hard coal, brown coal, lignite on a ton-to-ton basis.

Table 3-7. Changes in Output of Some Major Branches of Producer Goods Industries, 1961-1962

(Percentage change over the preceding year)

Country	Engineering			Chemicals			Construction materials		
	1962			1962			1962		
	1961	Plan	Actual	1961	Plan	Actual	1961	Plan	Actual
Bulgaria <sup>a</sup> .....	14.0	17.8	23.8	13.9	15.5	20.7	14.6	14.5	14.2
Czechoslovakia.....	11.9	10.7	8.6	12.9	10.0	10.4	7.2	10.1	8.3
Eastern Germany.....	6.8	9.7	10.0	8.3	6.9	7.5	5.1	9.3	6.6
Hungary.....	14.3	11.0	12.0	22.6	16.0	19.0	3.4	...	4.0
Poland.....	18.6	13.0	15.6	19.1	12.8	15.5	8.6	7.7	6.0
Romania.....	19.7	17.0	19.0	26.9	25.0	24.0	13.7	15.0	18.5
USSR.....	16.0	12.0	15.0	14.0	...	15.0	12.0	...	9.0

Source: See table 3-1.

<sup>a</sup> 1961, all industry; 1962, state industry.

of expansion fell from about 9 per cent in 1961 to 6 per cent in 1962. In Czechoslovakia, Eastern Germany and Hungary, a certain acceleration of growth took place in the course of the year.

As in the preceding years, light and food industries were expanding at a much slower pace than were the first priority producer goods industries, such as those producing engineering goods and chemicals (see table 3-8).

Production in light industry increased at a smaller rate than in 1961 in most countries. This deceleration was related to the slower rise in real incomes and demand planned for 1962. Similar considerations seem to have influenced the determination of plans for expansion in the output of food processing industries which were set below the rates of increase in 1961. But, in several countries, under the impact of unfavourable developments in agriculture, the rates actually achieved were not only below the rates achieved in 1961 but also those planned for 1962. Only in the Soviet Union, where the agricultural situation was comparatively much bet-

ter, did the rate of expansion of food industry in 1962 exceed substantially the relatively high rate achieved in 1961.

Industrial employment increased in 1962 at a slower rate than in 1961 in Czechoslovakia, Romania and in the Soviet Union (see table 3-9). Only in Bulgaria and Poland was the percentage increase in 1962 higher than in 1961. In Eastern Germany, the number of productive workers employed in industry declined for the third consecutive year. Apart from Eastern Germany and Bulgaria, however, the growth of industrial employment exceeded the planned rates. In some countries, this was associated with the over-fulfilment of production plans; but in others, it was caused by the inability to raise productivity of labour in accordance with the plans, thus giving rise to the need to increase employment in excess of the planned levels in order to achieve production targets.

The inability to fulfil the plans for productivity of labour was particularly significant in Czechoslovakia, where the rate of growth of output per man declined

Table 3-8. Changes in Output of Light and Food Processing Industries, 1960-1962

(Percentage change over the preceding year)

Country	Light industry <sup>a</sup>			Food industry			
	1960	1961	1962	1960	1961	1962	
						Plan	Actual
Bulgaria.....	7.3	12.0	12.4	13.1	17.9	6.8	5.5
Czechoslovakia.....	7.1	7.0	5.0	6.6	6.0	5.2	2.0
Eastern Germany.....	5.5	4.9	5.0	8.7	3.8	0.5	...
Hungary.....	14.3	8.9	5.0	10.0	12.6	...	8.0
Poland.....	4.7	7.3	5.3	9.4	6.5	5.7	2.4
USSR.....	6.0	5.0	4.0	4.0	7.0	...	9.0

Source: See table 3-1.

<sup>a</sup> For Eastern Germany, Hungary, and the Soviet Union, indices as given in national statistics; for other countries, indices calculated from data on specific industries derived from national sources. In all countries, data include textile and leather and shoes. In addition, the following industries are in-

cluded: Bulgaria: clothing, cellulose, glass and chinaware; Czechoslovakia: printing, glass ceramics, china, wood; Eastern Germany: wood, clothing, paper and printing, glass and china; Hungary: wood, paper, printing and clothing; Poland: paper, glass and clothing; Soviet Union: clothing, furniture.

Table 3-9. Changes in Industrial Employment and Output Per Man,<sup>a</sup> 1960-1962  
(Percentage change over the preceding year)

Country	Employment				Output per man			
	1960	1961	1962	1962 Plan	1960	1961	1962	1962 Plan
Bulgaria.....	10.4	2.2	3.3 <sup>b</sup>	3.4 <sup>b</sup> °	2.6	9.2	7.6 <sup>b</sup>	3.9 <sup>b</sup> °
Czechoslovakia.....	4.4	3.6	3.0	2.5 <sup>d</sup>	7.0	5.1	3.1	7.2 <sup>d</sup>
Eastern Germany <sup>e</sup> .....	-2	-8	-2.1	...	8.7	6.7	8.4	...
Hungary.....	4.8	3.0	3.0 <sup>b</sup>	2.6 <sup>b</sup>	7.3	7.2	5.3 <sup>b</sup>	5.3 <sup>b</sup>
Poland.....	4	3.4	4.0 <sup>b</sup>	2.7 <sup>b</sup>	10.7	6.6	4.1 <sup>b</sup>	5.5 <sup>b</sup>
Romania.....	4.8	8.7	7.7	4.5	11.5	6.3	6.5	8.5
USSR.....	4.8	5.0	3.3	2.4	5.0	4.0	6.0	5.6

Source: See table 3-1.

<sup>a</sup> Coverage as in table 3-5.

<sup>b</sup> State and co-operative industry.

<sup>c</sup> Derived on the basis of the reported increase in output per man and the percentage of plan fulfilment. The originally published targets were 2.3

per cent for employment and 7.4 per cent for output per man. See also footnote c to table 3-5.

<sup>d</sup> Original plan; the target was revised in the course of the year.

<sup>e</sup> Wage earners only.

from 5 per cent in 1961 to 3 per cent in 1962 as compared with a 7 per cent increase scheduled for this year in the original version of the annual plan. In Poland and in Romania also, the increase in productivity fell short of 1962 targets, although in Romania it did increase at about the same rate, while in Poland at a smaller rate than in 1961. In Eastern Germany and in the Soviet Union, output per man accelerated substantially. In Eastern Germany, in fact, the total increase in industrial production was achieved through a rise in productivity of labour. In the Soviet Union, where labour productivity was increasing at a declining rate during recent years, a substantial improvement took place in 1962. While the rate of increase in output per man fell in this country from an average of 6.8 per cent per annum in 1950-1960 to 5 per cent in 1960 and 4 per cent in 1961, it increased by 6 per cent in 1962 and exceeded the target set for this year in the annual plan.<sup>7</sup>

The slowing down of the growth of labour productivity in several countries and, especially, the inability to reach the targets set in the plans were generally explained by the inadequate initiative of the management in improving the organization of work, by delays in the completion of new and the modernization of existing capacity, by shortages of appropriate equipment and materials, and by the slowing down or even temporary halting of work resulting from delays in — or the erratic pattern of — delivery of equipment and materials to the enterprises. Broadly, thus, the inadequate growth of labour productivity has largely stemmed from the imbalances which, in a more general way, have tended to reduce the potential growth of the economies.

<sup>7</sup> The decline in the rate of growth of output per man was due, in 1960 partly, and in 1961 entirely, to the reduction in working day. In 1961, output per man-hour increased by as much as 11 per cent.

#### INSTITUTIONAL PROBLEMS AND POLICIES

The imbalances which in some countries became particularly acute in 1962, it is generally recognized, were not always due to uncontrollable circumstances, nor due to deliberate policy which in the earlier period of development frequently aimed at the acceleration of growth of certain industries even if complementary industries could not be expanded simultaneously. The emergence or accentuation of imbalances in recent times has been attributed largely to deficiencies in the methods of planning and management of industry which were developed under entirely different circumstances and which have become unsuitable at the present stage. In the earlier period of development, the planning and management of industry were largely attuned to the policy of completing certain top priority tasks; the general tendency was to achieve this aim irrespective of the effects on other industries or sectors or on consumers. With the growing complexity of the economy and the increasingly close ties between sectors, industries and even individual enterprises, and with the growing attention paid to satisfying the expanding needs of consumers, these methods proved to be increasingly inadequate. Also, the gradual absorption of available resources, labour as well as easily accessible raw materials, considerably reduced the reserves which could be utilized in the event of need for meeting the production plans of top priority sectors. In these conditions, high rates of industrial growth could not be maintained without increasing efficiency of economic activities through improvements in methods of planning and management.

The need for these changes had already been strongly emphasized in the mid-nineteen fifties. Although significant modifications have been introduced during recent years in all countries,<sup>8</sup> the steps taken so far have

<sup>8</sup> See United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1) and the two preceding issues.

not been considered sufficient to solve these problems. In all countries, further improvements are being discussed, tried on an experimental basis and put into operation. The reforms initiated in the mid-nineteen fifties have developed along three lines: improvements in the techniques of planning of the central agencies; reduction in the number of tasks decided by the central authorities through decentralization in favour of the lower economic administration; and increase in the scope of decisions left to the management of individual enterprises, particularly through an increase in reliance placed on income incentives in relation to administrative orders.

The changes in the approach to planning consisted largely of the shift from the policy of maximization of certain specific targets to an optimal allocation of resources, introduction of a greater continuity in planning through a closer association of annual and medium-term plans, much more careful preparation of targets through greater use of efficiency criteria, and scientific research on problems of various industries. Considerable progress has been made in the co-ordination of plans of various Council of Mutual Economic Assistance (CMEA) countries in order to reap the advantage of large-scale production through national specialization and to eliminate the difficulties arising from the inadequate international co-ordination of production and trade plans of various countries.

The problem of increasing the scope of decisions left to the management of individual enterprises and of improvement in the incentive system raised several years ago was again pushed into the foreground in 1962. The case for extending the prerogatives of management was based on the belief that the undue accumulation of stocks, the exaggerated claim for investment outlays by the enterprises and the dispersal of investment activities might be eliminated or, at least, considerably reduced by increasing the scope for autonomous decisions by the enterprises along with a system of incentives inducing them to act in conformity with the over-all interest of the economy, both in the process of preparation and implementation of the plan.

Since the detailed directives issued by the supervising authorities hampered the initiative of enterprise managements and frequently discouraged them from selecting the most efficient solutions, the general tendency has been to reduce the number of obligatory targets and to rely much more on incentives for the fulfilment of plans. The reduction in the number of such targets has been of special importance in cases where their simultaneous fulfilment or over-fulfilment might prove to be impossible; for example, where the aim of maximization of output might be in conflict with the directives relating to employment, wages, material input and maximization of profits.

While the general tendency in all centrally planned economies has been to increase the role played by in-

centives as tools for implementation of plans, the extent to which they could replace the obligatory targets is still a matter of debate. The views expressed in this connexion have ranged from suggestions for minor modifications and improvements in the existing system to the introduction of a very broad autonomy for state enterprises. The prevailing tendency has been to adopt some intermediate position.

It has, for instance, been suggested that the initiative of management could be increased substantially without impairing the implementation of the central plan, provided that enterprises remained under the obligation to fulfil their plans for total output and its components. Government control over prices and the share of profits retained by enterprises should then be sufficient to influence their outlays in conformity with the general objectives of the central plan. According to other suggestions, these reforms should be supplemented by the introduction of a charge on capital grants allocated to enterprises by the State in order to induce them to economize on capital. Another suggestion calls for replacement of the supply allocation system by a system allowing more direct relationships between enterprises.

Although the need for such reforms has been generally recognized, it is not certain how far the number of obligatory targets can be reduced without basically altering the prevailing methods of planning and implementation. An important point raised in this connexion has been whether the elimination of some directive targets or the introduction of freer flow of supplies among enterprises would not, in the absence of free movement of prices, create new difficulties which might offset the positive effect expected from the increased freedom of enterprises.

While these problems of general reform were still under debate, several steps of a more limited nature were taken in various countries to improve the efficiency of the enterprises. In many instances, the former policy of fostering the over-fulfilment of production plans of each enterprise was either considerably softened or eliminated altogether.

In some countries, in certain sectors at least, the enterprises are not allowed to exceed their planned targets without authorization by the supervising authorities. In Hungary, the enterprises are entitled to exceed their planned targets only if purchase orders for additional products have already been received from other enterprises and if the necessary raw materials can be secured without preventing the fulfilment of other plans. In most countries, an increasing attention is devoted by the authorities to the fulfilment of delivery rather than to gross output plans of the enterprises. Here, again, the most significant steps were taken in Hungary, where, since 1961, the premium paid to the management has been dependent on sales rather than on gross output. The importance of this measure lies in its ability to

induce the management to adjust the composition and volume of its output to the prevailing demand.

In several countries, an improvement in the efficiency of the enterprises is expected to result from the integration of several smaller enterprises within a given industry into greater units. The purpose of this measure is to achieve economies of scale through enlargement of the size of the enterprises and through a greater specialization and to eliminate the waste of resources resulting from the simultaneous production of a large variety of goods by several enterprises. Moreover, the integration of the enterprises, similar in many respects to the reforms introduced a few years ago in Czechoslovakia, is intended to simplify and reduce the supervisory work of higher economic authorities over the activities of a great number of enterprises. These new forms of organization are being introduced in Bulgaria, Hungary and the Soviet Union.

In the Soviet Union, a major change took place in 1962 in the structure of the state organs in charge of industrial management. The number of *sovnarkhozes* — that is, territorial councils of national economy entrusted with management of industry and construction on their respective territories — was reduced from over 100 to about 50.<sup>9</sup> Not only were the boundaries of the originally established territorial units cutting across national economic regions, but the size of these units were too small for rational organization of work. The enlargement of the territorial units through consolidation and the placement under a single direction of a much greater variety of interconnected manufacturing plants and the sources of necessary raw materials are expected to improve the allocation of tasks as well as the co-ordination of work of industrial enterprises.

<sup>9</sup> In the Russian Republic, the number of *sovnarkhozes* was reduced from 67 to 24; in the Ukraine, from 14 to 7. In central Asia, one *sovnarkhoz* is to supervise industrial activities of the Kirghiz, Tadzhik, Turkmen and Uzbek republics, each of which previously had a separate *sovnarkhoz*.

## National income, investment and consumption

National income increased in 1962 by 7 per cent in Romania, by 6 per cent in the Soviet Union, by 5 per cent in Bulgaria and Hungary, by 3.5 per cent in Eastern Germany and by 2.5 per cent in Poland. In Czechoslovakia, the rate of increase was less than one per cent. The rise in agricultural production and the stabilization or a slight rise in industrial output of mainland China indicate that national income in this country also increased in 1962.

The data assembled in table 3-10 show that the deceleration in the rate of growth of national income noticeable in 1961 continued in most of the centrally planned economies in 1962. In many countries, this was largely the effect of the low rates of growth, or

At the same time, the jurisdiction over the activity of the territorial construction enterprises was transferred from the *sovnarkhozes* to the highly centralized state construction administration (*Gostroi*). This change — confining the activity of the *sovnarkhozes* to industry only and creating a separate organ dealing with construction work on a national scale — was largely motivated by the pressing need to put an end to the lack of co-ordination between various construction enterprises and the dispersion of construction work responsible for the growing immobilization of resources in uncompleted investment projects.

The territorial councils in each republic are subordinated to economic councils of the republic which, in turn, are placed under the supervision of the newly created “*sovnarkhoz* of the USSR”. In central Asia, however, the four republics, each of which previously had its own territorial council, have formed a single economic region under the supervision of a single inter-republican *sovnarkhoz*.

The co-ordination at the central level of the work of the *sovnarkhoz* of the Soviet Union in charge of industry with that of the state construction administration and the central planning board is to be achieved by another newly created organ, the “Higher *Sovnarkhoz* of the USSR”, which, in addition, supervises the work of state committees responsible for the development and dissemination of new techniques and improved methods of production in specific branches of industry. As already stated, agricultural activities are directed by a separate organizational network and are not subordinated to the “Higher *Sovnarkhoz* of the USSR”.

The new central planning board placed under the supervision of the “Higher *Sovnarkhoz* of the USSR” has replaced the formerly separate agencies for annual and long-term planning; the functions of these agencies are now to be performed by a single unit.

even decline, in agricultural production, although in certain cases it also reflected the slower growth of industrial production.

Among the European centrally planned economies, Bulgaria was the only country where national income rose at a somewhat higher rate than in the preceding year. In the Soviet Union, Hungary and Eastern Germany, the rates of growth in 1962 were not much smaller than those achieved in the preceding year. The deceleration was more pronounced in Romania but especially marked in Poland and Czechoslovakia. In all countries, the actual rates of expansion achieved in 1962 were lower than the rates planned for that year.

Table 3-10. Changes in National Income and Fixed Investment, 1960-1962  
(Percentage change over the preceding year)

Country	National income <sup>a</sup>				Investment <sup>b</sup>			
	1960	1961	1962	1962 Plan	1960	1961	1962	1962 Plan
Bulgaria . . . . .	6.9	3.0	5.0 <sup>c</sup>	14.0	17.9	5.7	12.2 <sup>d</sup>	22.0 <sup>e</sup>
Czechoslovakia . . . . .	8.3	6.5	.5	6.5	12.6	7.3	-4.8	1.0
Eastern Germany <sup>d</sup> . . . . .	4.6	4.1	3.5	...	9.1	—	1.4	6.7
Hungary . . . . .	10.1	5.8	5.0	9.0	16.8	-10.1	14.8	16.0
Poland . . . . .	4.5	7.4	2.5	7.0	6.0	8.5	9.1	10.0
Romania . . . . .	10.8	10.1	7.0	13.0	32.1	21.4	11.1 <sup>f</sup>	16.5 <sup>f</sup>
USSR . . . . .	8.0	7.0	6.0	8.6	8.0	4.2	5.8	...

Source: See table 3-1; also, *Rudé Právo* (Prague), 28 January 1963.

<sup>a</sup> In constant prices, except for Eastern Germany for which they are in current prices.

<sup>b</sup> For Eastern Germany, total fixed investment including capital repairs; for Czechoslovakia, Poland and the Soviet Union, fixed investment excluding capital repairs; for Bulgaria, Romania and Hungary, fixed investment in state and co-operative sectors; for Hungary, including loans to the private sector. Data for Bulgaria, Eastern Germany

and partly for Hungary are in current prices; for others, at constant prices.

<sup>c</sup> Estimated.

<sup>d</sup> Figures relate to "limit" investment—that is, centrally planned investment excluding projects below a certain value—which in 1961 increased by 3 per cent.

<sup>e</sup> "Limit" investment, revised target. The original target of 11 per cent was raised in the course of the year.

<sup>f</sup> State investment.

In many cases, the achieved rates were less than one-half of those provided in the plans.

Investment activity accelerated in Bulgaria, Hungary and, to a lesser extent, in Poland, Eastern Germany and the Soviet Union. In Romania, the rate of increase was significantly lower than in the preceding year. In Czechoslovakia, investment expenditure declined in absolute terms. In this country and, to a lesser extent, in Eastern Germany, the share of national income allocated to investment was somewhat lower than in 1961. It was about the same as in 1961 in the Soviet Union, and apparently higher in the other countries.

In general, investment has not reached the scheduled levels. In Bulgaria, the rate of expansion of "limit" investment,<sup>10</sup> accounting for around 60 per cent of the total, accelerated more than in any other country of the group. It rose by 12 per cent in 1962 as against 3 per cent in 1961. However, the planned "limit" investment was reported under-fulfilled by 8.6 per cent, implying that the original target which called for an 11 per cent increase was revised upward during the year. The shortfall was attributed to a lag in both construction and installation of machinery, the plan for the former remaining under-fulfilled by 5.9 per cent and that for the latter by 11.6 per cent. Total investment outlay in this country does not seem to have increased as much as has the "limit" investment. In Czechoslovakia, total investment in the national economy, including capital repairs, was scheduled to rise by 7.5 per cent, and investment excluding capital repairs by 1 per cent. Actually, the former fell by 4 per cent, and the latter by 5 per cent. The decline was accounted for entirely by a decrease of around 25 per cent in investment in the co-

<sup>10</sup> Centrally planned investment excluding projects below a certain value.

operative sector — mainly collective farms — and by a 12 per cent fall in the completion of private housing. Investment outlays of the state sector were of about the same magnitude as in 1961. Within this sector, the plan for decentralized investment was more nearly fulfilled than that for centralized investment. In Eastern Germany, total investment including capital repairs, in current prices, rose by 1.4 per cent as against the planned increase of 6.7 per cent. It was thus the second consecutive year in which the plan remained substantially under-fulfilled. The volume of investment in 1962 was practically the same as in 1960 and 1961.

In Hungary, investment in the state and co-operative sector increased by 14.8 per cent as compared with a 10 per cent decline in 1961 and a planned increase for 1962 of 16 per cent. This increase was entirely due to a rise in state investment, since investment in agricultural and other co-operative investment has remained practically unchanged. Total fixed investment including capital repairs increased at a lower rate, since private investment, mainly housing, declined very significantly.<sup>11</sup> In Poland, investment in the state and co-operative sector expanded by 10.7 per cent, reaching the

<sup>11</sup> The exact assessment of changes in fixed investment is not possible because of the lack at the time of the preparation of this report of a consistent set of data covering various concepts of fixed investment used in Hungarian statistics. The data quoted in the text relating to fixed investment in the state and co-operative sector, inclusive of credits and based on a statistical series published regularly, were taken from the most recent issue of the *Statisztikai Havi Közlemények*, No. 3-4, 1963 (Budapest). Data made available in the report on the fulfilment of the plan for 1962 published earlier, and in the reply of the Hungarian Government to the United Nations questionnaire, indicate a much smaller growth of fixed investment in 1962. The magnitude of variations between these three sets of data seems to be much greater than warranted by the differences in coverage; this may be partly because all available data for 1962 are preliminary estimates.



level envisaged in the plan. However, private investment, mostly in agriculture, declined; this was instrumental in limiting the expansion in total investment to somewhat below the planned increase of 10 per cent. Aggregate fixed investment, including capital repairs, is estimated to have risen by 8 per cent. In Romania, state investment increased by 11 per cent, although it fell short of the target set for 1962 by 4.5 per cent; in most of the other countries, the rise in total investment was smaller than in investment in the state sector, owing to a decline in private house-building and a lag of investment in the collective farm sector.

In the Soviet Union, centrally planned investment increased in 1962 by 9.4 per cent — that is, by almost as much as in 1961. It exceeded the originally planned 8 per cent rise, but it fell short of the revised target of a 12 per cent increase decided in the course of the year. However, investment financed from funds at the disposal of enterprises remained at the level of the preceding year and investment in private housing declined by 11 per cent, thus continuing a trend started in 1960. Investment of collective farms rose by 8 per cent. Altogether, as a result of these changes, total fixed investment rose by 5.8 per cent as compared with a 4.2 per cent increase in 1961.

The factors contributing to the non-fulfilment of investment plans in 1962 were stated to be similar to those which affected the implementation of plans in the preceding years. Among these, dispersion of resources on an excessive number of projects, starting of construction without adequate blue-prints, frequent changes in designs during construction and untimely delivery of machinery and materials have been given as the most important. These factors result, as a rule, in a lengthening of the gestation period, a rise in construction costs above planned levels and hence in a decline in the efficiency of investment.<sup>12</sup>

In Czechoslovakia, inadequacies in the programming and execution of investment projects have been mentioned among the factors which have led to the abandonment of the third Five-Year Plan. A great number of projects were included in the investment programmes during the first year of the current Five-Year Plan without completion of designs in time, without taking into account the capacities of construction of enterprises and without ensuring the deliveries of equipment. The scattering of resources among an excessive number of investment projects caused by the deficiencies in planning was also partly attributed to the relaxation of controls over

<sup>12</sup> In Poland, for instance, efficiency of investment is estimated to have been reduced by around 30 per cent on account of untimely completion and excessive costs. A survey made in Hungary indicated that, in as many as 43 per cent of the investigated cases, the actual costs of projects exceeded the budgeted costs by more than 10 per cent; in 14 per cent of cases, budgeted costs were exceeded by more than 50 per cent. The average period of completion was thirty-eight months as against thirty months planned, and less than one-third of the projects were completed on schedule.

investment activities in 1960/61 that led to a more than anticipated increase in investment in low priority projects, a large number of which have remained incomplete. In 1962, the number of projects under construction continued to increase, and a significant proportion of new capacities scheduled for completion during this year could not be put into operation.

Difficulties encountered in the fulfilment of the investment plans contributed in Eastern Germany to the abandonment of the current Six-Year Plan three years before its completion, and in Poland to a far-reaching revision of the investment plans. Similar problems existed in other countries, although their impact on economic development was considerably smaller.

In an effort to bring about an improvement in the situation, several countries have undertaken steps to delay the starting of new projects and to shift resources towards the completion of projects under way. In some cases, a reevaluation of existing resources has led to suspension, at least temporarily, of work on certain construction sites in order to concentrate on projects considered most essential for the growth of the economy in the immediate future.

In Czechoslovakia and Eastern Germany, where the problems of unfinished investment and dispersion of resources have become particularly acute, a drastic tightening of central control over investment took place during the year. In Eastern Germany, this included in some cases a temporary suspension of the less advanced or less important projects. In Czechoslovakia, by these means, a 30 to 40 per cent reduction in the number of building sites is to be achieved in the next three or four years. In Hungary, it is planned to devote 82 per cent of the investment outlays to the completion of old projects.

In the Soviet Union, the concentration of resources for completing the existing projects has led to substantial increases in state investment put into operation which, in value terms, rose by 15 per cent in 1962; while this considerable increase may be due to various reasons, such as differences in value and timing of construction of various projects, the results achieved in 1962 were also influenced by the more stringent policy. Notwithstanding this, the commissioning of new projects fell short of the target by about 8 per cent in productive sectors and by 6 per cent in housing.

Changes in personal consumption which occurred in 1962 can be assessed for most countries only from the data relating to the growth of the volume of retail trade. As indicated in table 3-11, the largest increases in retail sales were achieved by Romania, followed by the Soviet Union and Bulgaria; the increases amount to 12, 6 and 5 per cent, respectively. Among other countries, retail sales rose by 4 per cent in Poland and over 3 per cent in Hungary and Czechoslovakia. In Eastern Germany, retail sales fell. Compared to the preceding year, con-

Table 3-11. Changes in Personal Consumption, Retail Trade<sup>a</sup> and Prices, 1960-1962  
(Percentage change over the preceding year)

Country and period	Personal consumption	Volume of retail trade	Value of retail trade	Implied price index
<i>Bulgaria</i>				
1960.....	5.3	11.1	10.7	-.4
1961.....	8.3	9.5	9.8	-.3
1962.....	...	5.1	7.6	2.4
<i>Czechoslovakia</i>				
1960.....	9.8	8.8	6.7	-2.0
1961.....	3.0	4.5	3.9	-.6
1962.....	2.0	...	3.5	...
<i>Eastern Germany</i>				
1960.....	5.3	8.2	6.9	-1.2
1961.....	4.6	5.7	5.7	—
1962.....	...	...	-1.6	...
<i>Hungary</i>				
1960.....	6.8	10.0	10.0	—
1961.....	1.3	2.0	2.3	.3
1962.....	...	3.3	4.8	1.5
<i>Poland</i>				
1960.....	.9	1.7	3.6	1.8
1961.....	6.0	8.3	9.6	1.2
1962.....	2.0	4.2	6.5	2.2
<i>Romania<sup>b</sup></i>				
1960.....	...	16.0	14.8	-1.0
1961.....	...	14.7	13.7	-.9
1962.....	...	12.5	12.5	—
<i>USSR</i>				
1960.....	6.7 <sup>c</sup>	10.1	9.5	-.5
1961.....	3.2 <sup>c</sup>	3.7	3.1	-.6
1962.....	...	6.0	7.6	1.5

Source: See table 3-1.

<sup>a</sup> Excluding sales on farmers' markets.

<sup>b</sup> Excluding a negligible amount of private trade up to 1961.

<sup>c</sup> At current prices.

siderable acceleration in retail sales took place in the Soviet Union and, to a smaller extent, in Hungary. In all the other countries which registered a rise in retail sales, the increases achieved in 1962 were smaller than during the preceding year. The rates of increase in retail sales are generally greater than that of personal consumption; it may thus be surmised that, in 1962, as in the past, personal consumption increased proportionately less than the aforementioned increases in retail sales.<sup>13</sup> In Poland and Czechoslovakia, for which data are available, personal consumption which rose by 6 and 3 per cent, respectively, in 1961, did not increase in 1962 by more than 2 per cent in each country. The actual increases in retail sales and in personal consumption were in all European centrally planned economies smaller than foreseen in the annual plans for 1962.

<sup>13</sup> The rise in the volume of consumer goods distributed through the trade channel, in relation to total consumption, reflects the rise in money receipts in relation to income in kind of the rural population on one hand, and a shift of population from agriculture to industrial occupations on the other. These changes can be expected to be of greater importance in the less industrialized countries of the group.

While no data on personal consumption are available for mainland China, the rise in agricultural output and in imports of food on the one hand, and the increase in the rations on the other, indicate that both total and per capita consumption increased in 1962. An important factor raising personal consumption of the peasants was the growth of output on privately owned plots and a rise in the sale of their products on free markets. While personal consumption in 1962 might not have reached the level preceding the "great leap" of 1958, it exceeded the extremely low level to which it had fallen in 1960 and 1961.

A scrutiny of the available information indicates that the share of national income allocated to personal consumption in 1962 was smaller than in 1961 in all countries considered with the exception of Czechoslovakia; however, the use made of the relative addition to resources available for other purposes has often varied. In Eastern Germany, fixed investment rose proportionally less than national income, and export surplus declined. These changes indicate that the relative share of

resources devoted to social consumption or to accumulation of stocks, or both, has risen. In Bulgaria and Romania, the share of fixed investment in national income apparently increased but its effect on the proportion of resources allocated to consumption was somewhat alleviated — at least in the former country — by a relative increase in net imports. In Hungary the shift in the allocation of national income in favour of investment is indicated by the fact that, while the former rose by 5 per cent in 1962, the total of net fixed investment and accumulation of inventories increased by 15 per cent. While the effect of these changes on the amount of resources allocated to consumption was somewhat reduced by an increase in import surplus, personal and social consumption increased by only 3 per cent. In Poland, for which detailed data are shown in table 3-12, personal consumption advanced at a slightly lower rate than did national income, while net fixed investment increased by 8 per cent as compared to the 2.5 per cent rise in national income. However, the decline in inventories reduced the rise in total investment to about 3 per cent, and the rise in social consumption lifted the rate of increase in total consumption also to 3 per cent. In consequence, total consumption and investment increased more than national income, the difference being covered by a rise in net imports. In the Soviet Union, where fixed investment rose at approximately the same rate as national income, the less than proportionate rise in personal consumption was associated with an increase in the share of resources devoted to net exports and apparently also to social consumption and stock formation. As already mentioned, in Czechoslovakia the direction of these changes was quite different from that in the other countries. Since net exports also increased in relation to national income, the share of national income allocated to personal as well as to social consumption increased at the expense of resources allocated both to fixed investment, which fell in absolute terms, and to inventories.

In the absence of data on changes in money payments to the population, the effect of the shifts in the allocation of the national income among consumption and invest-

ment on the demand and supply situation cannot be ascertained with a great degree of precision. In all countries, a factor restraining the rise in demand in relation to supply was the fact that the output per man increased more than the average money wages of the non-agricultural labour force. However, money income paid to agricultural producers rose in most cases more than the volume of agricultural sales. And, in several countries, the total of pensions, social security benefits and other payments to the population continued to expand at a relatively rapid rate. The net effect of these changes was an increase in demand in relation to supply of consumer goods. Partly reflecting these changes and partly in an attempt to reduce the pressure which accumulated from the previous years, the price level of consumer goods sold in state and co-operative trade was increased in several countries.

In Bulgaria and the Soviet Union, the increase in retail prices reflected the steep increase in prices paid by the state purchasing agencies to agricultural producers in order to create greater inducement for expanding output. In the former country, state retail prices rose on the average for the year as a whole by 2.4 per cent, as a result of the increase in prices of meat and dairy products which took effect on 30 July 1962. Retail prices of meat and meat products were raised on the average by 24 per cent, those of milk in some regions of the country by 8 to 11 per cent, of milk products by 32 per cent and of eggs by about 11 per cent. Prices of food on collective farm markets also increased substantially.<sup>14</sup>

In the Soviet Union, prices of meat in state and co-operative trade were increased effective 1 June 1962 by 30 per cent and those of butter by 25 per cent. The increases, which took place simultaneously with the rise in prices paid to agricultural producers, have aimed at eliminating or preventing an increase in subsidies to consumers which during recent years have kept the prices of these goods below the cost incurred by the

<sup>14</sup> By about 12, 26 and 20 per cent during the first, second and third quarters of 1962, compared to the corresponding quarters of 1961.

Table 3-12. Allocation of National Income of Poland, 1961-1962

Item	Amount in billions of zlotys, <sup>a</sup> 1961	Index (preceding year = 100)	
		1961	1962
National income . . . . .	415.8	107.4	102.5
Net domestic expenditure . . . . .	419.3	107.5	103
Consumption . . . . .	305.4	106.5	103
Personal . . . . .	273.5	106.0	102
Social . . . . .	31.9	111.1	112
Accumulation . . . . .	113.9	110.2	103
Net investment . . . . .	82.6	107.3	108
Increase in stocks . . . . .	31.3	118.6	90

Source: See table 3-1.

<sup>a</sup> In 1961 prices.

State in purchasing, processing and distribution.<sup>15</sup> It was decided to pass these increases in cost to consumers because the alternative of reduced expenditure on investment or armaments was considered unacceptable in the present circumstances. The other aim of these price increases was to bring them nearer to the level required for equilibrating supply and demand in order to eliminate or reduce the speculative tendencies arising from shortages of these goods at the existing price level. However, the effect of the increase in prices of livestock products was partly offset by a 5 per cent reduction of prices of sugar and a 20 per cent average reduction of prices of some synthetic fabrics. The over-all impact of these changes was to raise the price level in state and co-operative trade on the average for the year by 1.5 per cent.

In Hungary also, the state retail price index rose by about 1.5 per cent. Food prices increased more than the average and the rise in prices on free market were much greater than in state and co-operative trade. The cost of a "food basket" of a worker's family in Budapest including goods purchased in state and co-operative trade as well as on free market rose by about 2 per cent. In Czechoslovakia, prices of specific household goods were raised, while in Eastern Germany the shortage of meat and butter has led to the introduction of measures tending to ensure a more even distribution of supply by restricting the sales of these commodities to the customers provided with certificates entitling them to purchase in a given store. In Poland, state retail prices rose on the average for the year by 2.2 per cent; but as prices on peasants' markets increased by 18 per cent, the aggregate price level of consumer goods rose by 3.4 per cent. Prices of food, expenditure on which accounts for 45 per cent of the average workers' budget, rose by 5.8 per cent.

As a result of a slow rise in money wages and the increase in the cost of living, average real wages progressed little in most countries; in some, they may even have declined. The largest increase in money wages took place in Romania, by 4 per cent (see table 3-13), and real wages seem to have increased in, approximately, the

<sup>15</sup> The rise in consumer prices of butter which accompanied the increase in prices paid to the agricultural producers resulted in the elimination of losses on sales of this commodity amounting to 114 roubles per ton in 1961 and their replacement by a net state revenue (profits and turnover tax) of 528 roubles per ton representing 15 per cent of the retail price of June 1962. But the increase in consumer price of beef has reduced the state loss only slightly from 399 roubles per ton in 1961 to 376 roubles per ton after the price changes, amounting to 25 per cent of the new retail price in 1962.

Table 3-13. Average Money Wages of Workers and Employees, 1960-1962

(Percentage increase over the preceding year)

Country	1960	1961	1962
Bulgaria . . . . .	7.4	5.0	2.5 <sup>a</sup>
Czechoslovakia . . . . .	3.1	2.5	.7
Eastern Germany . . . . .	4.5	4.0	...
Hungary . . . . .	2.7	1.2	2.1
Poland . . . . .	3.2	3.9	3.7
Romania . . . . .	...	...	4.0
USSR . . . . .	...	...	3.5

Source: See table 3-1.

<sup>a</sup> Estimated.

same proportion. While prices in state and co-operative trade remained stable, no information is available on price movements on collective farm markets and on their effect on real wages.

In the Soviet Union, average money wages increased by 3.5 per cent; the average "real income of wage and salary earners",<sup>16</sup> which in addition to wages net of taxes includes other payments and benefits in money and in kind, rose by 2 per cent. Real per capita income of collective farmers rose by 5 per cent, largely as a consequence of a rise in prices paid by the state procurement agencies, and total real per capita income of the population by 3 per cent.

In Czechoslovakia and Hungary, the increases in average money wages were almost entirely offset by the rise in consumer prices. However, in both countries social benefits rose significantly; in Czechoslovakia, family allowances and sickness benefits advanced 8.2 per cent and old age disability pensions 6.7 per cent above the level of 1961. In Bulgaria, average money wages rose by 2.5 per cent and in Poland by 3.7 per cent; in both countries the advance was barely, if at all, sufficient to offset the increase in the cost of living. In Bulgaria, the effect of price increases was somewhat lessened by an increase in wages of low income workers who were most affected by the increase in food prices.

<sup>16</sup> According to the definition given in *National Economy of the USSR in 1961*, indices of real income of wage and salary earners, real income of peasants and real income of the population calculated in constant prices on a per capita basis include wages, income in money and kind of the peasants, pensions, social insurance and other benefits, and state expenditure on goods purchased by institutions providing medical, cultural and other services to the population. It excludes personal taxes and other payments and contributions to the State and organizations as well as personal expenditure on services, such as passenger transport and entertainment.

## Foreign trade

The total foreign trade turnover (exports plus imports) of the centrally planned economies in eastern Europe expanded by 10.6 per cent in 1962 (see table 3-14). This rate was higher than that experienced in

1961, reflecting a considerable acceleration in Bulgaria, Eastern Germany and the Soviet Union. In the other countries, the rate of growth of foreign trade was lower than in the previous year. The deceleration was slight

Table 3-14. Foreign Trade Turnover, 1960-1962

Country	Index			Amount, 1962 (millions of roubles)
	1960	1961 (Preceding year = 100)	1962	
Bulgaria.....	115.2	110.3	116.8	1,395
Czechoslovakia.....	112.5	108.7	104.8	3,837
Eastern Germany.....	106.0	102.7	106.0	4,272
Hungary.....	118.4	111.1	109.5	2,024
Poland.....	110.0	113.1	110.7	3,178
Romania.....	133.2	117.8	109.1	1,577
USSR.....	106.4	105.6	114.0	12,136
TOTAL	109.8	107.6	110.6	28,419

Source: See table 3-1.

in Hungary and Poland, and considerable in Czechoslovakia and Romania.<sup>17</sup>

Four of the six countries for which separate data on imports and exports are available (see table 3-15) experienced a deterioration in the balance of trade. In all these countries, imports rose at a higher rate than did exports, the difference between their respective rates being the largest in Hungary.

Bulgaria was able to expand exports by as much as 16 per cent, a rate of increase identical to that achieved in 1961 but lower than the planned rate of increase of 20 per cent. The expansion of imports accelerated, however, from 5 to 17 per cent as compared with a scheduled increase of 12 per cent.<sup>18</sup> In effect, the trade deficit, scheduled to be replaced by considerable export surplus, exceeded that of 1961, although it remained negligible in relation to total trade. Similarly, in Eastern Germany, exports rose by 5 per cent, compared with the planned increase of 6 per cent, while imports rose 7 per cent as against a target of 4.5 per cent. Exports and imports approximately balanced in 1962; the 1962 plan called for a net export surplus of 74 million roubles.

In Poland, exports and imports both exceeded the planned level. But while exports expanded by 9.5 per cent as compared with the planned increase of 8.7 per cent, imports rose by 12.8 per cent as against the scheduled expansion of 2.8 per cent. In consequence, the import surplus, which was planned to be reduced from 165 million roubles in 1961 to 90 million roubles in 1962, in fact, increased to 216 million roubles, corresponding to 15 per cent of export receipts. In Hungary, the trade balance was more favourable than that

<sup>17</sup> While no official statistics are available on the trade of mainland China, some indication relating to its trade can be derived from the estimates of the total trade of North Korea, North Viet-Nam and mainland China based on the statistics of their trading partners. According to these estimates, total trade of this group of countries declined, largely on account of mainland China, by about 25 per cent in 1961, and by a further 12 per cent in 1962.

<sup>18</sup> Plan figures refer to original targets which were subsequently revised to 13.6 per cent for exports and 9.8 per cent for imports.

Table 3-15. Exports and Imports, 1960-1962  
(Millions of roubles)

Country and item	1960	1961	1962
<i>Bulgaria</i>			
Exports.....	514	596	693
Imports.....	569	598	702
Balance.....	-55	-2	-9
<i>Czechoslovakia</i>			
Exports.....	1,737	1,842	1,974
Imports.....	1,634	1,821	1,863
Balance.....	102	21	111
<i>Eastern Germany</i>			
Exports.....	1,972	2,035	2,137
Imports.....	1,953	1,995	2,135
Balance.....	19	40	2
<i>Hungary</i>			
Exports.....	787	926	991
Imports.....	878	923	1,033
Balance.....	-91	3	-42
<i>Poland</i>			
Exports.....	1,193	1,353	1,481
Imports.....	1,345	1,518	1,697
Balance.....	-152	-165	-216
<i>Romania</i>			
Exports.....	645	714	...
Imports.....	583	733	...
Balance.....	62	-19	...
<i>USSR</i>			
Exports.....	5,006	5,398	6,331
Imports.....	5,066	5,245	5,805
Balance.....	-60	153	526

Source: See table 3-1.

anticipated in the annual plan. Imports were somewhat below the planned level, while exports exceeded the target by 2.3 per cent. Unlike in the above-mentioned countries, in Czechoslovakia and the Soviet Union, exports rose at a considerably higher rate than did imports. In Czechoslovakia, the more than fivefold increase in net exports between 1961 and 1962 reflected, to a significant extent, difficulties in expanding imports from countries outside the group of centrally planned economies owing to a shortage of convertible foreign ex-

change.<sup>19</sup> While no data on the planned level of imports and exports are available for this country, various official statements seem to indicate that the growth of both imports and exports fell short of expectations. By contrast, in the Soviet Union, the increases in imports and exports exceeded the planned targets, the over-fulfilment of the target being greater in the case of exports. Exports expanded by 17.3 per cent and imports by 10.6 per cent,<sup>20</sup> and the export surplus — amounting to 526 million roubles — was a record for the post-war period.

Data on the commodity composition of trade in 1962 are available only for Hungary and Poland (*see* table 3-16). In these countries, changes from 1961 to 1962 in the structure of exports were generally small, but those in the composition of imports were quite substantial. As in the preceding year, there was some increase in the share of manufactured consumer goods in exports, particularly in Hungary. This has been partly the effect of efforts towards greater specialization and towards acceleration of exports of those goods to western markets. The share of machinery and equipment in exports was somewhat reduced for the second consecutive year. In Poland, the most notable change in the structure of

<sup>19</sup> Imports from countries outside the group of centrally planned economies declined by 15 per cent, while exports to them declined by 7 per cent. The decline in exports took place despite a considerable extension of credits to some of the developing countries.

<sup>20</sup> Total trade turnover rose by 14 per cent as compared to the planned increase of 6.6 per cent.

exports was the decline in the share of food and agricultural raw materials, largely on account of the fall in agricultural production. In contrast, the share of machinery and equipment in exports has increased. As for imports, the data for both countries indicate a significant increase in the share of machinery and equipment and declines in the shares of fuels and industrial raw materials and food and agricultural materials. As in 1961, the share of imports of manufactured consumer goods declined in Hungary but rose in Poland.

In all of the centrally planned economies for which data on their trade with the Soviet Union are available, the relative importance of this country as trading partner increased in 1962. The share of the Soviet Union in total trade rose from 34 to 38 per cent for Czechoslovakia, from 31 to 33 per cent for Poland and from 52 to 53 per cent for Bulgaria (*see* table 3-17). Indirect evidence shows a similar change in the geographical pattern of trade of Eastern Germany. The share of trade with the remaining centrally planned economies declined in Bulgaria and in Poland owing to a relatively slower growth of trade with the other eastern European countries and a decline in the trade with mainland China, which was already negligible. In Czechoslovakia, the proportion of trade with the centrally planned economies other than the Soviet Union remained practically unchanged, although the trade with mainland China seems to have further declined.

The trade of the Soviet Union with the centrally planned economies rose by 12 per cent, largely because

Table 3-16. Commodity Composition of Foreign Trade of Hungary and Poland, 1960-1962

(Percentage of total exports and total imports)

Country and item	1960	1961	1962
<i>Hungary</i>			
Exports:			
Machinery and equipment . . . . .	38.0	37.2	36.1
Fuels and industrial raw materials . . . . .	23.6	22.5	22.3
Food and agricultural raw materials . . . . .	20.6	19.7	19.7
Manufactured consumer goods . . . . .	17.8	20.6	21.9
Imports:			
Machinery and equipment . . . . .	27.8	25.5	30.0
Fuels and industrial raw materials . . . . .	58.9	59.1	55.7
Food and agricultural raw materials . . . . .	8.3	10.6	9.6
Manufactured consumer goods . . . . .	5.0	4.8	4.7
<i>Poland</i>			
Exports:			
Machinery and equipment . . . . .	28.0	28.0	29.8
Fuels and industrial raw materials . . . . .	43.8	39.1	39.3
Food and agricultural raw materials . . . . .	18.1	21.4	19.2
Manufactured consumer goods . . . . .	10.1	11.5	11.7
Imports:			
Machinery and equipment . . . . .	27.1	29.1	32.9
Fuels and industrial raw materials . . . . .	51.5	49.7	47.2
Food and agricultural raw materials . . . . .	16.0	15.3	13.3
Manufactured consumer goods . . . . .	5.4	5.9	6.6

Source: See table 3-1.

Table 3-17. Geographical Distribution of Trade of Centrally Planned Economies, 1960-1962

(Millions of roubles)

Country and year	Trade with <sup>a</sup> centrally planned economies		Trade with rest of the world	Total trade
	Total	With the USSR		
<i>Bulgaria</i>				
1960.....	906	576	177	1,083
1961.....	997	623	198	1,195
1962.....	1,152	743	243	1,395
<i>Czechoslovakia</i>				
1960.....	2,420	1,160	951	3,371
1961.....	2,554	1,232	1,109	3,663
1962.....	2,847	1,449	990	3,837
<i>Eastern Germany</i>				
1960.....	2,963	1,694	961	3,924
1961.....	3,093	1,783	937	4,030
1962.....	3,402	...	870	4,272
<i>Hungary</i>				
1960.....	1,181	503	484	1,665
1961.....	1,332	621	534	1,849
1962.....	1,467	...	557	2,024
<i>Poland</i>				
1960.....	1,602	770	936	2,538
1961.....	1,794	877	1,077	2,871
1962.....	2,052	1,032	1,126	3,178
<i>Romania</i>				
1960.....	897	493	331	1,228
1961.....	983	585	464	1,447
1962.....	...	...	...	1,578
<i>USSR</i>				
1960.....	7,367	...	2,705	10,072
1961.....	7,621	...	3,022	10,643
1962.....	8,525	...	3,611	12,136

Source: See table 3-1.

<sup>a</sup> Including the trade with Albania and the Asian centrally planned economies as well as with Yugoslavia and Cuba. The official trade statistics of the centrally planned economies now include Cuba in the intra-group trade. For 1962, the value of this trade is available separately only in the statistical publications of Bulgaria and Poland, where it amounted to 26.5 and 35.5 million roubles, respec-

tively. In 1960 and 1961, the trade of Bulgaria with Cuba was nil or negligible. In other countries, the data (in millions of roubles) for 1960 and 1961, respectively, were as follows: Czechoslovakia, 105 and 52.6; Eastern Germany, 6.3 and 35.3; Hungary, 0.8 and 17.6; Poland, 12.4 and 42.2; Romania, nil and 10.7; Soviet Union, 157.1 and 529.0.

of a 17 per cent increase in the trade with the CMEA countries. Although official data are lacking, rough estimates indicate that the Soviet trade with mainland China, North Korea and North Viet-Nam declined significantly.

Total trade of the eastern European countries — excluding Romania, for which no data are available — with all centrally planned economies<sup>21</sup> increased by about 12 per cent, while their trade with the rest of the world rose by some 8 per cent in 1962, indicating a shift in the distribution of trade towards the centrally planned economies. In 1961, the changes in the distribution of trade went in the opposite direction, as indicated by the 6 per cent increase in the trade with the centrally planned economies and a 10 per cent rise in the trade

with the rest of the world. The shift which occurred in 1962 was entirely due to a rise in the share of the intra-group trade in Czechoslovakia, Eastern Germany, Hungary and Poland. In Bulgaria, the share of the centrally planned economies has remained virtually unchanged; in the Soviet Union, it fell as a result of a 19 per cent increase in the trade with the rest of the world as compared to a 12 per cent rise in its trade with the centrally planned economies.<sup>22</sup>

Although no official statistics are available on the trade of Romania and of the Asian centrally planned economies, there is no doubt that their inclusion would

<sup>22</sup> This shift was due to a 30 per cent increase in the Soviet trade with the developing countries, while that with the industrialized private enterprise economies rose in the order of 12 per cent—that is, at the same rate as the trade with centrally planned economies.

<sup>21</sup> For coverage, see foot-note<sup>a</sup> to table 3-17.

not alter significantly the conclusion on changes in the direction of trade derived from the data analysed above. The comparison of these data with the estimated trade figures for the other countries makes it quite certain that, whereas in 1960 and 1961 the trade of all centrally planned economies with the rest of the world increased faster than the intra-group trade, in 1962 the reverse was true.

More detailed information about the changes in the pattern of trade of the centrally planned economies with the rest of the world is shown in table 3-18. These data are derived from the trade returns of the partner countries, and because of differences in coverage and statistical discrepancies inherent in such derivation are not strictly comparable to the official statistics shown in table 3-17.<sup>23</sup> According to these data, total exports of the centrally planned economies — which in the following discussion will include the Soviet Union and other eastern European and Asian centrally planned economies — to the rest of the world increased by 12 per cent and imports by 7 per cent. While the Soviet exports and imports rose at the same rate of about 18 per cent, exports of the other eastern European countries rose by 7 per cent as against a 3 per cent increase in imports. Exports of mainland China to the rest of the world increased by 9 per cent, while imports declined. Total export surplus of the area rose from \$83 million in 1961 to \$339 million in 1962.

The largest increase in commercial transactions with the rest of the world occurred in the trade with Latin America which rose by 24 per cent in 1962. This increase was, however, much smaller than that a year earlier when the unprecedented upsurge in imports as well as in exports resulted in a twofold increase in the total turnover.<sup>24</sup> The major part of the increment in the trade with Latin America in 1962 was accounted for by a 56 per cent rise in the exports of the Soviet Union which resulted in an export surplus of \$100 million with this area. The total trade of the Soviet Union with Latin America increased by over 30 per cent and that of other European centrally planned economies by 12 per cent. The trade of mainland China increased by about 28 per cent, entirely on account of a rise in imports. Its relatively small exports to Latin America remained unchanged.

The advance achieved in the trade with Latin America was closely followed by the rate of expansion in the trade with Asia and the Far East. The trade with this area increased in 1962 by 21 per cent, following a 15

per cent increase achieved in 1961. These developments were strongly influenced by a considerable increase in the trade of the Soviet Union, especially imports which rose by about 45 per cent in 1962 and accounted for more than half of total imports of the centrally planned economies from Asia and the Far East. As exports increased much less, by 25 per cent, the result of these changes was a substantial increase in the Soviet Union's net imports from this area from about \$3 million in 1961 to \$65 million in 1962. The trade of mainland China — which occupies the first place in exports and the second in the total trade turnover of the centrally planned economies with Asia and the Far East — increased by about 10 per cent, following a 6 per cent decline during the preceding year. The rise in the trade in 1962 with this area was entirely because of a 14 per cent increase in exports,<sup>25</sup> since imports remained practically unchanged. In consequence, the export surplus with this area which amounted to as much as \$200 million in 1961 was increased by another \$50 million in 1962. The trade with Asia and the Far East of the European centrally planned economies other than the Soviet Union increased by about 16 per cent; imports and exports increased by 24 per cent and 10 per cent, respectively, with a consequent reduction in the export surplus.

Africa and Finland were the two other areas with which trade rose at higher than average rate in 1962. The trade with Africa increased by 12 per cent, indicating a further deceleration of growth evident since 1959.

Trade with western Europe, accounting for nearly 50 per cent of the trade of the centrally planned economies with the rest of the world, rose in 1962 by 6 per cent as compared with a 2 per cent increase in 1961. Although exports of the centrally planned economies as a group increased by about the same percentage as did their imports, this similarity of aggregate growth rates was only the effect of mutually compensating differences between the expansions in exports and imports of various countries. Exports of the Soviet Union to western Europe rose by 8 per cent, while imports increased by 16 per cent, thus resulting in a reduction in the export surplus from \$86 million to \$33 million. Exports of the other eastern European countries to this region rose by 6.6 per cent and imports by 3.4 per cent. These changes have resulted in an increase in the export surplus from \$92 million to \$145 million. Trade of mainland China with western Europe continued to decline in 1962, although at a much lower rate than in the preceding year. In 1962, exports decreased by 8 per cent and imports by

among the trading partners listed in the table. As this proportion may be quite substantial for individual countries and may vary from year to year, the percentage changes derived from these data should be viewed only as broad, rather than exact, indications of the direction and magnitude of change.

<sup>24</sup> Largely accounted for by a rise in the trade with Cuba.

<sup>25</sup> Exports of mainland China to Asia and the Far East in 1962 accounted for about 60 per cent of total exports of the centrally planned economies to that area.

<sup>23</sup> Data on trade with the rest of the world shown in table 3-18 include under this heading the trade with Yugoslavia and Cuba. But in the official statistics reproduced in table 3-17, these two countries are included in the trade within the centrally planned economies' area. The reconciliation of these two sets of data was not possible because of lack of detailed information for 1962. The data for 1962 in table 3-18 represent in many instances estimates based on incomplete information. Moreover, they do not cover that part of the trade of the centrally planned economies which, for lack of information, could not be apportioned



Table 3-18. Trade of Centrally Planned Economies with Rest of the World,<sup>a</sup> 1960-1962  
(Millions of dollars)

Area and year	USSR		Other eastern European countries <sup>b</sup>		China (mainland) <sup>c</sup>		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
<i>Canada and United States</i>								
1960.....	29.5	48.0	65.0	182.4	6.1	9.1	100.6	239.5
1961.....	29.0	69.4	67.3	157.8	3.6	121.1	99.9	348.3
1962.....	19.5	23.0	76.8	144.4	7.7	137.6	104.0	305.0
<i>Latin America</i>								
1960.....	102.3	137.1	124.8	128.5	4.0	41.4	231.1	307.0
1961.....	305.4	346.5	194.4	162.4	10.0	75.6	509.8	584.5
1962.....	475.0	375.0	210.4	187.5	10.0	99.8	695.4	662.3
<i>Middle East<sup>d</sup></i>								
1960.....	134.5	125.6	165.5	155.1	26.2	58.0	326.2	338.7
1961.....	200.9	113.0	175.2	166.3	28.9	32.9	405.0	312.2
1962.....	202.0	116.3	205.1	164.9	34.0	27.1	441.1	308.3
<i>Western Europe<sup>b</sup></i>								
1960.....	757.0	674.9	1,427.6	1,311.0	233.6	372.0	2,418.2	2,357.9
1961.....	803.0	717.0	1,542.4	1,450.2	183.0	181.8	2,528.4	2,349.0
1962.....	866.5	833.8	1,644.8	1,499.5	168.8	149.7	2,680.1	2,483.0
<i>Finland</i>								
1960.....	155.9	139.8	60.6	46.8	2.1	6.6	218.6	193.2
1961.....	156.2	127.7	65.3	56.9	1.4	6.0	222.9	190.6
1962.....	166.9	196.3	65.2	47.1	2.0	5.1	234.1	248.5
<i>Yugoslavia</i>								
1960.....	56.9	52.7	153.8	129.5	0.5	1.1	211.2	183.3
1961.....	32.0	50.9	136.0	124.8	—	0.2	168.0	175.9
1962.....	59.1	43.3	129.2	123.7	—	—	188.3	167.0
<i>Asia and the Far East</i>								
1960.....	181.9	250.1	151.6	132.8	385.0	162.8	718.5	545.7
1961.....	293.1	296.0	207.5	135.5	358.2	158.3	858.8	589.8
1962.....	365.0	428.1	228.2	168.1	408.0	159.4	1,001.2	755.6
<i>Australia and New Zealand</i>								
1960.....	0.4	36.8	11.1	53.4	11.5	33.1	23.0	123.3
1961.....	0.7	23.2	9.5	46.1	8.5	169.0	18.7	238.3
1962.....	0.5	33.1	10.2	34.1	12.5	101.5	23.2	168.7
<i>Africa<sup>e</sup></i>								
1960.....	23.0	55.9	63.8	36.9	13.8	26.0	100.6	118.8
1961.....	58.7	28.1	86.9	51.2	13.9	19.8	159.5	99.1
1962.....	65.0	37.8	96.3	58.3	18.0	13.1	179.3	109.2
<b>TOTAL</b>								
1960.....	1,441.4	1,520.9	2,223.8	2,176.4	682.8	710.1	4,348.0	4,407.4
1961.....	1,879.0	1,771.8	2,484.5	2,351.2	607.5	764.7	4,971.0	4,887.7
1962.....	2,219.5	2,086.7	2,666.2	2,427.6	661.0	693.3	5,546.7	5,207.6

Source: Statistical Office of the United Nations, and Statistisches Bundesamt, *Wirtschaft und Statistik*, No. 3, 1963 (Stuttgart).

<sup>a</sup> Exports from and imports to the centrally planned economies as derived from data of their trading partners.

<sup>b</sup> European countries in Organisation for Economic Co-operation

and Development. Including trade between Eastern Germany and the Federal Republic of Germany.

<sup>c</sup> Including trade of North Korea, North Viet-Nam and Mongolia.

<sup>d</sup> Including Libya, Ethiopia, Sudan and United Arab Republic.

<sup>e</sup> Excluding Libya, Ethiopia, Sudan and United Arab Republic.

18 per cent, while in 1961 they fell by 22 per cent and 51 per cent, respectively. As a result of these developments, the trade of mainland China with western Europe showed, for the first time since 1956, an export surplus, which amounted to \$20 million.

The trade with the Middle East, following an increase of 8 per cent in 1961, rose by 4.5 per cent in 1962. The increase resulted largely from a 17 per cent expansion

of exports from the eastern European countries other than the Soviet Union, and a similar increase of exports from mainland China, the effect of which on the expansion of total trade was, however, partly offset by the contraction in Chinese imports. Exports of the Soviet Union to this region remained at the level of 1961, while imports rose slightly. The export surplus of the Soviet Union in 1962, amounting to \$85 million, was approximately the same as in 1961, while the export surplus of

the other eastern European countries rose from \$9 million to \$40 million.

Changes in the trade of the centrally planned economies with the remaining regions were less favourable in 1962. The trade with Canada and the United States, having increased by 50 per cent in 1960 and by 32 per cent in 1961, declined in 1962 by 9 per cent. The decline reflected a sharp reduction of both imports and exports of the Soviet Union and of imports of the other eastern European countries. Partly compensating for this decline was the further increase of grain imports from Canada by mainland China and a 14 per cent increase in the exports of the other eastern European countries to this region. The trade with Australia, which rose in 1961 by 75 per cent, largely on account of grain purchases by mainland China, declined in 1962 by 25 per cent following a reduction in these purchases.

Foreign trade of the centrally planned economies continued to be influenced by the measures taken by the Council of Mutual Economic Assistance for achieving greater specialization in output, for co-ordinating national plans of member countries and for expanding the flow of trade itself. Although these decisions of the Council apply only to the economic relations of the eastern European centrally planned economies and Mongolia, the part played by these countries in the total trade of the group is so great that the policies of the CMEA have a direct bearing upon the development of the total trade of the centrally planned economies both among themselves and with the rest of the world.

In 1962, the CMEA adopted the "Basic Principles of International Socialist Division of Labour" indicating the broad lines of increased specialization and co-operation to be followed by the member countries. The document emphasizes that the increase in the over-all efficiency of the economy of the group should be achieved with due regard to the comprehensive and diversified economic development of individual member countries and should be associated with the narrowing and gradual elimination of differences in their levels of development. Measures were also further elaborated by the CMEA for greater international co-ordination of economic plans through serious structural changes aiming at a more advantageous division of labour between member countries.<sup>26</sup> While these policies cannot be expected to give immediate results — they can be implemented only gradually over the period covered by the long-term plans of economic developments — other

<sup>26</sup> Apart from the work relating to specific industries, such as standardization of output and specialization within industrial branches, the CMEA is completing the arrangements for mutual deliveries and for co-ordination of plans until 1965. It has also begun to work on the co-ordination of specific plans for 1966-1970 as well as on the long-term plan ending in 1980. Important progress was made in the preparation of international power and fuel balance for the period ending in 1980. In 1962 also, an Executive Committee of the CMEA, composed of the vice-chairmen of national governments, was created; among other tasks, the Committee will supervise the implementation of the decisions of the Council.

measures taken in 1962 as well as in preceding years have had a more direct influence on current developments. The further extension of the pipeline built commonly by several countries under the aegis of the CMEA has resulted in a substantial increase in the deliveries of Soviet oil to other centrally planned economies. Similarly, the linking of the power grids of Hungary, Eastern Germany, Poland, Romania and western Ukraine has improved the allocation of electric power between these countries. The increase in the number of jointly financed investment projects and the further specialization in the manufacture of various types of machinery and equipment has given an additional impetus to the growth of commercial exchanges between these countries.

In order to expand foreign trade, the CMEA decided in 1962 to introduce multilateral settlements between member countries and to create an international bank for the group. While the trade between these countries will continue to be conducted on the basis of bilateral agreements, it will no longer be necessary to achieve balance between imports from and exports to each trading partner. Rather, it will be possible to settle the net balances with individual trading partners through trade with other members of the CMEA. The bank of the CMEA countries will serve as a clearing-house for multilateral settlements. It will, in addition, finance investment projects undertaken jointly by several countries out of funds contributed by the CMEA countries.

While the proposed introduction of multilateral settlements within the area and the creation of an international bank are intended to foster a further development of economic relations between the CMEA countries, they may also have an influence on the trade with the rest of the world. In fact, the introduction of transferability of net balances among the CMEA countries opens the possibility of using the advantages of this system in the trade with the rest of the world, provided that countries in the rest of the world are allowed to use their net balances with some CMEA countries for their purchases in other countries of this group. Views have already been expressed that the international bank of the CMEA countries might play an important part in the administration of foreign aid to the developing countries by, among others, using the transferable balances of its members to finance purchases of the credit recipients in various CMEA countries.

Partly in connexion with the introduction of the multilateral settlements and partly for other reasons, the CMEA decided in 1962 to revise the system of prices used in the foreign trade within the group. The reform is intended to establish a much greater uniformity of prices for identical products in the foreign trade of each country and to bring the prices into a greater conformity with those used in the trade with the rest of the world. The prices used hitherto in intra-trade were based on the 1957 world prices which in the meantime have changed substantially. The new prices are to be based on the 1957-1961 average of world market prices.

## Plans for 1963

In the centrally planned economies, except Czechoslovakia, development plans provide for accelerated growth of national income in 1963. The highest rate of increase in national income — over 13 per cent — is planned for in Bulgaria and, as indicated by the available information on sectoral growth, in Romania; in both these countries, the planned rates of growth are considerably higher than the rates of expansion achieved in 1962. In Hungary and the Soviet Union, national income is planned to rise by 8 and 7 per cent, respectively; and in Poland and Eastern Germany, by about 5 per cent. In Czechoslovakia, for which data are not available, the small increase planned for industrial production suggests that the planned growth of national income is much smaller, perhaps of the order of 1 per cent (*see* table 3-19).

A considerable acceleration in the rate of expansion of fixed investment — from about 1.4 per cent in 1962 to 7 per cent in 1963 — is planned in Eastern Germany. But in most other countries, the rates of expansion planned for 1963 are similar to those achieved during the preceding year; they amount to 14 per cent in Hungary, 12 per cent in Bulgaria and Romania, 10 per cent in the Soviet Union and 8 per cent in Poland. Only in Czechoslovakia, where fixed investment declined by about 5 per cent in 1962, a further decline by about 6 per cent is planned for 1963; this was closely related to the deficiencies encountered in 1962 in the supply of investment goods and in construction work.

As for retail sales in 1963, the rates of increase planned in Bulgaria and Hungary — about 10 and 5 per cent, respectively — are substantially larger than in 1962. In the Soviet Union, the 7 per cent increase in retail sales planned for 1963 is not much higher than in the preceding year. In Eastern Germany, where the

retail trade was reduced somewhat in 1962, the plan for 1963 provides for a 2 per cent increase. In the remaining countries, the rate of growth of retail sales is planned to be reduced. In most centrally planned economies, the rates of increase planned for retail sales are substantially smaller than those planned for national income, indicating a shift in the allocation of resources towards investment. The two possible exceptions are the Soviet Union, where retail sales and national income are planned to increase at approximately the same rate, and Czechoslovakia, where the rate of increase in retail sales would be larger than that in national income.

The accelerated growth of national income in 1963 is planned to be achieved largely through very substantial increases in agricultural production. In Bulgaria, where agricultural output increased in 1962 by about 2 per cent, and in Romania, where it fell, the plans for 1963 provide for a 17 per cent increase in output of agriculture. In Hungary, agricultural production is planned to increase by 14 per cent; in Czechoslovakia, by more than 9 per cent; and in Poland, by about 6 per cent. The increase would represent a partial recovery in Poland and a more than full recovery in Czechoslovakia from the decline experienced by them in 1962.

Compared to 1962, industrial production is planned to increase in 1963 at approximately the same rate in Eastern Germany and at a slightly lower rate in Bulgaria and Hungary. A somewhat greater deceleration is implied in the Soviet plan, which provides for an 8 per cent increase in industrial production in 1963 as compared with the 9.5 per cent increase in 1962. However, during recent years, in order to avoid the emergence of bottlenecks, annual plans for industrial production in the Soviet Union were deliberately set at a lower level than was warranted by the experience of the

Table 3-19. Planned Targets for 1963

(Indices, 1962 = 100)

Item	Bulgaria	Czechoslovakia	Eastern Germany	Hungary	Poland	Romania	USSR
National income.....	113.5	...	105.5	108.0	105.2	...	107.0
Gross fixed investment.....	112.0	94.0	107.4	114.0	108.3	112.0	110.0
Personal consumption.....	111.5	101.3	...	105.4	103.6	...	...
Retail sales.....	109.9	102.0	102.0	105.3	103.6	109.0	106.9
Industrial production.....	110.2	101.0	106.4	108.0	105.0	112.0	108.0
Industrial employment.....	103.7	100.3	...	102.5	101.7	102.5	102.3
Output per man in industry..	106.1	100.7	107.2	105.5	103.2	109.3	105.6
Agricultural production.....	117.0	109.5	...	114.0	105.8	117.0	...
Wages <sup>a</sup> .....	107.0	...	102.0	...	102.0	...	105.9
Exports.....	...	...	115.4}	110.0	104.9	...	...
Imports.....	...	...	100.0}	...	100.8	...	...

Source: See table 3-1.

<sup>a</sup> For Bulgaria and Eastern Germany, real per capita income of workers and employees; for Po-

land, real wages; for USSR, money income of the population.

preceding years; the actual increases in total output were, in fact, consistently greater than planned. The rate of increase is planned to be reduced from about 15 per cent in 1962 to 12 per cent in 1963 in Romania and, in the same period, from 8.4 to 5 per cent in Poland. In Czechoslovakia, the plan provides for an increase of less than 1 per cent as against a 6 per cent rise achieved in 1962. The emergence of imbalances in recent years between various industries and economic sectors, to which attention was drawn earlier, has been responsible for the virtual interruption in the growth of industrial production and for the fall in the level of investment envisaged in the Czechoslovak plan. The major task of the 1963

plan is to eliminate these imbalances and to bring about readjustments in output and allocation of resources necessary to prepare the ground for the new long-term plan scheduled to begin in 1964.

Industrial employment is planned to increase in 1963 at a smaller rate than in 1962 in all countries for which data are available. This is also the case for the planned changes in output per man in industry of several countries. In Romania, however, output per man is planned to increase at a higher rate than in 1962, and in the Soviet Union and Hungary at approximately the same rate as during the preceding year.

### Economic situation in Yugoslavia

National income in Yugoslavia increased by 5 per cent in 1962, the increase being somewhat larger than that in the preceding year. This indicates that the process of deceleration, which had reduced the annual increase in national income from 18 per cent in 1959 to 6 per cent in 1960 and to 4 per cent in 1961, has been halted. As during the preceding two years, the actual growth rate was much smaller than planned; the plan for 1962 had anticipated a 16 per cent rise in national income (*see* table 3-20). Although these changes resulted largely from fluctuations in agricultural production, they were also strongly influenced by the developments in the industrial sector.

Agricultural production, which declined by about 10 per cent in 1960 and by another 3 per cent in 1961, did not register any change in 1962. According to the coun-

try's annual plans, the anticipated increases in output had been put at 16 per cent in 1961 and 23 per cent in 1962. Unfavourable weather was mainly responsible for the shortfalls in agricultural production during the last three years, but the trends were also influenced by insufficient investment as well as inadequate use of fertilizers owing to the low income of a large proportion of agricultural producers in the private sector of the economy.

Although, as indicated in table 3-21, the output of bread grains, maize and sugar beet increased substantially in 1962 despite the drought, the increase was too small to restore the output of these crops even to the level of 1960 which was itself well below that of 1959. The output of fruit as well as of fodder declined; the decline in production of fodder seriously affected live-

Table 3-20. Yugoslavia: Selected Indices of Economic Activity  
(Preceding year = 100)

Item	1959	1960	1961	1962	1962 (planned)	1963
National income.....	118	106	104	105	116	111
Personal consumption.....	114	106	104	103	108	...
Volume of retail trade.....	117	110	109	103	...	...
Gross fixed investment.....	117	108	107	108 <sup>a</sup>	113	100
Non-agricultural employment.....	107	109	106	102	106	103
Agricultural production.....	132	90	97	100	123	111
Industrial production.....	114	115	107	107	113	110
Industrial employment.....	106	107	105	102	105	103
Output per man in industry <sup>b</sup> .....	105	106	103	102	...	106
Money wages.....	115	121	116	104	...	107 <sup>c</sup>
Cost of living.....	101	111	108	110	...	102 <sup>d</sup>
Real wages.....	113	108	109	95	104	105 <sup>c</sup>

Source: Replies of the Government of Yugoslavia to the United Nations questionnaires of 1961 and 1962 on economic trends, problems and policies; *Statistički Godišnjak*, 1962 (Belgrade); *Indeks*, No. 1 and 2, 1963 (Belgrade).

<sup>a</sup> In current prices which do not seem to have changed appreciably.

<sup>b</sup> Official index. This differs from the index

which could be obtained from comparing indices of industrial production and employment shown in the table. The variation is due to differences in coverage.

<sup>c</sup> Average personal income in socialized sector.

<sup>d</sup> Revised from data on planned increases in money and real income.

Table 3-21. Yugoslavia: Indices of Output of Major Agricultural Commodities  
(Preceding year = 100)

	1959	1960	1961	1962	1962 (planned)	1963
Wheat and rye.....	164	86	89	109	119	115
Maize.....	169	92	74	116	153	113
Sugar beet.....	164	95	75	110	170	158
Meat <sup>a</sup> .....	115	110	101	98	97	103
Milk.....	105	99	98	100	107	102

Source: See table 3-20.

<sup>a</sup> Inclusive of the increase in weight of live-stock.

stock breeding. Output of meat declined in 1962 and that of milk remained at the reduced level of 1961.

The decline in agricultural production in 1961 and its stagnation in 1962 had an unfavourable influence on industrial production, on foreign trade and on the internal stability of the economy.

Industrial production increased in 1962 by 7 per cent. The rate of increase was the same as in the preceding year but considerably lower than the 1954-1960 annual average of about 14 per cent and the rates of 12 and 13 per cent planned for 1961 and 1962, respectively.

The poor performance of agriculture influenced the rates of growth of industries processing agricultural raw materials; it also affected the expansion of other industries through its effect on the possibility of importing industrial raw materials and equipment. Moreover, in 1961 and in 1962, the activities of industrial enterprises were influenced by the uncertainties arising from the readjustment of output to the new pattern of domestic and foreign demand which emerged from the changes in cost and price structure associated with the elimination of multiple exchange rates. In addition, credit restrictions introduced in 1961 with the aim of reducing the pressure of demand upon supply resulted in shortages of working capital. The influence of this factor was quite evident in the first half of 1962 during which industrial production increased by only 4 per cent as compared to the corresponding period of the preceding year. However, under the impact of increasing exports and a relaxation of credit restrictions, the volume of industrial production rose by 8 per cent in the third quarter and by 10 per cent in the fourth quarter.

While these factors played an important part in the slowing down of industrial expansion, it is generally recognized that the imbalances accumulated in the preceding years also influenced economic developments in Yugoslavia in 1961 and 1962. In some cases, productive capacity increased more than the domestic and foreign demand for specific commodities. In others, the expanded capacity could not be fully utilized because of the insufficient growth of complementary industries. In many instances, raw materials and semi-manufactured goods had to be imported even though there were favourable opportunities for their production within the

country. As a result of these tendencies, the existence of idle capacity and the accumulation of stocks in some industries was accompanied by shortages in others. In addition, the growth of industrial production was seriously hampered by the failure to complete investment projects according to schedule.

The emergence of these imbalances was attributed to certain shortcomings in planning and in the policies for implementation of the plans. It has been particularly stressed that the lack of co-ordination in investment policy has led to the simultaneous construction of similar investment projects by various enterprises or organizations without due regard to the demand for their output or their importance for the economy as a whole.

While no basic changes in the methods of management of industry are contemplated — the autonomy of the enterprises is to be preserved — considerable emphasis has been placed on the need to strengthen the central control over investment activities through more selective allocation of investment credits by the banking systems. Certain uncompleted investment projects are to be, at least temporarily, abandoned. Also more stringent measures are to be applied to eliminate unwarranted price increases on the one hand, and unjustified subsidies on the other. Enterprises which fail to adjust their output and sales to the pattern and level of demand are not to receive subsidies even if the new measures were to force them to close down. More selective policies are also to be applied with respect to imports in order to counter the effects of excessive liberalization on the balance of payments.

Personal consumption, which rose by 4 per cent in 1961, increased by only 3 per cent in 1962 as compared with a 5 per cent rise in national income. This decline in the share of consumption in national income was associated with a rise of 8 per cent in fixed investment, a 15 per cent increase in inventories and a fall in net imports.

While this shift in the allocation of national income between consumption and investment tended to increase the pressure of demand upon the supply of consumer goods, the considerable slowing down of the rise in money income of the population was an important factor restraining the growth of these pressures. Thus, for

instance, average money wages increased by as much as 21 per cent in 1960 and 16 per cent in 1961, but by only 4 per cent in 1962. Nevertheless, largely under the impact of a rise in food prices, the cost of living continued to increase in 1962. As a consequence of the 10 per cent increase in cost of living, real wages fell by 5 per cent in 1962 as compared to a more than 8 per cent increase in 1961. Real per capita income of the rural population seems to have remained at the level reached in 1961.

Considerable efforts made to improve the balance of trade resulted in a more than 20 per cent increase in exports in 1962. Imports fell during the year by about 2 per cent. Total exports rose mainly on account of a very steep increase in the exports of machinery and equipment; exports of food, in fact, declined. Total imports declined largely because of a fall in the imports of machinery and equipment as well as other manufactures, while the imports of food increased. In consequence of these changes, net imports fell from 94 billion dinars in 1961 to 53 billion dinars in 1962. A further improvement in the net balance for services reduced the net deficit of the balance of payments from 67 billion dinars in 1961 to about 20 billion dinars in 1962.

The Yugoslav plan for 1963 provides for a considerable acceleration of growth as compared to the rates of

expansion achieved in 1962. National income and industrial production are each planned to increase by 10 per cent, and agricultural output by 11 per cent, over 1962. Employment in the socialized sector is to increase by 3 per cent and in industry and the handicraft sector by 2 per cent. Output per man in industry is planned to increase by 6 per cent — that is, at a much greater rate than in 1961 and 1962. Personal money income in the socialized sector is to increase by 11 per cent, and on a per capita basis by 7 per cent. Although considerable efforts are to be made to stabilize prices, certain increases in the cost of living are anticipated, largely because of increases in the cost of services and in the prices of agricultural commodities. Altogether, real per capita personal income is expected to rise by 4.5 per cent.

Fixed investment is planned to remain at approximately the same level as in 1962. In the allocation of investment, preference will be given to projects with short construction period in order to achieve rapid increases in capacity for output of goods urgently needed for the satisfaction of domestic requirements and for exports. Exports are planned to increase by about 13 per cent and imports by about 7 per cent, resulting in a further slight fall in the net imports of goods and in the deficit in the balance of payments on current account.

Table 3-22. Yugoslavia: Balance of Payments

(Billions of dinars)<sup>a</sup>

	1960	1961	1962	1962 (planned)	1963
Exports of goods.....	169.8	170.6	207.3	201.0	230.0
Imports of goods <sup>b</sup> .....	237.5	265.0	260.7	278.0	278.9
Balance of merchandise trade.....	-67.7	-94.4	-53.4	-77.0	-48.9
Balance of other transactions on current account.....	23.3	27.4	33.5	28.0	33.5
Total balance on current account.....	-44.4	-67.0	-19.9	-49.0	-15.4

Source: See table 3-20.

<sup>a</sup> In foreign prices converted into dinars at the

exchange rate of 300 dinars to the dollar.

<sup>b</sup> Excluding private gifts in kind.

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