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ST/ECA/24

# WORLD ECONOMIC REPORT 1952-53

UNITED NATIONS

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UNITED NATIONS
Department of Economic Affairs
New York, 1954

E/2560
ST/ECA/24

April 1954

UNITED NATIONS PUBLICATION

Sales No.: 1954. II.C. 1

Price: $U.S. $1.75; 12/6 stg.; Sw.fr. 7.00
(or equivalent in other currencies)

# FOREWORD

*World Economic Report, 1952-53* is the sixth in a series of comprehensive reviews of world economic conditions published by the United Nations. These reports are issued in response to General Assembly resolution 118 (II), in which the Secretary-General was requested to prepare annual factual surveys and analyses of world economic conditions and trends. Like the earlier publications, the present report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of the world economic situation as a prerequisite for recommendations in the economic field, as well as to serve the needs of the general public.

The present report analyses major changes in domestic economic conditions and in international trade and payments from 1950 to 1953, with special emphasis on developments in 1952 and 1953. There are published, as supplements to this report, the *Summary of Recent Economic Developments in the Middle East, 1952-53,*[1] and the *Summary of Recent Economic Developments in Africa, 1952-53.*[2]

The introduction to this report surveys current economic problems in the light of economic developments since the Second World War. Part I of the report analyses changes in the domestic economic situation in the three broad groups of countries: economically developed private enterprise economies (chapter 1); centrally planned economies (chapter 2); and economically under-developed private enterprise economies (chapter 3). Part II is devoted to an analysis of changes in international trade and payments, the most important aspects of which are reviewed in chapter 4. The remaining three chapters in part II deal with changes in the external transactions of countries which, for the most part, are exporters of manufactured products (chapter 5) or of primary commodities (chapter 6); and of countries with centrally planned economies (chapter 7).

It will be seen from the above that the classification of countries in part I is not precisely the same as that in part II. Each chapter of the report indicates clearly which countries—and, in some cases, parts of countries—are included in the scope of analysis of the chapter. The countries affected by differences in classification in various parts of the report are Australia, Canada, China, Germany, Japan and Yugoslavia. The grouping of countries and parts of countries for the various chapters is dictated solely by analytical requirements.

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

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

New York, April 1954

[1]United Nations publication, Sales No.: 1954.II.C.2.
[2]United Nations publication, Sales No.: 1954.II.C.3.

## *EXPLANATION OF SYMBOLS*

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

Three dots (...) indicate that data are not available or are not separately reported
A dash (—) indicates that the amount is nil or negligible
A blank in a table indicates that the item is not applicable
A minus sign (—) indicates a deficit or decrease
A full stop (.) is used to indicate decimals
A comma (,) is used to distinguish thousands and millions
A slash (/) indicates a crop year or fiscal year, e.g. 1952/53

Use of a hyphen (-) between dates representing years, e.g., 1950-53, normally signifies an annual average for the calendar years involved, including the beginning and end years. "To" between the years indicates the full period, e.g., 1950 to 1953 means 1950 to 1953, inclusive.

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

The term "billion" signifies a thousand million.

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

# TABLE OF CONTENTS


| | Page |
|---|---|
| INTRODUCTION | 3 |

*Part I*

*Major National Economic Changes*

1. ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES

| | |
|---|---|
| General trends, 1950 to 1953 | 19 |
| Major economic changes in 1953 | 21 |
| Consumption and national product, 1950 to 1953 | 33 |

2. CENTRALLY PLANNED ECONOMIES

| | |
|---|---|
| Eastern European countries | 40 |
| Mainland China | 52 |
| Yugoslavia | 53 |

3. SELECTED COUNTRIES OF LATIN AMERICA AND THE FAR EAST

| | |
|---|---|
| Major changes in economic activity in selected Latin American countries, 1952 and 1953 | 55 |
| Major changes in economic activity in Far Eastern countries | 64 |

*Part II*

*International Trade and Payments*

4. MAJOR DEVELOPMENTS IN WORLD TRADE, 1950 TO 1953

| | |
|---|---|
| Fluctuating trade of primary producing and industrial countries | 75 |
| Increased balance in the regional pattern of trade | 85 |

5. INTERNATIONAL TRADE AND PAYMENTS OF THE UNITED STATES, WESTERN EUROPE AND JAPAN

| | |
|---|---|
| The balance in dollar transactions | 93 |
| Balance of payments of western Europe and Japan | 102 |

6. INTERNATIONAL TRADE AND PAYMENTS OF PRIMARY PRODUCING COUNTRIES

| | |
|---|---|
| General trends | 115 |
| Exports | 117 |
| Imports | 126 |
| Balances of trade | 133 |

7. INTERNATIONAL TRADE OF EASTERN EUROPE AND MAINLAND CHINA

| | |
|---|---|
| Trade with the rest of the world | 137 |
| Trade within the group and total trade | 140 |

| | |
|---|---|
| APPENDIX: A technical explanation of the construction of table 10 in chapter 1 | 145 |
| INDEX | 149 |

# List of Tables

Page

1. ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES

1. Aggregate real gross national product, unemployment, cost of living and real wage rates, in developed private enterprise economies as a group, 1950 to 1953 ...... 20
2. Indices of industrial production and real gross national product in western European countries, Canada and the United States, 1951 to 1953 .................. 22
3. Indices of industrial production in western European countries, Canada and the United States, 1953 ........................................... 22
4. Indices of agricultural production in western European countries, Australia, Canada and the United States, 1950/51 to 1952/53 ...................... 23
5. Indices of real gross national product and employment, and percentage of unemployed in western European countries, Canada and the United States, 1951 to 1953 24
6. Components of gross national product, at constant prices, in western European countries, Australia, Canada and the United States, 1950 to 1953 ............. 26
7. Indices of import unit values, cost of living, food prices and wage rates in western European countries, Australia, Canada and the United States, 1951 to 1953 .... 30
8. United States: Changes in price structure, 1951 to 1953 .................... 31
9. United States: Gross national product, at 1952 prices, 1952 and 1953 .......... 32
10. Analysis of changes in the ratio of real consumption to real gross national product in western European countries, Australia, Canada and the United States, 1950 to 1953 ................................................ 36

2. CENTRALLY PLANNED ECONOMIES

11. Indices of industrial production and national income in centrally planned economies of eastern Europe, 1953 ......................................... 40
12. Announced changes in planned annual rates of increase in industrial production in centrally planned economies of eastern Europe ......................... 44
13. Union of Soviet Socialist Republics: Livestock numbers, 1940, 1950 to 1953, and targets for 1954 and 1955 ......................................... 45
14. Indices of industrial production in centrally planned economies of eastern Europe, 1951 to 1953 ................................................ 48
15. Industrial employment and output per man in centrally planned economies of eastern Europe, 1951 to 1953 ....................................... 48
16. National income and investment in fixed capital in centrally planned economies of eastern Europe, 1951 to 1953 .................................... 49
17. Price reductions in centrally planned economies of eastern Europe in government and co-operative trade, 1953 ......................................... 51
18. Yugoslavia: Industrial production, 1952 and 1953 ......................... 54

3. SELECTED COUNTRIES OF LATIN AMERICA AND THE FAR EAST

19. Indices of prices of selected export products in Latin American trade, 1951 to 1953 56
20. Indices of agricultural production in selected Latin American countries, 1950 to 1953 ................................................ 57
21. Indices of industrial production in selected Latin American countries, 1951 to 1953 58
22. Components of gross national product of selected Latin American countries, 1950 to 1952 ................................................ 59

Page

23. Indices of unit values and terms of trade of selected Latin American countries, 1951 to 1953 .......... 60
24. Indices of cost of living in selected Latin American countries, 1951 to 1953 .......... 63
25. Indices of agricultural production in Far Eastern countries exporting raw materials and rice, 1950/51 to 1952/53 .......... 64
26. Foreign trade of Far Eastern countries exporting raw materials and rice, 1950 to 1953 .......... 65
27. Indices of export prices, import prices and terms of trade of Far Eastern countries exporting raw materials and rice, 1951 to 1953 .......... 66
28. India: Selected indicators of economic activity, 1950 to 1953 .......... 68
29. India: Apparent consumption of cereals, 1949 to 1953 .......... 69
30. Japan: Selected indicators of economic activity, 1951 to 1953 .......... 70
31. China: Taiwan: Selected indicators of economic activity, 1951 to 1953 .......... 71

4. MAJOR DEVELOPMENTS IN WORLD TRADE, 1950 TO 1953

32. Indices of current value, quantum and unit value of exports of primary producing countries and industrial countries, 1950 to 1953 .......... 77
33. Index of primary products' prices in external trade, 1950 to 1953 .......... 78
34. Imports of the United States and western Europe from primary producing countries, 1951 to 1953 .......... 79
35. Indices of intra-group and extra-group exports of industrial countries, 1950 to 1953 .......... 80
36. Exports of the United States and western Europe by commodity categories, 1951 to 1953 .......... 80
37. Indices of export and import unit values for primary producing and industrial countries, and of money wages in industrial countries, 1950 to 1953 .......... 81
38. Indices of current value, quantum and unit value of imports of primary producing countries and industrial countries, 1950 to 1953 .......... 83
39. Indices of manufacturing, mining and agricultural production in primary producing and industrial countries, 1950 to 1953 .......... 84
40. World exports, by origin and destination, 1950 to 1953 .......... 86
41. Sum of gross bilateral balances of major trading areas .......... 87

5. INTERNATIONAL TRADE AND PAYMENTS OF THE UNITED STATES, WESTERN EUROPE AND JAPAN

42. Supply of dollars by the United States and their use by other countries, 1952 and 1953 .......... 94
43. United States balance with rest of world, 1950 and 1953 .......... 96
44. United States: Merchandise trade, 1950 and 1953 .......... 97
45. Production and exports of wheat, 1948/49 to 1952/53 .......... 99
46. Production, consumption and exportable supplies of raw cotton, 1949/50 to 1953/54 .......... 100
47. Production and consumption of refined petroleum in western Europe, 1948 to 1953 100
48. Gold reserves and dollar holdings of western Europe and Japan, 1950 to 1953 .......... 103
49. Balances on merchandise trade, and terms of trade, of countries of western Europe and Japan, 1950 and 1953 .......... 104
50. Quantum of imports and exports of western Europe, Japan and the United States, 1951 to 1953 .......... 107
51. Terms of trade of western Europe, Japan and the United States, 1951 to 1953 .......... 110
52. Surpluses and deficits in the European Payments Union, 1951 to 1953 .......... 111

Page

6. INTERNATIONAL TRADE AND PAYMENTS OF PRIMARY PRODUCING COUNTRIES


53. Balance of payments of primary producing countries, 1950 to 1953 . . . . . . . . . . . . 115
54. Gold reserves and foreign exchange assets of primary producing countries, 1950 to 1953 . . . . . . . . . . . . 117
55. Indices of current value, quantum and unit value of exports of primary producing countries, 1950 to 1953 . . . . . . . . . . . . 119
56. Indices of current value of imports from primary producing countries and industrial countries by the United States and western Europe, 1951 to 1953 . . . . . . . . . . 120
57. Indices of prices of selected commodities in principal markets, 1950 to 1953 . . . . 122
58. Indices of production and quantity of exports of selected raw materials from major primary producing countries, 1950 to 1953 . . . . . . . . . . . . 123
59. Indices of production and quantity of exports of selected foodstuffs from major primary producing countries, 1950 to 1953 . . . . . . . . . . . . 124
60. Indices of current value, quantum and unit value of imports of primary producing countries, 1950 to 1953 . . . . . . . . . . . . 128
61. Imports of wheat and wheat flour by primary producing countries, 1950 to 1953 129
62. Imports of rice by primary producing countries, 1950 to 1953 . . . . . . . . . . . . 130
63. Imports of cotton piece-goods by primary producing countries from major exporting countries, 1951 to 1953 . . . . . . . . . . . . 131
64. Indices of exports from the United States and western Europe of metals and engineering products to primary producing countries, 1951 to 1953 . . . . . . . . . . . . 131
65. Exports from the United States and western Europe of machinery and transport equipment, and metals and metal manufactures, to primary producing countries, 1951 to 1953 . . . . . . . . . . . . 132
66. Trade and balances of primary producing countries from 1950 to 1953, in current prices and in prices of 1950, first half . . . . . . . . . . . . 133


7. INTERNATIONAL TRADE OF EASTERN EUROPE AND MAINLAND CHINA


67. Trade of eastern Europe and mainland China with rest of world, 1950 to 1953 . . 137
68. Trade of eastern Europe and mainland China with selected major trading areas, 1950 to 1953 . . . . . . . . . . . . 138
69. Imports by western Europe of selected commodities from eastern Europe, 1951 to 1953 . . . . . . . . . . . . 139
70. Composition of exports to eastern Europe by western Europe and the United States, 1951 to 1953 . . . . . . . . . . . . 140
71. Indices of foreign trade of eastern European countries, 1951 and 1952 . . . . . . . . . . 140


## Charts


1. Indices of current value, quantum and unit value of exports of primary producing countries and industrial countries, 1950 to 1953 . . . . . . . . . . . . 76
2. Indices of current value, quantum and unit value of imports of primary producing countries and industrial countries, 1950 to 1953 . . . . . . . . . . . . 82
3. World exports, by origin and destination, 1950 to 1953 . . . . . . . . . . . . 88
4. Indices of current value, quantum and unit value of exports of primary producing countries, 1950 to 1953 . . . . . . . . . . . . 118
5. Indices of current value, quantum and unit value of imports of primary producing countries, 1950 to 1953 . . . . . . . . . . . . 127
6. Trade and balances of primary producing countries from 1950 to 1953, in current prices and in prices of 1950, first half . . . . . . . . . . . . 134

# INTRODUCTION

# INTRODUCTION

The year 1953 was in several respects one of the most satisfactory years for the world economy since the war. Total production and consumption were at record levels and in most countries unemployment was relatively low. Inflationary pressures either had previously been eliminated or tended to subside in the course of the year. The force of the short-term fluctuations in prices, production and international payments that had accompanied the Korean hostilities was apparently spent. The disequilibrium in international transactions was eased, and restrictions on international trade and payments were being relaxed.

However, much of the improvement recorded in 1953 may well have been of only temporary significance, and major problems remained to be solved. The balance of inflationary and deflationary forces was precarious, and the continuance of full employment was by no means assured in the major industrial countries. The under-developed countries did not, in general, fare as well as the economically advanced countries, and many suffered setbacks in economic activity and in investment. There were no international plans to meet possible recurrences of the frequent, and often violent, fluctuations in the prices of primary commodities during the past few years.

The basic economic problems which confront the world do not change rapidly from year to year. In all countries the long-term problem is still how to make the best use of available resources for the satisfaction of human needs; and the creation of productive capacity for raising standards of living in under-developed countries continues to be of particularly crucial importance. Additional efforts are, as always, required for the establishment of conditions in which countries would be able to secure through international specialization and exchange the advantages offered by economic co-operation.

While the complex of ultimate economic objectives, broadly considered, remains essentially unaltered, some aspects of the economic environment within which these objectives have to be pursued can and do change much more quickly, making it necessary for short-run economic policies to be modified accordingly. Such a change in economic environment occupies the centre of immediate attention at the present time. After the truce in Korea many governments have found it possible to level off their military expenditures and to plan reductions. While the lightening of the burden of armaments offers great opportunities for peaceful development, it also raises the question of what adjustments are necessary to ensure that these opportunities will in fact be seized.

With these considerations in mind, the purpose of the discussion which follows is to provide a selective review of post-war economic development, with special emphasis on the factors which have sustained and facilitated economic expansion since the end of the war. The post-war years may conveniently be divided for this purpose into two main periods: the period from 1945 to 1950, dominated by the tasks of restoring productive capacity and satisfying postponed consumer needs, and the years 1950 to 1953 when increases in output were largely being absorbed in military expenditure. Discussion of how activity and employment have been expanded in the post-war era provides a background against which current tendencies may be assessed, and the current problem set in perspective.

## The Period of Reconstruction and Recovery, 1945 to 1950

Although during the war public discussion of the problems of peace-time had turned largely on fears that large-scale unemployment, which had been one of the most intractable problems of the nineteen-thirties, would return, the early post-war years were characterized by a shortage of supplies rather than of demand. Since world output had been reduced by war-time devastation, and the fabric of international trade destroyed, the period began with pressures of demand upon supply which were generally substantial, though varying in intensity from country to country. As output rose and world trade was restored, these pressures subsided, and by 1949 and 1950 some governments had begun to be concerned once more with the possibility of a recession.

The most obvious and powerful source of demand at the beginning of the period was the need to restore the productive capacity of agriculture and industry in those European and Asian countries which had suffered most severely. More widespread, however, was the heavy demand for goods which had been unobtainable during the war; the replacement and renovation of civilian factories and their equipment had been neglected, housing facilities had become entirely inadequate and inventories had everywhere been run down. There was in addition a widespread determination not merely to restore war-time losses of wealth and to make good the deterioration of plant and equipment, but also to increase and modernize the stock of capital. In under-developed countries, particularly, it was government policy to create new openings in industry for labour; and many of the economically advanced countries planned a rapid development of basic industries, such as steel and electricity, so as to provide the foundation for further expansion of output. There was a similar demand in all countries for consumer goods which had been unobtainable, and a similar determination to raise living standards above pre-war levels.

These various sources of demand were backed in most countries by very large holdings of liquid assets which had accumulated in the hands of the public during the war. These were mainly the result of heavy government deficits, but in some countries, especially among the under-developed group, they had been partly derived from large war-time export surpluses and from military expenditures by the Allied forces, and were reflected in large dollar and sterling reserves.

Finally, although government current expenditures dwindled rapidly with the demobilization of the armed forces, they levelled off at rates much higher than before the war; in most countries larger military establishments were maintained, and social services had generally been expanded.

Much higher levels of output than those of the pre-war years would have been necessary to supply this large volume of requirements. In fact, however, mines and factories of the world as a whole were producing no more in 1946 than in 1937 and the output of the world's farms was much lower. Moreover, the distribution of supplies was extremely uneven: in a number of countries outside the main areas of combat, production had increased substantially during the war, but elsewhere production had fallen considerably, in some cases very considerably.

Institutional differences between the centrally planned economies and the rest of the world make it necessary to discuss the two groups of countries separately. Trade between the two groups has at no time recovered to anything like its pre-war importance, so that the world has been divided into two more or less economically separate areas; economic developments in each area have therefore had little direct significance for those in the other.

In the centrally planned economies, as elsewhere, the inflationary pressures which followed the war were due to the heavy burden of reconstruction, the slow recovery of agriculture and the existence of pent-up demand backed by cash accumulated during the war. However, the situation in most of these countries was also strongly influenced by far-reaching structural changes, particularly the nationalization of industry and the redistribution of rural land. Nationalization, together with a gradual extension of the scope of planning, tended to prevent market forces from determining the development of industry. The redistribution of land resulted in a substantial increase in the share of agricultural output consumed by peasants, thus reducing the share of output supplied to the cities, and also in a higher demand by peasants for industrial consumer goods.

Although new currencies were introduced at various times in all countries of this group so as to eliminate much of the cash accumulated in the hands of the public, these measures did not in all cases permit the immediate abolition of rationing. In many instances this was prevented by rising demand pressures generated by rapid industrialization, or by food shortages due to the slow expansion in agricultural output or to poor harvests. While in the Union of Soviet Socialist Republics rationing was abolished in 1947, in Czechoslovakia it was maintained until 1953; in other countries it was either eliminated or reduced in scope in the course of this period. In all countries of the group the increase in supplies was sufficient to make possible a substantial recovery in standards of living. In the Soviet Union this was brought about mainly by reductions in consumer prices, while in other countries money wages were increased. By 1950 the recovery in consumer supplies from the very low levels at the end of the war had resulted in average levels of consumption generally exceeding those of the pre-war period, but in some countries the increase was small.

Among the developed private enterprise economies, shortages were much more acute in western Europe than in North America because in the latter area there was no problem of restoring destroyed capacity and production was much greater than before the war. In many western European countries, governments had not only adopted programmes of reconstruction and development, as well as some extension of social services, but they were simultaneously attempting a great increase in commodity exports, for reasons which will be explained below. In several of the under-developed countries of Asia there were war-devastated regions whose recovery was very slow, especially where the end of the Second World War was followed by civil strife. In Latin America also, there were often shortages, especially of food, accompanied by rapidly rising prices, but this was due primarily to an expansion of demand because of growing urban employment and incomes.

Efforts to restore the fabric of international trade and payments were greatly handicapped by the great changes which had taken place in demand and production. In general, where the pressure of demand upon supply was heaviest, countries tended to absorb more goods from abroad than they were able to finance from the proceeds of their exports. This contributed to a severe imbalance in international transactions, reflected particularly in world-wide deficits with the dollar area, where inflationary pressures were, on the whole, weakest. Most countries outside the dollar area found themselves unable to balance their dollar accounts without restrictions on foreign transactions.

The shortages in western Europe and in the under-developed countries caused a particularly strong and universal demand for North American goods. While western Europe sought in the North American market the foodstuffs and raw materials which it could no longer obtain from traditional sources of supply outside the dollar area, under-developed countries were compelled to turn to the United States for supplies of capital equipment which western Europe could not spare from its own reconstruction programmes. These special difficulties were complicated by structural changes in the world economy. Trade with eastern Europe, which had supplied food to western Europe before the war, remained very low. The growth of manufacturing capacity in under-developed countries, especially in Latin America, had reduced the markets for textiles and some of the other traditional exports of western Europe. War-time losses of foreign assets by western European countries, together with new external debts, meant that western Europe required much higher commodity exports to balance its accounts with other areas; and this need was greatly accentuated by a deterioration in terms of trade and by larger oversea military expenditure. Finally, although the imports of North America were higher than before the war, they had fallen in relation to its output, and especially in relation to its capacity to export. Before the war the export balance of this area had been financed in some years by outflows of private capital and in others by purchases of gold from the rest of the world. These pre-war methods of finance were no longer adequate in the post-war situation, partly because the outflow of private capital from North America was small in relation to its export balance and partly because the price of gold had remained unchanged while the prices of other goods had approximately doubled.

In these circumstances, western Europe was able to obtain the import balances of goods and services which were needed to soften domestic inflationary pressures, to restore and augment productive capacity, and to ease the adjustment to structural changes in the world economy, only because the Governments of Canada and the United States provided foreign grants and loans on a very large scale. The economic aid supplied by Canada and the United States also furnished a source of liquidity for international settlements. Although the sterling area provided an extensive system of multilateral transactions, much of the growing trade between non-dollar countries was necessarily conducted through bilateral agreements which offered only limited possibilities for countries to offset export balances with some areas against import balances with others. Since the dollar aid received by western Europe exceeded its deficit with Canada and the United States, its deficit with other oversea areas could be covered in convertible currency. Dollar aid also made it easier for western European countries to liberalize trade and payments with one another.

As output rose and world trade was restored, and as the most urgent post-war demands for consumption and investment were satisfied, inflationary pressures were reduced. In many countries, especially in the under-developed areas, part of the excess demand was eliminated through open price inflation. Demand pressures in other countries, notably in north-western Europe, were contained by rationing and other controls upon the economy; prices rose more slowly, and the goods which were scarce were distributed more rationally, but at the cost of prolonging the duration of excess demand.

In most countries the output of manufacturing industries recovered fairly rapidly—much more rapidly, in fact, than that of agriculture. Although by 1950 overall per capita consumption exceeded the pre-war level in western Europe, food supplies per head of the population had not been fully restored, and in Asia food consumption remained well below the very inadequate standards prevailing before the war. Nevertheless, the progressive improvement in supplies of consumer goods, including food, either from domestic production, or imports, or both, was generally sufficient to cause a subsiding of inflationary pressures by the end of the period, thereby permitting rationing and other controls to be relaxed or removed.

The heavy pressure of demand did not subside simultaneously in all countries. In some cases demand and employment remained high, and output continued to rise, throughout the reconstruction period. Even in 1950 large backlogs of demand for investment and consumption goods had yet to be worked off. Where, on the other hand, the pressure of demand had originally been relatively weakest, signs of a check to economic activity emerged as early as the later months of 1948.

The first important interruption in the upward economic trends occurred in the United States. By the latter part of 1948 production and distribution "pipelines" had been filled and inventories were continuing to accumulate at a rate greater than was warranted by the growth in sales. The resulting liquidation of excess inventories caused industrial production to drop sharply by mid-1949. The setback was, however, short-lived and in the first half of 1950 production reached new heights. The recession did not gain momentum largely because other elements in demand were buoyant, and no fall in consumption was induced. An earlier reduction of tax rates and the payment of unemployment benefits helped to maintain disposable incomes in 1949, while a higher proportion of such incomes was spent, mainly because of an increase in the supply of consumer durable goods, especially motor cars, for which there was still a backlog of unsatisfied demand. Meanwhile military and other government purchases rose considerably. Moreover, since there was still a shortage of housing, a reduction in the costs of finance and of building encouraged construction.

Although the recession in the United States was mild, it had far-reaching consequences for the rest of the world. While imports of foodstuffs increased during the recession, other imports—particularly of raw materials—fell in real terms, owing to the reduction of inventories. Because the United States share in world trade is sufficiently large for such a drop in imports to have a marked influence on prices, raw material producing countries, especially in the sterling area, experienced a large fall in dollar earnings. Moreover, the decline in the hard currency reserves of the sterling area was accelerated by widespread speculation against sterling. In September 1949, sterling was devalued, and the dollar rates of exchange of many other currencies were reduced in sympathy. The rapid improvement in dollar reserves which followed in the first half of 1950 was brought about by the recovery of production and imports in the United States, higher output of food and raw materials in the non-dollar world, a tightening of controls over dollar imports and the return of speculative capital to western Europe after the devaluations.

While restrictions on imports from the dollar area were intensified, those on trade among non-dollar countries were relaxed, especially in western Europe, where a programme of import liberalization was started at the end of 1949. In addition, a more flexible system of international payments was worked out, leading to establishment, in 1950, of the European Payments Union. A greater degree of multilateral settlement than had hitherto been possible was provided within the union, the scope of which included not only countries in western Europe but also their affiliated currency areas overseas.

The position in the middle of 1950 was thus, in brief, that production was generally rising among the private enterprise economies, the heaviest inflationary pressures had subsided, some progress had been made towards restoring balance in the transactions between western Europe and the dollar area, and trade and payments among non-dollar countries were being freed to some extent.

While the recession of 1949 had been rapidly overcome, it had suggested that further adjustments would be required in the world economy once the backlog of demand for investment and consumption was fully exhausted. It was true that excess demand had not yet disappeared everywhere, nor had the full effects of the devaluations of 1949 on prices in the devaluing countries been absorbed. The problems of avoiding deflation were, however, now sharing the attention of governments with the problems of restraining inflation. The events of 1949 had also underlined the difficulties which arise in the event of an inventory decline in any major importing country, even where total final demand is stable. The experience of that year had caused arrangements to be considered for minimizing the international effects of such declines, and especially for maintaining the prices of primary products.

These questions, however, receded into the background as the outbreak of hostilities in Korea revived the fears of inflation.

## The Period of Korean Hostilities, 1950 to 1953

In the industrial countries of North America and western Europe, as in the centrally planned economies, the most important new element in this period was a considerable rise in expenditures on armaments and defence-supporting investment. The problems thereby engendered differed substantially in the two groups of countries; developments in the centrally planned group will be considered separately below.

In North America and western Europe the rise in government expenditures (and related investment) from 1950 to 1953 was accompanied by a pronounced inventory cycle, which strongly influenced the year-to-year changes in production. Government expenditures started by rising slowly, then gathered momentum, passed the period of steepest growth and eventually commenced to level off. Inventory investment rose rapidly early in the period, fell sharply, and then recovered in 1952/53. The basic pattern of developments in the period can be described for the most part in terms of the course of these two categories of expenditure. In the first phase of the period, which lasted approximately from mid-1950 to mid-1951, heavy inventory accumulation on private account combined with rising government expenditures to produce a sharp increase in output. Subsequently, from mid-1951 to mid-1952, the effect of the now rapidly rising government expenditures was damped by the reversal of the inventory boom, and output rose much more slowly. Finally, in 1952/53, government expenditures began to flatten out in a number of major countries, but increases in fixed capital investment, and consumption, and a further growth in inventory investments quickened once more the pace of economic activity.

The period was also characterized by sharp fluctuations in prices and in terms of trade, and there were wide swings in balances of payments, both between developed and under-developed countries and also between the dollar and non-dollar areas.

### Private enterprise economies

*The inventory boom: 1950/51*

The outbreak of hostilities in Korea entirely changed the character of the economic situation confronting the private enterprise economies and initiated a new period of inflationary pressure which, however, was shorter lived than that which had followed the end of the Second World War.

The decisions taken by many governments in the latter months of 1950 to accelerate their military preparations involved heavy claims on resources. But even before there was time for these decisions to take the form of higher public expenditures, demand by private business and consumers rose sharply all over the world. It was widely anticipated that goods of all sorts would become hard to obtain or would rise in price, not only because supplies would be absorbed for military purposes, but also because of the fear that the conflict might not be confined to the peninsula of Korea.

These expectations were rapidly translated into widespread attempts at inventory building at all levels: governments bought for strategic stockpiles, manufacturers sought a large expansion of their inventories of raw materials and semi-finished goods, wholesalers and retailers attempted to acquire additional stocks of final products and consumers purchased durables and semi-durables at a faster rate. The consequent extremely rapid climb in the prices of many commodities encouraged still further anticipatory and speculative buying, which in turn pushed prices still higher.

The extent to which prices rose depended on the nature of the goods involved. Raw materials were already in somewhat tight supply by the first half of 1950. The recovery of production in the United States and the simultaneous rise in inventories—including some acceleration of strategic stockpiling—together with the continuing growth in output elsewhere, had raised the demand for raw materials and, in many cases, reduced stocks in the hands of producers. The heavy demand arising in the latter part of 1950 was therefore bound to induce very sharp increases in prices. Prices of agricultural raw materials, supplies of which were particularly inelastic, rose much more than those of minerals; foodstuffs, on the other hand, generally increased less in price than did minerals. Factors helping to stabilize food prices included the operation of national price control or support schemes, long-term contracts and, in the case of wheat, the international agreement and the existence of large stocks in North America. In addition, demand for food rose more slowly than demand for raw materials, especially since many foods were not suitable for prolonged storage and therefore for speculative hoarding. The prices of semi-manufactures, and even more of finished manufactures, were initially restrained by the practice of fixing prices on the basis of costs of materials at the time of purchase, by the slower rise of wage rates than of raw material prices and by the fact that manufacturers in many cases continued to take conventional margins of profit.

Governments in western Europe did not, generally speaking, attempt to suppress price inflation by restoring the interdependent group of controls—such as consumer rationing, food subsidies, price controls and ceilings on wage and property incomes — which had been widely used in the Second World War and to a diminishing extent during the period of recovery. They relied rather on substantial increases in taxation and on credit restrictions to check consumer demand and investment. In view of the heavy pressures on raw material supplies, however, controls over the use of several materials were reintroduced or tightened so as to prevent military and other essential production from being impeded. In addition to such measures, the United States Government reintroduced general price and wage controls early in 1951. Moreover, it reduced its rate of purchasing for the strategic stockpile and centralized the buying of rubber and tin in the Reconstruction Finance Corporation.

The improvement in the terms of trade of under-developed countries resulting from increases in the prices of primary products enabled them to step up their imports of manufactures, and inventories were increased in these countries also, reflecting the expectation that supplies of manufactures from the rearming countries would fall and their prices rise. Imports did not, however, initially increase as fast as exports, so that balances of payments improved temporarily in under-developed countries.

Production advanced in these countries under the stimulus of expanded demand. The output of exportable raw materials responded gradually to the rise in prices, and the growth in employment and incomes stimulated investment, part of the increase in investment being financed from high export profits. In some countries governments stepped up public investment as the revenue from export duties increased. Manufacturing output also rose, but levels of consumption depended upon the elasticity of food supplies. Latin America particularly suffered from poor crops in this period. Except in so far as substantial imports could be secured—mainly from North America—higher money incomes tended to be absorbed to a greater or lesser extent by increases in food prices, in some cases initiating upward spirals of wages and prices.

The reappearance of heavy demand pressures in many western European countries did not at first check the improvement in their dollar reserves. The upswing in demand, both in military expenditure and in inventory building, was earlier and more pronounced in the United States than elsewhere. Secondly, restrictions on imports had been tightened in 1949 in many countries, especially in the sterling area, and it was some time before the relaxation of these restrictions resulted in higher deliveries from the United States. In the meantime inventories of dollar area commodities were run down. Finally, the supply of dollars by the United States to the rest of the world increased sharply in response to the rise in prices of raw material imports.

The improvement in dollar reserves was particularly great for the sterling area, owing to very large increases in the export prices of such commodities as jute, rubber, tin and wool. The especially volatile nature of these prices was due partly to the fact that they were formed in relatively free markets, and partly to fears that supplies from the Far East and Australia might become difficult or impossible to obtain should hostilities spread beyond Korea.[1] The sterling area's higher earnings from sales to Canada and the United States were supplemented by dollars in part settlement of surpluses with members of the European Payments Union.

*The check to the upswing: 1951/52*

The principal features of the period which lasted approximately from mid-1951 to mid-1952 were a slower rise in output and considerable unevenness in activity between the various sectors of the economies, both of developed and of under-developed countries.

In the industrially advanced countries the upward momentum of the engineering industries was further stimulated by steeper increases in military expenditures and defence-supporting investment, and also by higher exports of capital goods to under-developed areas. In some countries the consequence was a serious overloading of the capital goods industries, especially where, as in the United Kingdom, shortages of such materials as steel checked the expansion of output. The world-wide pressure on engineering capacity helped to open markets to the rapidly advancing output of western Germany.

The growth in consumption slackened, however, and there was a decline in voluntary investment in inventories of civilian goods. The most important reason for the failure of consumption to rise further was the increase in taxation, but the proportion of income spent declined as well, particularly in the United States, partly because fears of an extension of the Korean conflict subsided, partly because of an inevitable reaction to the abnormally high expenditures of the previous period and partly because of restrictions on consumer credit. The check to consumption was, however, mild; it was reflected in an accumulation of inventories by retailers more rapid than they had intended, because manufacturers were filling the heavy orders placed during the previous period. The liquidation of these retail inventories began to depress manufacturing activity in some of the light industries, especially textiles, in the latter part of 1951.

In many western European countries, the decline in expenditure on inventories in 1951/52 was sufficiently marked to cause total output to level off, or even fall. Where output continued to rise, especially in the United States and western Germany, it was because increases in government expenditures and in private investment in fixed capital outweighed the decline in inventory accumulation. Even in these latter countries, however, the rise in output in 1951/52 was less than that of the previous year. The result of these developments was that unemployment rose to some extent in several countries, notably in the textile industries.

The uneven distribution of demand pressures between capital goods and consumer goods in the industrially advanced countries was eased by shifts of labour into engineering industries, but such shifts were on a limited scale, partly because of the usual obstacles to the movement of labour and partly because in several countries the limits to output were set by the supply of raw materials, especially steel, or by engineering capacity, rather than by the availability of labour.

Despite the slackening of activity in consumer goods industries, there was no decline in the cost of living. There had already been, early in 1951, a sharp drop in the prices of those raw materials which had reacted most sensitively to the initial upswing in demand after mid-1950. Fears of an extension of the Korean conflict were alleviated, as previously mentioned, and it became evident that military outlays would not rise as soon or as rapidly as had earlier been envisaged. Moreover, a downward pressure on prices was exerted by several of the governmental counter-inflationary measures to which reference has already been made—notably those limiting the uses of key raw materials and, in the United States, setting price ceilings, as well as those tending to curb inventories either directly or through credit restrictions. Just as the hoarding of raw materials had magnified the upturn in prices in 1950, so the dishoarding which started during 1951 accentuated the price declines. There was not, however, a corresponding fall in prices at the retail level. When the earlier increases in prices of raw materials and food had begun to affect the cost of living, wage earners had sought to maintain or improve their real incomes by demanding higher money wage rates, which, in so far as they were not accompanied by a rise in productivity, tended to push prices up still further and therefore to occasion new wage demands. These wage-price spirals acquired a momentum of their own, and continued long after declines had occurred in the primary product prices whose previous upsurge had been their original cause. Thus, even though total demand pressures had weakened, cost inflation continued.

Despite the decline in raw material prices, the earnings of foreign exchange by primary producing countries did not fall until the second half of 1951. Moreover, it was the volume of exports rather than their prices which then fell the more severely. Although price quotations in several commodity markets had declined as early as the second quarter, the fall in the prices of

[1] In the case of wool, world consumption had continuously exceeded world production since the end of the war, the difference being supplied from large stocks accumulated during the war. The virtual exhaustion of these stocks by the end of the 1949/50 season contributed to the exceptional price increases for wool in the latter part of 1950 and early in 1951.

actual deliveries was relatively moderate up to the end of the year. In 1952 the volume of exports did not drop further, but prices of deliveries began to reflect the earlier downturn in market quotations, and the terms of trade of under-developed countries deteriorated. Many countries accumulated large inventories of the goods they normally export, either because output had originally been increased in response to the expectations aroused by the peak demand of 1950/51, or because supplies were being deliberately withheld from the market so as to check the decline in prices.

The fall in export incomes of the under-developed countries did *not* result in a general decline in their economic activity in 1951/52. Purchases of durable and semi-durable consumer goods slackened in reaction to the heavy buying of 1950/51, as in the developed countries, and the domestic manufacture of consumer goods, especially textiles, was consequently checked. Investment, however, was generally maintained or increased; greater residential construction and new installations of plant and equipment reflected the high export profits of the preceding period. Since imports were still arriving in response to the expanded incomes and investment expenditures of the previous boom, while the value of exports had fallen, the balances of payments of many under-developed countries deteriorated sharply, necessitating widespread recourse to import restrictions. Where supplies were adequate, food consumption increased and the cost of living tended to level off, but where harvests were poor or imports insufficient, the inflationary price spiral of the preceding period continued.

The slackening in the rate of stockbuilding in the United States, and hence in the prices and volume of imports, coincided with the peak of import demand in the franc and sterling areas—which were now replenishing stocks run down in 1950. Thus the sharp swing of the United States commercial balance into deficit in the latter part of 1950 was followed by an equally sharp swing back into surplus in the second half of 1951. The renewed dollar shortage was aggravated by special demands for dollar goods arising because of poor harvests in many countries, insufficient coal output in western Europe and the interruption of petroleum supplies from Iran. The franc and sterling areas also began to show large deficits with the European Payments Union. Both areas therefore introduced restrictions on imports from the dollar area, and from other members of the European Payments Union, at the end of 1951 and early in 1952.

The disequilibrium which had arisen during 1951 was followed by a decline of 3 per cent in the volume of world trade in the first three quarters of 1952. The decline was relatively moderate because the effect of import restrictions applied by countries in foreign exchange difficulties was partly offset by a recovery in demand and some freeing of import controls elsewhere.

*The renewal of the upswing: 1952/53*

During the third phase of the period of Korean hostilities, from mid-1952 to mid-1953, economic activity in the developed economies gathered momentum once more, and the unevenness in internal demand pressures began to disappear. Military expenditures and related investment were now rising more slowly. As supplies of steel and other key raw materials increased, governments relaxed controls over their use. Investment in fixed capital for civilian purposes and in inventories of raw materials previously subject to governmental allocations responded to the improvement in supplies, especially where temporary backlogs of civilian demand had been built up. At the same time as pressures upon engineering capacity began to subside, consumer expenditures recovered, partly in reaction to the previous decline, and partly because of an increase in real incomes. Moreover, since in 1951/52 the output of consumer goods had fallen below the level which industrial capacity permitted, governments adopted measures to stimulate consumption, measures such as the reduction of taxation or the relaxation of restrictions on consumer credit. Excess inventories of consumer goods and of the raw materials entering into their production had been largely worked off in 1951/52, so that the upturn in consumption encouraged a renewal of inventory accumulation.

All the main components of domestic demand thus contributed to the rise in economic activity in 1952/53. The upward surge was particularly marked in the United States, where it drew added stimulus from the end of the steel strike and the sharp recovery in the output of the metal industries which followed. Production continued to rise rapidly in western Germany owing to a further expansion of fixed capital investment and an acceleration in the upward trend of consumption. In most of the other countries of western Europe, however, the rise in output was not great; investment in plant and equipment showed some tendency to level off in spite of the increase in economic activity and the governmental stimuli being applied.

The rise in output in the developed countries was associated with increases in productivity and also with a reduction in unemployment, particularly in the textile industries, which had suffered most in the setback of 1951/52.

The volume of imports from under-developed countries increased in line with this upturn in industrial production and in inventory accumulation. Raw material prices continued to fall, however, partly because of the increase in output induced by the earlier boom, partly because supplies were augmented by sales from inventories which had been held off the market during the previous year and partly, in one or two important cases, because of a slowing down in governmental purchases as strategic stockpiles approached their goals. The rise in the quantity of deliveries from under-developed countries appears to have partially offset the fall in prices. Imports by under-developed countries, on the other hand, were now reflecting the earlier drop in their foreign exchange resources, and also, especially in the oversea sterling area and Latin America, the tightening of import restrictions. As imports fell and balance of payments positions recovered in the under-developed countries, it proved possible for them to relax their restrictions, but this relaxation did not affect recorded imports until the latter part of 1953.

The over-all economic activity of under-developed countries generally slackened in 1952/53. The output of raw materials was depressed by the large stocks in the hands of producers and by the continued declines in prices. Private investment fell in response to the previous drop in export profits, which had provided a major source of finance in the earlier phases; and the fall in investment was aggravated by restrictions on imports of capital goods. Public investment was slowed down by the decline in customs revenue, by the fall in receipts from export duties (especially where the rates of duty were lowered so as to assist producers) and in some countries by the heavy cost to governments of financing stocks of unsold export goods. Finally, industrial production was hampered in countries in which imports of raw materials were restricted. The general consequence of these developments was a reduction of inflationary pressures—and in some countries actual recessions—and the stabilization of prices was helped in many cases by better harvests in 1952/53 than in the previous year.

The balance of the non-dollar world with the dollar area improved considerably in 1952/53, making it possible for gold and dollar reserves of non-dollar countries to rise by an amount approximately equal to United States economic aid. Although economic aid continued to fall, the total supply of dollars was roughly maintained because oversea military expenditures rose, as did the commercial imports of the United States, accompanying the rise in domestic output. Meanwhile United States commercial exports dropped significantly. The tighter restrictions on imports of dollar goods imposed in other countries were now taking effect. There was also a rise outside the dollar area in the output of foodstuffs, raw materials and other goods previously purchased for dollars, although in some cases an equally or more important factor was a slackening in demand for such goods. The reduction in the dollar deficit was especially rapid in the sterling area, where restrictions were applied to imports not only from the dollar area but also from continental western Europe; the deficit with the latter area was converted into a surplus, involving repayments to the United Kingdom by the European Payments Union of gold or dollars received during 1951/52.

*The situation in the middle of 1953*

If the situation at mid-1953 is compared with that at mid-1950, production in the developed private enterprise economies had been lifted to new record levels, the major portion of the increase being devoted to military purposes. Consumption also had risen considerably, but it had been checked by increases in taxes, and, to a lesser extent, by the increased share of undistributed profits in income in some instances and by some tendency for a higher proportion of personal income to be saved.

The increase in production had been very rapid in North America and in other areas where there had been unemployed labour reserves in 1950, and where unemployment had accordingly been reduced by mid-1953. The rise was also helped by substantial increases in productivity. In some western European countries, however, high military expenditures had been imposed on economies already heavily loaded, and these economies were therefore less responsive to the new stimulus. The more rapid rise of output in North America was in contrast to the previous period, from 1945 to 1950, when output had increased more rapidly in western Europe.

Since, moreover, the backlog of demand for consumer and capital goods had been almost completely eliminated in western Europe by mid-1953, the pressure of demand on resources was now more evenly distributed among the developed countries; this was reflected in the improved dollar balance of western Europe. Western Europe had also become less dependent upon the dollar area for its imports, particularly of certain foodstuffs and raw materials. A reduction in imports of dollar commodities was made possible by a rise in the output of grain and fuels in western Europe, and by a growth in supplies of raw cotton from non-dollar sources—though the drop in western Europe's cotton textile output, compared with 1950, also contributed to lower demand for raw cotton. In addition, western Germany replaced the United States to a considerable extent as a supplier of the products of heavy industry to western Europe: under the mechanism of the European Payments Union, western Germany received only partial payment in dollars for its large export balances with other members of the union.

Thus, in 1953, the problem of the shortage of dollars was less critical than in previous years. However, in assessing the progress towards solution of the dollar problem, it is relevant to consider the following features: the demand for dollars was still restrained by more or less rigid trade and exchange controls throughout a large part of the world; inventories of certain dollar goods were being run down; and the supply of dollars was being augmented by large-scale economic aid and oversea military expenditures by the United States.

Prices of primary products had by now declined considerably, and although they were in most cases above those prevailing at the start of the Korean conflict, the intervening rise in prices of manufactures had brought the terms of trade of under-developed countries back to levels not far different from those of three years earlier. In the interval, these countries had enjoyed a temporary increase in real income, equivalent in some ways to an injection of capital. However, the fluctuations in the terms of trade, and the continued low inflow of capital, demonstrated anew that the under-developed countries could not count on a sustained supply of foreign exchange to finance their imports for development. Nor had great progress been made in mobilizing domestic resources for development; the general experience had been that such expansions in investment as did occur raised a major internal problem, namely the difficulty of expanding food supplies to match the increase in incomes and avert price inflation.

### Centrally planned economies

The implementation of programmes for the expansion of the economic and military potential of the centrally planned economies resulted in large increases in national output from 1950 to 1953 and in a considerable growth in industrial capacity. However, this growth was very unevenly distributed among various sectors of each economy. The strenuous efforts to enlarge rapidly industrial and military capacity involved a very high rate of investment, a concentration on heavy industry and consequently a sharp limitation on the resources available for expanding consumption. While the rates of increase in output were unusually high in heavy industry, they were much lower in consumer goods industries, and agricultural output developed still more slowly. The priority given to producers' goods industries in the long-term plans that were current during this period was further strengthened in the course of their execution and this, together with increased stockpiling of raw materials and food, was bound to limit still further the growth of consumption.

While the slower increase in the output of consumer goods was mainly the result of investment policy, in agriculture other important factors held back the expansion of output. Agricultural production was adversely affected in all countries, in one or more of the years during this period, by serious droughts so that there were relatively sharp fluctuations in harvest yields. Independently of this, agricultural expansion was seriously hampered by institutional factors, such as the existing form of land tenure and the attempts to modify it. Since the small size of landholdings was considered an obstacle to the mechanization of agriculture and to the introduction of modern methods of farming, most of the countries of this group attempted during this period to set up collective farms more quickly. Collectivization was envisaged as a means of raising output, of strengthening government control over production and supplies and of releasing manpower for other occupations. However, in many instances these measures, together with the introduction or extension of compulsory deliveries by peasants at prices much below the market level, created uncertainty about the future prospects of private farming and had a discouraging effect on the expansion of output in the private sector of agriculture, which was still predominant in most of these countries. The effects of the slow increase in agricultural production were aggravated in most countries of eastern Europe by the fact that the movement of labour from rural areas into urban industries was not accompanied by a corresponding flow of food into the towns, but rather by a rise in food consumption per head of the rural population.

Although the slowness of agricultural growth was the main problem faced by the centrally planned economies during this period, the supply of industrial consumer goods was also frequently unsatisfactory and in several cases the output of fuel and power, as well as of raw materials, lagged behind the expansion of manufacturing capacity.

These various developments intensified the pressures of demand upon supply, and led to emergency measures such as the reintroduction of rationing. In order to make it possible later to abolish rationing once more, new currencies were introduced and changes were made in the relative prices of various commodities and in wages. Since over the whole period from 1950 to 1953 increases in money wage rates were not always sufficient to compensate for the rise in prices, real wages fell in some instances or were barely maintained, although changes in the average real incomes of the non-agricultural population were more favourable, because of an increase in the proportion of family members gainfully occupied.

Developments in the Union of Soviet Socialist Republics and mainland China were rather different from those in other countries of the group. In the Soviet Union, where virtually the whole of agriculture was collectivized, government control made it possible to achieve the required shifts in supplies between agricultural and urban areas. Even here, however, the slow rise of agricultural production limited the increase in standards of consumption. The lag in agricultural production in the Union of Soviet Socialist Republics, as in other countries, was the result of a low rate of investment, the inadequacy of incentives and a tendency to discourage private farming on plots allocated individually to members of collective farms. Despite these shortcomings, a considerable expansion in the output of industrial consumer goods in the Soviet Union raised living standards substantially, though supplies were still not sufficient to eliminate excess demand, which persisted throughout the period.

In the mainland of China, on the other hand, the period from 1950 to 1953 was one of recovery from the civil war which had not ended until 1948. During this period industrial production rose rapidly as war damage was made good and the utilization of equipment was improved. Similarly, the rapid recovery of agriculture resulted in a substantial increase in the supply of food.

The steep rise in output in this group of countries was accompanied by an expansion of trade. The higher volumes of exports and imports were, however, exclusively the result of an increase in trade among the countries of this group, while their trade with other countries declined. The development of trade within the group was facilitated by a greater co-ordination of national economic plans.

For the centrally planned economies of eastern Europe, the period from 1950 to 1953 was therefore characterized in general by a large expansion in industrial capacity and production, accompanied, however, by the appearance of severe strains endangering further growth. By 1953 it was considered that, in order to eliminate these disproportions and to create the conditions for more balanced economic development, it would be necessary to slow down the rate of expansion and to reallocate resources in favour of consumer goods industries and agriculture.

## Current Tendencies

As the Korean hostilities drew to a close, governments reduced the emphasis given to the expansion of military power. Consequently, additional resources for raising living standards and for increasing civilian investment are being released. Adjustments to achieve the necessary change of emphasis are required both in the centrally planned and in the developed private enterprise economies, though the problems and processes of adjustment differ.

In the centrally planned economies the most urgent need has been to expand the supply of consumer goods. In order to achieve this expansion, drastic alterations have been made in the emphasis of production plans, both the immediate plans and those framed for the longer run. In the meantime, consumption has been increased by running down stocks. The need in these countries for consumer goods, coupled with the appearance of capacity available for the production of such goods in western Europe, appears to be providing the basis for a recovery in east-west trade; the downward trend in the volume of this trade from 1950 to the first half of 1953 seems to have been reversed in the latter months of 1953.

In all eastern European countries the share of investment in total expenditure is to be reduced and the distribution of investment among various economic sectors altered in favour of consumer goods industries and agriculture. The planned rates of increase in industrial production have also been reduced in most countries, but additional emphasis has been placed on the plans for raising the output of consumer goods. In several countries it has been decided to stop the expansion of industries for which there are insufficient fuel and raw material resources, and the products of which can be obtained at lower cost from other countries in the area. These changes are to be accompanied by an increase in the degree of co-ordinated economic planning in order to achieve wider specialization, depending upon the resources, manpower and transport facilities of each country.

In agriculture the new policy is designed to raise output in three ways: increased investment, stronger incentives and various measures to increase the security of tenure of private producers. In all countries of the group other than the Soviet Union, collectivization has been slowed down, the voluntary principle in organizing collective farms has been strongly emphasized and, in some instances, collective farms have been dissolved. In the Soviet Union, where virtually all peasants belong to collective farms, considerable encouragement has been given to private farming by collective farmers on their own individual plots. Finally, in all countries quotas for compulsory delivery by farmers have been reduced, while the prices paid by government purchasing agencies have been increased, and the further movement of labour into the towns is to be restricted.

Although the new targets set for consumer goods have not necessarily been raised as compared to the original goals, they represent a significant increase over the actual levels which have in fact been reached thus far, and this restatement of the goals, together with the measures taken to implement them, amounts to a significant change in the importance attached to raising standards of consumption. Some of the measures introduced in 1953 may have an immediate effect on the supply of consumer goods, but it will obviously take some time before the change in the balance of investment will produce appreciable results. Moreover, the contemplated rate of increase in agricultural output is so much greater than has recently occurred that its achievement will form a major task for the area.

For other countries, with their large areas of private decision by consumers, investors and business units, affecting the level both of domestic economic activity and of international trade, the problem of adjusting to the new economic situation has a variety of facets.

In general, reliance is placed on private action to make the adjustment, with governments committed to intervene in case private action does not prove to be adequate. During much of the period since the war the main limitation on rising levels of output and trade has been set by the supply of productive resources. There is some evidence that, at least in the immediate future, the limiting factor will be on the side of demand.

The problem of economic stability has both national and international aspects. For each country individually the problem is that of achieving a level of total demand sufficient to absorb its growing labour force in productive employment. At the international level the problem has three aspects: first, to stop the international spread of any fluctuations in activity; second, to protect those countries which do succeed in maintaining internal stability from severe difficulties in their external payments resulting from fluctuations elsewhere; and, third, to prevent temporary instability in the demand of a major importing country from causing extreme fluctuations in the prices of primary products. These aspects of the problem will now be considered in turn in the context of current events.

The most volatile element in demand has been investment in inventories. In the second half of 1953, inventory investment in the United States declined rapidly and substantially for the third time since the war. On the two previous occasions—in 1949 and in 1951/52—other categories of expenditure were rising and there was no major decline in the national product. Recently, however, none of the other main categories of expenditure has been rising significantly, and the consequence has been a larger drop in the national product of the United States than occurred in 1949. At the time of writing, it is still uncertain how extensive will be the effects of the inventory decline on consumption and on capital investment.

But the problem is not confined to the United States nor is it fundamentally a problem of inventory investment. However sharp may be the effect of changes in the level of this component from one year to the next, high rates of accumulation or liquidation cannot last indefinitely. In the longer run inventory investment must be considered as largely determined by, rather than determining, the level of total output. More important questions for the next two or three years are tendencies in other components of the national expenditure in the developed countries.

The volume of government expenditure since the war has largely depended on the course of military outlays. These have recently tended to level off, and in the United States they have already started to decline. For the present, increases in other public outlays, notably public investment in highways, schools, power projects and similar works, may be maintaining total government expenditure. Non-military outlays are, however, small as compared with military expenditure, and total public expenditure in the group of developed countries as a whole will decline later in 1954 unless there are increases in non-military expenditure which are proportionately very large.

By far the greatest element in total demand is consumption expenditure, and the main factor determining this is the amount of personal income after taxes have been paid. In so far as expenditures such as those for military purposes were to decline, disposable personal income would tend to fall and thereby cause a drop in consumption expenditure. The proportion of disposable income spent might temporarily increase if consumers attempted to maintain living standards in the face of a decline in their incomes, though this would no doubt depend in part upon their expectations about the security of their employment and the probable course of prices. In the somewhat longer run, however, it would hardly be justifiable to rely on consumer expenditure rising substantially in relation to disposable income, especially in view of the heavy purchases in recent years of motor cars, household equipment and other durable goods.

It is true, of course, that personal taxation was reduced in many countries in 1952 and 1953, and more reductions are coming into effect in 1954, so that disposable income is itself tending to rise in relation to the total value of production. In some cases, these reductions in taxation have already provided a stimulus to consumption. Where, however, declines in personal taxation are matched by corresponding declines in government expenditure, consumption is not likely to rise by as much as government expenditures fall, since part of the increase in disposable incomes would usually be saved.

It is improbable that changes in the export balance of the developed countries as a whole will be of major importance in relation to their total output under present conditions. The largest change in the export balance in recent periods occurred from 1950 to 1951, when there was an abnormal improvement in the terms of trade of under-developed countries; and even then the change was equivalent to only about one per cent of the aggregate output of the industrially advanced countries as a group. A significantly greater rise in the export balance is certainly economically feasible, and is widely considered desirable, but it would require capital transfers to the under-developed areas on a scale well beyond what is presently contemplated. This is not to say that changes in the export balance will not be of very considerable importance to particular countries which are heavily dependent on foreign trade. As will be indicated below, special problems may arise for such countries in maintaining full employment should external demand slacken.

The other major determinant of the level of economic activity is private fixed capital investment, and much depends upon the future of this category of expenditure. Residential construction has thus far continued to increase; in western Europe, particularly, the easing of inflationary pressures has been taken as an opportunity to make good this, almost the last, of the backlogs of demand inherited from the war—and even from pre-war years. On the other hand, though private investment in industry has been maintained at a high rate, it has not continued to increase, taking the developed countries as a whole; in some instances declines were recorded in 1953, and in the United States a small decline has been anticipated for 1954 in official surveys of the intentions of businessmen.

The forces operating on investment in industry are various; some are likely to depress, others to stimulate it. Since military expenditures are no longer increasing, investment directly associated with these expenditures will decline. The recent rather widespread decline in industrial investment in several countries also suggests the possibility that the heavy installation of plant and equipment since the war may be giving rise to some element of saturation in the demands of industry. Moreover, where total output is, for other reasons, tending to level off or decline, further expansion of capacity will hardly be attractive. On the other hand, there is widespread need for modern equipment, a need which is becoming increasingly conscious and articulate; the desire to modernize equipment is sharpened by the enormous strides which have been made, and still are being made, in industrial techniques. The question is whether this need will be translated into actual investment expenditures. The exploitation of these technical opportunities may be encouraged by the reduction of taxes on business, which are being put into effect in many countries, especially since these reductions are in some cases specifically designed to encourage investment. The promptness and thoroughness with which investment opportunities are in fact taken up will, however, depend very much on whether the business atmosphere is sufficiently favourable.

To summarize, the domestic problem for developed private enterprise countries is whether, and how soon, investment and consumption will make good the slack entailed by the reduction in military expenditure, and stimulate output sufficiently to absorb increases in productivity and in the labour force, so as to prevent the appearance of large-scale unemployment. It must be stressed that it will not suffice for previous levels of demand to be maintained; only a demand growing as rapidly as productivity and the labour force, taken together, will be adequate to ensure full employment.

If each country successfully meets this internal problem through private and, if necessary, government action, it is most unlikely that major declines in international trade will develop. However, the mild checks to rising output in the post-war period have demonstrated the vulnerability of all countries to fluctuations in the activity of any important trading nation even in the absence of a major recession. The second problem for private enterprise countries is how to prevent the effects of such fluctuations in any one of them from spreading to the others.

The only significant import decline at the end of 1953 was taking place in the United States, where it was the result of the fall in activity discussed above. This did not lead to marked shortages of dollars in other countries, because the fall in commercial imports was, for the time being, offset by increases in United States oversea military expenditures and in private capital outflow.

While gold and dollar reserves in the non-dollar area —and especially in western Europe—have recovered from the low point reached in 1948/49, the margin which they provide would still be entirely insufficient in the event of a prolonged decline in North American imports, especially if accompanied, as in the past, by speculation against "softer" currencies. This would be true even if the underlying disequilibrium in international transactions had been eliminated. In fact, as already indicated, much of the improvement in gold and dollar reserves has been due to the continuing high level of United States governmental spending abroad, whether in the form of economic aid or of military expenditures. In general, there is not sufficient flexibility in the world economy for it to withstand disturbances resulting from a substantial slackening in economic activity in any major trading country. In particular, international arrangements for dealing with the currency shortages which would arise in such a situation must be considered inadequate.

Developed countries attempting to maintain high levels of employment during a period of declining activity elsewhere would face two types of problem. First, shortages of foreign exchange might lead to deliberate import cuts, which would both increase the difficulties of countries experiencing a setback and tend to spread recessionary influences to other countries. Secondly, employment might fall in export industries, and this would be difficult to offset by counter-deflationary policies if resources could not be easily diverted from export to home markets.

Under-developed countries would face these problems in intensified forms. Post-war experience has heavily underlined the difficulties faced by all primary producers because of the exceptional sensitivity of the prices of their products. The effort to hold prices up has led in the United States to the accumulation of substantial inventories of farm products, but there appear to be limits, if only those set by available storage facilities, to the length of time such measures could prove effective. Similar action by individual under-developed countries in 1951/52 failed, either because the proportion of total world supplies controlled by such countries was small, or because resources did not permit inventories to be accumulated for more than a relatively brief period, or, finally, because the balance of payments was adversely affected. General progress towards solving the problem of the unstable prices of primary commodities would necessitate further international consultation and agreement.

Under-developed countries have few possibilities of offsetting declines in export proceeds by expanding other types of demand. Such declines would react unfavourably upon development activities, especially in so far as falling export prices depressed profits and export duties, which are important sources of finance for economic development. Many countries, in fact, might well reduce their development expenditures more rapidly than export proceeds fell, unless there were large capital inflows. The consequence might easily be not only slow or negligible rates of growth, but also internal recessions, which would in their turn depress the exports of the developed economies, making their difficulties more acute as well.

It follows that vigorous national policies to promote full employment and further economic expansion form a necessary condition for international economic stability, but not a sufficient condition. While no intractable problem is likely to arise at the international level so long as the important trading countries are reasonably successful in maintaining internal economic stability, past experience suggests that international disturbances can nevertheless be generated by even temporary setbacks in economic activity. Further efforts are needed to create conditions of greater resilience in the world economy so as to enable it to absorb shocks of this type without major dislocation in international economic relations.

# Part I

# MAJOR NATIONAL ECONOMIC CHANGES

# Chapter 1

# ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES

## General Trends, 1950 to 1953

There were considerable differences in the experiences of each of the members of this group of countries[1] over the period 1950 to 1953, but some common characteristics do emerge, forming a basic general pattern. Table 1 shows the average changes for the group as a whole, reflecting this pattern; and—from another point of view—it also shows the total experience of the group as a segment of the world economy.[2]

After a 7 per cent increase in the real national product of the group from 1950 to 1951, the rate of increase slowed down to 2.5 per cent in 1952 and rose again to 4 per cent in 1953. These changes were mainly due to three reasons: a continuous steep increase in government expenditure, which, however, slowed down in 1953; the wave of investment in inventories which went highest in 1951, fell back to much lower levels in 1952 and was unchanged in 1953; and an upward movement of consumption, in a much smaller proportion than national product in 1951, but roughly parallel to it in the two subsequent years.

These changes in the components of the national product reflected three important influences on the economic situation of the group: (*a*) large-scale rearmament, (*b*) the speculative raw material boom and subsequent slump, and (*c*) the increase in the burden of taxation from 1950 to 1951, with comparatively small changes from 1951 to 1953, despite the continued rise in military expenditure.

The rise in government expenditures, reflecting the expansion of military outlays, was the most important element in the increase in national product from 1950 to 1953. It accounted for about two-thirds of the increase in the national product in this period, nearly half of the rise in government expenditure occurring between 1950 and 1951.

Investment in fixed capital showed a continuous increase from 1950 to 1953, but this rise was moderate, amounting to less than 10 per cent of the 1950 level, so that investment in fixed capital has declined relative to the national product. Installation of plant and equipment supporting military programmes expanded in 1951, but investment in industries producing civilian goods was restrained by corporate taxation, tightening of credit and allocation of strategic materials. The last two factors, however, gradually lost their importance after 1951 because restrictions were being relaxed in the course of 1952. It should be noted that, despite this relaxation, investment in plant and equipment showed little rise, if any, from 1952 to 1953, the increase in investment in fixed capital in this period having been mainly due to residential building.

Investment in inventories, already perhaps above normal in 1950, increased steeply in 1951 for speculative reasons, which however disappeared in the second half of 1951. In consequence inventory investment in 1952 dropped below the level of 1950, and remained nearly unchanged in 1953.[3]

Changes in the real balance of exports and imports for the group as a whole were of small consequence for the aggregate national product,[4] although they were considerable for several individual countries. The changes for the group reflected the cycle of raw material prices. Thus the improvement in the terms of trade of under-developed countries in 1951, because of the raw material boom, allowed them to expand the volume of their purchases sharply, improving the real balance of exports and imports of the developed economies. When raw material prices fell thereafter, and the terms of

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

[2]This table covers the countries listed in footnote 1, except that Australia has been omitted because its national accounts refer to fiscal years, and Australian fiscal-year experience was in several respects, especially in foreign trade, so different from the experience which would be revealed by calendar-year statistics that its inclusion would make the table misleading. It should be remembered that the United States has a very high weight in the average of the group. Figures for individual countries are given in table 6.

[3]The large accumulation of farm inventories under the price-support programme in the United States is treated by that Government as government expenditure, not as inventory investment, and this classification is followed here.

[4]By "real" balance is meant the difference between exports and imports after each has been revalued at constant prices. Since there are wide divergencies between changes in the real balance from country to country, the aggregate balance for the group as a whole is liable to be sensitive to errors in the weighting system.

**Table 1. Aggregate Real Gross National Product, Unemployment, Cost of Living and Real Wage Rates in Developed Private Enterprise Economies as a Group, 1950 to 1953**

| *Item* | *1950* | *1951* | *1952* | *1953* |
|---|---|---|---|---|
| Percentage of total 1950 gross national product, computed at constant prices: | | | | |
| Gross national product | 100.0 | 107.2 | 109.8 | 114.0 |
| Personal consumption | 68.2 | 68.8 | 70.5 | 73.3 |
| Government expenditure | 14.4 | 18.4 | 22.0 | 23.6 |
| Private investment | 17.9 | 19.6 | 17.1 | 17.7 |
| Investment in fixed capital | 15.6 | 15.9 | 16.1 | 16.9 |
| Increase in inventories | 2.3 | 3.7 | 1.0 | 0.9 |
| Balance of exports and imports of goods and services | −0.5 | 0.4 | 0.2 | −0.7 |
| Unemployed as percentage of civilian labour force available for hire | 6.0 | 4.8 | 4.8 | 4.6 |
| Indices (1950=100): | | | | |
| Cost of living | 100.0 | 109.9 | 115.4 | 115.6 |
| Real wage rates | 100.0 | 101.6 | 105.2 | 109.8 |

*Source:* See table 6.

*Note:* In order to provide data for all countries of the group on a comparable basis, all components of the gross national product in each country for the four years, 1950 to 1953, are expressed in percentages of the 1950 gross national product. Thus for 1950, the components of gross national product total 100, while for each of the other years, the sum of the components equals the index for the gross national product for the year, with 1950 as the base period.

In order to obtain an over-all figure, covering western European countries, Canada and the United States, for the real gross national product and its components as shown in this table, figures for individual countries were weighted first by civilian employment and then by industrial production. (The weights for industrial production are comparable to those used by the Statistical Office of the United Nations in computing the world index of industrial production.) Since the two sets of results were very close, an arithmetical average was taken to represent an approximation to the over-all figure in question. For a group of five countries, namely, France, western Germany, Italy, the United Kingdom and the United States, aggregate figures for real gross national product and its components obtained by this composite method were checked against those computed on the basis of the weights used by the Organisation for European Economic Co-operation, derived from the money values of national product and the relative prices of goods and services. The results obtained by this check are similar to those obtained by the composite method used here.

For the sake of comparability, adjustments were made in two of the components of the gross national product of the United States. The component "net foreign investment" was replaced by the balance of exports and imports of goods and services, comparable with the concept used in the national accounts of other countries. This balance was obtained by adding economic aid to net foreign investment, the corresponding item being omitted from government expenditure on goods and services. To the extent of these adjustments, the data used in obtaining over-all averages for the components of the gross national product do not correspond exactly with the figures shown in table 6.

The weighted figures for the components of the gross national product for the year 1953 were calculated from preliminary data for individual countries. Since these estimates are crude, they are not shown in subsequent tables for all individual countries in full detail. However, their preliminary character probably does not affect the over-all figures to a significant degree.

Data for individual countries, which have been used in computing the global figures for unemployment as a percentage of the civilian labour force available for hire, are shown in table 5, and table 7 contains those used in computing the global figures of the cost of living and real wage rates. Since statistics were not available for the whole of 1953 in some cases, the figures shown for that year have been partly estimated.

The over-all figures for cost of living and real wage rates were obtained by weighting the individual figures by the number of employed workers. Real payrolls would have been a more appropriate weighting factor; however, it is considered that the method actually used does not introduce appreciable inaccuracies.

trade of the latter group improved, there was a corresponding reduction of imports by under-developed countries, and a deterioration in the real balances of the countries considered here. However, as there was some delay before the imports of under-developed areas were reduced, the deterioration in the real balance of the developed private enterprise countries was rather small in 1952; and even such reduction as did occur was partly due to the decline in investment income (which also reflected the fall in raw material prices). The reversal in the terms of trade continued in 1953 and it was only then that its full effect was felt, and the real balance declined substantially.

Consumption increased little from 1950 to 1951 even though there were sharp rises in national product. From 1951 to 1953, however, the increase in consumption was more or less proportionate to that in production. For the period as a whole, consumption increased by 7.5 per cent as compared with a 14 per cent increase in the aggregate national product. The main factor responsible for this pattern was the rise in the burden of taxes (net of transfers) from 1950 to 1951, while in the subsequent period this burden remained roughly unchanged. There were other influences at work, partly offsetting each other; these are described in detail below in the section entitled "Consumption and National Product, 1950 to 1953".

Such increases in consumption as took place in this period do not seem to have been limited by existing productive facilities. In fact, during the year commencing in the third quarter of 1951, consumer goods industries — e.g., textiles — experienced a temporary slump, chiefly because of the liquidation of inventories. In 1953, although there was a relatively large rise in the volume of consumption, the supply of food expanded enough to cause a decline in food prices.

The rise in the aggregate product from 1950 to 1953 of about 14 per cent was accompanied by an increase in civilian employment amounting to only 3 to 4 per cent.[5] Most of the remainder was due to an increase in productivity.[6] However, part can probably be attributed to a shift in the structure of the national product towards industries where the net value of production per man is higher, and part can be explained by the increase in the armed forces.[7] Unemployment fell by about one per cent of the civilian labour force in 1951 and remained approximately stable thereafter, the small rise in employment from 1950 to 1953 being partly matched by the increase in the labour force. The failure of this percentage to fall substantially, not only in 1952 but also in 1953, despite an accelerated rise in output in the latter year, can be explained by the close connexion between short-period changes in production on the one hand, and in the level of productivity and hours worked on the other. From 1951 to 1952 the rise in productivity was small and working hours fell somewhat, but in 1953 this fall was reversed and productivity rose appreciably.[8]

The increase in productivity over the period was associated with a rise in real wages. The index of real hourly rates from 1950 to 1953 is shown by table 1 to have risen about 10 per cent. In fact, however, the rise in real wages was somewhat less, because some of the indices for individual countries, on which the aggregative index is based, do not cover all workers, and the excluded industries tended to be those with smaller increases. If the rise in direct taxation is also taken into account, the gain in real wage rates probably did not exceed 7 per cent for the period.

The rise in retail prices, stimulated by the raw material boom of 1950/51, slowed down almost to a halt in 1953, the aggregate index showing no appreciable rise as compared with the previous year. But the costs of food and raw materials to importers and manufacturers fell considerably below 1952 levels, and the cost of labour did not rise by more than 2 or 3 per cent if productivity is taken into account. Thus, although the cost of living was approximately stable, there was probably some increase in percentage profit margins in domestic trade from 1952 to 1953.[9]

In the latter part of 1953, activity slackened somewhat in the United States, largely because investment in inventories, which had achieved a high level in the second quarter, fell in the third and again in the fourth, when liquidation commenced. The basic factors determining further developments in the United States economy are discussed in the section on "Current tendencies in the United States".

## Major Economic Changes in 1953

This survey is subdivided into four sections. In the first are described briefly the changes in production, how they were related to changes in output per man and in employment, and the effect on unemployment. Next, these changes in national production are analysed from the demand side by considering changes in the major components of national expenditure, i.e., private investment, government expenditure on goods and services, the real balance of exports and imports, and consumption. The third section examines the movement of prices and wages, which reflect from another point of view the factors determining the level of demand and its structure. Lastly, some tendencies likely to influence developments in 1954 are discussed.

### Production, employment and unemployment

The changes in industrial production from 1952 to 1953 varied from considerable increases to declines (see table 2). In the United Kingdom, Canada, the Netherlands, the United States, western Germany and Italy industrial production increased by from 6 to 11 per cent. In the Scandinavian countries and Belgium, industrial output showed smaller increases, below 4 per cent, or no change. Finally, in France there was a 4 per cent decline; in Australia, for which no index is available, industrial production also probably fell somewhat.[10] With the exception of the last two countries, changes were more favourable than in the preceding year, when industrial production had in general shown little rise or had even receded.

[5]"Civilian employment" includes the self-employed. The rise in the number of wage and salary earners alone was about 5 per cent.

[6]In the sense of output per man-hour. There was not much change in average working time over the period as a whole.

[7]The remuneration (in cash and in kind) of the armed forces is included in the value of the national product; only civilian employment is considered here.

[8]The civilian labour force also rose somewhat more in 1953 than in 1952, partly because in the United States the increase in the labour force in 1952 had been almost fully absorbed by the increase in the armed forces.

[9]Since these profit margins relate to the *current* cost of materials rather than their *purchase* cost, the rise in profit margins may, at least in part, reflect the application, in a period of falling prices of materials, of pricing practices based on *purchase* costs.

[10]Statements about Australia in this chapter refer to the preceding fiscal year, running from mid-year to mid-year. Towards the middle of 1953, there seems to have been some recovery, continuing into the 1953/54 fiscal year.

**Table 2. Indices of Industrial Production and Real Gross National Product in Western European Countries, Canada and the United States, 1951 to 1953**
(1950=100)

| Country | Industrial production[a] 1951 (1) | 1952 (2) | 1953 (3) | Real gross national product 1951 (4) | 1952 (5) | 1953 (6) |
|---|---|---|---|---|---|---|
| Belgium | 115 | 112 | 112 | 106.0 | 104.5 | 104.5 |
| Canada | 107 | 110 | 118 | 105.5 | 112.5 | 117.0 |
| Denmark | 102 | 98 | 100 | 100.0 | 101.5 | 106.0 |
| France | 113 | 118 | 114 | 104.5 | 105.0 | 106.0 |
| Germany, western | 119 | 127 | 139 | 118.5 | 124.5 | 131.5 |
| Italy | 113 | 116 | 127 | 108.0 | 110.5 | 119.0 |
| Netherlands | 104 | 106 | 117 | 102.0 | 103.5 | 111.0 |
| Norway | 107 | 108 | 112 | 103.0 | 105.0 | 107.5 |
| Sweden[b] | 105 | 103 | 103 | 100.0 | 102.0 | 105.0 |
| United Kingdom | 104 | 100 | 106 | 104.0 | 103.5 | 107.0 |
| United States[b] | 107 | 111 | 120 | 107.5 | 110.5 | 114.5 |
| COMBINED INDEX FOR ABOVE COUNTRIES | 108 | 111 | 119 | 107.2 | 109.8 | 114.0 |

*Source:* Columns 1 to 3: United Nations, *Monthly Bulletin of Statistics*; the index for the United Kingdom has been adjusted to exclude construction. For source and footnotes for columns 4 and 5 see table 6, except Belgium: for 1951, Free University of Brussels, Solvay Institute of Sociology, *Premiers éléments d'une comptabilité nationale de la Belgique, 1948-1951* (Brussels); for 1952 and 1953, estimates by United Nations Department of Economic Affairs. Column 6: Preliminary estimates

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

[b] Index of industrial production covers mining and manufacturing only.

The index of industrial production for the group as a whole increased in 1953 by 7 per cent, while in 1952 it had only been 3 per cent higher than in 1951.[11] The main factor in the more favourable experience of 1953 was a recovery from the decline in the output of consumer goods which had occurred in 1952 when excessive inventories were liquidated. In 1953 this process came to a stop, and consumption also increased. For instance, the production of textiles had fallen in 1952 for the group as a whole by nearly 10 per cent compared with 1951, and in 1953 it returned approximately to the 1951 level.[12] The change in the trend of industrial production in the United States is also partly attributable to the effects of the steel strike, which had kept production down in 1952 but bolstered it somewhat in 1953 when there were delayed purchases of goods made largely of steel, especially automobiles.

Industrial production in Canada and the United States changed much less favourably from the fourth quarter of 1952 to the fourth quarter of 1953, than from 1952 to 1953 as a whole (see table 3). In the United States it declined significantly in the second half of the year, and in the fourth quarter was actually below the level of the same period of the preceding year.

[11] In the *World Economic Report, 1951-52* (United Nations publication 1953.II.C.2), it was estimated that industrial production for the group as a whole did not move significantly from 1951 to 1952. The change in this estimate is due largely to the publication of a new index of industrial production for the United States.

[12] This implies a higher consumption of textiles in 1953 than in 1951, because neither the accumulation of inventories nor exports were as high as in 1951.

The seasonally adjusted index of industrial production, which is available for the United States, had moved as followed (1950=100):

| | 1952 | 1953 |
|---|---|---|
| First quarter | 108 | 120 |
| Second quarter | 106 | 122 |
| Third quarter | 109 | 121 |
| Fourth quarter | 118 | 115 |

After the dip in the middle of 1952 due to the steel strike, production increased until the second quarter of 1953, then levelled off, and subsequently declined. The high level of production in the middle of the year largely reflects a rapid accumulation of inventories, which was in part involuntary and which led to the fall in production at the end of the year.

**Table 3. Indices of Industrial Production in Western European Countries, Canada and the United States, 1953**
(Corresponding period of 1952=100)

| Country | Full year | Fourth quarter |
|---|---|---|
| Belgium | 100 | 100 |
| Canada | 107 | 102 |
| Denmark | 102 | 104 |
| France | 96 | 99 |
| Germany, western | 109 | 106 |
| Italy | 110 | 114 |
| Netherlands | 111 | 110 |
| Norway | 104 | 105 |
| Sweden | 100 | 103 |
| United Kingdom | 106 | 109 |
| United States | 108 | 98 |

*Source:* See source and footnotes for columns 1 to 3 in table 2.

The trend in agricultural production of the countries considered was much more favourable in 1952/53 than in the preceding year (see table 4). In 1951/52 production of food had barely been maintained or had actually fallen in most countries. For all countries of the group taken together the level was the same as in 1950/51. On the other hand, in 1952/53 food production rose in almost all countries, and for the group as a whole the increase amounted to 4 per cent. The changes in total agricultural production were similar to those in food production, except in the United States, where the trend in total output reflects the sharp fall in the cotton crop in 1950/51 and the less than complete recovery in the two following years. The increase in 1952/53 was largest in Australia, following recovery from a severe drought. A large rise also occurred in Canada, as was the case in the two preceding years.

The rise in agricultural production in 1952/53 was reflected in a distinct improvement in the supply of food, particularly of livestock products, in the calendar year 1953. As a result, food prices at the producers' level showed a general downward tendency. (This affected retail prices only to a minor degree.) The widespread rise in agricultural production in 1952/53 tended to diminish the need for customary food imports at the same time that it increased exportable surpluses; there was consequently a substantial rise in the stocks of farm products in the United States and, to a lesser extent, in Canada.

**Table 4. Indices of Agricultural Production in Western European Countries, Australia, Canada and the United States, 1950/51 to 1952/53**

(1949/50=100)

| Country | Food | | | All commodities | | |
|---|---|---|---|---|---|---|
| | *1950/51* | *1951/52* | *1952/53* | *1950/51* | *1951/52* | *1952/53* |
| Australia | 93 | 85 | 99 | 94 | 87 | 103 |
| Belgium | 99 | 102 | 105 | 99 | 103 | 106 |
| Canada | 113 | 120 | 137 | 112 | 120 | 137 |
| Denmark | 109 | 105 | 112 | 109 | 105 | 112 |
| France | 110 | 103 | 108 | 110 | 104 | 108 |
| Germany, western | 114 | 122 | 123 | 113 | 121 | 122 |
| Italy | 107 | 111 | 110 | 106 | 111 | 110 |
| Netherlands | 101 | 104 | 107 | 99 | 103 | 107 |
| Norway | 109 | 101 | 103 | 108 | 101 | 103 |
| Sweden | 99 | 97 | 99 | 99 | 96 | 99 |
| United Kingdom[a] | 106 | 104 | 105 | 106 | 103 | 105 |
| United States | 100 | 99 | 103 | 96 | 99 | 101 |
| Combined index for above countries | 103.3 | 103.3 | 107.4 | 101.5 | 103.5 | 107.2 |

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

[a] Corresponding figures for 1950/51 and 1951/52 calculated by the United Kingdom Government are 99 and 102 for food, and 100 and 104, respectively, for all commodities. These incorporate revised basic information and reflect differences in method, the chief of which is an allowance for changes in the volume of work in progress.

Gross national product increased in all countries of the group except Belgium, where the level remained about the same. The increases in the national products of Australia and France, despite the decline in industrial production in both instances, are largely accounted for by improvements in agricultural output. Agriculture also contributed in varying degrees to increases in the national products of Denmark, Sweden and Italy, all of which rose in about the same proportion as industrial production, or even more rapidly. In all other countries the rate of increase in the national product was lower than that in industrial output.[13]

As in the case of industrial production, so with the national product: where it increased from 1952 to 1953, this increase was, with few exceptions, higher than that from 1951 to 1952. The index of national product for the group as a whole rose about 4 per cent, compared with a 2.5 per cent rise from 1951 to 1952. As indicated above, the corresponding figure for industrial production is 7 per cent as compared with 3 per cent.[14]

Employment showed some increase, or was almost stable, in all countries in which industrial production

[13]In Canada the fall in the grain crop contributed to the slower rise of the national product, as compared with industrial production. According to table 4, agricultural production in Canada rose from 1951/52 to 1952/53. There was, however, a significant decline from calendar year 1952 to 1953 on account of the smaller grain crop.

[14]It can be seen that the gross national product moved more slowly than industrial production from 1952 to 1953, while the changes in gross national product and industrial production had been almost parallel from 1951 to 1952, as they had been from 1950 to 1951 (see table 2). The development from 1952 to 1953 is more typical, and the parallel movements in the two aggregates from 1950 to 1952 can be attributed mainly to the impact on national products of increases in the armed forces, particularly in the United States.

**Table 5. Indices of Real Gross National Product and Employment, and Percentage of Unemployed in Western European Countries, Canada and the United States, 1951 to 1953**

| Country | 1950=100 Real gross national product 1951 (1) | 1952 (2) | 1953 (3) | 1950=100 Total civilian employment 1951 (4) | 1952 (5) | 1953 (6) | Unemployed as percentage of civilian labour force available for hire 1950 (7) | 1951 (8) | 1952 (9) | 1953 (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | 106.0 | 104.5 | 104.5 | 101.5 | 100.0 | 99.0 | 6.8[a] | 6.1[a] | 7.0[a] | 7.4[a] |
| Canada | 105.5 | 112.5 | 117.0 | 102.5 | 103.5 | 104.0 | 4.5 | 2.8 | 3.2 | 3.3 |
| Denmark | 100.0 | 101.5 | 106.0 | ... | ... | ... | 8.7[b] | 9.7[b] | 12.5[b] | 9.2[b] |
| France | 104.5 | 105.0 | 106.0 | 102.5 | 103.5 | 102.0 | 2.1[c] | 1.6[c] | 1.8[c] | 2.2[c] |
| Germany, western | 118.5 | 124.5 | 131.5 | 105.0 | 108.0 | 112.5 | 10.2 | 9.0 | 8.4 | 7.4 |
| Italy | 108.0 | 110.5 | 119.0 | ... | ... | ... | 14.0 | 14.5 | 15.5 | 16.0 |
| Netherlands | 102.0 | 103.5 | 111.0 | 101.0 | 100.5 | 102.5 | 2.6 | 2.9 | 4.3 | 3.2 |
| Norway | 103.0 | 105.0 | 107.5 | 100.0 | 100.0 | 100.5 | 1.1 | 1.3 | 1.4 | 1.6 |
| Sweden | 100.0 | 102.0 | 105.0 | 100.5 | 100.5 | 100.0 | 2.2[d] | 1.8[d] | 2.3[d] | 2.6[d] |
| United Kingdom | 104.0 | 103.5 | 107.0 | 101.0 | 100.5 | 101.0 | 1.6[e] | 1.3[e] | 2.1[e] | 1.8[e] |
| United States | 107.5 | 110.5 | 114.5 | 101.5 | 102.0 | 103.0 | 6.2 | 3.7 | 3.2 | 2.9 |

*Source:* Columns 1 to 3 repeat columns 4 to 6 of table 2. Columns 4 to 10: United Nations, *Monthly Bulletin of Statistics;* Belgium: Ministry of Economic Affairs, *L'Economie belge en 1951*, and reply to United Nations questionnaire on full employment and related matters, covering 1952 and 1953; Canada: Dominion Bureau of Statistics, *Labour Force Bulletin* (Ottawa); Denmark: Department of Statistics, *Statistiske Efterretninger;* France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique;* western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik;* Italy: United Nations, *Economic Survey of Europe in 1951;* Netherlands: Reply to United Nations questionnaire on full employment and related matters, covering 1952 and 1953, and Central Plan Bureau, *Centraal Economisch Plan 1953;* Norway: Department of Finance and Customs, *Nasjonalbudsjettet 1954* and Central Bureau of Statistics, *Statistiske Meldinger;* Sweden: *Nationalbudget för år 1953*, and *Nationalbudget för år 1954;* United Kingdom: Central Statistical Office, *Monthly Digest of Statistics;* United States: Department of Commerce, *Current Population Reports, Labor Force,* series P-57.

[a] Wholly unemployed.

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

[c] Estimates based on the national sample surveys in May-June and November-December 1951, October 1952 and June 1953. The total number of unemployed obtained from these surveys was extrapolated for the entire year on the basis of the average number of applicants for work, and the number of employed salary and wage earners was extrapolated on the basis of the over-all index of employment of the Ministry of Labour.

[d] Percentage of unemployed in trade unions.

[e] Including temporarily stopped.

and national product both rose (see table 5). But, with the exception of western Germany and Denmark, the gains in employment which did occur were relatively much smaller than the increases in the national product.[15] This is explained by the fact that productivity, having been unfavourably affected in 1952 by some slackening in economic activity, increased rather rapidly with the recovery in 1953; and, secondly, in some instances (for example, the United Kingdom) there was also an increase in working hours in 1953. Consequently only small increases in employment were induced. As these were generally accompanied by increases in the labour force, there was little change in unemployment.

In western Germany employment rose 4 per cent as compared with a 6 per cent increase in the national product. The reason why the rise in output per man was not larger in this case is that the increase in productivity was confined to manufacturing. (However, despite this significant rise in employment, unemployment fell relatively little because of the increase in the labour force.) In Denmark the numbers employed seem to have increased in about the same proportion as gross national product, a small increase in productivity being roughly offset by the lengthening of paid holidays, so that output per man-year was little changed. In this case, however, unemployment declined more or less in line with the rise in employment.

In Belgium, where the gross national product remained unchanged, and in France and Australia, where activity in the industrial sector was lower, employment fell and unemployment rose. In Belgium the fall in employment was associated with increased productivity, and unemployment rose correspondingly. In France employment fell as a result of the decline in industrial output and, possibly, of some increase in productivity; unemployment rose, but not by as much as employment fell, because there were withdrawals from the labour force, reflecting the decline in the demand for labour. In Australia, employment in the non-agricultural sector fell, and unemployment rose appreciably.[16]

In the United States, although the table shows that, on the basis of annual averages for 1952 and 1953, employment rose and unemployment fell, the opposite is true if the end of 1953 is compared with the end of 1952. Employment fell between the beginning and the

[15] Although firm figures are not available for Denmark, there is enough information for some conclusions to be drawn.

[16] The total number of employed wage earners fell by 3 per cent between the fiscal years. However, because of the improvment in output in the course of calendar 1953, employment was rising and unemployment was falling at the end of 1952/53.

end of the year by about one per cent, which was somewhat less than the decline in the national product, so that there was a small decline in output per man. This means that the rise in output per man-hour was more than offset by the drop in working hours. The rise in unemployment was, however, less than the decline in employment, as the labour force not only failed to increase but even fell. This decline was itself, at least in part, a result of a weakening demand for labour.[17] The same applies of course to the reduction in working hours. In Canada, where there was a sharp rise in unemployment at the end of the year, a comparison of unemployment figures at the end of each year also looks less favourable than the comparison of the averages for 1952 and 1953.

### Components of gross national product[18]

Movements in the national product will now be examined from the demand side, taking the components one by one. The developed private enterprise economies considered here can be divided into two subgroups with very different economic trends in 1953. The first subgroup includes the majority—namely, Canada, western Germany, Italy, the Netherlands, the Scandinavian countries, the United Kingdom and the United States. The second subgroup consists of France, Belgium and Australia.

In the first set of countries, the national product showed an increase from 1952 to 1953. As noted above, this increase was in most instances larger than that from 1951 to 1952. In fact, the national product in the United Kingdom had been virtually unchanged from 1951 to 1952, while from 1952 to 1953 it increased significantly. The rise in gross national product, which ranged from about 3 per cent to 7 per cent, was accounted for by rising government expenditure, investment and consumption, while the real balance of exports and imports showed in general some deterioration (see table 6). The main difference between the trends in 1952 and in 1953 was in investment. In the earlier period, total private investment declined in most of these countries, on account of slackening in the accumulation of inventories or even a change from accumulation to liquidation. On the other hand, from 1952 to 1953 this decline in investment in inventories was reversed, halted, or at least slowed down.

The end of the sharp decline in inventory accumulation coincided with upward trends in other components. The increase in military expenditure continued, although in some countries (the United Kingdom, the United States and, especially, Canada) the rate of increase slowed down. As a general rule, no additional taxation was introduced — in some instances the tax burden was lightened—and consumption moved more or less parallel to national product.[19]

Of the countries forming the second subgroup, the gross national product remained nearly unchanged in Belgium. In France, the national product increased slightly, a fall in the output of the industrial sector having been outweighed by the increase in farm output. There was a similar development in Australia, where the gross national product increased 3 to 4 per cent as a result of the recovery in farm output, although economic activity in the non-agricultural sector of the economy showed a decline. In France the main reason for the decline in industrial output was a reduction in investment in fixed capital for the second year in succession. While in 1952 a rise in government expenditure, unaccompanied by increased taxation, had been enough to offset the fall in investment, such was not the case in 1953. In Australia, the slackening of economic activity in the non-agricultural sector is explained by the slump in wool prices in the preceding year and the consequent fall in incomes.[20] The delayed repercussions of this fall were apparent in declines in consumption, residential building and investment in inventories. These declines were, however, to a considerable extent borne by imports. In fact, this reduction in imports, resulting from drastic restrictions aimed at correcting the deficit in the balance of payments due to the drop in wool prices, itself contributed, from the supply side, to the declines in inventory investment and in consumption. On the other hand, exports increased as a counterpart of the rise in agricultural production. In Belgium, after a slight decline in the national product in 1952, there was neither a significant rise nor a decline in economic activity, no component of the national product showing substantial change.

This outline of the reasons for changes in the national product is now followed by a more detailed examination of changes in components. As has already been pointed out, military expenditure, and accordingly total government expenditure, continued to increase in most developed private enterprise economies, but the rate of increase was reduced in the United Kingdom, the United States, and (very sharply) in Canada. In France, military expenditure was nearly stable but total government expenditure continued to increase, though more slowly than in 1952. On the other hand, the rise in government expenditure was accelerated in the Netherlands, because of the speeding up of military outlays, the repair of flood damage and the increase in public works

[17] When the demand for labour slackens, certain marginal workers—such as elderly workers, juveniles or housewives—may withdraw from the labour force, and thus be excluded from the figures of unemployment, since the "unemployed" are usually defined as those without jobs and actively seeking work.

[18] For many countries, estimates of the national product, and especially of its components, are approximate only, and may be substantially revised.

[19] The more rapid increases in government expenditure than in national product in many countries, associated with unchanged or reduced tax rates, resulted in an increase in budget deficits.

[20] As noted above, statements about Australia refer to the fiscal years 1951/52 and 1952/53, rather than to calendar years. In the course of 1953 there was some recovery in economic activity.

Table 6. Components of Gross National Product, at Constant Prices,[a] in Western European Countries, Australia, Canada and the United States, 1950 to 1953

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

| Country and year | Gross national product[b] | Personal consumption | Government expenditure | Investment in fixed capital | Change in inventories | Balance of exports and imports of goods and services |
|---|---|---|---|---|---|---|
| *Australia:*[c] | | | | | | |
| 1949/50 | 100.0 | 68.8 | 17.1 | 13.4 | 1.7 | −1.0 |
| 1950/51 | 105.7 | 73.8 | 20.3 | 16.2 | 2.4 | −7.0 |
| 1951/52 | 103.6 | 70.7 | 22.7 | 17.4 | 6.0 | −13.2 |
| 1952/53 | 107.2 | 67.0 | 21.7 | 14.9 | −2.8 | 6.4 |
| *Canada:* | | | | | | |
| 1950 | 100.0 | 68.2 | 12.6 | 18.2 | 2.9 | −1.9 |
| 1951 | 105.7 | 68.0 | 15.9 | 19.2 | 5.2 | −2.6 |
| 1952 | 112.5 | 71.2 | 20.1 | 20.7 | 1.6 | −1.1 |
| 1953 | 117.0 | 74.8 | 20.5 | 22.3 | 3.4 | −4.0 |
| *Denmark:* | | | | | | |
| 1950 | 100.0 | 68.7 | 14.9 | 17.8 | 4.3 | −5.7 |
| 1951 | 100.0 | 66.1 | 15.7 | 17.8 | 1.1 | −0.7 |
| 1952 | 101.3 | 67.9 | 16.6 | 17.6 | −0.7 | 0 |
| 1953 | 106.0 | 70.7 | 17.9 | 18.4 | −0.9 | −0.1 |
| *France:* | | | | | | |
| 1950 | 100.0 | 65.4 | 14.5 | 17.5 | 3.0 | −0.4 |
| 1951 | 104.5 | 68.7 | 15.6 | 18.2 | 3.0 | −1.0 |
| 1952 | 104.9 | 70.7 | 19.0 | 16.9 | 0.7 | −2.4 |
| 1953[d] | 106.0 | ... | ... | ... | ... | ... |
| *Germany, western:* | | | | | | |
| 1950 | 100.0 | 63.8 | 15.6 | 21.4 | 2.9 | −3.7 |
| 1951 | 118.6 | 69.1 | 17.0 | 24.0 | 6.5 | 2.0 |
| 1952 | 124.6 | 74.3 | 19.0 | 25.0 | 5.1 | 1.2 |
| 1953 | 131.6 | 80.7 | 19.3 | 27.7 | 3.2 | 0.8 |
| *Italy:*[e] | | | | | | |
| 1950 | 100.0 | 73.2 | 16.3 | 10.4 | 1.2 | −1.1 |
| 1951 | 107.9 | 75.1 | 17.5 | 14.3 | 2.3 | −1.3 |
| 1952 | 110.7 | 76.2 | 20.6 | 17.8 | −0.2 | −3.7 |
| 1953[f] | 119.0 | ... | ... | ... | ... | ... |
| *Netherlands:* | | | | | | |
| 1950 | 100.0 | 66.1 | 14.6 | 18.3 | 7.6 | −6.6 |
| 1951 | 101.9 | 64.2 | 15.0 | 18.1 | 5.0 | −0.4 |
| 1952 | 103.7 | 64.9 | 16.1 | 17.4 | −2.8 | 8.1 |
| 1953 | 110.8 | 67.2 | 18.2 | 18.5 | 0.4 | 6.5 |
| *Norway:*[g] | | | | | | |
| 1950 | 100.0 | 61.7 | 16.3 | 26.4 | 0.5 | −4.8 |
| 1951 | 103.0 | 60.1 | 18.4 | 26.5 | 3.4 | −5.5 |
| 1952 | 104.8 | 61.3 | 20.0 | 27.7 | 0.7 | −5.0 |
| 1953 | 107.4 | 62.8 | 21.4 | 29.6 | 0 | −6.4 |
| *Sweden:* | | | | | | |
| 1950 | 100.0 | 58.3 | 20.3 | 18.3 | −0.5 | 3.6 |
| 1951 | 99.9 | 57.3 | 21.2 | 18.2 | 2.2 | 1.0 |
| 1952 | 101.8 | 58.9 | 23.5 | 16.8 | 2.2 | 0.4 |
| 1953 | 105.1 | 60.2 | 26.4 | 17.9 | −1.2 | 1.8 |
| *United Kingdom:*[h] | | | | | | |
| 1950 | 100.0 | 71.7 | 16.3 | 10.9 | 0 | 1.2 |
| 1951 | 103.9 | 71.2 | 19.2 | 10.7 | 3.3 | −0.5 |
| 1952 | 103.5 | 70.5 | 21.6 | 10.5 | −1.2 | 2.1 |
| 1953 | 106.8 | 72.2 | 23.0 | 11.5 | 0.8 | −0.6 |
| *United States:*[i] | | | | | | |
| 1950 | 100.0 | 68.2 | 14.6 | 15.9 | 2.7 | −1.4 |
| 1951 | 107.5 | 67.8 | 20.5 | 15.5 | 3.6 | 0.1 |
| 1952 | 110.6 | 69.6 | 24.7 | 15.5 | 1.2 | −0.4 |
| 1953 | 114.7 | 72.5 | 26.4 | 16.1 | 0.8 | −1.1 |

*Footnotes on opposite page.*

designed to combat unemployment. In Italy and Sweden, government expenditure continued to rise rapidly, and this was also to a large extent the result of outlays on public investment. Australia, on the contrary, reduced its public investment, and as a result government spending declined in spite of the continuing rise in military expenditure.

In contrast to 1952 when private investment had generally declined, as compared with the previous year, in 1953 investment showed some increase in the majority of countries. This alteration in the trend of investment was mainly due to changes in inventory accumulation.

Investment in inventories had fallen sharply between 1951 and 1952, while from 1952 to 1953 the changes were generally not spectacular, and the direction varied from country to country. It seems that inventory investment fell in the Scandinavian countries, Australia, the United States and western Germany, and rose in Canada, Italy, the Netherlands and the United Kingdom. A general factor which encouraged increases in inventory accumulation was that the acceleration in the rise in activity from 1952 to 1953 made necessary larger additions to working capital. But in many countries there were specific offsetting factors at work. In the Scandinavian countries there was in 1953 some reduction in investment in export inventories of agricultural and forest products. Declines in investment in inventories also occurred in western Germany and Australia, where such investment had been very high in the previous year (4 per cent and 6 per cent of the national product, respectively). In Australia the change from a high level of accumulation of inventories to liquidation was partly due to the drastic import restrictions.

In the United States, investment in inventories reached a high level in the second quarter of 1953. This increase was partly involuntary, so it led to a decline in the third quarter and to actual liquidation in the fourth. As a result of these developments, investment for the year as a whole was lower than in 1952. The figures for investment in inventories do not, however, include the increase in farm inventories under the farm price support programme; the addition to these inventories was considerably larger than in 1952.

Investment in fixed capital increased moderately in most countries, but it fell in France and — to a greater extent—in Australia.

In the United States investment in plant and equipment and residential building both increased moderately. The increase in investment in plant and equipment was due in part to the fact that deliveries of investment goods had been held up by the steel strike in 1952; otherwise such investment would have been higher in 1952, and lower in 1953. A larger increase in residential building than actually occurred might have been expected because mortgage provisions had been relaxed in the middle of 1952, but the general tighten-

[*Notes to table 6*]

*Note:* The figures for 1953 are preliminary or estimated by the United Nations Department of Economic Affairs. They may thus be appreciably revised when the final official figures become available.

*Source:* Australia: Commonwealth Bureau of Census and Statistics, *National Income and Expenditure, 1952-53* (Canberra); Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, 1949-1953* (Ottawa); Denmark: Department of Statistics, *Statistiske Efterretninger* (Copenhagen); France: Ministry of Finance, *Rapport sur les comptes provisoires de la Nation des années 1951 et 1952* (Paris); western Germany: Statistisches Bundesamt, *Wirtschaft und Statistik* (Stuttgart); Italy: Chamber of Deputies, *Relazione generale sulla situazione economica del paese* (Rome); Netherlands: Central Bureau of Statistics, *Statistische en econometrische onderzoekingen* (Utrecht); Norway: Central Bureau of Statistics, *Økonomisk Utsyn Over Året 1953*, *Statistiske Meldinger* (Oslo), and Department of Finance and Customs, *St. Meld. Nr. 1 (1954)*, *Nasjonalbudsjettet 1954* (Oslo); Sweden: Department of Finance, *Nationalbudget för år 1954* (Stockholm); United Kingdom: Central Statistical Office, *National Income and Expenditure, 1948-1952* (London); United States: *Economic Report of the President* (Washington, D. C., January 1954), and Department of Commerce, *Survey of Current Business* (Washington, D. C.), February 1954.

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

[b] In order to avoid presenting the data in respective national currencies, all components of gross national product, in all years, are expressed in percentages of the 1950 gross national product. Thus, for 1950 the components of gross national product total 100, while for each succeeding year the sum of the components represents the index of the gross national product for that year with 1950 as the base period.

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

[d] Change in total gross national product estimated by the United Nations Department of Economic Affairs. Changes in components from 1952 to 1953 may be qualitatively assessed as follows: consumption, small increase; government expenditure, appreciable increase; investment in fixed capital and in inventories, substantial decline; balance of exports and imports, improvement.

[e] Break-down of investment into investment in fixed capital and foreign investment estimated by the United Nations Department of Economic Affairs.

[f] Change in total gross national product estimated by the United Nations Department of Economic Affairs. Changes in components from 1952 to 1953 may be qualitatively assessed as follows: consumption, substantial increase, though proportionately smaller than the increase in gross national product; government expenditure, substantial increase; investment in fixed capital, roughly unchanged; investment in inventories, increase; balance of exports and imports, small deterioration.

[g] Public investment, which is included with private investment under the heading of capital formation in the official statistics, is here included in government expenditure.

[h] The same adjustment is made as for Norway except that, for purposes of comparability with other countries, residential housing carried out by local authorities, which constitutes the major part of the housing programme, is included with private investment.

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

ing of credit early in 1953 made it difficult for some war veterans to make use of their mortgage facilities.[21]

In many other countries there was a substantial increase in residential building. This was encouraged by government policies designed to use increased resources to alleviate the still severe shortage of housing. The new policies took several forms: relaxation of building controls, or easier credit facilities, or special government housing projects, or some combination of these measures. In particular, there was a reversal of policy in Denmark and the Netherlands, and also in Canada. In these countries, restrictions introduced in 1951/52, as part of general deflationary or anti-inflationary policies, were dropped subsequently.[22]

Apart from the United States, the rise in residential building was largely or wholly responsible for any increase in total investment in fixed capital that occurred; investment in plant and equipment changed little or even declined. In fact in France total investment in fixed capital fell despite the increase in residential construction.

This trend in industrial investment, affecting many countries, may reflect some saturation of the demand for plant and equipment due to the high level of such investment in recent years. The trend is of some importance because a fall in investment is the most important factor in generating a recession in the course of the business cycle.[23] Even a levelling off in investment in plant and equipment foreshadows a tendency for a recession by leading to a levelling off in the national product, and thus a decline in investment opportunities, unless these tendencies are counteracted by special factors.

A particular instance of the influence on fixed capital investment of the levelling off in output occurs in connexion with the rearmament programmes. As the expansion in military expenditure slows down and finally comes to a halt, there is a tendency for the supporting investment to fall. For the time being it is difficult to estimate whether, and to what extent, such investment is already declining.

While in 1952 the pattern of changes in real exports and imports, and in their balance, had differed widely from country to country, developments in 1953 were rather clear-cut. In nearly all countries, there was a significant increase in imports which was generally associated with the rise in economic activity and in particular in industrial production. At the same time, exports in most instances either failed to increase or increased less than imports. Thus the real balance of exports and imports deteriorated in most countries. This did not generally, however, lead to difficulties in the balance of payments, because the terms of trade improved.

The real balance of exports and imports remained unchanged in Denmark and improved somewhat in France and Sweden. The most notable exception, however, was Australia, where the decline in imports and the rise in exports were both very sharp; the rise in exports reflected improved farm output, while the fall in imports was a result not only of declining economic activity in the non-agricultural sector, but primarily of the import restrictions.

Consumption in 1953, as in 1952, moved almost everywhere in the same direction as the national product: it increased in most countries, while in Belgium it remained about the same. The only country where consumption fell was Australia, and this fall took place despite an increase in the national product.

The relation of consumption to national product was affected by a variety of factors. The terms of trade improved, except in the cases of Canada, where they were about the same, and of Belgium, Sweden and Norway, where they deteriorated. Even in the last three countries, however, the fall in export prices mainly affected profits, while import prices declined in relation to domestic incomes, i.e., wages, farm prices, etc. It can thus be said that the movement of foreign trade prices generally benefited consumption.

However, in a number of countries the declines in import prices and in domestic farm prices seem not to have been fully passed on to the consumer. As to the influence of fiscal changes, this was not great. In no country, except in Sweden, did the burden of net taxation rise, and in several countries rates of taxation were reduced, but these reductions did not have a marked effect on consumption in 1953. Finally, there is no evidence of significant changes having occurred in the proportion of disposable income spent on consumption, except in Australia. In that country, consumption in 1951/52[24] had been very high in relation to income because of the sudden fall in the incomes of wool growers, a decline to which consumption did not adjust itself immediately; this adjustment took place in 1952/53, and the consequent fall in consumption was aggravated by import restrictions.

The interplay of all these factors caused consumption to move in most instances more or less in proportion to the national product. The largest deviations were in western Germany and Australia. Western Germany was an exception because not only did the terms of trade

[21]This tightening of credit (which included raising interest rates) reflected a change in policy; although this policy was later reversed, rates of interest in the mortgage market were higher throughout the year. Probably the most important repercussion of tighter credit was to check residential building somewhat.

[22]See *World Economic Report, 1951-52*, page 37.

[23]In France, this factor has already led to a decline in economic activity in the industrial sector.

[24]As already noted, national product data for Australia relate to fiscal years.

improve, but the distribution of income in this case shifted away from profits, as a reaction from a considerable increase in the share of profits in 1951. The case of Australia has already been discussed.

The increase in consumption, although fairly substantial in some countries, did not cause any inflationary stresses. As in 1952, consumer demand remained, although to a lesser degree, below the existing productive capacity of industry, while agricultural supplies increased to such an extent that farm prices tended in general downwards.

### Prices and wages

Wide fluctuations in commodity prices had characterized the period following the outbreak of Korean hostilities. The faster tempo of economic activity, the wave of speculative and anticipatory buying, and strategic stockpiling had intensified the demand for raw materials, and pushed commodity prices sharply higher. As the buying wave began to subside early in 1951, prices of some commodities fell sharply and of others more gradually, but the high level of final demand by governments and investors prevented tendencies from being downward in all cases. Some prices continued to rise in 1952, and even in 1953, reflecting either a deficiency of supply or especially heavy demand. However, from 1952 to 1953 the tendency was predominantly downward, even though the rate of economic expansion, which had slowed down in 1952, was accelerated in 1953. (Towards the end of the year, however, commodity prices in general ceased to fall.) An important factor making for lower commodity prices was the increase in the supply of raw materials, elicited in some instances by the high prices reached during the boom, but also by deliberate government policies in the case of strategic materials.

An important feature of price developments in 1953 was the decline in prices received by farmers. In the majority of the countries of the group, farm prices, at least of some commodities, are not free to move in response to changing demand-supply relationships, being subject to varying degrees of control. Nevertheless, a downward trend in farm prices developed during the course of 1953, and in the United States, where farm prices had already receded from their 1951 peak, the rate of decline was accelerated. Among the countries of the group Australia was the only exception: farm prices of foodstuffs continued to rise throughout the period. So far as foodstuffs are concerned, the general decline in farm prices is explained by favourable harvests in the crop year 1952/53 and by a notable expansion in the output of livestock products — of meat in particular — beginning in 1952 and continuing into 1953. Not only did farm prices recede but large stocks of some commodities were accumulated either by government agencies or by farmers themselves, especially in the United States and Canada.

Despite the declining trend of food prices at the farm level in most countries of this group, prices of internationally traded foodstuffs have remained very close to the average of 1951. This divergence in the trends of domestic and external prices is mainly explained by the importance of bulk purchasing arrangements in international trade in foodstuffs, prices negotiated recently having been generally rather high. However, in the case of some products originating outside this group of countries, either the available supply could be readily absorbed at or near the prices reached in 1951 (coffee and cocoa) or curtailment of production reversed a downward tendency (in tea, for example). The fall in domestic prices at the farm level has thus not been accompanied by a similar trend in the price of imported foodstuffs.

The virtual cessation of abnormal speculative demand in 1951, followed by a recession in production in the textile industries, had caused the prices of textile fibres to fall precipitously. Despite a recovery in textile output, which in 1953 returned close to the level of 1951, cotton prices continued to fall and stocks to accumulate; on the other hand, wool prices showed some increase after the sharp decline in the preceding period.

Speculative demand and large non-recurring requirements for strategic stockpiling had led to a steep rise in rubber prices after the outbreak of the Korean conflict. In 1951, output rose sharply and demand receded, with the result that rubber prices began to fall, and by the latter part of 1953 they had returned to levels effective before Korean hostilities.

Strategic stockpiling superimposed on armament demand has given exceptional strength to the market for metals. As strategic stockpiles were built up, this source of demand fell off, thereby contributing to the decline in prices. This factor is particularly important in the case of tin, where production had been well in excess of commercial requirements. In spite of rising armament programmes, some base metals (lead and zinc) had been in good supply relative to demand early in 1952; then prices began to recede, and in 1953 they were close to or below their levels prior to the conflict in Korea. Prices of some other metals showed a tendency to continue to rise in 1952 and in some instances in 1953 as well; where weakness developed in the course of 1953, as was the case in copper markets outside the United States, prices remained well above levels prevailing in the first half of 1950.

The import prices of the countries of this group reflected — with the usual lag — the movement of world commodity prices (see table 7). The fall in import prices, which had started in the beginning of 1952, continued into 1953. In most countries the annual averages had declined from 1951 to 1952, and from 1952 to 1953 the downward tendency was accentuated.[25]

[25] In Norway and Sweden declines in 1953 followed increases in 1952.

Table 7. Indices of Import Unit Values, Cost of Living, Food Prices and Wage Rates in Western European Countries, Australia, Canada and the United States, 1951 to 1953

(1950 = 100)

| *Item and period* | *Australia*[a] | *Belgium*[b] | *Canada*[c] | *Denmark*[d e] | *France*[f] | *Germany, western*[g] | *Italy*[h] | *Netherlands*[d i] | *Norway*[j k] | *Sweden*[j] | *United Kingdom*[l] | *United States*[m] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Import unit values:* | | | | | | | | | | | | |
| 1951 | 123 | 121 | 114 | 127 | 128 | 127 | 129 | 121 | 120 | 127 | 133 | 126 |
| 1952 | 119 | 117 | 100 | 125 | 124 | 121 | 126 | 121 | 124 | 133 | 130 | 119 |
| 1953 | 113 | 110 | 99 | 114 | 113 | 106 | 118 | 107 | 117 | 122 | 115 | 114 |
| *Cost of living:* | | | | | | | | | | | | |
| 1951 | 121 | 110 | 110 | 112 | 117 | 108 | 110 | 112 | 116 | 115 | 109 | 108 |
| 1952 | 141 | 110 | 113 | 114 | 131 | 110 | 114 | 112 | 126 | 125 | 119 | 110 |
| 1953 | 148 | 110 | 112 | 113 | 129 | 108 | 117 | 112 | 129 | 126 | 123 | 111 |
| *Retail food prices:* | | | | | | | | | | | | |
| 1951 | 130 | 107 | 114 | 111 | 116 | 109 | 107 | 109 | 118 | 117 | 111 | 111 |
| 1952 | 161 | 111 | 114 | 117 | 127 | 114 | 111 | 111 | 134 | 131 | 129 | 113 |
| 1953 | 169 | 112 | 110 | 117 | 124 | 112 | 114 | 112 | 136 | 135 | 136 | 111 |
| *Money wage rates:* | | | | | | | | | | | | |
| 1951 | 123 | 111 | 111 | 110 | 128 | 114 | 110 | 108 | 114 | 123 | 109 | 108 |
| 1952 | 145 | 116 | 121 | 119 | 151 | 123 | 122 | 110 | 127 | 147 | 119 | 114 |
| 1953 | 153 | 115 | 127 | 121 | 154 | 128 | 129 | 112 | 132 | 151 | 125 | 121 |
| *Real wage rates:*[n] | | | | | | | | | | | | |
| 1951 | 102 | 101 | 100 | 98 | 109 | 106 | 100 | 96 | 98 | 106 | 100 | 100 |
| 1952 | 103 | 105 | 107 | 104 | 116 | 112 | 106 | 99 | 101 | 118 | 100 | 103 |
| 1953 | 103 | 105 | 113 | 107 | 119 | 119 | 111 | 99 | 102 | 119 | 101 | 109 |

*Source:* United Nations, *Monthly Bulletin of Statistics;* Belgium: University of Louvain, *Bulletin de l'Institut de recherches économiques et sociales;* Canada: Department of Labour, *Wages and Hours of Labour in Canada;* France: National Institute of Statistics and Economic Studies, *Bulletin mensuel de statistique;* Italy: Central Institute of Statistics, *Bollettino mensile di statistica* (Rome); United Kingdom: *Ministry of Labour Gazette* (London), and Central Statistical Office, *Monthly Digest of Statistics;* United States: *Monthly Labor Review* (Washington, D. C.).

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

[b] Cost of living figures represent retail prices exclusive of rent. Wage rates represent hourly earnings of married workers in manufacturing and transportation, inclusive of family allowances.

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

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

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

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

[g] Money wage rates represent hourly earnings in manufacturing and construction.

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

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

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

[k] Male workers.

[l] Money wage rates represent average hourly earnings in manufacturing, construction, mining (excluding coal), public utilities, transport and communications (excluding railways, London Transport and British Road Services), and government service.

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

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

In Canada, however, import prices had fallen considerably from 1951 to 1952, partly as a result of the appreciation of the Canadian dollar. The composition of Canadian imports and a slight easing in the exchange rate in 1953 account for the unchanged level of import prices in that year.

The cost of living in the countries concerned increased significantly in most instances from 1951 to 1952, while from 1952 to 1953 the direction varied and the change was small.[26] This movement of the cost of living may be accounted for as follows. From 1951 to 1952 the fall in import prices had been accompanied by a significant increase in wage rates. In that year productivity had not increased much and therefore labour costs had shown a marked rise. In addition, domestic food prices had not fallen much and in many instances had risen, largely as a result of the rather unsatisfactory level of agricultural production. From 1952 to 1953, however, wage increases were limited and were accompanied by much larger increases in productivity than in the preceding year, so that increases in wage costs were small; they do not seem to have exceeded 3 per cent. Also, as contrasted with the preceding year, there was in most countries, side by side with the fall in import prices, a decline in domestic food prices because of a considerable improvement in supplies. In fact, these movements in production costs probably warranted lower retail prices in 1953 than were actually experienced. In other words, there is a presumption that in a number of countries percentage profit margins in 1953 rose as compared with the preceding year.[27]

The divergency between the price movements of farm products and imported materials, on the one hand, and finished products, on the other, can be illustrated by developments in the United States (see table 8). The decline in farm prices was considerably accelerated in 1953. Prices of imported raw materials and semi-manufactures also continued to fall.[28] On the other hand, the prices of finished goods and services continued to increase slowly. Such was the case for both prices of investment goods and the cost of living. The "goods component" of the latter tended to level off in 1953 but the "service component" still showed some increase. As farm prices and import prices of materials showed a substantial fall, and as wage costs, after allowing for gains in productivity, probably did not rise more than 3 per cent in 1953, the movement of prices of finished goods seems to imply some increase in percentage profit margins. This is particularly clear in the case of food, where the fall in retail prices is very small as compared with the reduction in prices received by farmers.

Real wages continued to rise in the majority of countries from 1952 to 1953. This increase reflected the rise in productivity, the improved supply of food and the fall in prices of imported commodities in relation to money wages. However, the rise in real wages probably fell short of the total effect of these factors because of the above-mentioned increase in profit margins. Indeed, in Australia, Belgium, the Netherlands, Norway, Sweden and the United Kingdom, real wages increased but little, or failed to rise at all.

If 1950 is compared with 1953, increases in indices of real wages ranged from one to 9 per cent for half of these countries. In the Netherlands there was a

[26] Australia is an exception in that the cost of living index rose by 9 per cent, but the rate of increase slackened perceptibly in the course of the year.

[27] Retail prices of food in the United Kingdom rose to a level higher than that of 1952. This was largely due to the further decline in food subsidies.

[28] However, prices of several important home-produced semi-manufactures, such as steel, aluminium and petroleum products, showed an increase.

Table 8. United States: Changes in Price Structure, 1951 to 1953
(1950=100)

| *Item* | *1951* | *1952* | *1953* |
|---|---|---|---|
| Prices of imported materials[a] | 137 | 124 | 114 |
| Prices received by farmers | 118 | 113 | 101 |
| Prices of investment goods | 109 | 111 | 113 |
| Consumer price index: mainly goods[b] | 109 | 112 | 112 |
| Consumer price index: mainly services[b] | 106 | 108 | 110 |
| Consumer price index: all components | 108 | 110 | 111 |
| Consumer price index: food component | 111 | 113 | 111 |
| Prices received by farmers for food crops and livestock[c] | 118 | 113 | 103 |

*Source:* United States Department of Commerce, *Total United States Export and Import Trade* (Washington, D. C.); Department of Agriculture, *Agricultural Prices* (Washington, D. C.); *Economic Report of the President*, January 1954; Department of Labor, *Monthly Labor Review*.

[a] Unit values of imported crude materials and semi-manufactures, weighted on the basis of the value of such imports in 1950. Computed by the United Nations Department of Economic Affairs.

[b] "Consumer price index: mainly goods" includes the following components: food, apparel-solid fuels and fuel oil, house furnishings, trans, portation, other goods and services. Remaining components are included in "consumer price index: mainly services". Computed by the United Nations Department of Economic Affairs.

[c] Including the following farm products: food grains, oil-bearing crops, truck crops, fruit, dairy products, poultry and eggs, meat animals. Computed by the United Nations Department of Economic Affairs.

small decrease. Increases within a range of 10 to 15 per cent occurred in Italy and Canada, and there were even larger increases in western Germany, France and Sweden. For each of the last three countries, however, the comparison of real wages (allowing for employment changes) with consumption suggests that the rise in the index is exaggerated, probably because the index is not fully representative of wages of all workers. Moreover, in some instances, as in Norway, Sweden and the United States, average real wages after taxes would show a smaller increase, either because of higher tax rates or as a result of the impact of progressive taxation on increased money incomes. In the United Kingdom, however, where income tax rates were reduced in 1952 and again in 1953, the change in real hourly wages after taxes would have been somewhat more favourable than shown by the index.

### Current tendencies in the United States

Any considerable decline in the level of business in the United States would have far-reaching consequences on the economies of other countries through its impact on their exports, prices, terms of trade, balances of payments and levels of employment. As was previously pointed out, the level of economic activity in the United States declined during the latter part of 1953. Accordingly some examination of the tendencies prevailing in the United States seems to be called for at the time, early in 1954, when this report is being written. The analysis of these tendencies and their implications as seen at this point of time does not constitute a forecast. Unexpected economic changes have not been uncommon in the past and such changes may radically affect these tendencies, as may government action.

Economic activity in the United States in 1953 was increasing until about the middle of the year, after which it declined, reaching in the last quarter a level somewhat below that of the last quarter of 1952, as may be seen from table 9. This table also shows that changes in the national product in the course of 1953 were accounted for largely by changes in current investment in inventories. The rate of such investment increased considerably from the first quarter to the second, when it reached a rather high level.[29] This accumulation having been partly involuntary in character, investment in inventories declined in the third quarter and turned negative in the fourth, accounting for a small but significant fall in the national product by the end of the year.

While this decline in the national product might not necessarily have started a continuing downward movement in economic activity, there are elements in the situation tending to reduce the national product of the United States in 1954 below the level of 1953. Accumulation of inventories during 1953 amounted to about $3 billion,[30] and the ratio of inventories to sales became relatively high in most industries. Since the rate of national production was no higher at the end of the year than at the beginning—it was indeed slightly lower—further accumulation of inventories would not be expected in the absence of other forces vigorously pushing up production in 1954. In examining other sectors of expenditure it seems that no such forces are now in sight.

Total investment in fixed capital appears likely to be somewhat lower than in 1953. A relatively high rate of investment over a period of years has substantially increased the stock of fixed capital and the productive capacity of the economy. With the national product levelling off in the course of 1953, an important factor leading to higher investment has ceased to operate.

Government expenditure on goods and services is likely to show some decline in 1954, since the scheduled reduction in federal expenditure will probably not be fully offset by increases in state and local expenditures.

[29] Inventory investment had been greater in the fourth quarter of 1952, but this can be explained by the rebuilding of inventories after the steel strike.

[30] More precisely $2.5 billion, arrived at as follows: $3 billion, accumulation of non-farm inventories, less $0.5 billion, liquidation of privately held farm inventories.

**Table 9. United States: Gross National Product, at 1952 Prices, 1952 and 1953**
(Billions of dollars; seasonally adjusted at annual rates)

| Item | 1952 | 1953 | | | |
|---|---|---|---|---|---|
| | *Fourth quarter* | *First quarter* | *Second quarter* | *Third quarter* | *Fourth quarter* |
| Gross national product | 359.0 | 361.5 | 365.0 | 361.5 | 355.0 |
| Personal consumption expenditures | 223.5 | 227.5 | 229.5 | 228.0 | 227.0 |
| Investment in fixed capital | 49.0 | 50.5 | 51.0 | 51.0 | 50.5 |
| Net change in business inventories | 8.5 | 4.0 | 6.5 | 3.0 | −3.5 |
| Net foreign investment | −2.0 | −3.0 | −5.0 | −4.0 | −2.5 |
| Government purchases of goods and services | 80.0 | 82.5 | 83.5 | 83.5 | 83.5 |

*Source:* Estimated by the United Nations Department of Economic Affairs on the basis of data from the *Economic Report of the President*, January 1954, and Department of Commerce, *Survey of Current Business*, February 1954.

On the other hand, reductions in income and excise taxes decided by the end of March will add about $3.7 billion to real disposable income in 1954. However, a significant part of this additional income is likely to be saved, since a relatively high proportion accrues to taxpayers in higher income brackets. Moreover, the effect on consumption is offset in part by the increase in employees' and employers' contributions to social insurance, which amounts to $1.5 billion. The net effect on the national product of these reductions in expenditure and revenue is likely to be rather small, disregarding, of course, the influence of any further fiscal changes.

It may be concluded that the factors tending to depress economic activity are the probable declines in investment in inventories and in fixed capital. These factors, together with their impact on consumption, would make for a moderate but significant fall in 1954 as compared with 1953. By the first quarter of 1954 real gross national product had already receded about 3 per cent below the average of 1953.

While for the year 1954 changes in inventory investment appear likely to be the main influence tending to produce a level of activity below that of 1953, for the longer run the rate of investment in fixed capital is likely to be of greater importance. As previously indicated, the tendency seems to be for investment in fixed capital to decline. To the extent that the level of national output turns out to be lower in 1954 than in 1953 there would be added reason to expect a decline in investment. Of course, the picture might be considerably modified by unexpected technological developments and by government counter-measures.

## Consumption and National Product, 1950 to 1953

It has been shown in the section on "General Trends, 1950 to 1953", that although from 1950 to 1953 consumption increased significantly, its share of the national product declined, while that of government expenditure increased. Since this decline in the share of consumption is of some interest, a special study is devoted here to the various forces on the income side which brought it about. This analysis assesses the influence of changes in the terms of trade (or, more generally, relative prices), in the distribution of income, in the burden of taxation and in the proportion of disposable income spent.

The technical details of the method of analysis are described in the appendix, and only a brief account is given here. The analysis starts by calculating the percentage change from year to year in the ratio of consumption to gross national product, both measured in fixed prices (see table 10). Figures for the percentage change in this ratio are given in column 1 of the table, while the remaining four columns show how each factor has affected the ratio. Plus signs indicate that the factor concerned tended to raise the ratio, and minus signs indicate that its influence was to lower it—a single sign showing that this factor would in itself have raised or lowered the ratio by one to 3 per cent, and a double sign showing an influence stronger than would be sufficient to change it by 3 per cent. The word "nil" shows that changes in either direction amounted to less than one per cent.[31]

The factors covered by each of the columns are as follows. The first set of influences is that of *divergent price movements* (column 2). If the consumer prices move proportionately to other prices, such as prices of investment goods, the ratio of real consumption to real national product changes *pari passu* with the ratio of the two aggregates at current prices. However, if consumer prices rise more rapidly than other prices and thus more rapidly than a price index of all goods and services in the national product, this means that consumer prices rise more rapidly than incomes, and therefore that consumption tends to be depressed, other things being equal. The "real ratio" of consumption to the national product will then fall, even though the "money ratio" remains stable. This analysis of changes in the "real ratio" therefore first examines relative price movements and then the reasons for changes in the "money ratio".

A considerable influence on the relation of consumer prices to "national product prices" is usually exerted, and in particular has been exerted in the period considered, by divergencies between movements of export and of import prices, i.e., by changes in the terms of trade.[32] Thus, column 2 reflects in large measure the beneficial or adverse influence of the terms of trade upon consumption.

The effect of changes in the *share of gross private income before tax going to gross undistributed profits* is shown in column 3. (Undistributed profits in this context include depreciation allowances and corporate

[31] It should be noted that all entries for changes from 1952 to 1953 are based on rough estimates.

[32] The reasons for this are as follows. Prices relevant to the deflation of consumption, investment and government expenditure are largely those of finished goods. On the other hand, import prices or export prices (or both) represent to a considerable extent raw material and food prices, which fluctuate much more than prices of finished goods. It is true that, as long as import and export prices change proportionately, the influence of their deviations from consumer prices on the index of "national product prices" largely cancel out—because values of imports and exports normally do not differ very much. But usually import and export prices do not change proportionately—i.e., the terms of trade exhibit wide fluctuations.

taxes.) A rise in the share of undistributed profits tends to lower the ratio of consumption to gross national product, other things being equal.[33] Since changes in distribution within personal income seem not to have greatly affected consumption in the period considered, this column can, in most instances, be interpreted as indicating the major effects of changes in the distribution of income in general.

Next, the influence of *fiscal changes* on the ratio of consumption to national product is taken into consideration (column 4). Under this heading are included not only indirect taxes and direct taxes on persons, but also government income from property and the profits or losses of government marketing schemes for agricultural products, as well as subsidies, transfer payments and national debt interest.[34] Increases in taxation or reductions in government payments to the private sector both have the effect of reducing consumption. An increase in the burden of taxes may also be due to factors other than higher tax rates, for instance the higher yield of existing rates under a progressive tax system in a period of rising money incomes.

Finally, the effect of changes in the *proportion of disposable personal income spent* is shown in column 5.[35] This proportion can be affected by changes in the amount or distribution of income, as well as by many other factors. Increases in the real value of disposable income tend to reduce the proportion of income spent, as do shifts from lower to higher income brackets. Otherwise the ratio of consumption to disposable income may be affected by such factors as changes in pent-up demand, tightening or relaxation of consumer credit regulations, and scare buying and reaction to it in subsequent periods.

It should be stressed that, although changes in the ratio of real consumption to real national product have been resolved into a number of factors, these factors cannot be said to measure the effect of each influence, at least not in the strict sense of showing what would have happened to the original proportion if one influence had changed in the way it did, but all other variables had remained unchanged. For example, an improvement in the terms of trade of raw material exporters usually implies a shift to export profits in the distribution of income in the respective countries.[36] Another example is that changes in taxation affect the proportion of income spent, because they have some effect on the size and distribution of post-tax income. It is therefore only in a rather limited sense that the separate effect of each influence on the ratio of real consumption to real national product can be indicated.

### Summary of results

In 1953, the ratio of real consumption to real national product was, in all countries except France, significantly lower than in 1950, a reduction which was largely the counterpart of the increase in the share of the product devoted to military expenditure (see table 10, column 1).

This fall in the ratio of the volume of consumption to the volume of national product occurred mainly between 1950 and 1951. From 1951 to 1952, and again from 1952 to 1953, the two aggregates showed much more nearly parallel movements: the changes in the ratio of real consumption to real national product were kept within relatively narrow limits, and in some instances this ratio showed an increase rather than a fall. However, even in the countries where a significant increase occurred between 1951 and 1953 in the ratio of consumption to national product, it was not sufficient to make up for the previous decline and to restore this ratio to the 1950 level.

The explanation of the movement of the ratio of consumption to national product in terms of the factors discussed above can be summarized as follows. From 1950 to 1951, the ratio of real consumption to real national product was reduced by a number of influences. The terms of trade turned against most of the countries exporting manufactures.[37] In the case of exporters of primary products (for example, Norway and Sweden) the favourable movement in the terms of trade caused by the increase in export prices would have helped, *ceteris paribus*, to raise the consumption ratio; but this increase in export prices caused a shift of income to undistributed profits which worked in the opposite direction.[38] For other countries also, there was a shift

[33]For many countries, the relevant information is only fragmentary, so that this column gives only a rough indication of the effect in question.

[34]For the method of combining these factors, see the appendix.

[35]This proportion is obtained as a residual and reflects errors in all the original estimates used in the calculation. Revision of any of these estimates (particularly of the ratio of consumption to national product itself) may therefore change the entry in this column. The proportion which consumption takes of disposable income is derived directly from the national product by the steps described in the appendix, and, because of statistical discrepancies, it may not be the same as that derived from a comparison between consumption and disposable income, estimated from the income side.

[36]An increase in the prices of investment goods resulting from a rise in profit margins also causes a shift in income distribution. An improvement in relative prices for consumers, therefore, whether it originates in foreign or domestic trade, may be partly or wholly absorbed by a shift to profits, and have little or no effect on consumption.

[37]The deterioration in the terms of trade was sometimes associated with, and more or less offset by, an increase in prices of investment goods in relation to prices of consumer goods, with the result that the movement of relative prices had little if any effect on the ratio of real consumption to real national product. Thus column 2, table 10, shows negative influences in only a few instances in this period.

[38]In Australia the fluctuations in the terms of trade in recent years, resulting mainly from violent rises and falls in wool prices, were associated with relative shifts of income to or from government agencies, and to or from farmers, rather than companies. The rapid changes in farmers' incomes caused the proportion spent out of personal disposable income to change in the opposite direction (see page 39). So for Australia, as well, there were influences offsetting changes in the terms of trade.

towards profits in income distribution (which seems to have been especially marked in western Germany and Italy). But the main factors depressing consumption in 1951 were a sharp increase in the burden of taxation to finance higher armament expenditures, and an increase, for various reasons, in the proportion saved out of disposable income.

From 1951 to 1953 the factors influencing the ratio of consumption to national product did not uniformly tend to depress it: in many countries there were influences which worked in both directions. The terms of trade swung back in favour of exporters of manufactures, and the effect of the corresponding deterioration for raw material exporters was once more offset by related changes in income distribution.[39] However, in a number of countries there probably occurred, especially from 1952 to 1953, some shift to undistributed profits, which resulted from this decline in prices of raw materials or foodstuffs not being fully passed to the consumer. The net burden of taxation continued to increase in several countries from 1951 to 1952, but from 1952 to 1953 increases occurred only in isolated instances. As for the proportion of disposable income consumed, this fell in several countries in 1952, but nearly everywhere the decline seems to have stopped in 1953, although the proportion spent was then still in most cases lower than in 1950.

The increased burden of taxation stands out as generally the major reason for the decline in the ratio of consumption to national product between 1950 and 1953, reflecting the increase in military expenditure since 1950. In most countries a decline in the proportion of income spent was also an important factor; this can probably be attributed mostly to the fact that in 1950 there was still some pent-up demand, which has since practically disappeared. And in a few countries the shift to undistributed profits was large, apparently forming the most important reason in these cases for the decline in relative consumption. The influence of each separate factor during the period is considered in detail in the following sections.

### Influence of changes in relative prices

Column 2 of table 10 shows the influence on the ratio of consumption to national product of the movement of consumer prices relative to prices of the gross national product as a whole. Comparing 1950 and 1953, this influence was very small or positive. As stated above, the relation of consumer prices to "national product prices" usually reflects changes in the terms of trade to a great extent. From 1950 to 1951, the terms of trade deteriorated for a number of countries of the group but they improved for those which export materials on a large scale (for example, Sweden and Norway which export forest products, Belgium which exports steel and Australia which exports wool). Movements were, however, in the opposite direction from 1951 to 1953. The initial deterioration in the terms of trade for exporters of manufactures was made good, or reversed, while for raw material exporting countries the initial improvement was about cancelled. In nearly all the countries considered, therefore, the terms of trade in 1953 were at least as good as in 1950, and in many countries there was some improvement.[40]

In many instances, prices of consumer goods rose less, throughout the period, than prices of investment goods.[41] For this reason the influence of movements in the relation of prices of consumer goods to all "national product prices", as shown in column 2, has been more favourable to consumption than the influence of the terms of trade alone. In fact, only in Denmark, the Netherlands and the United Kingdom did changes in this relation have a negative influence on consumption between 1950 and 1951; and the positive influence from 1951 to 1953, due to the improvement in the terms of trade, was considerably enhanced by internal price movements for many countries. In some cases the effect of changes in the terms of trade on consumption in raw material exporting countries was also masked by increases in the prices of investment goods relative to consumer goods.

### Influence of changes in undistributed profits

The significant developments in the share of undistributed profits fall into three broad categories: (i) a noticeable shift towards profits in certain countries between 1950 and 1951, for various reasons; (ii) changes throughout the period due to fluctuations in export prices of raw materials (for example, in Norway and Sweden); and (iii) an apparently more widespread, but slighter, shift to profits in 1953, which seems to have occurred because retail prices generally failed to reflect fully the decline in prices of materials.

From the information available, which is in some cases fragmentary, there seem to have been increases between 1950 and 1951 in the share of profits in private income in Italy, the United Kingdom and western Germany. In Italy and western Germany the increases were sharp: the reasons appear to have been the rapid rise in output and some increase in profit margins.

Fluctuations in export profits of raw material producing countries were a counterpart of the improvement in their terms of trade in 1951, and their subsequent

[39]In contrast to developments from 1950 to 1951, the influence of an improvement in the terms of trade from 1951 to 1953 was in most instances reinforced by the continuing tendency of prices of investment goods to rise relative to prices of consumer goods. Conversely, the deterioration in the terms of trade of raw material exporters was offset in some instances by other changes in relative prices.

[40]The sharp improvement in the terms of trade of Canada in this period largely reflects the appreciation of the Canadian dollar.

[41]This may be due at least in part to the increasing demand for military goods, which led to relatively large increases in wages and prices of raw materials in the heavy industries, taking the period as a whole.

Table 10. Analysis of Changes in the Ratio of Real Consumption to Real Gross National Product in Western European Countries, Australia, Canada and the United States, 1950 to 1953[a]

| Country and year | Percentage change in ratio of real consumption to real gross national product[b] (1) | Effect of changes in: Relative prices (2) | Share of undistributed profits (3) | Net burden of taxation (4) | Proportion of disposable income spent (5) |
|---|---|---|---|---|---|
| *Australia:* | | | | | |
| 1949/50 to 1950/51.... | +1 | ++ | nil | −− | − |
| 1950/51 to 1951/52.... | −2 | −− | + | nil | ++ |
| 1951/52 to 1952/53.... | −8 | + | − | + | −− |
| 1949/50 to 1952/53.. | −9 | − | − | − | −− |
| *Canada:* | | | | | |
| 1950 to 1951.......... | −6 | nil | nil | − | −− |
| 1951 to 1952.......... | −2 | + | − | − | nil |
| 1952 to 1953.......... | +1 | nil | + | nil | nil |
| 1950 to 1953........ | −6 | + | nil | −− | −− |
| *Denmark:* | | | | | |
| 1950 to 1951.......... | −4 | − | − | − | nil |
| 1951 to 1952.......... | +1 | + | nil | nil | nil |
| 1952 to 1953.......... | 0 | + | nil | nil | nil |
| 1950 to 1953........ | −3 | + | nil | −− | nil |
| *France:* | | | | | |
| 1950 to 1951.......... | 0 | nil | nil | nil | nil |
| 1951 to 1952.......... | +3 | + | + | nil | nil |
| 1952 to 1953.......... | +1 | + | nil | nil | nil |
| 1950 to 1953........ | +4 | ++ | + | nil | nil |
| *Germany, western:* | | | | | |
| 1950 to 1951.......... | −8 | nil | −− | −− | nil |
| 1951 to 1952.......... | +2 | ++ | nil | − | − |
| 1952 to 1953.......... | +3 | nil | + | nil | nil |
| 1950 to 1953........ | −3 | ++ | −− | −− | −− |
| *Italy:* | | | | | |
| 1950 to 1951.......... | −5 | nil | −− | + | nil |
| 1951 to 1952.......... | −1 | nil | nil | nil | − |
| 1952 to 1953.......... | −1 | nil | − | nil | nil |
| 1950 to 1953........ | −7 | nil | −− | + | − |
| *Netherlands:* | | | | | |
| 1950 to 1951.......... | −5 | − | nil | −− | nil |
| 1951 to 1952.......... | −1 | + | − | − | + |
| 1952 to 1953.......... | −3 | − | − | + | − |
| 1950 to 1953........ | −9 | nil | −− | − | − |
| *Norway:* | | | | | |
| 1950 to 1951.......... | −5 | ++ | −− | nil | −− |
| 1951 to 1952.......... | 0 | + | ++ | nil | −− |
| 1952 to 1953.......... | 0 | − | + | nil | nil |
| 1950 to 1953........ | −5 | ++ | nil | nil | −− |
| *Sweden:* | | | | | |
| 1950 to 1951.......... | −2 | ++ | − | −− | − |
| 1951 to 1952.......... | +1 | nil | ++ | nil | −− |
| 1952 to 1953.......... | −1 | nil | + | − | nil |
| 1950 to 1953........ | −2 | ++ | ++ | −− | −− |
| *United Kingdom:* | | | | | |
| 1950 to 1951.......... | −4 | − | − | − | nil |
| 1951 to 1952.......... | −1 | + | nil | + | −− |
| 1952 to 1953.......... | 0 | + | − | nil | nil |
| 1950 to 1953........ | −5 | + | − | + | −− |
| *United States:* | | | | | |
| 1950 to 1951.......... | −8 | nil | nil | −− | − |
| 1951 to 1952.......... | 0 | nil | nil | − | nil |
| 1952 to 1953.......... | +1 | + | nil | nil | nil |
| 1950 to 1953........ | −7 | + | nil | −− | − |

*Footnotes on opposite page.*

[*Notes to table 10*]

*Source:* See table 6.

The following symbols have been used in this table:

A plus sign (+) indicates that the effect of this factor was to increase the ratio of real consumption to real gross national product by one to 3 per cent.

A minus sign (–) indicates that the effect of this factor was to decrease the ratio of real consumption to real gross national product by one to 3 per cent.

Two plus signs (+ +) indicate that the effect of this factor was to raise the ratio of real consumption to real gross national product by more than 3 per cent.

Two minus signs (– –) indicate that the effect of this factor was to lower the ratio of real consumption to real gross national product by more than 3 per cent.

The word "nil" indicates that the effect of this factor was to raise or lower the ratio of real consumption to real gross national product by less than one per cent.

[a] Entries for 1952 to 1953 are based on provisional data and in some cases fragmentary evidence.

[b] The estimates of the ratio of consumption to gross national product are based on table 6. The annual changes for each country do not necessarily add to the three-year totals because of rounding, and also because the annual changes are linked by multiplication; the latter reason is, however, of minor importance as the changes are small.

*Notes on data for individual countries:*

*Australia.* The consumer price index has been used to deflate components of the gross national product (other than foreign trade); column 2 therefore excludes the effects of divergencies between prices of consumer and of capital goods. The statistics show only the cash income of farmers; to this had been added a certain part of the change in farm stocks, on the assumption that it represents output for which farmers have not yet been paid by the marketing authorities. Profits (or losses) of the marketing authorities and receipts under the wool deduction scheme are included in taxes. From 1949/50 to 1950/51, increases in the profits of the marketing authorities and wool deduction receipts were an important influence: increases in tax receipts would not alone have resulted in two minus signs in column 4. From 1950/51 to 1951/52, however, the change to a deficit in the marketing accounts together with the virtual elimination of the wool deduction receipts balanced the effect of rises in tax rates. In 1952/53 the marketing accounts were brought back into approximate balance, and the plus sign from 1951/52 to 1952/53 can be attributed to a reduction in the burden of direct taxes.

*Canada.* The inventory revaluation adjustment has been roughly divided between corporate and personal income. Column 4 includes the excess of the Wheat Board's receipts over its payments (or vice versa). Special payments by the Government to wheat farmers in 1951, in connexion with the end of the five-year agreement with the United Kingdom, together with the excess of Wheat Board payments over its receipts, partially offset the effect of the substantial increases in taxes. The introduction of a new scheme for old-age pensions in 1952, moreover, partly balanced the delayed effects of the (earlier) increase in tax rates and the change in the Wheat Board's cash balance to an excess of receipts over payments (as well as the absence in 1952 of any special payment to wheat farmers).

*Denmark.* There was a major shift in domestic prices favourable to consumers in 1952, accounting for the plus signs in column 2 for the changes from 1951 to 1952 and from 1950 to 1953. Corporate profits in 1950 and 1951 have been roughly estimated from tax assessments; entries in columns 3 and 5 are therefore rather uncertain. Compulsory savings, here treated as a tax, were an important item in 1951 and 1952.

*France.* An unfavourable movement in the terms of foreign trade from 1950 to 1951 was balanced by a movement in domestic internal prices favourable to consumers; the latter movement largely accounts for two plus signs in column 2 for the period as a whole. A rise in indirect taxes was balanced in 1951 by increases in transfer payments and a decline in government property income, and in 1952 by increases in export premiums. In 1953 the rise in both direct and indirect taxes was only partially offset by a continued rise in transfer payments.

*Germany, western.* Domestic prices have tended to move strongly in favour of consumers, offsetting in 1950 to 1951 the effect of an adverse shift in the terms of foreign trade, and for 1950 to 1953 accounting for two plus signs in column 2. Taxation here includes the special equalization tax which was designed to soften the impact of the 1948 currency reform on some groups. In this case, undistributed corporate profits are obtained as a residual (personal savings being estimated directly).

*Italy.* It appears that from 1950 to 1951 taxes rose less than transfer payments, and that in 1952 and 1953 further rises in transfers offset the effect of increased taxes. While there is information on the movement of total private savings, the allocation of this movement between corporate and personal savings (and thus the entries in columns 3 and 5) has been inferred from price and wage indices.

*Netherlands.* The effect of changes in relative prices appears to be mainly attributable to movements in domestic rather than foreign trade prices. Estimates of profits, and allocation of social security contributions, in 1952 and 1953 are rough.

*Norway.* The allocation of private income between corporate and personal income can only be partly made from official statistics because the available total of personal income is not quite complete. Estimates in columns 3 and 5 therefore depend to some extent on the assumption that *total* personal income moved in the same way relative to private income as did the personal income on which information was available. Taxes include export duties, which rose in 1951, and fell in 1952 and 1953.

*Sweden.* Estimates of profits have been derived as a residual from tentative official estimates of personal income, and are therefore not authoritative.

*United Kingdom.* Death duties, which are a considerable item in revenue, have been left out of account in these estimates. Declines in food subsidies in 1952 and 1953 partially offset the reduction in tax rates.

*United States.* A special non-recurring payment to ex-servicemen in 1950 helps to explain the two minus signs in column 4 for 1950 to 1951.

deterioration. For Norway and Sweden the rise in export profits in 1951 and their subsequent fall largely balanced the changes in the terms of trade as an influence on consumption.[42] From 1951 to 1952 the effect of the decline in export profits was reinforced by a shift away from profits in internal trade, but the further fall in export profits in 1953 was partly offset by an increase in domestic profit margins. Over the period as a whole the effect of all these developments was a decline in the share of undistributed profits in Sweden, but little change in Norway.

A shift toward profits in 1953 as a result of increases in internal profit margins probably also occurred in Italy, the Netherlands and the United Kingdom. In the case of western Germany, there appear to have been reductions in profit margins in 1953, but these, even together with earlier reductions in 1952, seem not to have gone so far as to wipe out the large increases in 1951. In all these four countries the rise in the share of undistributed profits over the whole period from 1950 to 1953 played an important role in reducing the proportion of the national product devoted to consumption.

### Influence of changes in net taxation

Changes in the influence of indirect taxation, direct taxation, subsidies, transfers and public debt interest are indicated in column 4 of table 10. In all countries, except France, Italy, Norway and the United Kingdom, these factors tended to reduce consumption in relation to gross national product from 1950 to 1953. This was due to the increased burden of taxes, mainly to finance higher military expenditure. Also, in some instances, subsidies, transfers or public debt interest were reduced in importance relative to other incomes.

The main reason for the increased burden of taxation, has, however, been an increase in tax rates, particularly in the rates of direct taxes; indirect taxes net of subsidies in general were in much the same relation to the national product as in 1950, despite the decline of subsidies in some countries.[43] Moreover, the impact of progressive taxation on rising incomes tended to raise further the proportion of personal income taken by direct taxes. However, in the United States the reduction of transfer payments compared with 1950 was also of considerable importance, 1950 having been a year of large non-recurring disbursements to former servicemen.[44]

In Australia the operations of marketing authorities, which are considered fiscal operations in this analysis, had somewhat the same effects in offsetting fluctuations in farm proceeds as corporate profits had in the Scandinavian countries; in addition the improvement in the price of wool in 1950/51 was partly absorbed by a special government levy. In Canada, the marketing authority's operations were also an important influence on farm income, but they did not necessarily have a stabilizing effect.[45]

For the group as a whole, the adverse effect of fiscal changes was more important in 1951 than in other years. In 1952 there was a further increase in the burden of net taxation in some countries, mainly because the earlier increases in tax rates had in many cases been effective for only part of 1951. The increase was, however, on a much smaller scale than in the preceding year. In other countries the burden of taxes net of transfers remained about the same in 1952, while in isolated instances (for example, the United Kingdom) there was even some relief.[46] In a number of countries, including the United Kingdom, concessions were announced in the 1953 budgets, partly in order to stimulate the output of consumer goods, but these changes in general were not very large, and their impact in that year was not enough to affect significantly the burden of net taxation as a whole.[47] Only in Sweden did the burden of taxation increase significantly in 1953.

As a result of all these developments, the net burden of taxation was substantially increased from 1950 to 1953 in most countries. The increase over the whole period was particularly large for Sweden and the United States.

### Influence of changes in the proportion of income spent

The last column of table 10 indicates changes in the ratio of consumption to disposable income, a ratio which appears to have been lower in 1953 than in 1950 for most countries.[48] This fall seems generally to have taken place between 1950 and 1952. What can be in-

[42] On the evidence available there seems to have been a similar development in Belgium, at least from 1950 to 1951, the rise in prices of export steel mainly affecting undistributed profits.

[43] Indirect taxes tend to be reduced relative to national product by the very decline in relative consumption under analysis here, because of the high tax content of consumer expenditure compared with other components of the national product. (This is another illustration of the difficulty of segregating causal influences in this analysis.)

[44] In Canada a new old-age pension scheme was launched in 1952, so that the change in transfer payments from 1950 to 1953 was favourable to consumption, partly offsetting the increase in the burden of income taxes.

[45] In 1950 the Wheat Board paid out less than it received, but in 1951 payments exceeded receipts, and in addition there were special government payments to wheat farmers in connexion with the winding up of the United Kingdom-Canada wheat agreement. (The record level of farm income in 1951 is also attributable to high prices for animal products.) In 1952 and 1953 the receipts of the Wheat Board slightly exceeded payments. Since the Board had paid out much less than it received in 1950, the effect of its operations, comparing 1950 with 1953, was favourable to consumption, although this was outweighed by other fiscal changes, especially the increase in income taxes.

[46] In the United Kingdom the easing of the tax burden consisted mainly of reductions in income tax rates; in addition indirect taxes were lowered (especially the purchase tax on luxuries), but subsidies were reduced as well.

[47] The effect of concessions in the United Kingdom was partly offset by the delayed consequence of reductions in food subsidies announced in the 1952 budget but only gradually carried out.

[48] It has been pointed out above that this ratio is rather uncertain for many countries, and therefore conclusions based on this column must be particularly cautious.

ferred from provisional estimates of other items suggests that there was in general little change in this ratio from 1952 to 1953.[49]

Only in Canada and western Germany have the increases in real disposable income been sufficient for this to be a reason of any consequence for the decline in the proportion of income spent. Nor do shifts in the distribution of personal income between higher and lower income brackets seem to have been major influences: tentative calculations, using various assumptions about savings habits in different social groups, indicate that the effect on the ratio would have been quantitatively small for most countries.[50]

One change in income distribution has, however, been of considerable significance in some countries: in Australia the income of farmers has fluctuated sharply; this was also to a lesser extent the case in Canada. Since farmers' consumption has lagged behind these rapid changes in income, this fluctuation has affected significantly the ratio of total consumption to total disposable income. In Australia the rapid rise in wool prices from 1949/50 to 1950/51 was reflected in a fall in consumption relative to disposable income. On the other hand, during the subsequent decline in wool prices from 1950/51 to 1951/52 the ratio of consumption to disposable income rose well above the level of 1949/50. Finally, from 1951/52 to 1952/53, when wool prices showed a moderate rise, the ratio of consumption to disposable income declined below the level of 1949/50. Fluctuations in farmers' incomes were not, however, the only cause of changes in this ratio: the fact that in 1952/53 the consumption ratio fell below the level at the beginning of the period considered may also be attributed to the drastic import restrictions in 1952/53, and to the exhaustion of the pent-up demand which had still existed in 1949/50.

In Canada, fluctuations in farm incomes seem to have been of lesser importance.[51] The dominant influence was apparently a declining tendency in the ratio of expenditure to income because of increasing real income and because of the elimination of the remaining pent-up demand. The sharp rise in farmers' incomes from 1950 to 1951 (together with restrictions on consumer credit) must have contributed to the decline in the proportion of income spent between those years. The reversal in the following two years, when farmers' incomes not only failed to increase but even fell (and credit restrictions were relaxed) did not lead to any rise in this proportion, because they were counterbalanced by the downward forces mentioned above.

It follows from this discussion that the fall in consumption in relation to disposable income from 1950 to 1953 was not, apart from exceptional cases, due primarily to increases in the real level of income or to changes in its distribution. The main explanation, therefore, was the tendency to spend less out of income of a given level and distribution.

In some countries (Canada and the United States) the relative decline in consumption from 1950 to 1951 may be partly explained by restrictions on consumer credit. These restrictions were, however, removed in 1952, and therefore they cannot help to explain the change from 1950 to 1953. Another influence, which affected a much larger number of countries, was some overbuying of consumer goods in the second half of 1950, immediately after the outbreak of Korean hostilities. However, except perhaps for the United States, this also hardly seems sufficient to explain the decline in the consumption ratio from 1950 to 1953, for this was some 3 per cent for several countries. Some longer run adjustment in the tendency to consume may therefore have occurred in these countries, possibly owing to the fact that in 1950 there had still remained an element of pent-up demand, while by 1953 this had been more or less completely eliminated.

[49] Australia is an exceptional case; the proportion of income spent fell in 1950/51, rose sharply in 1951/52, and fell even more drastically in 1952/53. This case is discussed separately below.

[50] In the United Kingdom, as has been explained above, direct taxes and purchase taxes on luxuries were reduced, while food subsidies also declined. These changes would help to explain the reduction in the proportion of income spent, since they amounted to a redistribution of purchasing power towards higher income brackets, but they were at least partly balanced by a more equal distribution of pre-tax income, because of increases in the shares of wages and transfer payments.

[51] In the case of Canada, farm income is not as large a proportion of total personal income as in Australia.

# Chapter 2

# CENTRALLY PLANNED ECONOMIES

## Eastern European Countries[1]

### Recent changes in economic policy

*General background*

In 1953 new economic policies, characterized by greater emphasis on the supply of consumer goods and by a new approach to the problems of agriculture, were adopted in all the centrally planned economies of eastern Europe.

In the years 1950 to 1953, following the period of reconstruction, industrial production increased at a very high rate (see table 11). In the course of this rapid industrialization disproportions developed between the output of producers' goods and the output of consumer goods, especially food. The general objective of the new policies is to eliminate these disproportions in order to achieve a more balanced economy on the expanded industrial base. The situation differs as between the Union of Soviet Socialist Republics and the other countries of the group, where emphasis on the expansion of producers' goods industries in the period 1950 to 1953 was more pronounced. The general background to the new policies in the latter countries will be described first and the background in the Union of Soviet Socialist Republics separately thereafter.

Table 11. Indices of Industrial Production and National Income in Centrally Planned Economies of Eastern Europe, 1953[a]

(1950=100)

| Country | Industrial production | | National income |
|---|---|---|---|
| | Total | Heavy industry[b] | |
| Bulgaria | 157 | 183 | 158 |
| Czechoslovakia | 149 | 178 | 133 |
| Germany, eastern | 159 | 145 | 136 |
| Hungary | 180 | 228 | 144 |
| Poland | 175 | 186 | 136 |
| Romania | 181 | ... | ... |
| Union of Soviet Socialist Republics | 145 | 146 | 134 |

*Source:* Based on official data on percentage annual increases.

[a] The national income concept used in eastern European countries is net output of industry, agriculture, transport and communications, and government and co-operative trade, valued at constant prices. The indices of industrial production relate to gross output. So long as the degree of double counting remains unchanged, the indices of gross and net output will move approximately parallel. However, the degree of double counting may be affected by structural changes in industry. This effect is likely to be small in short periods.

[b] Changes in heavy industry partly estimated because of lack of final figures for 1953.

The rate of increase in output of producers' goods in relation to the national product was considerably accelerated in 1950 and 1951 in most of these countries in order to speed up the expansion of industrial and military potential. During succeeding years this tendency was further strengthened in the course of the execution of these plans, and the goals set for agriculture, consumer goods industries and housing remained in many instances unfulfilled.

In particular, the rate of progress in agriculture fell considerably short of the plan, although this was partly the result of unfavourable weather. While in the five-year or six-year plans current in the period under discussion[2] the targets for agricultural production ranged from an increase of about 50 per cent in Poland, Czechoslovakia and Hungary and 57 per cent in Bulgaria to 88 per cent in Romania, much less progress was in fact achieved. Indeed, Czechoslovakia and Bulgaria increased their output by only one-third from 1948 to 1953. In Poland, four years after the inception of the plan, agricultural output had risen by only 9 per cent instead of the 30 to 35 per cent scheduled for this period. In Hungary and Romania, particularly affected by bad weather, agricultural production either remained unchanged or increased little.

The rapid rise in the output of producers' goods in conjunction with a significantly slower increase in the production of consumer goods in general, and of food in particular, led to persistent pressure of demand upon supply. This was in part due to the fact that the shift of population from agriculture to industry was not ac-

[1] Yugoslavia is treated on pages 53 and 54.

[2] The plans referred to are: Bulgaria, 1949 to 1953; Czechoslovakia, 1949 to 1953; eastern Germany, 1951 to 1955; Hungary, 1950 to 1954; Poland, 1950 to 1955; Romania, 1951 to 1955.

companied by a corresponding increase in supplies to the cities, but rather tended to encourage higher per capita consumption among the rural population. Although the inadequate food supply to the cities posed the most important problem, the supply of industrial consumer goods also was frequently not satisfactory. This situation was reflected in recurrent shortages of specific commodities or in high prices.

In order to deal with the resulting strains on their economies, most of the countries applied similar emergency measures, namely, introduction of rationing, and, at a later stage, derationing associated with changes in the price and wage structure. In some instances these measures were accompanied by monetary reforms intended to eliminate a large proportion of liquid savings.

Between 1951 and 1953 real wages were in many instances barely maintained, or even declined. Changes in per capita real income of the non-agricultural population were more favourable because of an increase in the proportion of family members gainfully occupied.

These trends in real wages, combined with recurring shortages of consumer goods, tended to retard the rise in output per man and were detrimental to the smooth operation of industry. In consequence of bad harvests the situation deteriorated considerably in 1952 or 1953, particularly in Hungary, Czechoslovakia and eastern Germany.

The speeding up of industrialization between 1951 and 1953 was associated with an increasing emphasis on collectivization of agriculture. This policy was intended as a means of raising production and strengthening government controls over agriculture so as to increase the proportion of output sold to the cities through government and co-operative channels. The rise in productivity expected to result from large-scale farming would simultaneously release manpower from agriculture for other occupations. Collectivization had proceeded slowly up to 1950, except in Bulgaria, but the pace quickened considerably in all countries thereafter; in eastern Germany, collectivization was not initiated until 1952, but the pace was rather rapid in that year.

However, collectivization was not always voluntary and, in many instances, was brought about by applying administrative and economic pressure. These measures, together with the introduction of, or an increase in, compulsory deliveries at prices below the market level, gave rise to uncertainty about future agricultural policies which had a discouraging effect on the expansion of output in the private sector of agriculture.[3]

The problems arising from rapid industrialization were not limited to difficulties in the supply of consumer goods. In most eastern European countries the expansion of industrial capacity in investment goods industries was proceeding much more rapidly than the rise in the output of fuel and raw materials. The resulting bottle-necks presented an important obstacle to the continued rapid expansion of heavy industry.

In contrast to the situation in most eastern European countries, the progress in industrialization achieved by the Union of Soviet Socialist Republics in the post-war period did not encounter difficulties of great magnitude. This was due to differences both in the rates of industrialization and in the institutional framework of the economies. Over the past three years industrialization has proceeded at a much more moderate pace in the Soviet Union than in other countries of this area (see table 11); consumption, in accordance with the current five-year plan, was increasing at a rate not much lower than the rate of increase in national income. Differences in institutional factors also played an important part. While in other countries of the area the shift of population from agriculture to industry created food shortages in urban areas, in the Union of Soviet Socialist Republics, with its collectivized agriculture, these shifts were associated with commensurate shifts in the supply of agricultural products, and the rise in consumption was mainly limited by the slow increase in the output of agriculture. In further contrast, there was a substantial improvement in the supply of consumer goods in the Soviet Union, leading to repeated price reductions, beginning in 1947, and a significant rise in per capita consumption.

Nevertheless, certain difficulties, which during the preceding period had been overshadowed by the rapid recovery from war devastation, began to be apparent during the execution of the current five-year plan in the Soviet Union, the most important among them again being those encountered in agriculture. Whereas the goals for industrial production were successfully achieved in the first three years of the plan, agricultural production, which was to have increased by 50 per cent between 1950 and 1955, lagged behind the schedule. In 1953, total output of agriculture was no more than 10 per cent above pre-war, that is, only slightly above that of 1950. The problem was particularly acute with regard to those products—such as livestock products and vegetables—for which demand was continually growing because of rising real incomes. The increase in the number of livestock, especially of cows, was slow. In fact, during 1952 the number of cattle declined by 2.2 million head, that is, by about 4 per cent, partly owing to the poor crop of fodder in 1951/52. The output of potatoes declined in recent years and that of vegetables increased but little. Important factors were operating to keep down the output of livestock, potatoes and vegetables. Among them was a price system which made the production of these products less advantageous than that of other agricultural goods, but equally if not more im-

[3]At the end of 1952, between 40 and 90 per cent of arable land was privately owned in the countries of this group, except in the Soviet Union, where virtually all land is collectivized.

portant was the tendency to discourage individual production on the private plots of members of collective farms. This tendency, accentuated during the period of amalgamation of collective farms, led to a substantial decline in the total output of private plots and affected livestock particularly.[4] Apart from these specific problems, the expansion of output in agriculture generally was hampered by the low rate of investment and the scarcity of technical personnel with adequate training.

It should be noted that, although the production of industrial consumer goods has been increasing according to the plan, shortages of a large variety of goods persisted. This would imply that the increases in supply between 1947 and 1953 were reflected in repeated price reductions rather than in the elimination of scarcities. Shortages were not pervasive but were particularly apparent in certain areas and for certain products, especially higher quality goods towards which demand was shifting as consumption levels rose.

It follows that the situation in the Union of Soviet Socialist Republics differed considerably from that in most of the other centrally planned economies of eastern Europe. While in the former the improvement in supply was such as to permit a steady increase in per capita consumption, in most of the other countries problems of supply had become acute by 1953. However, in all countries of the group, deficiencies in the supply of consumer goods posed a serious problem which could adversely affect the long-run development of the economy. A further rise in non-agricultural employment not associated with a commensurate increase in the supply of agricultural products would mean a decline in the per capita food consumption of the urban population. More than that, in many countries, the drying up of reserves of manpower in agriculture made it increasingly difficult to raise industrial employment without risking a decline in agricultural production. Furthermore, all plans of development assumed very large increases in output per man, which, after the period of rapid assimilation of new techniques and new methods of work, were becoming increasingly dependent on incentives in terms of higher real income. This in turn could be achieved only through a rise in the output of consumer goods, especially food. However, a rise in agricultural output required a substantial increase in investment in agriculture and greater inducements to the peasants to increase output. In the attempt to solve these problems it was decided to slow down the process of industrialization and reallocate resources in favour of consumers.

Although in all countries the new policy was attributed to a greater or less extent to the need to eliminate accumulated disproportions which were considered to be a possible threat to future economic growth, it was generally stressed that a larger proportion of resources could not be devoted to consumption until the economic and military potential had been raised to a certain level. It may, therefore, be concluded that the introduction of the new economic policy at this juncture was conditioned not only by the need to eliminate disproportions that had arisen during the preceding period of rapid development, but also by the substantial progress of industrialization achieved in consequence of this development.

### *Content of the new policies*

The economic policies inaugurated in the course of 1953 in the countries of eastern Europe envisage an expansion of consumer goods industries and agriculture at the expense of other fields of economic activity in order to achieve a rapid increase in the supply of consumer goods during the next two to three years. The improvement in supply during 1953 was achieved to a great extent by drawing on stocks of food and finished industrial goods, by increases in net imports of consumer goods in some countries, and by better harvests. The increases scheduled for succeeding years will require a substantial rise in output. Since in most countries of the area the economies were operating under conditions involving full utilization of resources, this requirement can be met only by reallocation of resources. The share of investment in the national product is to be reduced and the distribution of investment altered in favour of consumer goods industries, agriculture and housing. Simultaneously, certain long-term projects such as waterways and subways are to be slowed down or abandoned. In most countries it was stated that investment is to be concentrated on projects that can be completed and put to use within a short period of time. The effort to achieve self-sufficiency, reflected in the development of industries for which the country has no adequate fuel and raw material base, is to be abandoned, since the products can be acquired at less cost from other countries of the group. Finally, in some countries the structure of foreign trade is to be altered so as to increase the domestic supply of consumer goods.

The statements indicating the changes in economic policy were not followed in all countries by announcement of revised targets for all fields of economic activity. The available information on changes in investment plans is given on page 43. Although the information is fragmentary, it shows the general tendency common to all countries of this area. It appears from official statements and data relative to specific projects that investment is to be reduced considerably as compared with the original intentions and in some countries the reduced level is to be maintained for the next few years. As a result, the relative share of investment in the national product will decline. At the same time a larger

[4] The importance of this factor may be seen from the fact that more than half of the cows, about 40 per cent of all cattle and a quarter of the hogs were privately owned, while almost 40 per cent of deliveries of potatoes and a high proportion of output and deliveries of vegetables, poultry and eggs were derived from private plots.

### Announced Changes in Investment Plans

| | *Total investment*[a] | *Share of investment in national income* | *Investment in producers' goods industries*[a] | *Investment in consumer goods industries, agriculture, housing and other consumer sectors*[a] |
|---|---|---|---|---|
| Bulgaria:[b] | | | | |
| 1953 to 1957 | Increased | Reduced | Increased | Increased |
| Czechoslovakia: | | | | |
| 1953 | Reduced by 16 per cent | Reduced | | |
| 1954 | Maintained at 1953 level | Reduced from 24.8 per cent in 1953 to 21.7 per cent in 1954 | Reduced | Increased |
| Germany, eastern: | | | | |
| 1953 | Reduced | | | |
| 1954 and 1955 | Reduced by 30 per cent compared with the original plan for 1953 | Reduced | Reduced | Increased |
| Hungary: | | | | |
| 1953 | Reduced | 25 per cent | Reduced | Increased |
| 1954 | | 18 per cent | | |
| Poland: | | | | |
| 1954 | Maintained at 1953 level | Reduced from 25 per cent in 1953 to 21.2 per cent | Reduced | Increased |
| 1955 | | Reduced to 19.8 per cent | Reduced by 20 per cent compared with 1953 in producers' goods industries,[c] transport and communications | Increased by 35 per cent compared with 1953 |
| Romania: | | | | |
| 1954 and 1955 | Maintained at 1953 level | Reduced | Reduced by 30 per cent | Increased by 100 per cent |
| Union of Soviet Socialist Republics: | | | | |
| 1954 | ... | Reduced | ... | In food processing industries and retail trade increased by 80 per cent compared with plan for 1953 |

*Source:* Official statements of the respective governments.

[a] Compared with original plans, except as indicated.

[b] Compared with actual results during the period of the preceding five-year plan.

[c] Reduction for producers' goods industries 13 per cent.

proportion of investment is to be devoted to agriculture, consumer goods industries and residential building.

The announcements in the Union of Soviet Socialist Republics do not suggest that total investment will cease to increase, even though its share in the national product will decline. The structure of investment will, however, certainly undergo an important change. Indeed, sharp increases in investment in light industry, in food processing and in agriculture, as compared with the original targets, have been announced.[5] Since it can be assumed that the targets set for the five-year plan implied full utilization of resources and since, according to official statements, the rise in output and supply of consumer goods will be achieved by diverting resources from other uses, it may be inferred that the increase in investment in the consumer goods industries and in agriculture will be associated with a relative or even absolute decline in investment in producers' goods industries or in armaments.[6]

[5] The data for light industry, food processing and trade indicate that investment in fixed capital in these sectors will increase by about 80 per cent in 1954 as compared with investment scheduled for 1953.

[6] However, the decline, if any, is unlikely to be considerable. Indeed, investment in consumer goods industries and in agriculture during the past twenty-five years amounted to 16 per cent of total investment in fixed capital, so that even a substantial increase in investment in these two sectors need not involve an important drop in other investment, especially as total investment is likely to continue to increase.

The decline in the proportion of resources allocated to investment which is planned in all countries of the area will tend to reduce the rate of increase in the national product. Indeed, on the assumption of full utilization of equipment, the rate of increase in the national product is proportionate to the share of net investment in the product, if the relation between net investment and the increment to productive capacity remains constant. This will be seen from the following formula:[7]

$$\frac{\text{Rate of increase in}}{\text{national product}} = \frac{\text{net investment}}{\text{national product}} \times \frac{\text{increment in productive capacity}}{\text{net investment}}$$

It follows from this formula that the effect of a reduced share of investment in national product may be partly offset by policies tending to increase the effectiveness of investment in terms of adding to productive capacity. Such policies have indeed been put into operation. As stated above, in most countries of the group it has been decided to abandon or slow down certain long-term projects and to concentrate on investment which will start taking effect within a short period of time.[8] In setting up investment programmes, preference is to be given to projects which do not require simultaneous construction of a large number of highly integrated plants and which will therefore be able to start operating as independent units before the completion of the total programme. Measures are also being taken which will contribute to higher output per unit of investment, such as shifts towards less durable equipment, extension of existing facilities in preference to the construction of new plants, and a shift in investment towards consumer goods industries which are in general less capital intensive. However, there is not the same room for improvement in the efficiency of use of existing equipment as was present in the period when new techniques were being rapidly assimilated. On balance, some slowing down in the rate of increase in industrial production is anticipated, despite the countermeasures taken (see table 12).

Little information is available on the effect of these changes on the fulfilment of the original plans for consumer goods. It appears, however, from official announcements that, notwithstanding the fact that the new goals imply a substantial increase in the output of in-

[7] Since the numerator of the first ratio is the denominator of the second, the formula is tantamount to equality between the increment in productive capacity and that in national product. This equality expresses the condition of full utilization of equipment.

[8] It should be noted that, even apart from these policies, the increases in capacity in the near future will not be immediately affected by the decline in the rate of increase in investment because projects started in previous years will be coming to maturity.

Table 12. Announced Changes in Planned Annual Rates of Increase in Industrial Production in Centrally Planned Economies of Eastern Europe

| *Country* | *Average rate of increase 1950–52 (Per cent)* | *Planned rates of increase in industrial production* | | |
|---|---|---|---|---|
| | | *Total* | *Producers' goods* | *Consumer goods* |
| Bulgaria | 20 | Reduced to about 10 per cent per annum during the 1953 to 1957 plan | Reduced | Increased |
| Czechoslovakia | 16 | 1954: 5.8 per cent | 6 per cent | 5.3 per cent |
| Germany, eastern | 21 | 1954: 12.6 per cent | 1953: reduced from 13 per cent under the original plan to 6 per cent<br>1954 and 1955: approximately the same rate as in 1953 (1954: 6.8 per cent) | 1953: increased from 7 per cent under the original plan to 10 per cent<br>1954 and 1955: larger than 1953 rate (1954: 23.5 per cent) |
| Hungary | 30 | Reduced | Reduced | Increased |
| Poland | 25 | 1954 and 1955: 11 to 12 per cent | Reduced[a] | Increased[a] |
| Romania | 30 | Reduced | Reduced | Increased |
| Union of Soviet Socialist Republics | 17[b] | ... | ... | Increased over original targets for 1955; target for food industry now 84.7 per cent above the level of 1950, instead of 71.4 per cent |

*Source:* Official statements of the respective governments.

[a] The new rates of increase will be approximately the same for producers' as for consumer goods.

[b] 11 per cent in 1952 and 12 per cent in 1953.

dustrial consumer goods, they have in many instances been set at the same level as, or even below, the original targets scheduled in the plans for economic development.[9] The implication is that the original high targets for many consumer goods were not met during the past few years when the main emphasis was on a rapid increase in the output of producers' goods. Therefore even if the new goals do not exceed the original targets, the restatement of these goals and the measures taken in order to implement them indicate the radical change in attitude towards consumer goods.

In the Union of Soviet Socialist Republics the new policies do envisage in general an increase over the original plan of production for consumer goods. The scheduled increase over the original target is about 8 per cent for food processing, 2 per cent for cotton cloth and 5 per cent for woollen cloth; the target for leather shoes is unchanged.[10] Moreover, since a larger proportion of capacity in heavy industry is to be allocated to the production of durable consumer goods, the output of these products is planned to be well in excess of the original target.

The new target for retail turnover in government and co-operative trade in 1955 is to exceed the original target by 18 per cent. The difference between the increases scheduled for retail turnover and for food processing and light industry is probably accounted for by the increased sale of investment goods to peasants through retail trade channels, the increased contribution of heavy industry to the production of consumer durables, a rise in net imports and a reduced rate of accumulation of stocks of consumer goods.[11]

An even more important change took place in economic policy as applied to agriculture. The new targets set for agricultural production, where they have been announced, are not above and indeed in some cases substantially below the original targets set in the five-year plans. However, the lowering of the targets was associated with a serious attempt to escape from the impasse in which agriculture had been during the past few years by attacking the problem in its major aspects—insufficient investment, scarcity of technical skills, and, most important of all, inadequate incentives, now considered to be one of the major reasons for stagnation.

[9]The new and old targets for textiles and leather shoes in Poland and Romania for 1955 are as follows:

| Product | Poland (1949=100) Old | Poland (1949=100) New | Romania (1950=100) Old | Romania (1950=100) New |
|---|---|---|---|---|
| Cotton cloth | 149 | 137 | 184 | 173 |
| Woollen cloth | 150 | 148 | 400 | 330 |
| Silk cloth | 217 | 167 | 330 | 150 |
| Leather shoes | 304 | 338 | 219 | 106 |

[10]Output of food processing industries is to increase by 85 per cent instead of the 71 per cent originally planned, that of cotton cloth by 64 per cent instead of 61 per cent, and of woollen cloth by 62 per cent instead of 54 per cent, from 1950 to 1955. The target for shoes remains unchanged at 55 per cent over 1950.

In eastern Germany the targets remained unchanged while in Hungary, Poland and Romania they were substantially lowered. Romania, which had planned to raise its agricultural output about 60 per cent above pre-war, now states that its goal is to reach and exceed the pre-war level. In Poland the new targets for agricultural output in 1955 are 20 per cent above the 1949 level as compared with the 50 per cent originally scheduled.

In the Union of Soviet Socialist Republics, the targets set for output and productivity seem to be generally in agreement with the original targets of the current five-year plan. This means, however, a substantial speeding up of the expansion of agricultural output—especially with respect to livestock, potatoes and vegetables—which lagged considerably behind the plan during the first two years. The targets set for livestock for 1954 represent a sharp increase over 1952, far in excess of the annual rates attained during preceding years; but even these increases would only bring livestock numbers in 1954 more or less in line with the objectives of the five-year plan (see table 13).

Table 13. Union of Soviet Socialist Republics: Livestock Numbers, 1940, 1950 to 1953, and Targets for 1954 and 1955

(Millions)

| Period[a] | Cattle: Total | Cattle: Cows | Hogs | Sheep and goats |
|---|---|---|---|---|
| 1940 | 54.5 | 27.8 | 27.5 | 91.6 |
| 1950 | 57.2 | 24.2 | 24.1 | 99.0 |
| 1951 | 58.8 | 24.8 | 26.7 | 107.5 |
| 1952 | 56.6 | 24.3 | 28.5 | 109.9 |
| 1953 (1 October) | 63.0 | 26.0 | 47.6 | 135.8 |
| 1954 (Planned for 1 October)[b] | 65.9 | 29.2 | 34.5 | 144.4 |
| 1955 (Planned)[c] | 67.5 to 68.5 | ... | 34.9 to 36.2 | 158.4 to 160.4 |

*Source:* Reports on the fulfilment of the plans for 1950, 1951 and 1953; *Pravda* (Moscow), 12 October 1952, 15 and 26 September 1953.

[a] End of year, except as indicated.

[b] New target set in 1953. On the basis of the increases in livestock achieved in 1953, these targets have since been revised upwards. No figures on the new targets are available.

[c] Original target, announced in 1952, in the original five-year plan for 1951 to 1955.

The high rates of increase planned for livestock were to be achieved by various measures intended to encourage breeding, such as higher prices and reduction of, or exemptions from, delivery quotas. The important gains achieved in 1953 seem to indicate that these goals are not unrealistic.[12]

[11]The revised goals involve a 20 per cent increase in sales in 1953 (which in that year to a large extent may be accounted for by reductions in stocks), a 12 per cent increase in 1954 and a 16 per cent increase in 1955.

[12]The targets were in fact revised upwards in the light of results achieved in 1953.

In conjunction with measures to encourage livestock breeding, the procurement programmes for livestock products were increased for 1954 by 37 per cent for meat and 43 per cent for milk, as compared with 1952.[13] However, these planned increases in procurement are considerably higher than those in livestock numbers. The difference is probably accounted for by the planned rise in live weight of animals and in milk yield, by the anticipation that peasant consumption of the products in question will increase in a lesser proportion than output; and possibly also by the shift from sales on farm markets to sales to government agencies expected to take place as a result of the increase in prices paid for non-quota procurement.[14]

In all countries of the group the rise in agricultural production is to be achieved by substantial increases in farm machinery, fertilizers, building materials and other farm supplies. Simultaneously, the number of technical personnel in agriculture is to be increased in order to raise the level of efficiency. Finally, the withdrawal of manpower from agriculture to industry, especially in Poland, Czechoslovakia, Hungary, and to some extent in the Union of Soviet Socialist Republics, is to be restricted.[15] The most significant change in agricultural policy is, however, the radically different attitude towards the problem of incentives for agricultural producers.

The emphasis formerly placed on promotion of collectivization in the countries of the group as the means of raising agricultural output and supplies to the cities seems to have been diminished for the time being. (The question does not of course arise in the Soviet Union, where virtually all peasants are members of collective farms.) Since the major part of output and sales of farm products[16] comes from peasants' holdings, it is now considered that the most effective way to achieve a rapid increase in output and supply of food and of industrial materials of farm origin is to restore or increase incentives to the peasants by assuring them of security of tenure and adequate rewards. To this end, the voluntary principle in collectivization was reaffirmed. In some countries, such as Hungary and eastern Germany, it was announced that members of collective farms wishing to withdraw could do so under certain conditions. In addition, in eastern Germany it was decreed that land confiscated from peasants for non-payment of taxes or non-fulfilment of delivery quotas was to be restored; in Romania and Hungary land from the State reserves was released for distribution among the peasants.

Specific measures designed to provide incentives for increasing output had already come into effect in 1953. They included a rise in prices paid to peasants for deliveries and government purchases, cancellation of arrears in taxation and quota deliveries, substantial loans for building and purchase of agricultural implements, reduction in taxes and in prices of investment goods and help from machine and tractor stations for individual peasant holdings. The most important measure, however, was the reduction in delivery quotas, which left a substantially larger proportion of output for free sale at considerably higher prices. Simultaneously, Czechoslovakia, Hungary and Poland decided to fix the delivery quotas at a constant level for the next few years and thus assure the peasants that the whole of any increment to their output would be left with them for sale at free market prices. The introduction of these measures tending to raise the income of peasants is associated with an effort to improve the supply of industrially produced goods to rural consumers by expansion of the rural trade network. Changes in delivery quotas and prices were scheduled as shown in the table on the opposite page.

The increase in average prices paid to the peasants by government purchasing agencies is not to be passed on to the consumers.[17] This policy would indicate that the shift in the distribution of income in favour of peasants will take place mainly at the expense of the share appropriated by the Government by means of the turnover tax and will thus be a counterpart of the decline in investment and other government expenditures in relation to national product.

The new agricultural policy of the Union of Soviet Socialist Republics is analogous to that of the other countries of this group in that it is based essentially on the view that a rise in incentives for both collective and private production and the expansion of output on private plots are the necessary conditions of rapid progress in agriculture. To this end, the right of peasants to private production granted to them by the kolkhoz regulations was reaffirmed and all violations of the regulations strongly condemned. Simultaneously, compulsory deliveries from the output of private plots were substantially reduced, and in certain cases suspended, in order to induce peasants to acquire and develop livestock. Delivery quotas for potatoes and vegetables for collective farms were also reduced. The practice of changing quotas according to current output was rejected, and the principle of fixing quotas per hectare of land, long proclaimed but often unobserved, was reaffirmed, thus assuring more than proportionate in-

[13] Meat from 3 million tons in 1952 to 4.1 million tons in 1954 and milk from 10 million litres to 14.3 million litres.

[14] In 1952 total sales of meat were 5 million tons, of which deliveries and purchases by government agencies accounted for 3 million tons.

[15] In Poland and Czechoslovakia any further shifts out of agriculture were considered to be incompatible with the objective of increasing agricultural output. In Hungary measures were taken to facilitate the return of certain categories of workers from industry to collective farms.

[16] This may not apply to Bulgaria, where most grain and industrial crops are produced by the State and collective farms while most livestock is privately owned.

[17] This increase reflects both the rise in prices paid for compulsory deliveries and for non-quota purchases, and the shift to the higher priced non-quota purchases that will result from a reduction in delivery quotas.

Changes in Delivery Quotas and Prices

| | *Delivery quotas* | *Delivery prices* |
|---|---|---|
| Bulgaria | Reduced by 30 to 50 per cent for meat and milk from collective farms | Increased by 30 per cent for merino wool for all producers |
| Czechoslovakia | 1953: reduced<br>1954: reduced by 14 to 40 per cent for collective farms and by 14 to 20 per cent for privately owned farms, and fixed at this level for future years | Increased for all producers for grain, potatoes and beets |
| Germany, eastern | Reduced by 5 to 8 per cent for small farms and 12 to 25 per cent for large farms | Increased |
| Hungary | 1953: reduced by 10 per cent for main crops from private producers and for all crops from collective farms<br>1954: reduced by 15 to 30 per cent for collective farms and by 10 to 15 per cent for privately owned farms, and fixed at this level for three years | Increased |
| Poland | 1954 and 1955: 1953 quotas maintained; small farms exempted from milk and meat deliveries | Unchanged |
| Romania | Reduced for meat, milk and wool for all producers | ... |
| Union of Soviet Socialist Republics | Reduced for meat, hides, wool, eggs | Increased for cattle and poultry 5.5 times, for milk and butter doubled, for potatoes 2.5 times, vegetables by 25 to 40 per cent |

*Source:* Official statements of the respective governments.

creases in income in relation to output. The most striking change took place in prices paid for compulsory deliveries, especially for goods previously paid for at rates which made their production less advantageous than that of other goods. These increases ranged from 25 to 40 per cent for vegetables to a more than fivefold increase for cattle and poultry. Prices paid by government agencies in non-quota purchases also increased—by 30 per cent for meat and 50 per cent for milk. While the difference between quota-delivery prices and purchase prices remained substantial, it was appreciably diminished as a result of these changes.

In addition to the effect of the rise in prices, peasants' incomes were increased by a reduction in taxation. The tax on income derived from private plots was cut in 1953 by 43 per cent, to be followed by a 30 per cent reduction in 1954—a 60 per cent decline from 1952 to 1954. As in other countries of the area, in the Union of Soviet Socialist Republics the rise in prices paid to the peasant is not to be passed on to the consumer, and the policy of periodical price reductions in government and co-operative trade is to be continued. Thus, here also the counterpart of higher incomes and consumption for the peasants is reduced income in the government sector and a decline in investment and possibly military expenditure, all considered in relation to national product.

## MAJOR CHANGES IN ECONOMIC ACTIVITY, 1952 AND 1953

### *National product*

Industrial production continued to increase at high rates in 1953 in all centrally planned economies of eastern Europe. In the majority of countries, however, these rates were substantially lower than those reported for the two preceding years (see table 14). Bulgaria, Czechoslovakia, Hungary and Romania expanded their output by 18 to 24 per cent in 1952 and by 10 to 14 per cent in 1953. There were lesser reductions in the rate of increase in eastern Germany and in Poland, while in the Union of Soviet Socialist Republics there was a slight rise, from 11 to 12 per cent.

The slowing down of the increase in industrial production already reflected to some extent the new economic policies described above. However, even before the announcement of these changes, plans for 1953 in some countries were scaled down as a result of shortages of industrial raw materials and deficiencies in the supply of farm products due to unfavourable harvests. These deficiencies affected the output of food industries directly and also led in some instances to a curtailment in exports of food, with the result that imports of raw materials fell short of the planned levels.

Table 14. Indices of Industrial Production in Centrally Planned Economies of Eastern Europe, 1951 to 1953
(Preceding year = 100)

| *Country* | *1951* | *1952* | *1953* |
|---|---|---|---|
| Bulgaria | 119 | 118 | 112 |
| Czechoslovakia | 115 | 118 | 110 |
| Germany, eastern | 122 | 116 | 113 |
| Hungary | 130 | 124 | 112 |
| Poland | 124 | 120 | 118 |
| Romania | 129 | 123 | 114 |
| Union of Soviet Socialist Republics | 116 | 111 | 112 |

*Source:* Reports on fulfilment of plans.

Both employment and productivity continued to rise in 1953; while the rate of increase in employment was in general maintained, output per man rose less in all countries in 1953 than in the preceding year. However, the slowing down in Poland and in the Union of Soviet Socialist Republics was small (see table 15).

Crop production increased in 1952 as compared with 1951 in Poland, Czechoslovakia, the Union of Soviet Socialist Republics and possibly also in Bulgaria[18] but fell sharply in Hungary, as a result of drought, and in eastern Germany, where the potato crop failed. Livestock numbers were generally maintained or increased. However, in the Soviet Union cattle numbers declined by about 4 per cent in the course of the year. There was also a decline in livestock in Hungary, where fodder shortages led to excessive slaughtering. In Poland and Czechoslovakia total agricultural production was only moderately above the low level of 1951, and in Poland the level of 1950 was not fully attained.

In 1953 agricultural production appears to have increased in most countries of the group. The greatest improvement took place in Hungary, which had suffered a disastrous decline in crops in 1952, and where 1953 output rose by about 28 per cent, mainly because of a much better harvest. However, livestock numbers showed a further decline. In Poland, the grain crop was below the 1952 level, while the sugar-beet and potato crops, as well as livestock numbers, increased; in Czechoslovakia the harvest of all crops except wheat, oats and rape-seed was substantially higher than in 1952, but the number and yield of livestock were reduced; in Bulgaria and Romania also crops improved substantially, but improvement in livestock was rather small.[19] In the Union of Soviet Socialist Republics, where some areas suffered from unfavourable weather, the grain crop was lower than that of 1952, the potato crop unchanged and the output of cotton, sugar-beets, sunflower seeds and vegetables higher. Livestock numbers increased substantially.

[18]In the Union of Soviet Socialist Republics, grain output rose by 8 per cent, in Poland by 4 per cent and in Czechoslovakia by 2 per cent. In Bulgaria, grain output was 11 per cent above the 1948-51 average.

[19]In Poland, sugar-beets increased by 16 per cent, potatoes by 15 per cent, cattle by 2 per cent, hogs by 13 per cent and sheep by 15 per cent. In Czechoslovakia, the output of rye, barley and maize was above that of 1952, sugar-beets increased by 17 per cent, fodder crops by 14 per cent, flax and hemp by 32 per cent. In Bulgaria the grain crop increased by 24 per cent, sugar-beets by 100 per cent, sunflower seeds by 21 per cent and tobacco by 33 per cent. In Hungary, the bread grain harvest increased by 17 per cent, maize by 120 per cent and sugar-beets by 110 per cent.

Table 15. Industrial Employment and Output per Man in Centrally Planned Economies of Eastern Europe, 1951 to 1953
(Preceding year = 100)

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

*Source:* Reports on fulfilment of plans.

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

[b] Nationally owned industry only.

[c] Total employment increased by 12 per cent.

National product increased in all countries of the group at a rate lower than in 1952, except in Hungary, where the fall and subsequent rise in agricultural production were registered in the rates of increase in national product in 1952 and 1953. The slowing down of the rate of growth of the national product reflects the reduced rate of increase in industrial production, which in most countries was not offset by increased output in agriculture.

Investment increased in all countries of the group except Czechoslovakia but at a much reduced rate compared with 1952 (see table 16). In Czechoslovakia investment remained at the same level as in the preceding year. Among the remaining countries the sharpest retardations in the rates of increase in investment occurred in Hungary (from 25 to 7 per cent) and in the Union of Soviet Socialist Republics (from 11 to 4 per cent). While in Poland, Romania and eastern Germany the rate of increase of investment continued to exceed that of national income, in the other countries of the group the share of investment in national income declined. In the Soviet Union, where both had increased at the same rate in 1952, in 1953 investment increased only half as much as national income. In Czechoslovakia and in Hungary the change in the share of investment in national product was even more striking.

For most countries of the group the change in total consumption from 1952 to 1953 cannot be determined from the fragmentary data available. Total consumption increased substantially in the Union of Soviet Socialist Republics, much less in Bulgaria and to some extent also in Poland. In Czechoslovakia, eastern Germany and Hungary, consumption was adversely affected in the first half of 1953 by the crop failures in 1952 as well as by deficiencies in the output of consumer goods, but there was some improvement in the second half of the year as a result of better harvests, increases in net imports and the release of government stocks as a consequence of the change in economic policy.

*Demand-supply position*

The demand-supply position during 1953 was influenced by the new economic policies announced in the second half of 1953 and also by changes in agricultural output from 1952/53 to 1953/54. The fact that the impact of these changes fell in the second half of 1953 explains the great difference in the situation as between the first half of the year and the second half.

Among the countries of this group it was only in the Union of Soviet Socialist Republics and Bulgaria that the supply-demand position showed an improvement throughout the year. In other countries of the group, except in Poland, where the situation either remained unchanged or improved only slightly, there was a considerable deterioration during the first half of the year partly as a result of crop failures and partly as a result of a further shift of resources towards investment in fixed capital and in stocks. The situation improved during the second half of 1953, as noted above, in consequence of better harvests and the new economic policy, under which stocks were released, production of consumer goods speeded up, and foreign trade directed in such a way as to increase the domestic supply of consumer goods.

In the Union of Soviet Socialist Republics, total sales in State and co-operative trade increased by about 21 per cent, as compared with a 10 per cent increase in 1952. This level was about 8 per cent above the volume of sales originally planned for 1953. The increase above the planned quota, which was largely concentrated in the second half of the year, was the result of the change in economic policy. However, the output of consumer goods rose less than sales so that the improvement in supply was achieved in part by releasing stocks accumulated in preceding years and by increasing imports.

The increase in supply of consumer goods was associated with a rise in the real income of the population as a result of a decline in retail prices, a reduction in loans and taxes, a substantial increase in prices paid to farmers and higher wages. In consequence of the decline in retail prices,[20] the cost of living fell by 10 per cent.

[20] At annual rates, price reductions in retail trade, including government stores, co-operatives and collective farm markets, were estimated to aggregate 53 billion roubles in 1953, about half as much as in 1950 but about 50 per cent more than in 1951 and 80 per cent more than in 1952.

Table 16. National Income and Investment in Fixed Capital in Centrally Planned Economies of Eastern Europe, 1951 to 1953
(Preceding year = 100)

| Country | National income | | | Investment | | |
|---|---|---|---|---|---|---|
| | *1951* | *1952* | *1953* | *1951* | *1952* | *1953* |
| Bulgaria | 136 | ... | 116 | 141 | 114 | 111 |
| Czechoslovakia | 110 | 115 | 105 | ... | 117 | 100 |
| Germany, eastern | 116 | 111 | 106[a] | 141 | 133 | 121 |
| Hungary | 123 | 105 | 112 | 145 | 125 | 107[a] |
| Poland | 112 | 110 | 110 | 138 | 122 | 115 |
| Romania | ... | ... | ... | 131 | 136 | 128 |
| Union of Soviet Socialist Republics | 112 | 111 | 108 | 112 | 111 | 104 |

*Source:* Reports on fulfilment of plans.

[a] Partly estimated.

At the same time money wages were increased by 2 per cent, various transfers and bonuses by 11 per cent, and loan subscriptions reduced by 50 per cent. The outcome of these measures was a 13 per cent increase in average real income per worker. Taking into consideration the increase in employment, total real income of wage and salary earners increased by about 16 per cent. The real income of the peasants increased substantially, especially in the second half of the year, as a result of measures which raised the prices they received and reduced the prices and taxes they paid.[21] The total real income of the population in 1953 was 13 per cent higher than in 1952, as compared with the annual rate of 8.5 per cent implicit in the current five-year plan.[22]

Higher consumption was achieved at least in part by reducing the relative share of fixed investment, and possibly of armaments, in national income.[23] In particular this involved a shift within the producers' goods industries from investment goods to durable consumer goods. Moreover, not only was the accumulation of stocks of consumer goods discontinued but also, as has been noted above, existing stocks were drawn upon to supplement current production.

Apart from the Union of Soviet Socialist Republics, Bulgaria was the only country in this group where the supply position had already improved in the first half of 1953, but shortages of meat and fats continued. During the second half of the year these shortages were alleviated, and prices of fats were reduced by 10 per cent, and of meat by 5 to 10 per cent. Prices of bread and bakery products were reduced by 13 per cent and of textiles by 5 to 10 per cent.

In Poland, the supply position did not improve appreciably in the first half of 1953. The strong pressures of demand upon supply which developed in 1952 were relieved at the beginning of 1953 when a drastic reform of the price and wage system was introduced, in association with derationing.

Rationing, introduced in 1951 and extended in 1952, was confined to meat, fats, sugar and soap. Its effectiveness as a means of preventing a fall in real wages was gradually diminished with the rapid rise in the prices of non-rationed supplies on the free market. Although prices of industrial goods in government trade remained relatively stable, serious shortages developed in the cities, partly as a result of heavy purchasing by the peasants, and prices on the black market rose substantially. Bread became one of the scarce products, because the wide discrepancy between the price of bread in government trade and the prices of grain and meat in the free market made it advantageous to use bread for feeding purposes. These circumstances led to the reform in the system of distribution and prices carried out in January 1953. Rationing was abolished and prices of formerly rationed goods were raised to the free market level. In government trade prices of bread and other goods not previously rationed were also increased substantially. Wages and salaries were increased by 15 to 40 per cent, with the larger increases applying to lower income groups. This increase in wage rates largely offset the rise in prices, especially for lower incomes.

The rise in prices of industrial goods, in combination with an unchanged level of prices for compulsory deliveries, had the effect of reducing the real farm income per unit of output. This was intended to bring to an end the shift in the distribution of income in favour of peasants which had taken place in the preceding period as a result of the rise in prices of food on the free market, and—probably—to induce them to sell a larger proportion of their output to the cities.

In Romania, Hungary, Czechoslovakia and eastern Germany, the situation deteriorated sharply during the first half of 1953. Romania, which for the third successive year was affected by drought in 1952, suffered from shortages during the first half of 1953. The rise in inflationary pressure was due both to the deficiency in the food supply and to the high rate of investment, which was absorbing an increasing part of national income. The attempt to fulfil the five-year plan in four years involved a rise in imports of capital goods and thus limited the possibility of increasing supplies to consumers by cutting exports or increasing imports of consumer goods. Rationing of bread, meat, fats, sugar, fish and eggs at low prices was retained in 1953, but the rations covered only a small part of total consumption and were often unavailable. Prices on the free markets increased substantially, leading to a decline in real wages.

In Hungary, where the supply situation improved substantially in 1952, the disastrously poor harvest of that year sharply reduced the supply of food available in the latter part of 1952 and in 1953. The effect of this decline was only partly offset by releasing stocks carried over from the 1951 harvest and reducing exports of food. The decline in exports necessitated a cut in imports of raw materials for consumer goods industries, and the output of these industries either declined or was barely maintained during the first half of 1953. Although rationing was fairly effective, prices of goods on free sale increased, and real wages, which had risen in 1952, again declined.

In eastern Germany severe pressure of demand upon supply developed late in 1952 and was intensified during the first half of 1953. As in Hungary and Romania, this was the result of a decline in harvests of certain essential crops such as potatoes, sugar-beets and fodder, and a simultaneous upward revision of plans for industrial production so as to achieve in 1953 certain targets for heavy industry originally set for 1954 and 1955.

[21] The measures included: reductions in delivery quotas, increases in delivery and procurement prices and cancellation of arrears in deliveries and tax payments.

[22] See *World Economic Report, 1951-52*, page 50.

[23] *Cf.* pages 42 and 43.

The further shift of resources to heavy industry, involving proportionally larger imports of industrial raw materials at the expense of imports of food and raw materials for consumer goods industries, combined with continued stockpiling, resulted in substantial non-fulfilment of plans for the supply of food and industrial consumer goods to the retail trade network. Prices of various consumer goods on non-rationed sale rose sharply, especially dairy products and sugar. Textiles and shoes were derationed, and prices were set at a level much higher than the prices under rationing; rations of some other goods were reduced; and some groups of non-wage earners were excluded from the rationing scheme. In addition, steps were taken to reduce pensions and bonuses, to eliminate certain benefits such as lower transportation fares for workers, and to lower piece-rates in an attempt to raise productivity. This last group of measures was soon abrogated.

In Czechoslovakia, which depends heavily on imports of food,[24] the slight increase in the harvest in 1952/53 did not significantly improve the supply position. Deficiencies in quota deliveries and in government purchases of various essential goods aggravated the situation. Output of industrial consumer goods rose by about 4 per cent during the first half of 1953, while that of heavy industry increased by 15 per cent. The widening gap between supply and demand for consumer goods and the demand pressures that developed in consequence were reflected in rising prices on free sales in government trade and in the free market. The widespread shortages and the discrepancy between rationed and free prices, which were more than three times as high, adversely affected output per man. Indeed, since the income earned over and above the cost of rations was disproportionately small in real terms, the inducement to work in excess of time necessary to buy the rations diminished as prices in free sales rose. The solution adopted in an effort to solve these problems was the abolition of rationing and of the double price system, combined with adjustment of purchasing power to the existing supply situation. These changes were accompanied by the monetary reform of June 1953, designed to absorb the substantial liquid savings accumulated in the preceding period and thus to eliminate

[24] In 1952 imports provided about 50 per cent of the supply of wheat, 25 per cent of the supply of butter and 14 per cent of the supply of eggs.

Table 17. Price Reductions in Centrally Planned Economies of Eastern Europe in Government and Co-operative Trade, 1953

(Percentages)

| *Commodity or product* | *Bulgaria (August)* | *Czechoslovakia (September)* | *Eastern Germany (October)* | *Hungary (September)* | *Poland (November)* | *Romania (September)* | *USSR (April)* |
|---|---|---|---|---|---|---|---|
| Bread | 13 | — | — | 12 to 14 | 7 to 12 | — | 10 |
| Flour | 12 | 20[a] | — | — | — | — | 10 |
| Milk | 9 | — | 20 | — | — | — | — |
| Eggs | — | 14 | — | — | — | — | 10 |
| Sugar | — | 14 | — | 5 to 10 | 14 | 10 to 20 | 10 |
| Meat | 10 | — | 10 | — | — | — | 15 |
| Fats | 10 | — | 22 | — | — | — | — |
| Margarine | — | — | 25 | — | — | — | — |
| Vegetable oils | 10 | — | 10 | — | — | — | 10 |
| Fish, fresh and processed | 10 | — | 20 | 20 to 35 | 5 to 25 | — | 10 |
| Potatoes and vegetables | — | 14[b] | — | — | — | — | 50 |
| Fruit and vegetables, processed | 8 to 20 | — | — | 9 to 20 | 15 to 25 | — | 10 |
| Tobacco and cigarettes | — | 8 to 25 | 10 to 13 | — | — | — | 5 to 10 |
| Soap | 15 | 11 | — | 14 | 10 | — | 15 to 20 |
| Woollen cloth | 5 to 10 | — | — | 10 to 25 | 10 to 20 | | 5 |
| Cotton cloth | 10 | 5 to 30 | 20 | 10 to 20[c] | — | | 15 |
| Silk cloth | 10 | — | 15 | 15 to 25 | 15 to 20 | 10 to 70[d] | 15 |
| Knitwear | 5 to 10 | — | 10 to 15 | 10 to 30 | — | | 5 |
| Clothing | — | — | — | 9 to 30 | 8 to 15 | | 5 to 20 |
| Shoes, leather | 10[e] | 25[f] | 25[g] | 15 to 30 | — | 20 to 30[h] | 8 to 10 |
| Durable consumer goods | 10 | 10 to 37 | 10 to 25 | 6 to 40 | 10 to 12 | 15 to 32 | 5 to 30 |
| Coal | — | — | — | — | 10 | — | — |
| Building materials | — | 10 to 30 | — | 20 to 30 | 10 to 15 | 20 to 30 | 10 to 25 |
| Farm machinery | — | — | — | — | 10 to 40 | — | — |
| Tailoring, shoemaking and repair | — | — | — | 10 to 15 | 5 to 10 | — | — |

*Source:* Government decrees on price reductions.

[a] Wheat flour only.
[b] Potatoes only.
[c] Linen cloth.
[d] Applies to textiles as a group.
[e] Boots.
[f] Leather goods not otherwise specified.
[g] Children's and adolescents' shoes.
[h] Footwear.

the possibility that current incomes could be supplemented from this source.

Under the monetary reform the exchange rate was one new koruna to fifty old ones for cash, with the exception of small amounts representing about 6 per cent of the average monthly wage, which were exchanged at the rate of one to five. Savings accounts were also exchanged at the rate of one to five for the amount corresponding to the average monthly wage, and for amounts in excess of this sum at a diminishing rate, ranging from one to six to one to thirty. Government bonds and blocked accounts were cancelled.

Most payments other than prices, wages, pensions and family allowances were converted at the rate of one to five. At this conversion rate the new prices were one-third below the former free sale prices but twice as high as former ration prices. In general, the prices of foods increased much more than those of industrial goods. Wages, pensions and family allowances were increased, but these increases did not fully offset the effect of the rise in prices on the real incomes of those who had formerly depended on rations for the major part of their consumption.

In the second half of 1953 the demand-supply position improved considerably in all countries of the group, under the impact of new economic policies and better harvests, although in some countries the improvement did not become apparent until the closing months of the year. Stocks of manufactured goods and food were released, import and export programmes altered in order to increase the supply of consumer goods for domestic consumption, and output of consumer goods stepped up. Higher output was made possible by expanding the supply of raw materials and reallocating labour and other resources to consumer goods industries, which in some countries had operated below capacity during the first half of 1953, and by devoting a greater proportion of capacity in heavy industries to the production of durable consumer goods. In addition to the effects of changes in economic policy, by the latter part of the year the favourable harvest had begun to benefit the food supply. As the supply position improved, various measures tending to restrict incomes, introduced or extended during the first half of the year, were cancelled; taxes were reduced, wages raised and the cost of living lowered.

The most far-reaching changes took place in eastern Germany, where rations were restored to persons previously deprived of them, reductions in piece-rates, allowances and bonuses cancelled, wages of lower income groups increased, and income tax rates substantially reduced. In Hungary the State loan was reduced by 40 per cent and wages of certain groups of workers increased. In Romania piece-rates were increased and income tax reduced. In all countries of the group peasants' incomes were increased by a reduction in delivery quotas, increases in the prices paid for farm products by government and co-operative agencies, cancellation of arrears in deliveries and reduction in taxation. In addition to these increases in money incomes, the improvement in supply made possible a reduction in prices (see table 17). Real wages increased in all countries during the second half of the year.

## Mainland China[25]

### Pattern of the first five-year plan

The only available economic information on mainland China is based on official and semi-official mainland China publications, which give production and other changes in relative, not absolute, terms. A survey of the "Economic Development in Mainland China, 1949-53" based on such information has been published by the Economic Commission for Asia and the Far East in its November 1953 *Economic Bulletin for Asia and the Far East*[26] and was discussed at the tenth session of the Commission in Kandy from 8 to 18 February 1954. Some additional information regarding the pattern of the first five-year plan (1953 to 1957) is given in the following paragraphs.

Partly as a result of the relatively low degree of industrialization in mainland China, its five-year plan differs from the new plans of eastern European countries in two interrelated ways: (*a*) it maintains a considerably higher rate of increase for producers' goods industries than for consumer goods industries, and (*b*) it concentrates investment on heavy industries, fuel, power and related transport to a substantially greater extent.

Large-scale investment in consumer goods industries is contemplated only for textiles. As for other consumer goods, it is anticipated that the present medium and small-scale production, including handcrafts, will develop without much capital investment and that improvement of production will arise from other factors, such as enlargement of productive units through co-operation of craftsmen and adoption of new techniques. In particular, this type of industry is to be developed in the rural areas and to utilize the existing surplus of rural labour.

A large part of consumer goods industries is still in private hands—about 50 per cent was privately owned at the beginning of 1953 as compared with 20 per cent in investment goods industries. In some consumer goods

[25] This section deals with the economic situation in mainland China. The economic situation in Taiwan is discussed in chapter 3.

[26] Vol. IV, No. 3 (Bangkok).

industries, private enterprise is predominant, although production, sale and profits are under government supervision and control. Under the five-year plan it is contemplated that private firms will be gradually transformed into mixed State-private enterprises or be put to work entirely on government contracts.[27]

It is clear from the above that the central purpose of the plan is to provide a foundation for future development of the economy by expansion of producers' goods industries. At the same time, large-scale modernization of consumer goods industries is to be postponed for the time being, since it will be possible to expand production in those industries by drawing into employment surplus rural labour.

The pattern of development emerging from this plan requires an increase in the output of food and the proportion available for sale so as to ensure an adequate supply of food to the rapidly growing industrial population. Although the movement of the rural population into industry may not impair agricultural production, on the other hand, it may not be accompanied automatically by a parallel release of food supplies. In such a case, pressure of demand upon the supply of food would develop if agricultural production were not sufficiently expanded.[28]

Methods embodied in the plan for promoting the increase of agricultural production include expansion of agricultural credit, improvement of irrigation by government water conservation projects, supplying of cheap fertilizers and agricultural implements, and expanding the scope of mutual aid teams, which are to be transformed gradually into agricultural producers' co-operatives.[29] In 1953 about 43 per cent of rural households were organized into temporary or year-round mutual aid teams and agricultural producers' co-operatives, with the latter representing less than one per cent of the rural households. The target for organizing agricultural producers' co-operatives is to cover 20 per cent of rural households by 1957. No establishment of collective farms is, however, contemplated.

## Yugoslavia

### Institutional changes

During the period 1950 to 1953 far-reaching institutional changes took place in the Yugoslav economy. This process is by no means complete, but the general character of these changes is clearly discernible even though the new policies are still considered subject to the test of experience and their effects cannot yet be assessed. While social ownership of industry remained unaltered and the organization of agriculture on the basis of State and co-operative farms remained the goal of government policy, fundamental changes took place in the scope and methods of central planning and in the management of industry. The new approach tends to replace in part the direct management of the economy by a system of indirect controls based on fiscal and banking policy.

To this end long-term planning was at least temporarily replaced by planning on an annual basis. Specific planning of output for each enterprise, and the fixing of wages and prices, which formerly had the force of law, was abandoned. The central plans in the new system are confined to the setting up of general targets for aggregates, such as national product, consumption, investment and other expenditures. The targets for industries and enterprises are expressed in terms of the degree of utilization of existing capacity and do not specify either the volume or the assortment of goods to be produced. The managers of enterprises, previously nominated by central authorities, are now elected by workers' councils. Management now has the right to plan the output of the enterprise within the limits set by the central plan and to determine the assortment of goods and their prices. Revenue of the enterprise, after deduction of depreciation and the taxes paid to local and central bodies, may be distributed among workers, put into an investment fund, reinvested or used for improvement of workers' welfare. Wages are not fixed, but depend on the net revenue of the enterprise as well as on individual performance and qualification of workers. The major part of investment is concentrated on so-called key projects in basic industries. It is directly undertaken by the Government and financed centrally from the budget, out of revenue raised by appropriating a large part of the profits of enterprises by means of various taxes. However, there is a tendency to shift an increasing part of investment activity from the Government to enterprises, which would then receive the funds required through the banking system.

The profits of enterprises (and therefore the wages paid) are controlled through various taxes, including a progressive excess profits tax intended to reduce the profits arising out of specific shortages or the monopoly situation of certain industries, and thus bring extra gains into line with better performance.

[27] There has been a steady growth in the share that government contracts have in private industrial production. For instance, in Shanghai this share increased from 32 per cent in 1950 to 58 per cent in 1952. In domestic trade, where the share of State-operated companies and co-operatives already amounts to more than half of total trade turnover, it is intended to increase their volume of trade, especially in the fields of government food procurement and supplies for rural areas.

[28] *Cf.* pages 40 and 41.

[29] A member of such an agricultural producers' co-operative retains the ownership of his land and other means of production and receives a share of output according to his contribution in land, implements, draught animals and labour.

Monopoly of foreign trade was abolished, and enterprises were encouraged to enter directly into trade relations with foreign countries. Part of the proceeds in foreign currency may be retained by exporting enterprises for the purchase of imports, and government control of foreign trade is exerted through export bounties and import duties, direct controls being resorted to only occasionally.

Simultaneously, important changes took place in agricultural policy. Compulsory deliveries were abolished. In co-operatives, the distribution of farm income among members is now based both on the amount of land brought in by each member and on the amount of work performed. In 1953, members of collective farms were permitted to leave the farms if they so desired and to withdraw their share of land. Private owners of land were allowed to purchase and sell land. However, the maximum amount of land which can be owned was reduced from thirty-five hectares to ten hectares, and the land thus obtained from individual owners was used for State and co-operative farming. As a result of these measures the number of collective farms decreased substantially. In Voivodina, for instance, the total of land in State and co-operative farms fell during 1953 from about 45 per cent of the cultivated area to 29 per cent.

### MAJOR CHANGES IN ECONOMIC ACTIVITY, 1952 AND 1953

The economic situation in Yugoslavia in the period 1950 to 1953 was influenced by the effect of the severance of economic relations with eastern European countries, by the severe droughts, which caused a disastrous fall in agricultural output in 1950 and again in 1952, and by the continuing high level of expenditure on armaments.

Civilian industrial production fell slightly in 1951 and in 1952, by 3 per cent and one per cent, respectively, but increased by 12 per cent in 1953 (see table 18). Both producers' and consumer goods industries contributed to its expansion in 1953. The rise in output of producers' goods was partly the result of an increase in capacity, due to the completion of projects started in previous years. The continuing decline in the output of the textile and shoe and leather industries, which was partly due to lack of imported raw materials, was outweighed by the sharp expansion that occurred in food processing industries during the second half of the year.

Since employment did not change appreciably from 1952 to 1953, it may be inferred that output per man rose.[30] In the first quarter of 1953 the number of unemployed increased sharply in consequence of a decline in employment and an increase in the labour force.

Table 18. Yugoslavia: Industrial Production,[a] 1952 and 1953
(1951=100)

| Category | 1952 | 1953 |
|---|---|---|
| Total | 99 | 111 |
| Producers' goods | 112 | 142 |
| Semi-finished goods | 103 | 111 |
| Consumer goods | 86 | 102 |

*Source: Indeks*, No. 2 (Belgrade, February 1954).

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

The unemployment was partly due to difficulties created by the poor harvest, which affected food processing industries and impaired the ability to import industrial raw materials. Unemployment declined substantially during the course of the year.

The fall in agricultural production in 1952 was estimated at 35 per cent; in 1953 output increased substantially. Largely in reflection of these changes, national income fell by about 15 per cent in 1952 but rose again in 1953 to a level probably above that of 1951. Net investment was reduced by 7 per cent in 1952 and by a further 15 per cent in 1953.[31] Since output of producers' goods rose and net imports of such goods declined, it can be inferred that a larger share of investment was home-produced. Armament expenditure was reduced in 1952 by 9 per cent but maintained at a virtually unchanged level in 1953.[32]

The supply-demand position in 1953 was mainly determined by the variations in the harvests, deteriorating sharply during the first part of the year following the poor crop of 1952 and improving appreciably during the latter part of the year. Even though the net import of food was increased substantially, the deficiency in the first half of the year was only partly alleviated. Food prices rose about 20 per cent as compared with the first half of 1952, and real wages declined by 8 per cent. (In 1952 they had risen 15 per cent over 1951.) Prices of industrial goods remained approximately stable. The rise in prices of farm products did not compensate for the poor harvests so that the real income of the peasants fell as well as that of the non-agricultural population.[33] As a result, although the output of industrial goods declined compared with 1952, demand fell even more, and there was a substantial accumulation of stocks. Accordingly, an attempt was made to expand consumption of industrial consumer goods through an increase in consumer credit, and in the latter part of the year prices of such goods were reduced. In the second half of the year the cost of living declined and real wages rose, although it is uncertain whether the level of 1952 was fully restored.

[30] This probably reflected high productivity in new establishments in producers' goods industries and greater utilization of capacity in food processing industries in the second half of the year.

[31] The decline in gross investment was only about 8 per cent in 1953.

[32] The relative share of net investment in national income rose from 21 per cent in 1951 to 28 per cent in 1952, falling to about 22 per cent in 1953. The share of armaments was 21, 22 and 18 per cent, respectively.

[33] The fall in food production would have led to a much steeper rise in food prices had it not been for the rise in imports.

# Chapter 3

# SELECTED COUNTRIES OF LATIN AMERICA AND THE FAR EAST

## Major Changes in Economic Activity in Selected Latin American Countries, 1952 and 1953

This review covers five Latin American countries, Argentina, Brazil, Chile, Cuba and Mexico, which account for the major part of the population, the agricultural and industrial output and the foreign trade of Latin America. As noted in *World Economic Report, 1951-52,*[1] from the point of view of the structure of their economies, this group is rather heterogeneous. The economies of the countries vary considerably with regard to the degree of economic development, the composition of production and the structure of foreign trade—in particular, the nature of their major exports.

Partly because of this lack of homogeneity, developments in both 1952 and 1953 differed widely among the countries. In each of these years, the economic situation in individual countries was affected by such factors as fluctuations in agricultural output, economic policies pursued by their governments and the timing of the impact of developments in world raw material markets upon individual economies, which varied according to the nature of their particular exports. Nevertheless, it is possible to discern some common tendencies.

The impact of the weakening of raw material markets upon the export position of the countries under review was of a complex nature. Aside from the element of timing, mentioned above,[2] the pattern of price behaviour of the main export commodities of the group in the period 1951 to 1953 shows a number of important exceptions from the generally declining trend, as can be seen from table 19. One such notable exception was coffee. The particular conditions which prevailed in the market for this commodity caused an upward pressure upon prices, which became accentuated in the latter part of 1953.[3] In other instances export prices were affected by the existence of contractual agreements covering special major markets for certain commodities, as a result of which their prices followed a pattern independent of fluctuations in world markets.[4] Barring these exceptions, as can be seen from table 19 there was a substantial decline in the prices of a number of key exports over the period 1950 to 1953. The incidence of these declines upon the effective export prices of the countries concerned was generally delayed because the weakening of foreign demand resulted, at least initially, in an accumulation of inventories and a fall in physical exports rather than in a decline in the effective prices of exports.

The accumulation of export inventories was, to a large extent, part of a deliberate attempt by the countries concerned to protect the prices of their exports, and was accompanied, in some cases, by government support programmes providing for the financing of inventories. This policy was followed in various countries of the group with regard to a number of key exports. Thus, Argentina had reacted to the collapse of wool prices by the middle of 1951 by practically withdrawing from the world wool market, and until the latter part of 1952 an embargo on wool exports below a minimum price was in effect. In Brazil, a large-scale support programme was adopted in 1952, under which surpluses of most exports other than coffee, in particular those of cotton, were taken over by the Government at prices above the world level. Under a similar support programme put into effect in Cuba in the same year, a substantial part of the 1952 record sugar output was withdrawn from the market and set aside in a government-financed stabilization reserve. Following a decline in the price of copper, a policy of stockpiling current output was also adopted in Chile in 1953.

Accumulation of export inventories was a temporary expedient. Continued weakness in markets and the need for foreign exchange sooner or later prompted liquida-

[1] United Nations publication 1953.II.C.2.

[2] Thus, Argentine wool exports were hit by the slump in that commodity as early as 1951, Brazil's exports, other than coffee, fell off steeply in 1952 and Chilean exports were adversely affected by the decline in the demand for copper in 1953.

[3] Favourable conditions which prevailed in coffee markets were an important sustaining factor in the value of exports of coffee producing countries, in particular Brazil.

[4] Thus, the export prices of Argentina's main food exports (wheat and meat) were determined largely by the bulk trade agreements in these commodities with the main importing countries, Brazil and the United Kingdom. The decline in world sugar prices did not affect Cuba's export quota to the United States. Likewise, until 1952 the major part of Chilean copper exports to the United States was covered by a special price agreement.

Table 19. Indices of Prices of Selected Export Products in Latin American Trade, 1951 to 1953

(1950=100)

| *Product and description* | *1951* | *1952* | *1953* |
|---|---|---|---|
| Wheat: Argentina, export prices in pesos | 149 | 172 | 181[a] |
| Meat: Argentina, beef, unit value of United Kingdom imports | 105 | 105 | 132[b] |
| Cocoa: Brazil, wholesale, Bahía, in cruzeiros | 117 | 120 | 102[c] |
| Sugar: Cuba, exports to United States | 105 | 108 | 110 |
| Sugar: Cuba, exports, other | 114 | 84 | 69 |
| Coffee: Brazil, wholesale, Santos, in cruzeiros | 106 | 107 | 118 |
| Cotton: Brazil, type 5, São Paulo, in United States cents | 143 | 118 | 93[d] |
| Wool: United States, raw 56's | 146 | 84 | 85 |
| Hides: Argentina, export prices in pesos | 152 | 140 | 90[e] |
| Copper: Chile, Antofagasta, f.o.b. exports to United States | 126 | 159 | 173[e] |
| Lead: United States, pig, desilverized, f.o.b. New York | 132 | 124 | 102 |
| Zinc: Mexico, f.o.b. exports to United States | 182 | 162 | 113[e] |
| Nitrates: Chile, export prices in gold pesos | 100 | 104 | 105[a] |

*Source:* United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics* (Washington, D.C.); International Cotton Advisory Committee, *Quarterly Bulletin* (Washington, D.C.); Argentina: Ministry of Technical Affairs, *Síntesis Estadística Mensual de la República Argentina* (Buenos Aires); Brazil: Brazilian Institute of Geography and Statistics, *Boletim Estatístico* (Rio de Janeiro); Cuba: *Cuba Económica y Financiera* (Havana).

[a] Six-month average.

[b] Eleven-month average.

[c] Seven-month average.

[d] The decline was particularly sharp in the second part of the year, corresponding to the period of active liquidation; the average price index for the last five months of 1953 was 78.

[e] Ten-month average.

tion of inventories. The timing of the liquidation varied according to the commodity involved, so that the two phases, accumulation on the one hand and liquidation on the other, somewhat overlapped as between countries; however, the latter phase was increasingly apparent after the latter part of 1952. Argentina liquidated wool inventories in 1952 and 1953. Brazil and Cuba engaged in partial liquidation of their export inventories in the course of 1953, and Chile was actively engaged after the middle of 1953 in negotiations for the disposal of its stockpile of copper.[5] To summarize the effects of the raw material slump upon the exports of this group, it may be stated as a broad generalization that its impact was felt, in the initial stage, in the form of reduced physical exports and accumulation of inventories; in the next stage there was liquidation of inventories at generally lower prices. Such liquidation was an important factor in sustaining the level of physical exports in 1953.

The deterioration in export earnings had its repercussions on the import position of the countries under review. The decline in imports, which became apparent as a general trend in 1952, was initially the result of the subsidence of the speculative demand which had developed immediately following the outbreak of hostilities in Korea. However, late in 1952 and in 1953 the slowdown in imports was due, to a considerable extent, to the tightening of import restrictions under the impact of an adverse foreign exchange position.[6]

The impact of developments in foreign trade upon the individual economies is considered in more detail at a later stage of this review, when the effects of other factors of domestic origin are also taken into account. The following discussion is confined to a few general aspects of the impact of foreign trade upon the various components of gross national product.

The tendency for the real balance of exports and imports to improve, which had already been noticeable in 1952, became fairly general in 1953, as a result of the developments described above.

Investment in fixed capital (including public investment) had already fallen off in some countries in 1952, and there was a more or less general decline in 1953. The reduction in profits from foreign trade, which had been an important source of investment funds in the previous period, was a contributory factor on the demand side. On the supply side, an important factor in a number of countries was the tightening of import restrictions, referred to above, which reduced the avail-

[5]The process of liquidation was accompanied in some cases by a devaluation of the export exchange rate. In Argentina, there was an increase in the peso exchange rate for the proceeds of wool exports; in Brazil, which in 1953 put in operation a new foreign exchange system based essentially on the principle of differential rates, exchange premiums on a graduated scale were applied to various export commodities.

[6]As a result of corrective measures with regard to imports, and the sustaining effect on exports of the liquidation of inventories and of other specific factors favouring the exports of individual countries in 1953, the process of deterioration in the balance of payments was generally checked in the course of 1953. The halt in the declining trend of imports, which became apparent in most of the countries in the latter part of that year, can be related to the improvement—or at least stabilization—of their balance of payments positions.

ability of imported capital goods. As for public investment, this was adversely affected by the general falling off in revenue from export and import duties, and in some countries by the heavy financial commitments incurred by governments in their export support programmes.

To sum up, there was a general increase in the real balances of exports and imports in the countries considered; partly as a counterpart of this increase and an offset to it, there was, in addition, a decline in investment in inventories of export products, which had been an important factor in sustaining the level of private incomes and consumption in the previous years; there was, furthermore, a general decline in investment in fixed capital. The combined effect of these movements was to cause a decline, or at least to slow down the increase, in the national product except where there were important offsetting factors (such as the sharp improvement of crops in Argentina).

With respect to production, the decline in exports and the slowing down in accumulation of inventories led to a drop in the output of export commodities in the latter part of the period under review. Some export crops were restricted in the 1953/54 crop year, and mining output was reduced in 1953. At the same time, restriction of imports in some instances created shortages of raw materials and thus contributed to the decline in industrial output.

In contrast to the weakening of their export prices, an inflationary rise in prices continued in most countries of the group in 1952, but it slowed down in some countries in the course of 1953, largely as a result of declines in employment and urban incomes in that year. Prominent among the factors responsible for price increases in recent years was the failure of the domestic output of food to keep pace with the higher effective demand arising from increased incomes in the non-agricultural sector. The resulting increases in food prices generally led to adjustments in money wages, followed by new price increases. In Argentina and Chile, cost-wage spirals were, however, already in existence before 1950. To the extent to which new inflationary pressures developed, these spirals were intensified.

### Changes in production and employment

Weather conditions were the dominant factor determining the over-all changes in agricultural output during the period under review. In addition, in some cases output was affected by restrictive policies adopted with regard to certain export crops. The tendency towards restrictive policies, however, emerged as a pattern only in the latter part of the period, particularly in the crop year 1953/54.

There were no major changes in 1952 and 1953 in agricultural output in Brazil, Chile and Mexico (see table 20). In the first two of these countries relatively poor yields in 1951/52 were followed by a gain in output in 1952/53. With some exceptions, this was true of food output as well as export crops.[7] In Mexico during the same period, total output continued to rise but at a declining rate.

In the crop year 1953/54,[8] according to available information there was a fall in agricultural output in Mexico, as a result of a poor crop of maize and beans, and a decline for the second consecutive year in the cotton crop. A fall in cotton output likewise took place in Brazil. In both countries, the drop in cotton output was due in part to restriction in planted acreage.

In the same period, the changes in crops in Argentina and Cuba were much more pronounced, although the movements were in opposite directions. In 1951/52 Argentina experienced a crop failure in most food

[7] Production of coffee in Brazil remained relatively stable throughout the period. In Chile, a poor wheat crop in 1951/52 was offset to some extent by higher output of rice and potatoes.

[8] The crop year and the calendar years which it overlaps do not correspond uniformly in the various countries of the group. In Argentina, Chile and Cuba, there is a rough coincidence in terms of output, on the one hand, and income and consumption effect, on the other, between a given crop year and the calendar year indicated by the second part of the crop year (for example, crop year 1951/52 and calendar year 1952). In Brazil and Mexico, the income and consumption effects of a given crop year are spread over both calendar years (for example, the effects of the 1951/52 crop were felt in both 1951 and 1952).

**Table 20. Indices of Agricultural Production in Selected Latin American Countries, 1950 to 1953**

| Country | Crops (1949/50=100) | | | | Livestock products (1950=100) | |
|---|---|---|---|---|---|---|
| | 1950/51 | 1951/52 | 1952/53 | 1953/54 | 1951 | 1952 |
| Argentina | 120 | 83 | 150 | ... | 94 | 93 |
| Brazil | 105 | 104 | 111 | 112 | 106 | 105 |
| Chile | 109 | 110 | 118[a] | ... | ... | ... |
| Cuba[b] | 100 | 119 | 93 | ... | ... | ... |
| Mexico | 111 | 116 | 112 | 107[a] | 98[c] | 98[c] |

*Source:* United Nations Department of Economic Affairs, computed from official national statistics.
[a] Preliminary index based on incomplete data.
[b] Weighted index of production of sugar-cane, tobacco, rice, coffee and dried beans.
[c] Meat only.

grains and oil-seeds. In particular, owing to severe drought, the 1951/52 wheat crop fell to an unprecedented low, with the result that not only was Argentina's export surplus of wheat completely wiped out but the supply was barely adequate for domestic consumption. Export surpluses of other grains and oil-seeds were also considerably reduced. However, in the following crop year there was a bumper crop of grains and oil-seeds—some 30 per cent above the level of the preceding three years. In Cuba, on the other hand, a particularly large crop of sugar-cane lifted sugar output in 1952 to 28 per cent above the average of 1948/49-1950/51. The magnitude of this rise created a serious marketing problem and led to accumulation of huge inventories of sugar by the end of the year. As a result, sugar output in the following year was curtailed, approximately to the level of 1950/51. In both countries, the fluctuations in crops in 1952 and 1953 had important repercussions on general economic developments in these years.

With regard to livestock products, in most of the countries there was no major change in output in the years 1952 and 1953. In Argentina, however, after the steep drop in output in 1951, production of meat continued to decline in 1952, but there were no significant changes in the output of wool.

Industrial production in 1952 and 1953 showed diverse tendencies in the various countries of the group (see table 21). In Brazil and Chile, production in manufacturing industries increased in 1952, a contributing factor in the latter country being the continued rise in output of the newly enlarged iron and steel industry. According to incomplete information, production in both countries continued to rise in 1953. In Argentina and Mexico, the over-all level of manufacturing output declined steadily during most of the period under review. In Argentina, there was a steady drop in the production of manufactured consumer goods in 1952 and the first half of 1953, and also a fall in output in capital goods industries, the latter reflecting the continued decline in investment.[9] The result was a substan-

[9] Industrial output was also adversely affected by scarcities of raw materials and supplies as a result of the severe restriction of imports. The same is true of Brazil in 1953.

Table 21. Indices of Industrial Production in Selected Latin American Countries, 1951 to 1953
(1950 = 100)

| Country and item | 1951 Full year | 1952 First half | 1952 Second half | 1952 Full year | 1953 First half |
|---|---|---|---|---|---|
| *Argentina:* | | | | | |
| Total industrial production[a] | 103 | 99 | 93 | 96 | 90 |
| Manufacturing | 102 | 98 | 92 | 95 | 88 |
| Textiles | 99 | 89 | 73 | 81 | 72 |
| Extractive industries | 105 | 108 | 112 | 110 | 117 |
| *Brazil:* | | | | | |
| Manufacturing[b] | 104 | 101 | 120 | 113 | 115 |
| Textiles | 96 | 96 | 106 | 101 | 102 |
| *Chile:* | | | | | |
| Total industrial production[c d] | 115 | 123 | 129 | 126 | 132 |
| Manufacturing[d e] | 118 | 127 | 135 | 131 | 135 |
| Textiles | 97 | 92 | 110 | 101 | 106 |
| Extractive industries[f] | 106 | 99 | 112 | 105 | 106 |
| *Mexico:* | | | | | |
| Total industrial production[g] | 107 | 109 | 111 | 110 | ... |
| Manufacturing[h] | 108 | 104 | 102 | 103 | 99 |
| Textiles | 110 | 108 | 106 | 107 | 95 |
| Mining, exclusive of oil[i] | 91 | 94 | 110 | 102 | 84 |

*Source:* Argentina: Ministry of Technical Affairs, *Síntesis Estadística Mensual de la República Argentina*, October 1953; Brazil: Getulio Vargas Foundation, *Conjuntura Econômica* (Rio de Janeiro), January 1954; Chile: Dirección General de Estadística, *Estadística Chilena, Sinopsis* (Santiago), 1952, and Central Bank of Chile, *Boletín Mensual*, July 1953; Mexico: Bank of Mexico, *Trigésimaprimera Asamblea General Ordinaria de Accionistas* (Mexico, D.F.), 1953, and National Bank for Foreign Trade, *Comercio Exterior* (Mexico, D.F.), February 1954.

[a] Including mining, gas and electricity.

[b] Including coal, pig-iron, steel, cement, electric power, woven cotton fabrics, sugar and derivatives. Indices for 1951 and 1952 were substantially revised in the January 1954 issue of the source indicated above.

[c] Including construction and energy; excluding mining.

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

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

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

[g] Including energy output, mining and oil.

[h] Excluding processing and refining of oil.

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

tial reduction in employment and hours of work. In Mexico, the fall in output and resulting unemployment in consumer goods industries during the same period was of lesser extent. Moreover, the output of capital goods, sustained by the relatively high level of public investment in 1952, did not begin to decline until 1953. In both countries industrial output appears to have improved in the second half of 1953.

In the mineral exporting countries, mining output in 1952 remained about the same in Chile and rose substantially in Mexico. In 1953, deterioration in the export demand for Mexico's non-ferrous metals—mainly lead and zinc—led to a sharp curtailment of output in that country; in Chile, where for similar reasons there was heavy accumulation of stocks of copper, production was also reduced in the second half of the year.

In consequence of the divergent movements of the elements of physical output in the various countries, there was no uniform pattern in the changes in national product in 1952, as shown in table 22, nor in 1953. In Argentina and Cuba the changes were determined to a large extent by the sharp fluctuations in key crops, described above. Thus, in Argentina there was a substantial decline in national product in 1952 and a recovery in 1953. The situation was reversed in Cuba, where gross national product rose in 1952 and fell in 1953. In Brazil, Chile and Mexico, the national product rose in 1952, though only slightly in the latter country. In all three countries the situation deteriorated in 1953; national product fell in Mexico, and in Brazil and Chile, where there was a further rise in the national product, the gain failed to maintain the rate of increase achieved in 1952.

### CHANGES IN THE COMPONENTS OF GROSS NATIONAL PRODUCT

*Developments in 1952*

A characteristic feature of developments in foreign trade in 1951 was an almost general decline in the real balance of exports and imports. In 1952, the tendency appears to have been reversed, or at least checked, in the majority of these countries. The real trade balance rose in Argentina and Mexico and was practically unchanged in Chile; in Brazil, while the real balance declined further, the rate of decline slowed down considerably. The key factor in this movement of the real balance in these countries was the general falling off in real imports; there was an almost general weakening in real exports,[10] but, except in Brazil, exports declined

[10] In Chile and Mexico the fall in exports in 1952 was relatively small. In the latter country, such invisible items as net tourist expenditures and remittances by migrant labour represent an important part of total export proceeds.

Table 22. Components of Gross National Product of Selected Latin American Countries, 1950 to 1952

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

| *Country and year* | *Gross national product* | *Sum of personal consumption and changes in inventories*[a] | *Government expenditure on current account* | *Gross investment in fixed capital, public and private* | *Balance of exports and imports of goods and services*[b] |
|---|---|---|---|---|---|
| *Argentina:* | | | | | |
| 1950 | 100.0 | 68.7 | 10.4 | 19.7 | 1.2 |
| 1951 | 102.0 | 73.6 | 11.1 | 20.7 | −3.4 |
| 1952 | 95.0 | 66.3 | 10.5 | 19.2 | −1.0 |
| *Brazil:* | | | | | |
| 1950 | 100.0 | 72.4 | 12.1 | 13.6 | 1.9 |
| 1951 | 105.8 | 76.3 | 12.5 | 18.4 | −1.5 |
| 1952 | 111.0 | 82.0 | 12.5 | 19.1 | −2.6 |
| *Chile:* | | | | | |
| 1950 | 100.0 | 77.8 | 13.7 | 11.8 | −3.3 |
| 1951 | 103.0 | 81.5 | 13.7 | 13.0 | −5.2 |
| 1952 | 108.0 | 85.0 | 14.1 | 14.4 | −5.5 |
| *Cuba:* | | | | | |
| 1950 | 100.0 | 72.6 | 12.7 | 10.4 | 4.3 |
| 1951 | 107.2 | 75.3 | 12.7 | 12.9 | 6.3 |
| 1952 | 110.5 | 83.3 | 12.1 | 11.3 | 3.8 |
| *Mexico:* | | | | | |
| 1950 | 100.0 | 76.8 | 6.1 | 15.0 | 2.1 |
| 1951 | 105.5 | 82.9 | 6.0 | 18.9 | −2.3 |
| 1952 | 106.8 | 81.2 | 6.8 | 19.8 | −1.0 |

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

[a] This component is obtained as a residual.

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

less than imports. The real balance of Cuba moved against the general trend, showing an increase in 1951 and a decline in 1952.[11]

The decline in the volume of imports in 1952, which was particularly marked in the second half of the year, resulted largely from easing in the speculative demand set off by the outbreak of hostilities in Korea. It was mentioned in the *World Economic Report, 1951-52* that while 1951 had witnessed an accumulation of substantial inventories of import goods in consequence of stockpiling and speculative buying, these factors virtually disappeared in 1952. This was particularly the case in Brazil and Mexico, which showed the largest rise in imports between 1950 and the middle of 1952. But apart from the virtual disappearance of speculative or precautionary demand, the foreign exchange problem afflicting most countries in consequence of the grossly unbalanced trade of 1951 was an additional factor accounting for the contraction of imports. As will be seen from table 23, except for Chile, which benefited substantially from a favourable situation with regard to exports of copper and nitrates, the changes in the terms of trade of these countries were much less favourable than in 1951. The terms of trade deteriorated in Argentina, Brazil and Cuba, and remained practically unchanged in Mexico. The combined effect of changes in the real balances of exports and imports and in the terms of trade resulted in either a roughly unaltered balance of payments position (Argentina and Mexico) or a considerable deterioration (Brazil and Cuba). Only in Chile did the balance of payments show a substantial improvement. The ensuing exchange difficulties in most of the countries of the group prompted several of them to tighten their restrictions on imports in the latter part of 1952.

The changes in investment in fixed capital in 1952 were not uniform. In Argentina and Cuba, both private and public investment declined. Private investment in both countries was unfavourably affected by repercussions of the variations in export crops, described above.[12] As for public investment, the sharp decline in

[11] This was due to the fact that Cuba did not share in the general rise in imports in 1951, having maintained a relatively stable level of imports during the period 1950 to 1952. Thus, the changes in Cuban trade balances more or less followed the movement of exports, which rose in 1951 and declined in 1952.

[12] Account must be taken, of course, of the lag between the deterioration of expectations and the actual decline in physical investment in the private sector. However, anticipation of unfavourable repercussions of the crop failure in Argentina and the sugar surpluses in Cuba had already affected the business outlook in these countries in early 1952.

Table 23. Indices of Unit Values and Terms of Trade of Selected Latin American Countries, 1951 to 1953
(1950=100)

| Country and item | 1951 Full year | 1952 First half | 1952 Second half | 1952 Full year | 1953 First half | 1953 Second half |
|---|---|---|---|---|---|---|
| *Argentina:* | | | | | | |
| Exports[a] | 151 | 133 | 112 | 122 | 141 | ... |
| Imports[a] | 129 | 126 | 107 | 119 | 134 | ... |
| Terms of trade | 117 | 106 | 105 | 103 | 105 | ... |
| *Brazil:* | | | | | | |
| Exports[a] | 123 | 121 | 118 | 119 | 113[b] | 114[b c] |
| Imports[a] | 128 | 157 | 124 | 142 | 134[b] | 129[b c] |
| Terms of trade | 96 | 77 | 95 | 83 | 84[b] | 88[b c] |
| *Chile:* | | | | | | |
| Exports[a] | 141 | 168 | 196 | 183 | 205 | ... |
| Imports[a] | 116 | 131 | 133 | 132 | 133 | ... |
| Terms of trade | 122 | 128 | 147 | 139 | 154 | ... |
| *Cuba:* | | | | | | |
| Exports | 111 | 105 | 101 | 103 | 90[c] | ... |
| Imports | 119 | 119 | 119 | 119 | 118[d] | ... |
| Terms of trade | 93 | 88 | 85 | 87 | 77[d] | ... |
| *Mexico:* | | | | | | |
| Exports | 122 | 128 | 120 | 124 | 108 | 105[c] |
| Imports | 113 | 114 | 112 | 113 | 114 | 114[c] |
| Terms of trade | 108 | 112 | 107 | 110 | 95 | 92[c] |

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

[a] Valued in United States dollars.
[b] Preliminary estimate from calculations based on above sources and linked with official statistics.
[c] Five months.
[d] Four months.

revenue in Argentina, and large outlays incurred by the Government in connexion with sugar support programmes in Cuba, acted as a brake on government construction. In Mexico, a decline in private investment was offset by a rise in public investment, so that, on balance, total investment increased somewhat. In Brazil, the rise in investment activity continued in 1952, though at a slower pace. Chile again was an exception to the general pattern, having a rather high rate of increase in investment compared with 1951. Higher investment was made possible by the continued rise in domestic steel production and by the relatively favourable balance of payments position, referred to earlier, which permitted adequate imports of capital goods.

As in 1951, changes in inventories played an important part in shaping total investment. Since they reflected to a large extent developments in foreign trade and changes in agricultural output, the nature and the direction of the inventory changes varied from country to country. There was a heavy accumulation of inventories of export products in both Brazil and Cuba; in the former country the major part of the output of the main exports[13] other than coffee went into stocks; in the latter a sugar stabilization reserve, representing a substantial part (some 20 per cent) of current output,[14] was established. In Argentina, practically the entire 1951/52 wool clip remained unsold, but this accumulation was offset to some extent by depletion of inventories of food grains and oil-seeds as a result of the failure of the 1952 crops.

On the other hand, in contrast to developments in 1951, there was an almost general decline of investment in inventories of imported goods, in line with the slowdown in imports described above. As for manufacturing inventories, in spite of a falling off of demand for consumer goods in some countries (Argentina, Mexico), involuntary investment does not seem to have played a significant role, since industrial production was cut back in the course of the year. On balance, as compared with 1951, investment in inventories declined in all countries of the group, with the exception of Brazil and Cuba, where unusually heavy accumulation of export commodities was the dominant factor in the trend.

[13]If coffee exports are excluded from the total, physical exports of all other products in 1952 showed a drop of approximately 50 per cent compared with the preceding year.

[14]Both in Brazil and Cuba the stockpiling of unsold export commodities was made possible by a government support programme.

[15]In relating the direction of changes indicated above to the figures for consumption shown in table 22, it should be noted that the latter figures also include changes in inventories. If these are taken into consideration and the necessary adjustments made for 1951 and 1952, the total investment components for 1952 will be higher and the consumption components for the same year correspondingly lower than the values given in table 22, in the case of Brazil and Cuba; the reverse will be true with regard to the figures for investment and consumption in Argentina, Chile and Mexico.

[16]A sharp drop in revenue from custom duties and indirect taxes, and substantial operational losses by the government foreign trade agency, were the main factors in this decline.

The direction of changes in the consumption component of the national product from 1951 to 1952 is summarized below:[15]

| | *Real consumption* | |
|---|---|---|
| | *In absolute terms* | *In relation to gross national product* |
| Argentina | − | 0 |
| Brazil | + | − |
| Chile | + | 0 |
| Cuba | + | + |
| Mexico | + | 0 |

*Note:* Plus sign (+) represents an increase; minus sign (−) a decrease; zero (0) no change.

Changes in consumption in relation to national product were affected by a variety of factors. In Argentina, consumption declined in line with gross national product. A considerable reduction in the burden of taxation[16] and, apparently, reduced saving and even dissaving on the part of grain farmers—whose spending was adjusted only with some time lag to the sharp decline in incomes due to the crop failure of 1951/52—tended to raise consumption in relation to the national product. An offsetting factor on the supply side was the continued scarcity of meat and consequent inflationary pressure upon the price of this staple item in the national diet.[17] Consumption of manufactured goods fell sharply, contributing to the decline in industrial production described earlier.

In Brazil, consumption lagged behind the rise in gross national product, in spite of the fact that private incomes were favourably affected by a decline in net taxation.[18] As in Argentina, inflationary pressures originated in a relative scarcity of food staples (food grains and meat) and were reflected in rising food prices. In Chile and Cuba, real consumption increased in absolute terms, the ratio of this component to the national product being unchanged in the former country and slightly higher in the latter.[19] In both countries imports helped to maintain an adequate supply of food and, in the case of Cuba, a good rice harvest contributed to this

[17]The Government's efforts to maintain a minimum level of exports of meat despite the decline in output reduced the supply available for domestic consumption. Exports were encouraged by subsidies and higher exchange rates, and at the same time measures were taken to restrict domestic consumption, including increases in official meat prices and efforts to influence national dietary habits.

[18]The adverse effect of the substantial decline in the terms of trade of Brazil in 1952 can be disregarded for the purpose of this discussion, in view of the fact that the consequent loss in real incomes largely affected profits, where the tendency to consume out of additional income is small.

[19]In Chile, where there was a further substantial increase in government receipts in 1952, this was a result of profits made by the Government in export sales of copper at prices above the official purchase price, and was thus the counterpart of the improvement in the terms of trade of Chile in that year. The increase in taxation, being largely at the expense of the profits of the large mining companies, did not affect consumption significantly. In Cuba, private incomes benefited from the distribution of a veterans' bonus in the latter part of 1952; the fact that the deterioration of the terms of trade to a large extent affected profit incomes mitigated its effect upon real consumption.

result. In Mexico, consumption apparently kept pace with the small increase in gross national product.

To summarize the movements of the components of gross national product in 1952: in Argentina all components except the quantum balance contributed to the fall in gross national product; in Brazil, Chile and Cuba, where there was a rise in gross national product, the main contributing factor was an increase in investment, inclusive of inventories, and in consumption. Only in Chile, however, was the rise in investment voluntary in character. In the other two countries, voluntary investment either rose only slightly (Brazil) or declined (Cuba), and the increase in investment took the form of accumulation of unsold inventories of export products. In Mexico, a slight rise in all the other components, including consumption, more than offset the decline in total investment, and resulted in a small rise in the national product.

*Developments in 1953*

In view of the inadequacy of relevant statistics, which are available for only part of the year, relative changes in the components of the national product in 1953 can be described only in very general terms. There was an almost general decline in physical imports, continuing the trend which had emerged in 1952. It was mentioned earlier that, because of foreign exchange difficulties, a number of countries had resorted to import restrictions in 1952. By 1953, a policy of more or less severe tightening of import restrictions was in effect in almost all countries of the group, the cuts in imports being particularly drastic in Argentina and Brazil.[20] As a result, real imports declined in all countries except Mexico, where they remained at about the 1952 level. Real exports, on the other hand, increased in all countries except Chile, where they experienced a decline. An important contributing factor in the rise in real exports of the group, as compared with 1952, was the liquidation of inventories of export goods previously accumulated by a number of countries.[21] In individual cases exports were sustained by some special factors. The continued strong demand for coffee was such a factor in Brazil and, to some extent, in Mexico,[22] while Argentina's exports benefited from the resumption of the large-scale shipments of grains and oil-seeds made possible by better crops. On the other hand, the decline in Chilean exports, which, as will be recalled, held up relatively well in 1952, reflected the reduction in copper exports in the face of the weakening of the price of that metal in 1953. The response of Chile to the price decline followed the familiar pattern of substantial accumulation of inventories in the course of the year.

As a result of these developments, the real balance of exports and imports improved in all the countries of the group, with the exception of Chile. The terms of trade deteriorated in 1953 in Cuba and Mexico, increased somewhat in Brazil and appear to have remained unchanged in Argentina and Chile.[23] The result of these changes in real balances and terms of trade was an improvement in the balance of payments position of Argentina, Brazil and Cuba, and a deterioration in Chile and also, to some extent, in Mexico.

With the possible exception of Chile, where it appears to have remained unchanged, investment in fixed capital declined in all countries of the group. The decline in export profits and the deterioration in the business outlook, which exerted a restraining effect upon private investment in some countries in 1952, continued to do so in 1953. As for public investment, this was affected in some countries (Argentina and Cuba) by the reluctance of governments to extend their commitments in the face of a sharp decline in public receipts;[24] in Mexico, public investment declined in connexion with the general reorientation of the investment policy of the new Government. Moreover, in all these countries, restrictions on imports adversely affected—in varying degrees—the supply of investment goods.[25] There was a general tendency for investment in inventories to decline, in contrast to the tendency in 1952. Not only were inventories of imported goods further drawn down, but accumulation of export products generally declined, and in a number of cases (Argentina, Brazil, Cuba) stocks were liquidated.[26] In Argentina, however, where this liquidation was offset by simultaneous replenishment of depleted inventories of grains and oil-seeds, investment in inventories, on balance, rose somewhat. Investment in inventories also rose in Chile, which responded to the decline in export demand for copper in 1953 by heavy accumulation of stocks. On balance, total investment, inclusive of changes in inventories, declined in all the countries except Chile.

In Brazil, Cuba and Mexico, the rise in the real balance of exports and imports was more than offset by

[20]The available data for 1953 show a steep decline in real imports of Argentina and Brazil, of the order of 30 to 40 per cent, compared with 1952. However, in these countries and elsewhere, the declining trend in imports appears to have been checked or even, in some cases, reversed in the second half of the year.

[21]Such was the case with respect to wool in Argentina, cotton and cocoa in Brazil and sugar in Cuba.

[22]In Mexico, a substantial fall in the traditional key exports (non-ferrous metals and cotton) was offset by a rise in sales of coffee and some other secondary exports (silver and oil products).

[23]The further improvement in the terms of trade of Chile in the first half of the year, shown in table 23, is due to the fact that shipments in this period continued under the high contract prices of the second half of 1952. In view of the declining trend in copper prices, it is likely that the terms of trade for the year as a whole have remained, at best, at the level of 1952.

[24]In Argentina, expenditures under the new five-year plan were apparently scaled down considerably during the year, as compared with the original estimates.

[25]This was particularly the case in Argentina and Brazil.

[26]In Argentina, the liquidation of wool stocks accumulated in the period 1951 and 1952, continued into 1953. In Brazil, exports in 1953 were sustained by liquidating a large part of the stocks of cotton and cocoa accumulated in the previous year, and in Cuba part of the sugar stabilization reserve established in 1952 was liquidated in the course of the year.

the fall in investment. The resulting deflationary effect upon consumption in these countries was, however, offset to a greater or lesser extent by a reduction in the burden of taxation. Thus consumption apparently rose somewhat in Brazil and remained unchanged in Mexico;[27] it declined, however, in Cuba, though proportionately less than the national product.

In Argentina and Chile, the sum of the real balance of exports and imports and of total investment rose, compared with 1952. In the first of these countries, in spite of a further decline in the burden of taxation, consumption failed to rise in keeping with the national product because of the time lag in the adjustment of rural consumption to farm income, mentioned earlier. Rural consumption failed to rise in proportion to the increase in incomes in 1953 in the same way that it failed to follow the decline in income in the preceding year.[28] In Chile, where there was also a decline in tax revenue in relation to gross national product, this was mainly the result of a fall in government profits from copper exports,[29] so that total consumption rose approximately in proportion to the increase in the national product.

To summarize, in Cuba and Mexico, where the national product fell, the key factor in the decline was the fall in total investment which more than offset the rise in the real balance of exports and imports. In Mexico, consumption was unchanged and only in Cuba did this component contribute to the decline in the national product.

Of the second group of countries, where there was a rise in the national product, in Argentina and Brazil the increase in the real balance of exports and imports and in consumption more than offset the decline in investment. In Chile all components, except the real trade balance, contributed to the increase in the national product.

### Prices and wages in 1952 and 1953

With the exception of Cuba, where the price level remained unchanged, consumer prices rose in 1952 in all these countries, the increases ranging from 14 per cent in Mexico to 41 per cent in Argentina. Beginning in the latter part of the year, there was a general slowing down in the rate of increase, and in the course of 1953 the cost of living fell slightly in some countries (Argentina, Mexico and Cuba). Chile, which experienced a fresh spurt in the cost of living in the second half of 1953, is an exception to the general trend (see table 24).

The real wages of urban labour fell in 1952 in Argentina, Brazil and Mexico; in Chile and Cuba they remained about the same. Preliminary data for 1953 indicate a general stabilization of real wages at the

[27] In Mexico, consumption was sustained on the supply side by substantial imports of food (maize and beans), which helped to offset the unfavourable crops of 1953.

[28] The improvement in industrial output in Argentina after the middle of 1953 reflected, among other things, the delayed adjustment of rural demand for manufactured consumer goods to the increase in agricultural incomes.

[29] The fall in government revenue from this source in 1953, like the rise in 1952, did not materially affect private consumption in that year, the changes in revenue having been at the expense of the profits of the mining companies.

Table 24. Indices of Cost of Living in Selected Latin American Countries, 1951 to 1953
(1950=100)

| Country and item | 1951 Full year | 1952 First half | 1952 Second half | 1952 Full year | 1953 First half | 1953 Second half | 1953 Full year |
|---|---|---|---|---|---|---|---|
| *Argentina:*[a] | | | | | | | |
| General | 136 | 184 | 194 | 189 | 199 | 195[b] | 197[c] |
| Food | 136 | 192 | 204 | 198 | 210 | 196[b] | 204[c] |
| *Brazil:*[d] | | | | | | | |
| General | 109 | 123 | 133 | 128 | 152 | 159 | 155 |
| Food | 105 | 120 | 135 | 127 | 164 | 170 | 167 |
| *Chile:*[e] | | | | | | | |
| General | 122 | 141 | 157 | 149 | 161 | 212 | 187 |
| Food | 126 | 151 | 171 | 161 | 161 | 232 | 196 |
| *Cuba:* | | | | | | | |
| Food | 112 | 113 | 112 | 113 | 110 | 109 | 109 |
| *Mexico:*[f] | | | | | | | |
| General[g] | 113 | 127 | 131 | 129 | 127 | 126 | 126 |
| Food | 115 | 130 | 136 | 133 | 129 | 129 | 129 |

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

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

1952 level or even, in some cases, a slight improvement compared with the preceding year.

These changes in prices and wages may be accounted for as follows. In Argentina, inflationary pressure in the food sector, referred to above, aggravated the price-wage spiral which had been in operation in recent years. The decline in employment in urban areas in Argentina in 1952 and the resulting slack in the labour market appear to have checked the increase in money wages. Real wages fell below the 1951 level. With active enforcement of price controls combined with efforts to improve the supply of meat in urban areas at official prices, real wages rose somewhat in 1953.[30]

In Brazil, where inflationary pressures in the food sector had also prevailed in recent years, a further sharp rise in the cost of living in early 1953 led to widespread wage adjustments, but the pressures appear to have subsided in the course of the year. In Mexico the rapid price increase had already come to a halt in the latter part of 1952. This resulted in part from a moderate fall in employment and in urban labour income, which had become apparent in the latter part of 1952; in addition, in 1953 the Government increased subsidies on basic food items in popular demand and imported substantial quantities of foodstuffs.

In Chile, the chronic price-wage spiral characteristic of that economy in recent years was accentuated in 1952 by a further devaluation of the import exchange rate. The spiral became particularly active in the second half of 1953, following a new and steep devaluation of the import exchange rate accompanied by the lifting of controlled prices on a number of basic consumer goods. The introduction of new exchange and price measures was followed by an almost general adjustment in wages and salaries.[31] The slight fall in the cost of living in Cuba in 1953 was related to deflationary developments in the Cuban economy in that year, described earlier, and to some decline in import prices.

[30]There was still, however, pressure on the price of meat, which continued to be scarce. The basic factors in the domestic supply situation, namely the decline in output, on the one hand, and the need to maintain a minimum level of exports, on the other, remained unchanged. The long-run aspect of this problem is reflected in the efforts which, as mentioned earlier, are currently being made by the Government to influence dietary habits so as to reduce the pressure of domestic demand for meat.

[31]Under the exchange system introduced in July 1953, practically all differential rates for imports, under which essential commodities, including some food staples, had been imported at preferential low rates of exchange, were abolished, and a unified import rate of 110 pesos to the dollar was introduced. This amounted to an effective devaluation of the average import rate by some 45 per cent.

## Major Changes in Economic Activity in Far Eastern Countries

Countries of Asia and the Far East may be classified into three broad groups. The first group consists of Ceylon, Indonesia, Malaya, Pakistan and the Philippines, which are exporters of raw materials. The second group includes Burma and Thailand, which are mainly rice exporting countries. The economies of all these countries depend to a considerable extent on foreign trade. The third group of countries, including China, India and Japan, are either not mainly exporters of primary products or not so dependent upon foreign trade. Major economic changes from 1951 to 1953 in the first two groups are discussed in the first two sections, which are followed by sections dealing individually with developments in India, Japan and China: Taiwan. (For mainland China, see chapter 2.)

### Countries exporting raw materials

The economies of Ceylon, Indonesia, Malaya, Pakistan and the Philippines are largely geared to the production of raw materials for export—including rubber,

Table 25. Indices of Agricultural Production in Far Eastern Countries Exporting Raw Materials and Rice, 1950/51 to 1952/53
(1949/50=100)

| Group and country | *Total agricultural production* | | | *Food* | | |
|---|---|---|---|---|---|---|
| | *1950/51* | *1951/52* | *1952/53* | *1950/51* | *1951/52* | *1952/53* |
| *Countries exporting raw materials:* | | | | | | |
| Ceylon | 106 | 108 | 106 | 100 | 105 | 105 |
| Indonesia | 112 | 121 | 121 | 101 | 107 | 109 |
| Malaya | 104 | 91 | 90 | 105 | 98 | 102 |
| Pakistan | 103 | 101 | 100 | 100 | 97 | 96 |
| Philippines | 118 | 120 | 122 | 115 | 122 | 124 |
| *Countries exporting rice:* | | | | | | |
| Burma | 105 | 110 | 113 | 103 | 109 | 111 |
| Thailand | 103 | 109 | 103 | 101 | 107 | 102 |

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

coconut products, tea, sugar, cotton, jute, hemp and oil —and of food for domestic consumption. The degree of industrial development is still fairly low. As a result, economic changes in these countries in 1952 and 1953 reflected in the main (*a*) the consequences of the slump in world raw material markets, which caused certain similar, though by no means parallel, developments in their economic situation, and (*b*) the changes in food production, which varied from country to country.

The full impact of the raw material slump was not felt in 1952, chiefly because of the time lags involved. Production of raw materials for export had already been curtailed in 1951/52 in Ceylon, the Philippines and, especially, in Malaya; in Indonesia and Pakistan it continued to increase. (Changes in non-food export crops are reflected in the relation between the indices of total agricultural and of food production shown in table 25.) In all the countries, exports fell short of production so that a substantial accumulation of inventories of export products took place.

The volume of imports in 1952 was lower than in 1951 in Malaya and the Philippines, while it rose in Ceylon, Indonesia and Pakistan (see table 26). The real balance of exports and imports increased significantly only in the Philippines. Since the terms of trade deteriorated (table 27), the money balance of trade fell in all instances, and foreign exchange difficulties appeared. This situation led to the tightening of restrictions on imports of manufactured consumer goods in the second half of 1952, the effect of which, however, was reflected in the main only in 1953. Moreover, imports for the purpose of building up inventories were less in 1952 than in 1951, when a large proportion was speculative in character.

The imports of capital goods in 1952 were particularly high, reflecting, with a time lag, the reinvestment of export profits realized in the period of the boom. The delayed effects of the boom also explain the general rise in private construction (except in the Philippines where there was a considerable decline in building, probably because of diminishing reconstruction activity). Similarly, public investment, which was expanded in the preceding period of high revenue from export duties, continued at a high level into 1952 and showed an increase over the preceding year. The same applied to current government expenditure on goods and services.

Although the fall in revenue from export duties (and in some countries, such as Pakistan, the payment of export subsidies) eventually induced cuts in administrative expenditure, this did not occur until late in the year; in fact, its level was higher in 1952 than in 1951. Cuts in food subsidies and the imposition of higher import duties or sales taxes were also undertaken only in the second half of the year, with the result that the full impact of these measures on consumption appeared only in 1953.[32]

[32]Changes in fiscal policies favoured the raw material producer at the expense of the consumer. In Indonesia there was a devaluation of the currency as well, and this had a similar effect.

Table 26. Foreign Trade[a] of Far Eastern Countries Exporting Raw Materials and Rice, 1950 to 1953[b]
(Millions of currency units at 1950 prices)

| *Group, country and year* | *Exports* | *Imports* | *Real balance* |
|---|---|---|---|
| *Countries exporting raw materials:* | | | |
| *Ceylon* (rupee): | | | |
| 1950 | 1,560 | 1,170 | 390 |
| 1951 | 1,560 | 1,320 | 240 |
| 1952 | 1,600 | 1,330 | 270 |
| 1953 First half | 1,590 | 1,310 | 280 |
| *Indonesia* (United States dollar): | | | |
| 1950 | 777 | 431 | 346 |
| 1951 | 895 | 655 | 240 |
| 1952 | 865 | 745 | 120 |
| 1953 First half | 770 | 585 | 185 |
| *Malaya* (Malayan dollar): | | | |
| 1950 | 4,010 | 2,920 | 1,090 |
| 1951 | 4,080 | 3,780 | 300 |
| 1952 | 3,630 | 3,460 | 170 |
| 1953 First half | ... | ... | ... |
| *Pakistan* (rupee): | | | |
| 1950 | 1,641 | 1,410 | 221 |
| 1951 | 1,870 | 1,260 | 610 |
| 1952 | 1,780 | 1,565 | 215 |
| 1953 First half | 2,310 | 870 | 1,440 |
| *Philippines* (peso): | | | |
| 1950 | 653 | 712 | −59 |
| 1951 | 750 | 760 | −10 |
| 1952 | 810 | 720 | 90 |
| 1953 First half | 790 | 700 | 90 |
| *Countries exporting rice:* | | | |
| *Burma* (kyat): | | | |
| 1950 | 750 | 530 | 220 |
| 1951 | 790 | 895 | −105 |
| 1952 | 820 | 1,380 | −560 |
| 1953 First half | 690 | 1,380 | −690 |
| *Thailand* (baht): | | | |
| 1950 | 3,576 | 2,880 | 696 |
| 1951 | 3,690 | 2,750 | 940 |
| 1952 | 3,110 | 4,695 | −1,585 |
| 1953 First half | ... | ... | ... |

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

[a] Figures in constant prices obtained by deflating the values of imports and exports by their respective price indices as given in table 27. In the case of Thailand, the volume of exports was estimated directly from the quantity of exports of rice, tin and rubber. In all countries except the Philippines, imports are on c.i.f. basis and exports on f.o.b. basis; in the Philippines, both are f.o.b.

[b] First half of 1953 at annual rates.

These factors tended to postpone the deflationary repercussions of the raw material slump. In addition, the effect of the fall in export prices upon the demand for consumption goods was mitigated by the reduction in export duties and by the fact that the sharp rise and subsequent fall in export prices were in most instances

Table 27. Indices of Export Prices, Import Prices and Terms of Trade of Far Eastern Countries Exporting Raw Materials and Rice, 1951 to 1953
(1950=100)

| *Group, country and year* | *Export prices* | *Import prices* | *Terms of trade* |
|---|---|---|---|
| *Countries exporting raw materials:* | | | |
| *Ceylon:* | | | |
| 1951 | 122 | 118 | 103 |
| 1952 | 94 | 128 | 73 |
| 1953 First half | 98 | 124 | 79 |
| *Indonesia:*[a] | | | |
| 1951 | 141 | 128[b] | 110 |
| 1952 | 115 | 131[b] | 88 |
| 1953 First half[c] | 100 | 122[b] | 82 |
| *Malaya:* | | | |
| 1951 | 149 | 126 | 118 |
| 1952 | 108 | 112 | 96 |
| 1953 First half | ... | ... | ... |
| *Pakistan:* | | | |
| 1951 | 135 | 141[b] | 96 |
| 1952 | 99 | 129[b] | 76 |
| 1953 First half | 70 | 120[b] | 58 |
| *Philippines:* | | | |
| 1951 | 109 | 126 | 87 |
| 1952 | 85 | 119 | 71 |
| 1953 First half | 101 | 125 | 81 |
| *Countries exporting rice:* | | | |
| *Burma:* | | | |
| 1951 | 126 | 73 | 173 |
| 1952 | 153 | 66 | 232 |
| 1953 First half | 172 | 55 | 313 |
| *Thailand:*[d] | | | |
| 1951 | 121 | 135[b] | 90 |
| 1952 | 115 | 121[b] | 95 |
| 1953 First half[c] | ... | 101[b] | ... |

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

[a] Export and import prices and terms of trade expressed in United States dollars.

[b] Weighted average of export prices, with a three-month lag (except in the case of India's exports to Pakistan), in countries which are main sources of supply of imports. Import prices for Thailand derived in this way adjusted for appreciation of the baht.

[c] Provisional figures.

[d] Export prices based on weighted average of export prices of rice, rubber and tin.

reflected largely in fluctuations in profits. It follows that in 1952 the impact of the slump upon effective demand in the countries considered was only moderate. Moreover, unfavourable influences were not present on the supply side, since the level of imports was not seriously restricted, and investment in inventories of imported goods declined. It was only Malaya, where rubber production had already started falling in 1951, that suffered serious deflationary consequences of the raw material slump. This showed itself in unemployment and lower wages for workers in rubber cultivation.

In 1953 the raw material slump exerted its full impact upon the economic situation of these countries. In all the countries except Pakistan, production of raw materials for export had been reduced in 1952/53; in Pakistan the small increase in 1952/53 was probably the effect of high export subsidies. The accumulation of inventories of export products stopped, and there was probably even some liquidation. Imports of all the countries were reduced as a result of import restrictions imposed late in 1952 or in 1953, although some decline in imports would have tended to occur simply as a result of the fall in incomes. As a result, both the real and the money balances of exports and imports improved in all countries, with the possible exception of Malaya, where they changed very little. Construction, both private and public, was curtailed. In the case of private construction this was the delayed result of the fall in export profits; public construction likewise was adversely affected by the fall in export prices, because of the decline in revenue from export duties. There was a tendency, however, to hold up public investment, leaving current government expenditure on goods and services to bear the brunt of the decline in revenue. Moreover, subsidies were reduced and revenue from taxes on consumption rose as compared with the previous year, because of changes in rates in the second half of 1952, or in 1953.

Thus in 1953, in contrast to 1952, all these countries showed pronounced deflationary consequences of the raw material slump, and this was accompanied by greater cuts in imports than the fall in demand itself would have brought about. It might be inferred that in 1952 consumption in the countries considered would have declined moderately or have remained about the same, and that it would have declined significantly in 1953. This, however, was not necessarily the case because of the influence of the changes in food supplies, which, as already indicated, varied from country to country.

In Indonesia and the Philippines, a significant increase in food production in the period reviewed was responsible for a rise in total consumption, despite the effect of the raw material slump (see table 25). The deflationary tendencies generated by the slump, together with the increase in the supply of food, led to a fall in the cost of living in the Philippines of about 5 per cent in each successive year. In Indonesia, retail food prices continued to increase at the rate of about 5 per cent per annum, but the pace was much slower than from 1950 to 1951, when the increase amounted to about 70 per cent. That the increase continued was probably a consequence, first, of the delayed adjustment of money incomes, such as wages, to the very large increase in the cost of living in the preceding period; and second, of higher import prices resulting from the rise in world market prices of rice and the devaluation of the effective exchange rate of the rupiah in 1952.[33]

[33] In the case of imports, devaluation took the form of surcharges.

Among the food importing countries, in Ceylon food production increased in 1951/52 and remained unchanged thereafter; in Malaya, after a sharp decline in 1951/52 it increased in 1952/53, remaining, however, below the level of 1950/51. In Ceylon, a cut in imports of rice in the course of 1952 reduced food supplies, thus contributing to a decline in total consumption. In Malaya, food imports were curtailed in 1952 and at the same time there was a fall in domestic production; in 1953, however, there was some increase in supplies as a result of higher domestic output and larger imports. Food prices increased in Ceylon in 1953 and in Malaya in both 1952 and 1953, reflecting mainly the cut in subsidies in the former country and the rise in import prices in the latter. However, prices of other consumer goods fell, so that the cost of living in both countries did not show much change over the period considered.

In contrast to other countries, food production in Pakistan showed a declining trend over the period, and consequently food supplies were reduced despite larger imports. The cost of living increased sharply, reflecting the food supply situation as well as the removal of food subsidies. The drastic cut in imports of manufactured consumer goods was also an important factor contributing to a decline in consumption.

The manufacturing production of the countries considered—which is not on a large scale and is concentrated mainly on the production of consumer goods—was not unfavourably affected by the raw material slump. Indeed, in some countries, as stated above, total consumption did not decline in the period reviewed. Moreover, in all these countries import restrictions stimulated domestic production.

### Countries exporting rice

Like the countries exporting raw materials, discussed above, the economies of Burma and Thailand are largely subject to the influence of foreign trade. However, the pattern of economic changes in Burma and Thailand during the period 1950 to 1953 was shaped by changes in the world demand for rice,[34] rather than by influences affecting the world market for raw materials.

The post-war world shortage of rice had given rise to a continuing increase in the volume and price of exports of rice from Burma and Thailand even before 1950. Short rice crops in India, and rising incomes in other rice importing countries consequent upon the raw material boom, gave further impetus to the demand for rice. Although the supply also rose as a result of larger crops in both countries considered here in the crop years 1950/1951 and 1951/52 (see table 25), the price of rice continued to increase until 1953. The continued advance in price itself enhanced foreign demand by stimulating speculative purchases and thereby intensified the upward trend of prices. The volume of rice exports from Burma rose until 1953, when it began to fall significantly as a result of the large increase in the output of rice in the food importing countries. In Thailand, exports had already fallen moderately in 1952 as a result of government restrictions aimed partly at replenishing domestic stocks. Exports declined further in 1953, not only as a result of the slackening in foreign demand but also because of a poor crop. The export price of rice was not affected until the latter part of 1953.

The real balance of exports and imports in both countries deteriorated progressively because of the large increase in real imports (see table 26). In Burma, however, the money balance of payments remained positive throughout the period owing to a considerable improvement in the terms of trade. In Thailand it had already become negative in 1952, but foreign exchange difficulties developed only in late 1953 and import restrictions were then imposed on a number of consumer goods.

The domestic economies of Burma and Thailand did not react in the same way to the large volume and high prices of exports of rice. In Burma, where the Government has a monopoly of the export of rice, the price for domestic procurement was kept stable and export profits contributed to government revenue. The considerable rise in investment that occurred had no inflationary repercussions, because of the stability of the domestic price of rice and the increase in imports of consumer goods. In fact, the cost of living index fell from 1951 to 1953 by about 4 per cent in each year.

In Thailand, a substantial part of export profits went directly into private hands as a result of the expansion of private exports of rice, the price of which continued to rise in 1952. Mainly in reflection of the higher domestic price of rice, the cost of living increased by 12 per cent in spite of an improvement in the supply of imported consumer goods. In 1953 the cost of living rose again by 10 per cent, partly because of the fall in the rice crop due to unfavourable weather.

### India

The national product of India increased very little in 1952 but much more in 1953 — probably 4 to 5 per cent. This reflected changes in the grain crop to a large extent. In 1951/52 the output of grain increased slightly above the abnormally low level of the previous year; in 1952/53 it rose substantially[35]—more than 10 per

[34] Thailand occupies an intermediate position between countries exporting raw materials and those exporting food, since it exports rubber and tin in addition to rice. However, rice constitutes the main export, in 1949 amounting to about two-thirds of total exports.

[35] Crops harvested at the end of 1951 and 1952 are available for consumption in the following calendar years, and are assumed to be included in the gross national product for 1952 and 1953, respectively.

cent (see table 28). Agricultural production other than cereals fell in 1951/52, despite a considerable rise in the sugar crop, because of a drop in pulses and oil-seeds. In 1952/53 the output of oil-seeds continued to decline, while the sugar crop fell from the high level of the preceding year. As a result of all these influences, total agricultural production remained unchanged in 1951/52, but rose appreciably in 1952/53, though by a smaller percentage than grain output.

Industrial production in large-scale industry increased in 1952 by 9 per cent and in 1953 by about 4 per cent. This slackening reflected both a reduction in the rate of increase in textiles and some falling off in the production of investment goods and jute in 1953. Production in small-scale industry showed a tendency to decline, especially pronounced in 1953.

It will be seen from the above that the large increase in industrial production in 1952 was accompanied by only a very small increase in the national product, while in 1953 the reverse relationship obtained. These movements reflect the predominance of agriculture in the Indian economy and its consequent sensitivity to fluctuations in crop output.

In both years, but especially in 1953, there was an increase in urban unemployment, despite the rise in production in large-scale industry. This rise in unemployment reflects a relatively high increase in productivity in factory industry and a decline in output in small-scale industry, referred to above.

With respect to demand, the changes in the national product were accounted for as follows: investment in fixed capital (private and public together) remained unchanged in 1952, but declined sharply in 1953; current government expenditure showed little change in the period considered; investment in inventories increased in 1952 and fell off in 1953; the real balance of exports and imports increased both in 1952 and in 1953; consumption was probably somewhat lower in 1952 than in 1951 but rose again in 1953. Thus, the small rise in the national product in 1952 was due to the excess of the rise in investment in inventories and in the real balance of exports and imports over the decline in consumption. On the other hand, in 1953 the rise in consumption and in the real foreign balance exceeded substantially the fall in fixed capital and inventory investment. The developments in 1953 were mainly due to the increase in the grain crop, which raised consumption and permitted a reduction of grain imports. These changes in the components of national product are discussed in more detail below.

Investment in fixed capital in 1952 remained at about the same level as in 1951; the decline from 1952 to 1953, however, was substantial. Public investment increased appreciably throughout the period, but private

Table 28. India: Selected Indicators of Economic Activity, 1950 to 1953

| *Period* | *Index or value* | | |
|---|---|---|---|
| AGRICULTURAL PRODUCTION (1949/50 = 100) | | | |
| *Crop year:* | *All crops*[a] | *Cereals*[b] | |
| 1950/51 | 96 | 91 | |
| 1951/52 | 96 | 92 | |
| 1952/53[c] | 102 | 103 | |
| INDUSTRIAL PRODUCTION (1950 = 100) | | | |
| *Year:* | *Total* | *Cotton cloth* | *Jute manufactures* |
| 1951 | 112 | 116 | 105 |
| 1952 | 123 | 127 | 114 |
| 1953[c] | 128 | 135 | 103 |

FOREIGN TRADE[d] (MILLIONS OF 1950 RUPEES)

| *Year:* | *Quantum of exports* | *Quantum of imports* | *Real balance* | *Indices (1950 = 100)* *Export unit value* | *Import unit value* | *Terms of trade* |
|---|---|---|---|---|---|---|
| 1950 | 5,869 | 5,496 | 373 | 100 | 100 | 100 |
| 1951 | 5,635 | 6,890 | −1,255 | 143 | 123 | 116 |
| 1952 | 5,385 | 6,370 | −985 | 115 | 126 | 91 |
| 1953[c] | 5,360 | 5,170 | 190 | 98 | 113 | 87 |

*Source:* Ministry of Food and Agriculture, *Agricultural Situation in India* (New Delhi); Government of India, *Monthly Abstract of Statistics* (New Delhi); Ministry of Commerce and Industry, *Monthly Statistics of Selected Industries of India* (New Delhi). Index of agricultural production computed by United Nations Department of Economic Affairs from official national statistics.

[a] Cereals, pulses, oil-seeds, fibres, sugar-cane, potatoes and tobacco.

[b] Rice, wheat, *jowar*, *bajra*, *ragi*, maize, barley and gram.

[c] Provisional.

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

investment fell sharply in 1953. The increase in public investment was reflected in a continued rise in cement production.

Investment in inventories increased in 1952 as compared with 1951 but declined in 1953. The changes are largely accounted for by the movement in stocks of two commodities—sugar and jute manufactures. An exceptionally high output of sugar in 1952 led to a considerable increase in stocks while with a smaller output in 1953 stocks were somewhat reduced during that year. Rising output of jute manufactures in 1952 was associated with unchanged exports so that stocks were built up in that period and then drawn down in 1953 when production was curtailed. In addition, stocks of raw cotton rose in 1952 and fell in 1953.

It should be noted that in both years there was a sizable accumulation of stocks of grain and cotton cloth. Government stocks of grain increased throughout the period and in 1953 there was also an accumulation of privately owned stocks of grain as a result of the filling up of channels of private trade after rationing of grain was discontinued in 1952 except in large urban centres. Inventories of cotton cloth increased in 1952, both in mills and in trade, owing to replenishment of stocks depleted during the preceding period of shortage in the domestic market; but in 1953, when domestic and foreign demand fell short of production, the accumulation of inventories of cotton cloth became involuntary.

The increase from 1951 to 1952 in the balance of exports and imports, despite the fall in exports of cotton textiles and tea, was chiefly due to the reduction in imports of raw jute, because of higher domestic production, and of grain, because government stocks were on the increase as consumption failed to match supply. In 1953 the improvement resulted largely from further reduction in imports of grain in consequence of a favourable crop. In addition, there was a decline in imports of capital goods, resulting from a lower level of investment in fixed capital. Imports of raw cotton, which had been at a high level in 1952, were also reduced.

Changes in consumption were probably less favourable than changes in national product. In 1952 consumption fell somewhat while national product rose a little, and the proportionate rise in consumption in 1953 was again likely to have been somewhat less than that in national product. One of the factors which might account for these discrepancies is the deterioration in the terms of trade, beginning in 1952 and continuing in 1953, though at a slower rate. However, this influence on real income as a whole was rather small, especially as it was partly counteracted by a reduction in export duties. Much more important was the reduction of subsidies on rationed supplies early in 1952, followed by derationing and decontrol in small localities. In large urban centres, where rationing was continued, and in small towns, where it was abolished, prices rose and purchasing power was reduced. In 1953 there was a further cut in subsidies for supplies still rationed in large urban centres. At the same time grain prices in the free market did not fall, despite a marked increase in the crop. This can be accounted for by the fall in imports; by the increase in consumption of subsistence farmers and agricultural workers, which had fallen considerably during the preceding two years of low crops; and finally, by a new non-recurrent element of demand to build up stocks in private trade following decontrol.

The apparent consumption of grain (see table 29) declined slightly in 1952 and rose in 1953. The increase in actual consumption from 1952 to 1953 was somewhat less because of the increase in private inventories of grain, referred to above. It should be noted that the apparent consumption of cotton cloth—which is the most important industrial item of consumption in India—did not change in the same way as total consumption, but increased from 1950 to 1952 and fell in 1953. This, however, is largely accounted for by movements in re-

Table 29. India: Apparent Consumption of Cereals, 1949 to 1953

(Thousands of metric tons)

| *Item* | *1949* | *1950* | *1951* | *1952* | *1953*[a] |
|---|---|---|---|---|---|
| Opening stocks[b] | 1,044 | 1,581 | 729 | 1,309 | 1,917 |
| Production[c] | 43,314 | 46,018 | 41,744 | 42,440 | 47,584 |
| Net imports | 3,706 | 2,125 | 4,725 | 3,864 | 2,003 |
| Available supply | 48,064 | 49,724 | 47,198 | 47,613 | 51,504 |
| Closing stocks[b] | 1,581 | 729 | 1,309 | 1,917 | 1,439 |
| Apparent consumption[d] | 46,483 | 48,995 | 45,889 | 45,696 | 50,065 |
| Index of apparent consumption[d] (1950=100) | 95 | 100 | 94 | 93 | 102 |

*Source:* Ministry of Food and Agriculture, *Bulletin on Food Statistics* (New Delhi), January 1954.

[a] Provisional.

[b] Government stocks only.

[c] All cereals (excluding gram and pulses). Production in the crop year 1949/50 is assumed to be available for consumption in the calendar year 1950, and so on.

[d] Including changes in private stocks.

tail stocks. In 1950 cotton cloth had been very scarce in the domestic market, and retail inventories which had become depleted were replenished in 1952 when the supply position improved considerably. In 1953 when it was no longer necessary to expand stocks, apparent consumption fell below the level of 1952, remaining, however, above that of 1951.

## Japan

The rapid rise in the index of industrial production in Japan, which amounted to 37 per cent in 1951, slackened appreciably in 1952; with a reduction in special procurement orders and the subsiding of speculative activities associated with the raw material boom, the rate of increase was only 10 per cent (see table 30). In 1953 the increase was again accelerated—to 18 per cent—as a result of the expansion of military expenditure and the rise in special procurement. The number employed remained practically stable and working hours were only slightly lengthened, so that the expansion in production during the period 1951 to 1953 reflected a rapid increase in productivity.

In 1952, output in construction and agriculture was higher than in the preceding year. Construction activity continued to advance in 1953; agricultural production, however, declined on account of a sharp fall in rice output (due to unfavourable weather) not fully offset by a rise in industrial crops. In 1952 mounting production in all sectors of the economy, including trade and services which benefited from a steep rise in consumption, raised gross national product by more than 10 per cent. In 1953, in spite of the decline in agriculture, the continued increase in industrial production and in trade and services brought about a further appreciable rise in national product.

The increase in gross national product in both 1952 and 1953 is accounted for, on the demand side, by a continued rise in consumption, in private investment in fixed capital and in government expenditure, although the relative importance of the contributions made by these components was different in the two years. In 1952 the increase in consumption was the chief contributing factor, while in 1953 the increase in the sum of the other two was more important. As for other components, the real balance of exports and imports deteriorated progressively, while the increase in inventories both in 1952 and in 1953 was lower than in 1951.

The increase in investment in fixed capital in 1952 was stimulated in the main by the rapid expansion of production in the preceding period while in 1953 it largely reflected the expansion of industries receiving rearmament orders. Investment in inventories fell in 1952 in some industries owing partly to credit restrictions and partly to the disappearance of speculative influences following the raw material slump. In 1953 investment in inventories by manufacturers and retailers was generally higher than in the previous year.

Table 30. Japan: Selected Indicators of Economic Activity, 1951 to 1953
(1950=100)

| *Item* | *1951* | *1952* | *1953* |
|---|---|---|---|
| Total agricultural production[a] | 100 | 108 | ... |
| Crops[b] | 99 | 105 | ... |
| Rice | 94 | 106 | 86 |
| Industrial production | 137 | 151 | 178 |
| Mining | 114 | 118 | 126 |
| Manufacturing | 140 | 156 | 186 |
| Construction[c] | 89 | 93 | 95 |
| Residential | 84 | 92 | 91 |
| Non-residential | 95 | 95 | 99 |
| Prices and wages: | | | |
| Export prices | 155 | 146 | 131[d] |
| Import prices | 143 | 126 | 111[d] |
| Terms of trade | 108 | 116 | 118[d] |
| Urban consumer prices: | | | |
| Total | 116 | 122 | 130 |
| Food | 116 | 120 | 127 |
| Monthly earnings:[e] | | | |
| Money | 126 | 149 | 170 |
| Real | 108 | 122 | 130 |
| Foreign trade (billions of 1950 yen): | | | |
| Imports | −515.6 | −579.6 | −789.1 |
| Exports | 408.7 | 372.9 | 435.0 |
| Special procurement[f] | 93.4 | 59.0 | 83.4 |
| Balance | −106.9 | −206.7 | −354.1 |

*Source:* Bank of Japan, *Economic Statistics Monthly* (Tokyo); Economic Counsel Board, *Japanese Economic Indicators* (Tokyo), *Monthly Report on National Income* and *Economic Survey of Japan, 1952–53* (Tokyo).

[a] Including sericulture and livestock products.
[b] Including rice, other cereals, fruits, vegetables and industrial crops.
[c] Floor area of buildings started.
[d] First eleven months.
[e] Earnings in mining, manufacturing, trade and finance.
[f] Deflated by indices of wholesale prices, which for the years 1951, 1952 and 1953 were 139, 142 and 143, respectively.

The real balance of exports and imports of goods and services deteriorated progressively during 1952 and 1953, largely as a result of the increase in imports that accompanied the rise in national product and consumption. Exports declined slightly in 1952 mainly because of the fall in receipts from special procurement. In 1953, receipts from both special procurement and exports of merchandise increased, but not enough to offset the rise in imports.[36]

Government expenditure rose sharply in 1952 and 1953, reflecting the increase in public investment and military expenditure.

Real consumption increased continuously throughout 1952 and 1953, but in the latter year the rate of increase slackened. The proportionate rise in real consumption

[36] There was a sharp deterioration in the money balance of exports and imports, which changed from a substantial surplus in 1952 to a marked deficit in 1953. In view of the need to import a large quantity of food in 1954 as a result of serious crop failure, the Government aimed at a drastic cut in non-essential imports in 1954.

in 1952 was larger than that in the gross national product. A shift in the distribution of income in favour of labour, an improvement in the terms of trade, and an increase in government transfers to the private sector, contributed to this relationship, the tax burden remaining practically stable. The change in income distribution was chiefly a consequence of the cessation of the boom that followed the outbreak of hostilities in Korea, when profits in the export trades receded sharply and profit margins in the domestic market shrank as the demand for consumer goods slackened.

In 1953, the rise in consumption was smaller than in gross national product, in spite of a further improvement in the terms of trade and an unchanged burden of taxation. This is probably accounted for by a reversal of the change in the distribution of income to the disadvantage of labour; this resulted from industrial agreements, initiated in the latter part of 1952, and greatly extended in the course of 1953, to cope with the situation arising from the shrinkage of profit margins.

The rise in consumer prices was moderate in 1952 and 1953, compared with that of earlier years. However, the rate of increase tended to quicken during the second half of 1953, owing to the widening in profit margins of industrial goods, referred to above, and the rising trend of food prices due to a poor rice harvest. Real earnings of workers employed in large firms rose considerably in 1952 but the rate of increase slackened appreciably in 1953. These movements reflected the rise in productivity and the changes in profit margins.

Table 31. China: Taiwan: Selected Indicators of Economic Activity, 1951 to 1953

| Item | 1951 | 1952 | 1953 |
|---|---|---|---|
| *Agricultural production index:* | | | |
| Rice | 100 | 106 | 110[a] |
| Sweet potatoes | 100 | 103 | 102 |
| Sugar[b] | 100 | 148 | 252 |
| *Industrial production index:* | | | |
| Total[c] | 100 | 124 | 142[d] |
| Mining | 100 | 129 | 110[d] |
| Manufacturing | 100 | 126 | 148[d] |
| *Cost of living index* (Taipeh): | | | |
| Total | 100 | 131 | 155 |
| *Foreign trade* (millions of new Taiwan dollars): | | | |
| Exports | 1,084 | 1,468 | 1,891[e] |
| Imports | −1,783 | −2,719 | −2,935[e] |
| Mutual Security Agency imports[f] | −595 | −951 | −1,314[e] |
| Balance | −699 | −1,251 | −1,044[e] |

*Source:* Ministry of Economic Affairs, *Economic Reference Data* and *Index Numbers of Industrial Production in Taiwan* (Taipeh); *Central Daily News* (Taipeh); Provincial Government of Taiwan, *Structure of the Taiwan Economy* (Taipeh).

[a] Provisional figure; November crop partly estimated.
[b] Crop year ending in June of the year indicated.
[c] Including utilities.
[d] First nine months.
[e] First eleven months at an annual rate.
[f] Landed cost of Mutual Security Agency imports. For 1951 and 1952 the conversion rate was new Taiwan $10.3 equals US $1; for 1953, new Taiwan $15.65 equals US $1. In terms of United States dollars, Mutual Security Agency imports (excluding military imports) in 1952 were $92.3 million and in the first eleven months of 1953 were $77.0 million.

## China: Taiwan

Total production in China: Taiwan rose continuously during the period 1951 to 1953. In 1952, as a result of expansion in productive capacity, there was a substantial increase in industrial production; output of the chief agricultural crops also increased. In 1953 the May crop of rice was slightly lower than that of 1952 and the November crop higher; as a result, production of rice for the year showed a small increase. The output of sweet potatoes was somewhat lower than in the previous year, but sugar production expanded sharply. The increase in total industrial production slowed down appreciably. A large rise in the output of food processing industries in 1953 was associated with falling output in some manufacturing industries, such as leather, chemicals and rubber, which were affected by insufficient supplies of raw materials (see table 31).

The rise in prices, after having subsided for a brief period during 1952, resumed its course in 1953, although it proceeded at a slower rate than in earlier years. The basic inflationary factors after 1949 were a high budget deficit, due to large military expenditures, and a tendency to reinvest in commodities the liquid funds thereby injected into the economy. Cheap bank credit granted for financing the investment of public and private corporations was an additional source of such funds. In 1952 the budget deficit and investment were even higher than in the preceding year but certain anti-inflationary factors modified the situation considerably. There was an appreciable improvement in the supply situation resulting from a large increase in imports of essential goods, financed by Mutual Security Agency funds. This, together with the reversal of the raw material boom and the restriction of bank credit to the private sector, was responsible for the gradual disappearance, during the course of the year, of the speculative hoarding of commodities which had taken place on a large scale in 1951. The cost of living index, which in 1951 averaged about 50 per cent higher than in the preceding year, continued to rise in the first half of 1952 but levelled off during the second half of the year.

Towards the end of 1952, however, inflationary pressures tended to reappear. The increase in investment in fixed capital and inventories by public and private corporations and in the budget deficit was not accompanied by an increased supply of consumer goods. In 1953 imports of consumer goods declined as a result of the fall in Mutual Security Agency imports and in allocations of foreign exchange for commercial imports, and the spring rice crop of 1953, as mentioned above, showed a small decline over the corresponding crop of

1952. As a result, prices tended to rise, which led to renewed hoarding of food and some imported commodities. At a later stage, hoarding of imported commodities was accentuated by the expectation of a further increase in prices, based upon the raising by the Government of the selling prices of Mutual Security Agency imports,[37] while world prices did not show any further tendency to decline. Large-scale hoarding of rice resulted in an increase in the price of rice of about 70 per cent from 1952 to 1953.

[37]The selling prices of Mutual Security Agency imports were raised as a result of applying the "certificate rate" of 15.65 new Taiwan dollars to one United States dollar to such imports, which had been previously converted at the official rate of 10.3 new Taiwan dollars to one United States dollar.

# Part II

# INTERNATIONAL TRADE AND PAYMENTS

# Chapter 4

# MAJOR DEVELOPMENTS IN WORLD TRADE, 1950 TO 1953

International trade reached a high point in 1953; the value of world exports (excluding those of eastern Europe and mainland China[1]), measured in constant prices, rose above the preceding peak in 1951 (see table 32). In the first nine months of 1953 the export quantum was 15 per cent above the average for 1950, or about 40 per cent above 1948 or 1937. At the same time a substantial improvement was attained in the degree of balance in the regional pattern of world exports. United States foreign aid was not only significantly reduced, but there was in fact a flow of gold and dollars of similar magnitude from the United States to the rest of the world. An important factor contributing to this change was the rise in exports of the rest of the world while commercial exports[2] of the United States fell sharply from 1952 to 1953.

The year 1953 represented a third phase in the developments in international trade which followed the outbreak of hostilities in Korea in 1950. From the middle of 1950 to about the middle of 1952, international trade had been characterized by extreme fluctuations, a year of sharp upswing in export receipts being followed by a year of substantial downturn. Since the second half of 1952, however, international trade has tended to be more stable.

The pattern of world trade is exceedingly complex in form, embracing as it does so many different types of economies at various stages of economic development, each with its own economic institutions. It is not surprising, therefore, that while the developments in international trade in the major economic regions and the major categories of commodities are closely interrelated there should nevertheless be striking divergences in the magnitude and timing of these developments.

## Fluctuating Trade of Primary Producing and Industrial Countries[3]

Trade between the industrial countries and the primary producers in 1950 to 1953 accounted for approximately 57 to 59 per cent of the world total, intra-group trade of the industrial countries for about 26 to 28 per cent and intra-group trade of the primary producers for about 9 to 11 per cent. The rest represented trade with eastern Europe and mainland China.[4] Normally, total exports of primary producers have exceeded exports to them, the balance being used to finance their net foreign payments of interest, dividends and other service items. This balance increased in the 1950/51 boom but turned to a deficit in the 1951/52 reaction, when exports of primary producers fell and exports to them continued to rise. By 1953, however, a positive balance in favour of the primary producers was restored as their exports to industrial countries began to recover while exports of industrial countries to them fell in response to curtailment of imports by the primary producers.

### Exports of primary producing countries

The fluctuations in exports of the primary producers from 1950 to 1953 showed a consistent time "lead" over those of the industrial countries; this reflected the lead of industrial countries over primary producers in the fluctuations of import demand. In the 1950/51 upswing following the outbreak of Korean hostilities the lead was somewhat obscured; this was due to the fact that primary producers had already increased their exports in the first half of 1950 so that their imports from industrial countries also rose in the second half of that year. In the later phases of downturn and stabilization of trade, however, the lead was of considerable duration (see table 32 and chart 1).

[1]The trade of eastern Europe and mainland China is dealt with separately in chapter 7.

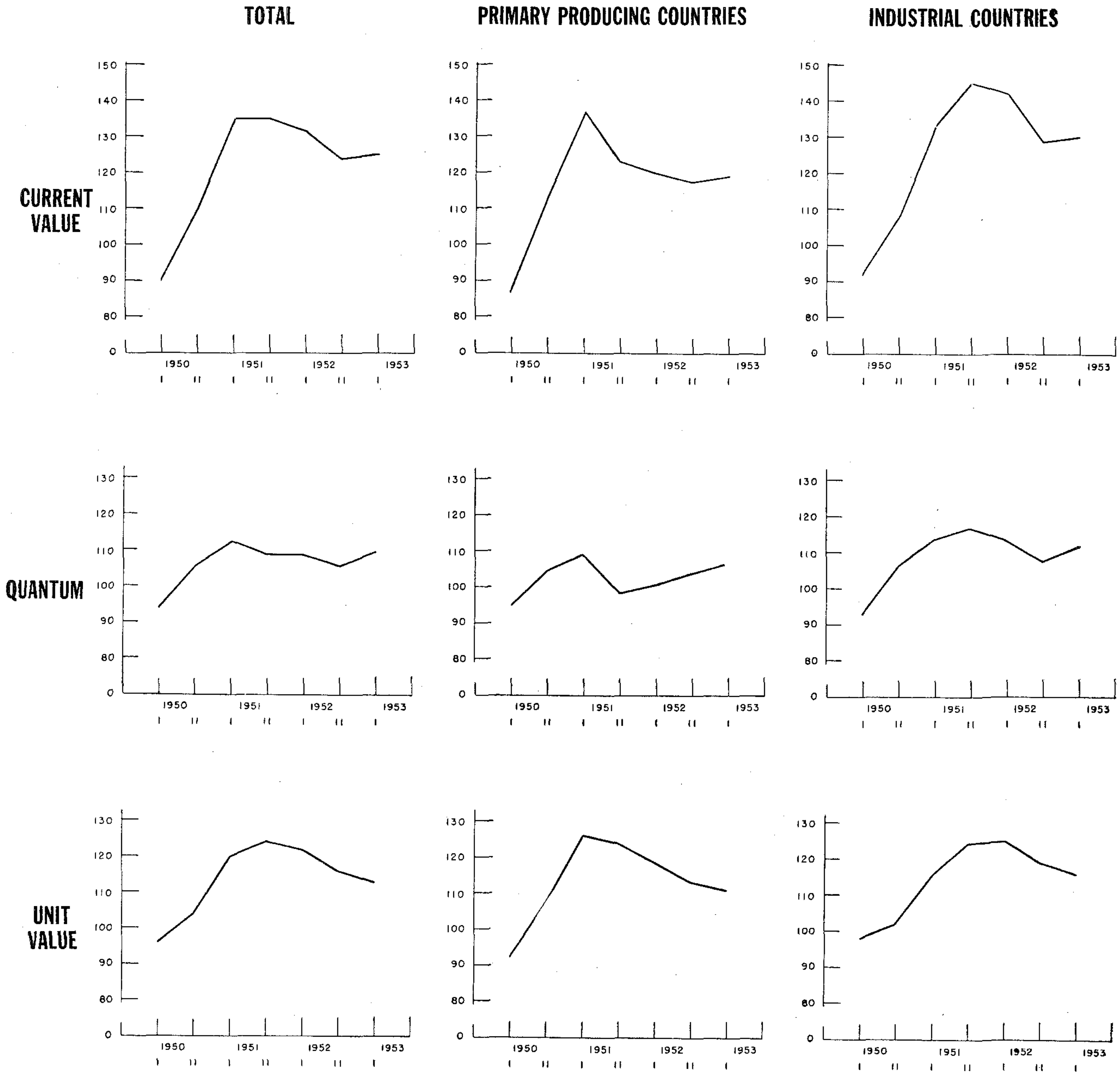
[2]Excluding special category exports consisting of commodities to which security restrictions apply regarding the publication of certain detailed export statistics.

[3]Any attempt to classify all countries, other than eastern Europe and mainland China, into only two groups of necessity involves a considerable degree of arbitrariness. The classification used in part II of this report is the same as that in earlier reports; it is determined in part by analytical requirements and in part by the form in which much of the data is available. The term "industrial countries" refers to the United States, western Europe and Japan. Western Europe includes all countries which are members of the Organisation for European Economic Co-operation (OEEC): Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey and the United Kingdom. The term "primary producing countries" includes all other countries except eastern Europe and mainland China.

[4]Estimates based on data supplied by the Statistical Office of the United Nations. The figures used in computing the percentages exclude United States special category exports.

Chart 1. Indices of Current Value, Quantum and Unit Value of Exports of Primary Producing Countries and Industrial Countries, 1950 to 1953

(1950=100)




*Source:* See table 32.

All industrial countries recorded large changes in import demand during this period although there were important differences in phasing. At the outbreak of hostilities, widespread fear of possible shortages and memories of war-time inflation led to intensive speculation and to substantial over-buying of raw materials for inventories. From the first half of 1950 to the first half of 1951, export proceeds of the primary producers increased 57 per cent. Because of the relatively sluggish responses of both supply and demand to price increases for primary products, the rise in sales took the form of a considerably greater increase in export unit values than in quantum. The former rose by 37 per cent while the latter increased by 15 per cent.

As the raw materials shortages failed to develop, industrial countries began to reduce their investment in inventories. This tendency was accelerated not only by the reversal in prices which was thereby initiated, but also by the tightening of credit facilities. In addition,

Table 32. Indices of Current Value, Quantum and Unit Value of Exports of Primary Producing Countries and Industrial Countries, 1950 to 1953
(1950=100)

| Period | All exports: Total world[b] | Commercial exports[a]: Total world[b] | Commercial exports[a]: Primary producing countries | Commercial exports[a]: Industrial countries |
|---|---|---|---|---|
| *Current value in United States dollars:* | | | | |
| 1950: | | | | |
| First half | 89 | 90 | 87 | 92 |
| Second half | 111 | 110 | 113 | 108 |
| 1951: | | | | |
| First half | 136 | 135 | 137 | 133 |
| Second half | 136 | 135 | 123 | 145 |
| 1952: | | | | |
| First half | 134 | 132 | 120 | 142 |
| Second half | 128 | 124 | 118 | 129 |
| 1953: | | | | |
| First half | 131 | 125 | 119 | 130 |
| *Quantum:* | | | | |
| 1950: | | | | |
| First half | 94 | 94 | 95 | 93 |
| Second half | 106 | 106 | 105 | 107 |
| 1951: | | | | |
| First half | 113 | 112 | 109 | 114 |
| Second half | 110 | 109 | 99 | 117 |
| 1952: | | | | |
| First half | 110 | 109 | 101 | 114 |
| Second half | 110 | 106 | 104 | 108 |
| 1953: | | | | |
| First half | 115 | 110 | 107 | 112 |
| *Unit value in United States dollars:* | | | | |
| 1950: | | | | |
| First half | 96 | 96 | 92 | 98 |
| Second half | 104 | 104 | 107 | 102 |
| 1951: | | | | |
| First half | 120 | 120 | 126 | 116 |
| Second half | 124 | 124 | 124 | 124 |
| 1952: | | | | |
| First half | 122 | 122 | 119 | 125 |
| Second half | 117 | 116 | 113 | 119 |
| 1953: | | | | |
| First half | 114 | 113 | 111 | 116 |

*Source:* Estimates of the Statistical Office of the United Nations.

[a] Excluding United States special category exports. It was assumed that the unit value of such exports approximated the unit value of United States exports of finished manufactures.

[b] Excluding exports of eastern Europe and mainland China.

the demand for primary products for current use also slackened as the industrial countries introduced various measures to curb domestic inflationary pressures. The impact of these developments upon foreign trade was reinforced by direct government intervention in the field of raw materials imports, through such measures as centralized buying, slowing down of stockpiling, allocation programmes, import licensing and price controls. These factors led to a substantial decline in exports of primary producers beginning in the middle of 1951. The first impact of the downturn was reflected primarily in a lower quantum of exports. While the curtailment of import demand led to a very sharp reversal in market price quotations, the decline in export unit values was quite moderate at first.[5]

By the beginning of 1952 the fall in the quantum of exports of primary producers had already come to an end, and by the second half of that year there began a significant recovery towards the peak levels which had

[5] Average export unit values of primary products normally tend to lag behind market price quotations and to have a smaller amplitude of fluctuation. This is due to the lag between placement of orders and shipment of exports, and to the fact that only a small proportion of transactions tend to take place at extreme price quotations.

been reached at the end of 1950. This recovery reflected the continued upward trend in output and income in the industrial countries, and it was reinforced in 1953 when anti-inflationary measures and import controls imposed earlier in these countries were relaxed, and the rate of inventory accumulation increased. Despite the recovery in quantum, however, the proceeds of primary producers from exports were significantly lower, as average unit values had fallen substantially in the meantime. The continued decline in export unit values in the face of the increase in quantum was due to several factors. First, the downturn of 1951 had led to involuntary accumulation of inventories of some commodities in primary producing countries, and these stocks tended to depress prices. Second, substantial increases in world output of minerals had occurred in the meantime, partly in response to earlier price increases. Finally, some commodities whose prices had soared in 1950/51 had been kept out of the United States and some European markets by means of import price controls and other restrictions, and it was only after their prices fell that imports were again resumed.

The global data on exports of primary producers obscure essential differences between foodstuffs and raw materials. Although table 33 relates only to price quotations, the disparities of movement in these two categories are so striking as to be significant for export unit values as well. While all prices increased in 1950/51 it was the sharp rise in raw materials prices which gave the boom its peculiar character. The downswing hardly affected foodstuffs considered as a group, although wheat prices in the United States have been maintained for some time only with the aid of a price-support programme involving considerable accumulation of inventories. A closer look at the raw materials index reveals that the extreme swing in prices was largely accounted for by the agricultural raw materials, especially the fibres and rubber, and one or two other commodities such as tin. Prices of minerals showed a smaller increase, owing in part to stability in petroleum prices, and the subsequent downturn was not only more moderate but also came considerably later than for agricultural raw materials. The adverse effect on prices of a slackening or decline in investment in inventories in 1951/52 was in part offset by rising output in the metals and machinery industries. The decline in prices after mid-1952 appears to have been due to the continued increase in world mining output in the face of a slowing down in the rate of production in investment goods industries.

The greater stability in foodstuffs and in minerals than in agricultural raw materials is reflected in the data on the value of imports of the United States and western Europe from primary producers since 1951 (see table 34). The decline from 1951 to 1952 was due to the severe drop in raw materials other than minerals. Both foodstuffs and minerals show a rise during this same period. In the first half of 1953, foodstuffs were slightly above and minerals slightly below the corresponding period of 1952. Other primary products, however, show a further drop of about 10 per cent. Percentagewise, food rose from 30 per cent of total imports of industrial countries from primary producers in 1951 to about 35 per cent in 1953, minerals and mineral products rose from about 20 to 25 per cent, while other raw materials and manufactured goods, mostly textiles, fell from about 50 to 40 per cent.

The disparate fluctuations in world demand for primary products were the major factor in the wide variation in export earnings of the primary producing areas in the period 1950 to 1953. Differences in supply conditions were, however, an additional factor for some important countries and commodities. This was particularly true of wheat, the output of which fell sharply in Argentina and Australia during this period, but increased remarkably in Canada. A third important element adding to the differences between commodities and between countries was the broad variation in types of marketing arrangements, ranging from generally free market sales for wool to an international agreement covering the major part of wheat sales.

**Table 33. Index of Primary Products' Prices in External Trade, 1950 to 1953**
(1950 = 100)

| *Period* | *Total, primary products* | *Food*[a] | *Raw materials* | | |
|---|---|---|---|---|---|
| | | | *Total* | *Agricultural* | *Mineral* |
| 1950 First half | 91 | 96 | 88 | 85 | 95 |
| 1950 Second half | 109 | 104 | 112 | 114 | 105 |
| 1951 First half | 128 | 111 | 139 | 147 | 119 |
| 1951 Second half | 120 | 115 | 123 | 125 | 121 |
| 1952 First half | 114 | 114 | 114 | 111 | 124 |
| 1952 Second half | 109 | 115 | 105 | 100 | 115 |
| 1953 First half | 107 | 117 | 102 | 98 | 111 |
| 1953 Third quarter | 108 | 121 | 100 | 95 | 113 |

*Source:* Statistical Office of the United Nations. Calculated in United States dollars.

[a] Not processed.

Table 34. Imports of the United States and Western Europe from Primary Producing Countries, 1951 to 1953
(Value in United States dollars)

| Category | Value in 1951[a] | Indices (1951 = 100) 1952 First half | 1952 Second half | 1953 First half |
|---|---|---|---|---|
| All commodities | 23.2 | 100 | 92 | 97 |
| Foodstuffs[b] | 7.1 | 109 | 102 | 113 |
| Raw materials and manufactures[c] | 16.1 | 96 | 87 | 89 |
| Minerals and mineral products | 4.7 | 124 | 129 | 121 |
| Other | 11.4 | 84 | 70 | 76 |

*Source:* Based on data supplied by the Statistical Office of the United Nations.
[a] In billions of United States dollars.
[b] Including beverages and tobacco.
[c] Except for imports from Canada, commodities classified as manufactures represent almost entirely semi-manufactured metals and minerals.

The varying experience of the major primary producing areas with respect to the value, quantum and unit value of their exports in the period 1950 to 1953 will be treated in some detail in chapter 6. As might be expected from the character of its major export products, of which rubber, tin, wool and jute form so large a part, the oversea sterling area experienced the sharpest fluctuations in exports during this period. Canadian exports, at the other extreme, showed a rather steady rise in value, quantum and unit value until 1953, when they fell significantly, although they still averaged over 40 per cent in value and about one-sixth in quantum above 1950. Canada not only gained from the higher world demand for wheat in 1951 and 1952, but also largely replaced wheat exports of Argentina and Australia. Latin American[6] exports, in which foodstuffs and minerals predominate, fluctuated much less than those of the oversea sterling area. The declining export receipts after 1951 were due more to the cut in the exportable supply of wheat and to a reluctance to meet competitive prices in metals, cotton and wool than to decreases in world demand. Thus, unlike the situation in the oversea sterling area, the decline in Latin American exports in 1952 represented primarily a fall in quantum rather than in export unit values.

### Exports of industrial countries

The industrial countries showed a smaller initial rise than did the primary producers in the second half of 1950, both as regards total value and average unit value of exports, but the rise in export quantum was no smaller than for primary producers. The increase in all three series continued through 1951 and into the beginning of 1952, with the peak in export unit values equalling, and the peaks for export quantum and total export value exceeding, those of the primary producers (see table 32 and chart 1). During the earlier part of this period, exports of consumer goods rose most, reflecting higher incomes, a reduction in import restrictions and speculative and inventory demand for textiles and grain in importing countries. Although exports of consumer goods declined after mid-1951, total exports were maintained at a higher level up to mid-1952 by virtue of the rise in capital goods exports which had occurred meanwhile. The delay in the growth of exports of capital goods was due in part to the long production and delivery period for machinery and in part to a time lag between expansion of income and decisions to increase investment.

The increase in exports to primary producing countries during the upswing was greater than was the expansion of exports of the industrial countries to each other (see table 35). This was due mainly to the extraordinary rise in export earnings of certain of the primary producing countries during the raw materials boom. Towards the end of 1950 a number of major importing countries in the oversea sterling area and in Latin America relaxed import restrictions which they had imposed in 1949. In western Europe, on the other hand, the major liberalization of trade within the area had already occurred by 1950, and the quantum of exports of OEEC countries to each other had risen nearly 40 per cent from 1949 to 1950.

In 1952 the quantum of exports of the industrial countries fell about 5 per cent. In intra-group trade the decline had already begun by the end of 1951, and exports levelled off by the second half of 1952. Exports to primary producers, however, reached their peak only in the second half of 1951, and they did not fall significantly until the second half of 1952. On the other hand, when the fall did occur it was sharper than that experienced in intra-group trade. The decline in exports was associated with the levelling off in national output and a fall in the rate of inventory accumulation in a number of industrial countries, and with the import restrictions imposed both in some European countries and in primary producing countries following upon their balance of payments difficulties in 1951.

The considerable lag in the decline of exports to primary producers as compared with intra-group exports of the industrial countries may be attributable in part to the differences in composition of exports to these two areas. Exports to primary producers were more heavily weighted by investment goods, which were least affected by the 1951/52 downturn, than were intra-group exports of the industrial countries. Of the latter, 20 per cent of the 1951-53 exports were food, nearly 25 per cent were raw materials and about 30 per cent investment goods. On the other hand, in exports of industrial

[6] Unless otherwise indicated, the term "Latin America" in this and subsequent chapters refers to the twenty republics of South and Central America, including Mexico.

Table 35. Indices of Intra-group and Extra-group Exports of Industrial Countries, 1950 to 1953
(1950=100)

| Period | Total exports | | Intra-group exports | | Extra-group exports | |
|---|---|---|---|---|---|---|
| | Current value[a] | Quantum | Current value[a] | Quantum | Current value[a] | Quantum |
| 1950: | | | | | | |
| First half | 92 | 93 | 91 | 92 | 92 | 93 |
| Second half | 108 | 106 | 109 | 107 | 108 | 105 |
| 1951: | | | | | | |
| First half | 133 | 114 | 133 | 114 | 133 | 114 |
| Second half | 145 | 117 | 139 | 111 | 151 | 123 |
| 1952: | | | | | | |
| First half | 142 | 114 | 136 | 107 | 148 | 120 |
| Second half | 129 | 107 | 130 | 107 | 129 | 108 |
| 1953: | | | | | | |
| First half | 131 | 111 | 131 | 111 | 131 | 111 |
| Third quarter | 129 | 111 | 129 | 112 | 129 | 111 |

*Source:* Statistical Office of the United Nations.

[a] Based on values in United Sta tes dollars.

countries to primary producers food and raw materials each accounted for only about 10 per cent and investment goods amounted to about 45 per cent of the total (see table 36).

Since the end of 1952 exports of western Europe have made a significant recovery, but owing to a decline in United States exports the recovery in total exports of industrial countries appears to have been only moderate; in the first nine months of 1953 the quantum of exports averaged about 111 (1950=100), some 3 per cent above the second half of 1952. The increase in European exports reflects the high level of economic activity in Europe and in the United States, increased liberalization in trade among western European countries and some relaxation of import restrictions in primary producing countries.

The rise in quantum of exports of industrial countries has, however, been accompanied by a fall in their average export unit values, resulting largely from lower costs of raw materials. This drop in export unit values lagged behind the corresponding decline for the primary producers by approximately a year (see table 37). Part of the lag was due to the time required between export shipments of primary producers and receipt of the same goods as imports by the industrial countries. More important perhaps was the fact that declines in the costs of raw materials were in part offset by increases in money wages granted in the industrial countries.[7] Tightening labour markets, together with rising living costs reflecting in part higher raw materials prices, combined

[7] Reductions in subsidies in some instances and increases in profit margins in others were contributing factors.

Table 36. Exports of the United States and Western Europe by Commodity Categories, 1951 to 1953
(Percentages of United States dollar values)

| Period and category | Total | Food[a] | Raw materials | Manufactures | |
|---|---|---|---|---|---|
| | | | | Total | Investment goods[b] |
| *1951:* | | | | | |
| Total exports | 100 | 15 | 18 | 67 | 35 |
| To industrial countries | 100 | 20 | 27 | 53 | 26 |
| To primary producing countries | 100 | 10 | 11 | 79 | 44 |
| *1952:* | | | | | |
| Total exports | 100 | 15 | 17 | 68 | 40 |
| To industrial countries | 100 | 19 | 25 | 56 | 33 |
| To primary producing countries | 100 | 11 | 10 | 78 | 47 |
| *1953 First half:* | | | | | |
| Total exports | 100 | 15 | 16 | 69 | 40 |
| To industrial countries | 100 | 19 | 23 | 58 | 33 |
| To primary producing countries | 100 | 11 | 9 | 80 | 48 |

*Source:* Based on data supplied by the Statistical Office of the United Nations.
[a] Including beverages and tobacco.

[b] Including metals and metal manufactures, machinery and transport equipment.

Table 37. Indices of Export and Import Unit Values for Primary Producing and Industrial Countries, and of Money Wages in Industrial Countries, 1950 to 1953

(1950=100)

| Group and item | 1950 First half | 1950 Second half | 1951 First half | 1951 Second half | 1952 First half | 1952 Second half | 1953 First half |
|---|---|---|---|---|---|---|---|
| *Primary producing countries:* | | | | | | | |
| Export unit value[a] | 92 | 107 | 126 | 124 | 119 | 113 | 111 |
| *Industrial countries:* | | | | | | | |
| Import unit value[b] | 96 | 104 | 125 | 130 | 128 | 120 | 115 |
| Money wages[c] | 98 | 102 | 109 | 114 | 119 | 121 | 124 |
| Export unit value[a] | 98 | 102 | 116 | 124 | 125 | 119 | 116 |
| *Primary producing countries:* | | | | | | | |
| Import unit value[b] | 99 | 101 | 116 | 124 | 125 | 119 | 117 |

*Source:* United Nations Department of Economic Affairs.

[a] See table 32.

[b] See table 38.

[c] Weighted average of hourly earnings or wage rates in manufacturing in Belgium, France, western Germany, Italy, the Netherlands, Sweden, the United Kingdom and the United States.

to lift wages in all industrial countries. The increase in wages affected export prices both directly by increasing labour costs and indirectly by raising the costs of imports from industrial countries. After the middle of 1952 industrial prices and wages had caught up with export prices of primary producers but they continued rising even after these prices had begun to fall. It was not until the latter part of 1952 that, under the impact of falling raw materials costs, a slowing down of wage-price spirals, and increases in productivity, average export unit values of industrial countries began to decline. The resulting relative improvement in export prices of industrial countries in relation to primary producers in 1953 approximately cancelled out the gain which primary producing countries had experienced since the first half of 1950. In the first half of 1953 the relative prices of exports of primary producers and of industrial countries were not greatly different from those in the first half of 1950.

Differences in the export trends of major industrial countries were on an even larger scale than those among primary producers. In the upswing to the beginning of 1952 exports of the United States rose more than total OEEC exports, while those of the United Kingdom remained virtually unchanged. Much of the United States increase was due to the extraordinary expansion of its exports of primary products, especially cotton, wheat, coal and petroleum. Cotton shared in the raw materials boom of 1950/51, and wheat benefited, although to a much smaller extent than in Canada, from the short crops in Argentina and Australia. The increase in fuel exports was made necessary by the rapid expansion of economic activity in Europe and by the interruption of supplies from Iran. On the other hand, exports from Europe, especially from the United Kingdom, were adversely affected by the recession in textiles which set in after the middle of 1951.

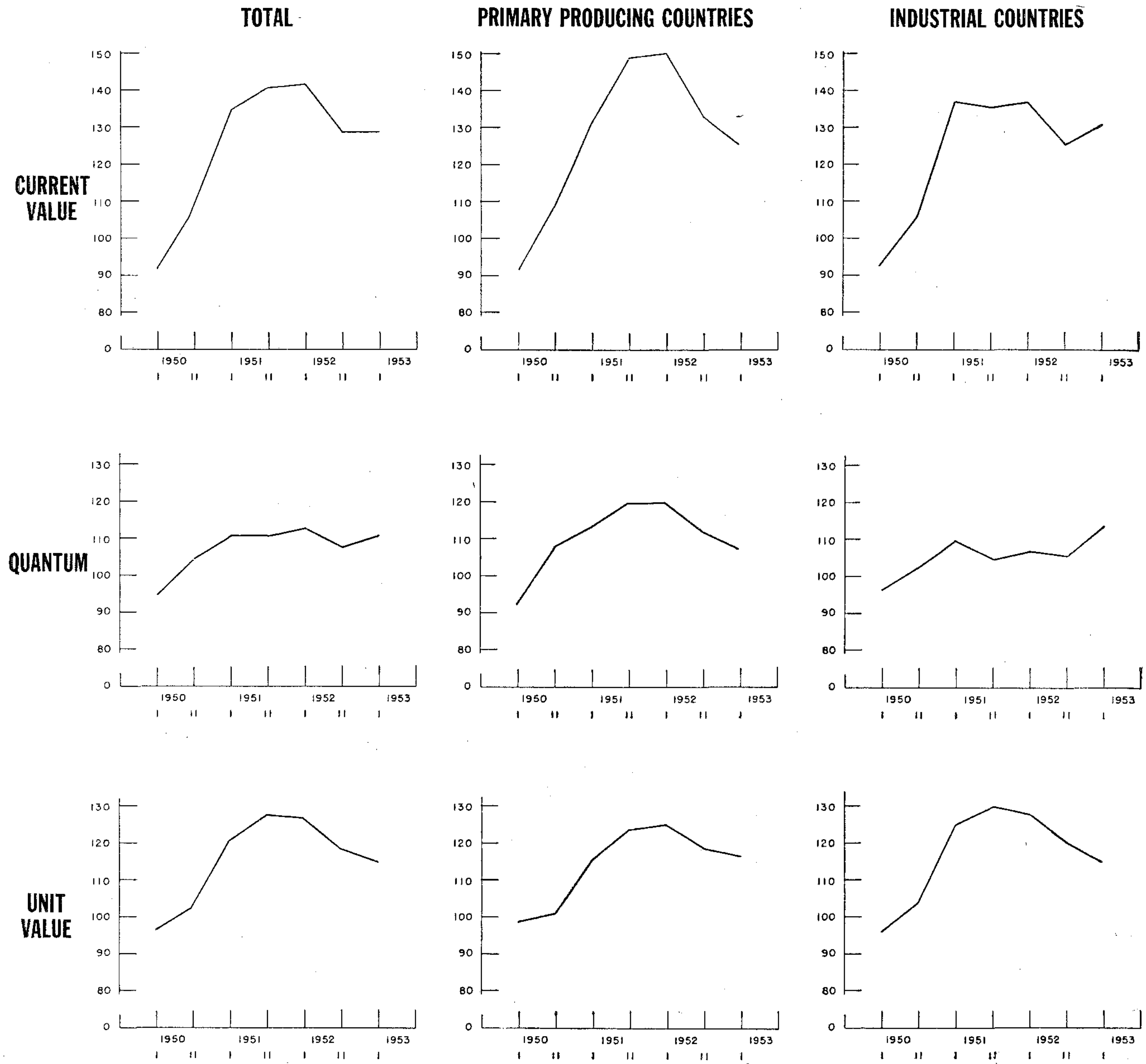
The decline in exports in the first half of 1952 affected primarily the OEEC countries and was due largely to the continuing decline in exports of consumer goods, especially textiles. By the second half of 1952, however, exports of OEEC countries had become stabilized, and during 1953 they recovered and even rose above the preceding peak. Exports of the United States, however, fell sharply from the first to the second half of 1952 and, while they recovered somewhat in 1953, they lagged considerably behind those of the OEEC countries. Part of this change was accounted for by the steep decline in exports of the very same four primary products which had risen so considerably in the earlier period. To a significant extent it involved growing replacement of United States exports with other goods as output in Europe and elsewhere rose.

European export unit values were more affected than those of the United States by the changes in prices of primary products. Changes in average United States export unit values were restrained by the fact that export prices for food, and especially for grains, were more stable than the average. In addition, as part of the general government price stabilization programme, both its imports and exports were subject to controls which in some instances fixed prices at below world market levels. Accordingly, United States export unit values rose more moderately than those of Europe and declined to a lesser extent in the downturn, the increase in the first half of 1953 over the same period of 1950 being somewhat smaller for the United States than for Europe.

### Imports of industrial countries

Industrial countries led primary producers in changes in total value, quantum and unit value of imports (see table 38 and chart 2). The quantum of imports of industrial countries fell off in 1951 considerably earlier than that of primary producers and began rising by 1952 when imports of primary producers first started to decline. The import unit values of the industrial countries showed a significant lead over those of the primary

Chart 2. Indices of Current Value, Quantum and Unit Value of Imports of Primary Producing Countries and Industrial Countries, 1950 to 1953
(1950=100)




*Source:* See table 38.

producers. This was related to the lead in export unit values of primary producers over those of industrial countries which was discussed above.

The major influences affecting the fluctuations in quantum of imports of industrial countries have been briefly summarized in the course of the review of world export developments. The outstanding factor was the changing rates of inventory accumulation. The sharp rise in imports in 1950/51 reflected speculative buying and inventory buildup; the downturn in 1951/52 was primarily a reaction to this upswing, and the upturn in 1952/53 was partly a resumption of the earlier rising trend. In addition to market forces, government measures such as stockpiling stimulated imports, especially during the upturn of 1950/51, while a host of direct and indirect controls introduced to curb inflation and, in many European countries, also to protect the balance of payments, restricted imports in 1951/52. The upturn of 1952/53 was likewise considerably assisted by the relaxation of these measures, as inflationary pressures ebbed and the balance of payments of Europe improved.

Table 38. Indices of Current Value, Quantum and Unit Value of Imports of Primary Producing Countries and Industrial Countries, 1950 to 1953
(1950=100)

| Period | Total imports[a] | Imports of: Primary producing countries | Imports of: Industrial countries |
|---|---|---|---|
| *Current value in United States dollars:* | | | |
| 1950 First half | 92 | 91 | 93 |
| 1950 Second half | 108 | 109 | 107 |
| 1951 First half | 135 | 131 | 137 |
| 1951 Second half | 141 | 149 | 136 |
| 1952 First half | 142 | 150 | 137 |
| 1952 Second half | 129 | 133 | 126 |
| 1953 First half | 129 | 126 | 131 |
| *Quantum:* | | | |
| 1950 First half | 95 | 92 | 97 |
| 1950 Second half | 105 | 108 | 103 |
| 1951 First half | 111 | 113 | 110 |
| 1951 Second half | 111 | 120 | 105 |
| 1952 First half | 113 | 120 | 107 |
| 1952 Second half | 108 | 112 | 106 |
| 1953 First half | 111 | 108 | 114 |
| *Unit value in United States dollars:* | | | |
| 1950 First half | 97 | 99 | 96 |
| 1950 Second half | 103 | 101 | 104 |
| 1951 First half | 121 | 116 | 125 |
| 1951 Second half | 128 | 124 | 130 |
| 1952 First half | 127 | 125 | 128 |
| 1952 Second half | 119 | 119 | 120 |
| 1953 First half | 116 | 117 | 115 |

*Source:* United Nations Department of Economic Affairs; based on national trade statistics.

[a] Figures for the value of trade between countries in a given period as reported by the exporting country are generally not in precise agreement with the figures as reported by the importing country because of differences between the countries in coverage and in valuation practices (notably the difference between f.o.b. and c.i.f. valuation) and because of time lags between shipment and receipt of goods.

The fluctuations in total imports of the industrial countries, large as they were, might have been considerably larger, had it not been for important differences in timing between countries. Imports of the United Kingdom and France, in particular, lagged considerably behind those of other industrial countries, and thus moderated the changes in total imports. Inventories of imported goods were reduced in 1950 in these two countries and were replenished in 1951 at a time when the import demand of other countries was already slackening. Severe balance of payments difficulties in 1951 led these two countries to impose restrictions on imports in 1952 which they began to relax only in 1953.

From a longer-run view the trend in imports of the industrial countries is more significant than the fluctuations. During the period from 1950 to 1953 the general trend in imports of these countries was upward, owing primarily to the growth in their output and incomes. All industrial countries shared in this trend, although the movement was most striking in Japan and western Germany. In Japan, much of the increase represented a recovery from depressed levels of output, while in Germany, where recovery to pre-war levels of output had already been achieved by 1950, further large gains in production were made possible by the absorption of unemployed manpower.

In view of the significant role of inventory movements, it is not surprising that the fluctuations in imports of industrial countries were greater for primary materials than for manufactured goods. It is noteworthy, however, that owing chiefly to developments in the United States, the rise in imports of industrial countries from the first half of 1950 to the first half of 1953 was greater for manufactured goods than for primary products. In fact, whereas imports of manufactured goods rose more than manufacturing output, imports of primary products rose in smaller proportion.

Moreover, not only imports of industrial countries but also world output of primary products rose less than did manufacturing output. Mining rose more or less in line with manufacturing only to the end of 1952, while production in agriculture, both of food and of raw materials, lagged behind significantly throughout the period (see table 39). Even mining production lagged behind output of the metal and metals products industry, the rise in mining being approximately proportional to that in manufacturing as a whole only because the increase in the latter was partly checked by the adverse developments in the textile industry.

Despite this lag in primary production, the relative export prices of primary producers and of industrial countries in the first half of 1953, as has already been seen, were not greatly different from those in the first half of 1950. This suggests that the demand for primary products failed to keep pace with that for manufactured goods. The relatively smaller rise in demand for minerals in relation to the considerable increase in output of the finished goods into which they enter probably reflects a decline in public and private demand for inventories, although the requirement of a relatively higher degree of fabrication for military goods than for civilian goods may have been a contributing factor. An important element in the explanation of the lag in demand for foodstuffs and fibres is that the demand for consumption is related, not to output of industrial goods, but to incomes. Incomes have risen to a smaller degree than output of industrial goods for two reasons: first, because the gross national product has generally increased less than manufacturing output; and second, because private incomes have risen less than the gross national product owing to the higher tax levies which were imposed late in 1950 and in 1951 to curb inflationary pressures. Contributing factors in the case of fibres were the more cautious inventory policy following upon the recession in the textile industry in 1951/52, and the continued expansion in output of synthetic fibres.

Table 39. Indices of Manufacturing, Mining and Agricultural Production in Primary Producing and Industrial Countries, 1950 to 1953

| Industry and group | 1950 First half | 1950 Second half | 1951 First half | 1951 Second half | 1952 First half | 1952 Second half | 1953 First half |
|---|---|---|---|---|---|---|---|
| *Manufacturing* (1950 = 100): | | | | | | | |
| Primary producing countries | 100 | 100 | 109 | 105 | 111 | 107 | 113 |
| Industrial countries | 95 | 105 | 110 | 108 | 110 | 113 | 121 |
| TOTAL | 95 | 105 | 110 | 107 | 110 | 113 | 120 |
| *Mining* (1950 = 100): | | | | | | | |
| Primary producing countries | 96 | 104 | 107 | 111 | 113 | 118 | 117 |
| Industrial countries | 95 | 105 | 107 | 111 | 109 | 110 | 112 |
| TOTAL | 95 | 105 | 107 | 111 | 110 | 112 | 113 |

| *Agriculture* (1949/50 = 100): | 1949/50 | 1950/51 | 1951/52 | 1952/53 |
|---|---|---|---|---|
| Primary producing countries | 100 | 102 | 103 | 106 |
| Industrial countries | 100 | 102 | 105 | 107 |
| TOTAL | 100 | 102 | 104 | 107 |
| *Food:* | | | | |
| Primary producing countries | 100 | 101 | 102 | 105 |
| Industrial countries | 100 | 104 | 105 | 108 |
| TOTAL | 100 | 103 | 104 | 107 |

*Source:* Mining and manufacturing: Statistical Office of the United Nations. Agriculture: Food and Agriculture Organization of the United Nations.

The greater rise in imports of manufactures than in manufacturing output was accounted for by changes occurring within the United States. From the first half of 1950 to the corresponding period of 1953 its imports of manufactures rose by 44 per cent whereas its manufacturing production rose by only 29 per cent. In western Europe, the increase in intra-group trade in manufactures was offset by a decline in imports from the United States. Both the increase in United States imports from Europe and the decline in European imports from the United States were attributable in part to the increase in exportable supplies of industrial goods in Europe. The rise in United States demand in relation to its output was of great significance in bringing its trade with the rest of the world into greater balance; it will be reviewed briefly in the second part of this chapter and examined in some detail in chapter 5.

### Imports of primary producing countries

The dependence of changes in imports upon those in export proceeds is much closer for primary producers than for industrial countries. First, the capacity to import is more closely linked to exports in most primary producing countries than it is in Europe, where the availability of United States assistance during the post-war period has largely bridged the gap between export sales and import requirements. Second, the indirect link between imports and exports which is a product of the relationship between import demand and income on the one hand and the effect of changes in export earnings upon income on the other, is also stronger for primary producers than for industrial countries. This follows from the fact that changes in the national incomes of primary producing countries are, on an average, much more dependent than those of industrial countries upon changes in their export earnings.

It was to be expected, therefore, that the fluctuations in export earnings of primary producers from 1950 to 1953 would give rise to roughly corresponding changes in their imports, albeit with some time lag. It is noteworthy, however, that the cycle in imports showed a larger amplitude than that of exports; the rise in imports not only lasted considerably longer but the peak reached was also higher. The peak in export proceeds was reached in the first half of 1951 at 37 per cent above the year 1950 and 57 per cent above the first half. The peak in import value, however, was reached only in the first half of 1952 at about 50 per cent above the year 1950 and 64 per cent above the first half of that year. The subsequent drop in imports was very sharp; in the first half of 1953 the value of imports was no higher than that of exports in relation to the first half of 1950 (see table 38). The sharper rise in imports than in exports suggests that primary producing countries were prepared to see their foreign exchange reserves run down. This policy was motivated by two major considerations. Just as the developed countries were concerned with possible shortages of raw materials in 1950/51, so the under-developed countries feared that shortages of capital equipment might arise. On the whole this fear proved to be even less well-founded than the other, as output in the developed countries rose sufficiently to increase supplies available for civilian use at home and abroad despite the rise in military expenditure. In addition, many countries, particularly in Latin America, recalling the depreciation in real value of their foreign exchange reserves during the war and early post-war inflation, accelerated their expenditure on imports in fear of renewed large-scale inflation. However, the quantum of imports of primary producers in fact reached a peak at the same time as did their import unit values, and fell only after unit values began to fall.

It was not until about a year after the downturn in the value of exports that total imports of primary producers were curtailed. The delay reflected not only the long delivery periods required for heavy goods but also the time lag between changes in export proceeds and effects of these upon consumption and investment. Owing to this delay, however, many primary producers began to encounter considerable balance of payments difficulties in 1951/52 and found that they had to resort to drastic import restrictions to restore their international accounts to balance. This was particularly marked in the oversea sterling area, but the change was also substantial in Latin America.

## Increased Balance in the Regional Pattern of Trade

One of the most significant developments in international trade from 1950 to 1953 was the greater degree of balance that was attained in the regional pattern of commercial trade among the private enterprise economies. As has already been noted, in 1952/53 the net balances on account of services and private capital flow, excluding United States foreign economic aid, were in fact sufficient to finance the balances on trade account. Among the most important forces which have contributed to this improvement have been the rise in United States import demand and increased output in the non-dollar areas of exportable commodities as well as of goods competing with imports. The latter factor has not only reduced the need for imports but also significantly increased exportable supplies, and it has made possible a growing substitution of non-dollar sources of supply for exports from the dollar area. The adoption of fiscal and monetary policies to eliminate inflationary pressures and, in particular, to curb inventory accumulation has been another major factor in reducing the imbalance in world trade.

In assessing the significance of the 1953 pattern of trade, however, account must also be taken of some special and some temporary factors. Part of the improvement in the total as distinct from the commercial trade balance from 1950 to 1953 represents an increase in United States military expenditure abroad. In addition, the change in the commercial trade balance stems in part from a shift in United States terms of trade in favour of the rest of the world. Moreover, temporary factors have contributed in part to increase United States import demand to very high levels; in the second half of 1953 as United States inventory accumulation decreased, its imports in fact fell by about 6 per cent below the first half. Finally, it should be noted that exchange and trade restrictions continue to be relied upon in a large part of the world, especially to reduce imports from the United States.

It would be desirable to obtain an estimate, however approximate, of the extent of the global change in the degree of balance in world trade which has occurred. One such measure might be based upon the proportion of world trade that is not self-balancing but must instead be financed by payments on service and capital accounts. With given balances on service and long-term capital account, changes in the amount of world trade that is not self-balancing would measure changes in the extent to which "means of payment" in the form of gold and short-term capital flows were required to balance world trade.[8] In a world of only partially convertible currencies, however, this measure cannot be calculated unambiguously since it depends upon the degree of transferability of balances which prevails among the trading areas. If currencies are inconvertible and the proceeds from export balances are not transferable, then for each country the sum of its gross bilateral export balances with every other country should enter into the calculation. If, on the other hand, currencies are convertible and an import balance with one country can be financed from the proceeds of an export balance with another, then for each country only its net export balance with the world should be included.[9] In such circumstance bilateral balances are a reflection of multilateralism in trade, and a larger sum of bilateral balances, for a given sum of net balances, far from indicating the need for a greater sum of "means of payment" represents instead a greater degree of multilateralism in trade.

[8]It would of course be preferable to calculate this measure directly on the basis of the combined balances on account of trade, services and long-term capital flow rather than merely on the basis of trade balances, since to the extent to which balances on services and long-term capital account offset trade balances no gold and foreign exchange reserves are required for settlement. In the absence of adequate data on the distribution of service and long-term capital payments by origin and destination, however, the measure may be approximated on the basis of trade balances alone, bearing in mind, however, the qualification made above.

[9]The difference between these two methods may be illustrated by reference to the following illustrative matrix of trade balances among four countries:

| *Balance of* | *Balance with* | | | | *Net balances* | | *Sum of bilateral balances* | |
|---|---|---|---|---|---|---|---|---|
| | *A* | *B* | *C* | *D* | + | − | + | − |
| A | x | 30 | −20 | 10 | 20 | — | 40 | 20 |
| B | −30 | x | −15 | 5 | — | 40 | 5 | 45 |
| C | 20 | 15 | x | 25 | 60 | — | 60 | — |
| D | −10 | −5 | −25 | x | — | 40 | — | 40 |
| | | | | | 80 | 80 | 105 | 105 |

On the first assumption the amount of trade requiring financing by payments on service and capital account would be 80, while on the second assumption it would be 105.

In reality some balances are transferable while others are not, but it is impossible to determine with reasonable accuracy the extent of transferability. Allowance may be made, however, for those balances which either are completely transferable or at least are not likely to raise any problem of financing. Clearly, balances with countries of the dollar area are transferable. The balances of each country with the countries of the dollar area may therefore be combined and calculated on a net rather than a gross basis. Although sterling balances are not completely transferable, positive balances with one country of the sterling area can be used by a large proportion of the major trading countries to offset negative balances with other members of the sterling area. The sterling area may therefore also be treated as a unit and balances with it calculated on a net rather than a gross basis. Balances of members of the European Payments Union (excluding sterling area members) with each other and balances of the sterling area with them are transferable within the union and to this extent consolidation of their balances does not introduce any error. The remaining countries[10] have been classified

[10] Excluding eastern Europe and mainland China.

**Table 40. World Exports,[a] by Origin and Destination, 1950 to 1953**
(Millions of United States dollars)

| *Exports from* | *Exports to* Dollar area | Sterling area | Continental western Europe and dependencies | Latin America non-dollar area | Rest of world[b] |
|---|---|---|---|---|---|
| *Dollar area:* | | | | | |
| 1950 First half | 3,529 | 1,047 | 1,849 | 311 | 651 |
| 1950 Second half | 4,322 | 1,072 | 1,760 | 451 | 657 |
| 1951 First half | 4,793 | 1,398 | 2,230 | 639 | 1,062 |
| 1951 Second half | 4,720 | 2,005 | 2,286 | 870 | 1,198 |
| 1952 First half | 4,980 | 1,855 | 2,383 | 748 | 1,107 |
| 1952 Second half | 5,180 | 1,314 | 1,928 | 534 | 1,073 |
| 1953 First half | 5,267 | 1,285 | 1,797 | 428 | 1,082 |
| *Sterling area:* | | | | | |
| 1950 First half | 1,003 | 3,401 | 1,493 | 174 | 590 |
| 1950 Second half | 1,193 | 3,565 | 1,778 | 216 | 816 |
| 1951 First half | 1,618 | 4,467 | 2,354 | 235 | 1,053 |
| 1951 Second half | 1,190 | 4,843 | 1,837 | 232 | 813 |
| 1952 First half | 1,215 | 4,506 | 1,991 | 200 | 985 |
| 1952 Second half | 1,094 | 4,215 | 1,984 | 148 | 914 |
| 1953 First half | 1,147 | 4,388 | 2,084 | 102 | 884 |
| *Continental western Europe and dependencies:* | | | | | |
| 1950 First half | 576 | 1,089 | 3,959 | 336 | 532 |
| 1950 Second half | 871 | 1,377 | 4,658 | 441 | 648 |
| 1951 First half | 1,114 | 1,955 | 5,574 | 546 | 770 |
| 1951 Second half | 1,113 | 2,234 | 6,207 | 676 | 891 |
| 1952 First half | 1,029 | 1,922 | 6,121 | 564 | 986 |
| 1952 Second half | 1,210 | 1,603 | 6,323 | 413 | 947 |
| 1953 First half | 1,263 | 1,640 | 6,110 | 369 | 885 |
| *Latin America non-dollar area:* | | | | | |
| 1950 First half | 544 | 270 | 344 | 138 | 88 |
| 1950 Second half | 824 | 243 | 452 | 235 | 85 |
| 1951 First half | 891 | 209 | 517 | 201 | 113 |
| 1951 Second half | 629 | 395 | 546 | 249 | 74 |
| 1952 First half | 570 | 112 | 422 | 209 | 99 |
| 1952 Second half | 778 | 121 | 424 | 178 | 77 |
| 1953 First half | 740 | 240 | 420 | 205 | 120 |
| *Rest of world:*[b] | | | | | |
| 1950 First half | 409 | 743 | 579 | 55 | 447 |
| 1950 Second half | 537 | 827 | 676 | 26 | 334 |
| 1951 First half | 678 | 1,307 | 868 | 74 | 580 |
| 1951 Second half | 533 | 1,288 | 912 | 108 | 466 |
| 1952 First half | 584 | 1,029 | 743 | 66 | 438 |
| 1952 Second half | 596 | 703 | 805 | 24 | 661 |
| 1953 First half | 609 | 654 | 715 | 39 | 546 |

*Source:* Statistical Office of the United Nations.

[a] Figures in this table contain estimates made to fill gaps in reported data, particularly in the case of exports from dependent territories.

[b] Excluding USSR, eastern Europe and mainland China.

into two groups—non-dollar Latin America and the rest of the world. To the extent to which balances with individual countries within each of the last three groups are not transferable, consolidation of their balances overstates the proportion of trade which is self-balancing. What is important, however, is the *direction of change* in the proportions rather than their absolute size. There is no reason to believe that the changes reflected in the data examined here would be invalidated by the above qualification. On the contrary, the degree to which balances of individual countries within the European Payments Union can be offset against one another has undoubtedly increased since the first half of 1950. It is likely therefore that a calculation of the change in the degree of balance of world trade on the assumption of unchanged conditions of transferability will understate rather than overstate the increase in the degree of balance.

The distribution of exports by origin and destination for the five groups of countries listed above is shown in table 40. From these data the balance of exports of each group with each other group may be derived. Each such balance represents the amount of trade between the two areas which is not self-balancing but has to be financed by payments on service and capital account under the assumed conditions of transferability of balances. The sum of the gross bilateral export balances for all areas is, of course, equal to the sum of gross bilateral import balances. This sum dropped from 10 per cent of world trade in the first half of 1950 to 8 per cent in the first half of 1953. At the annual rate of exports of the latter period this represents a drop equivalent to about one and a half billion dollars in the amount required to balance world trade accounts. Except for the second half of 1951 and the first half of 1952, a small part of this total represented bilateral import balances of the dollar area with the sterling area and with non-dollar Latin America which would not give rise to any balance of payments problem.[11] As may be seen from table 41, however, allowance for this element would not significantly affect the comparison between the first half of 1950 and the first half of 1953, although it would show a greater degree of fluctuation in the required amount of financing in the course of the period from 1950 to 1953.

Table 41. Sum of Gross Bilateral Balances of Major Trading Areas[a]

(Billions of United States dollars)

| Period | Total: Amount | Total: Per cent of world exports | Import balances of: Dollar area | Import balances of: All other |
|---|---|---|---|---|
| 1950: | | | | |
| First half | 2.5 | 10 | 0.2 | 2.3 |
| Second half | 2.3 | 8 | 0.5 | 1.7 |
| 1951: | | | | |
| First half | 2.8 | 8 | 0.5 | 2.3 |
| Second half | 3.8 | 10 | — | 3.8 |
| 1952: | | | | |
| First half | 3.5 | 10 | — | 3.5 |
| Second half | 2.6 | 8 | 0.2 | 2.4 |
| 1953: | | | | |
| First half | 2.6 | 8 | 0.3 | 2.3 |

*Source:* Statistical Office of the United Nations.
[a] Major trading areas as shown on table 40.

#### Trade pattern of the United States

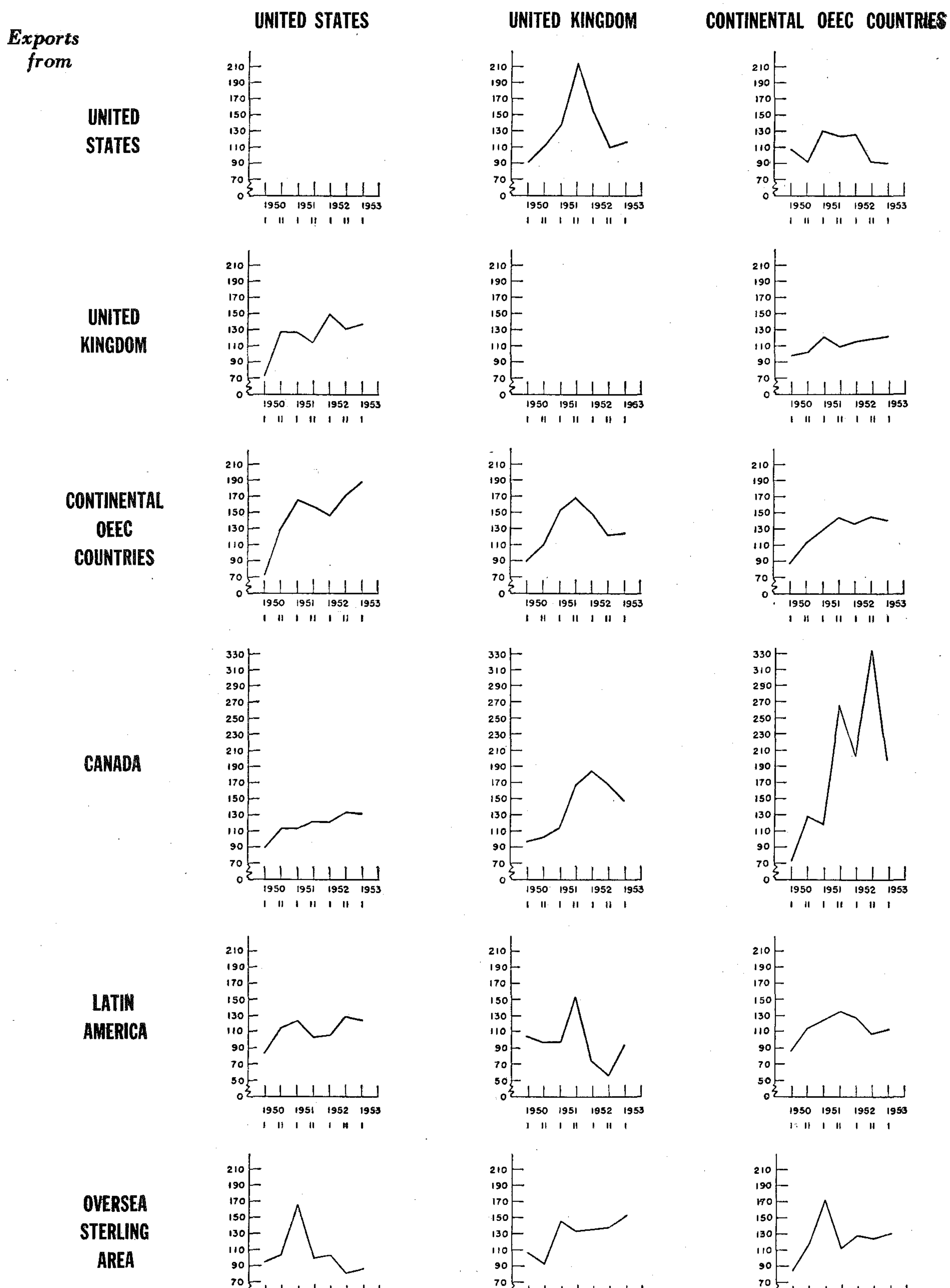
Perhaps the outstanding feature of the changes in the regional pattern of trade is the shift in the relative position of the United States (see chart 3 and table 40). From the first half of 1950 to the first half of 1953 there was a significant decline in the relative share of United States exports in the world total and a rise in the relative share of world exports to the United States, bringing the two into closer balance than in any other post-war year. The change is due in part to a shift in the United States terms of trade of about 5 per cent in favour of the rest of the world, but to a significant extent it also represents a change in trade valued at constant prices. Western Europe benefited most from this change; in fact, its gain was greater than that for the world as a whole. In the face of a rise in the value of world exports of more than one-third, the value of United States exports to western Europe actually fell in absolute amount, while European exports to the United States more than doubled.

In view of the rise in export prices it is clear that the fall in value of United States exports to Europe represents a sharp decline in quantum of exports. This decline was considerably greater for food and raw materials than for manufactured goods; only the quantum, not the value, of exports of manufactured goods appears to have fallen. The value of United States exports of food and raw materials had risen sharply from 1950 to 1951 but there was a reversal in 1952, and in the first half of 1953 the value fell below the 1950 level. This fall reflected the marginal character of some exports such as coal, the increase in European supplies of such commodities as grain,[12] petroleum products and Turkish cotton, and the growing tendency towards replacing imports from the dollar area by imports from other sources of supply, as in the case of cotton and tobacco. Substitution was made possible by increased production in Europe and elsewhere; the incentives for such substitution arose not only out of the usual balance of payments and commercial policy considerations but also from the fact of the increasing competitiveness of sup-

[11] On the contrary, in the first half of 1951 the sterling area and non-dollar Latin America had deficits with the other two areas which they could have financed with the proceeds from their export balances with the dollar area.

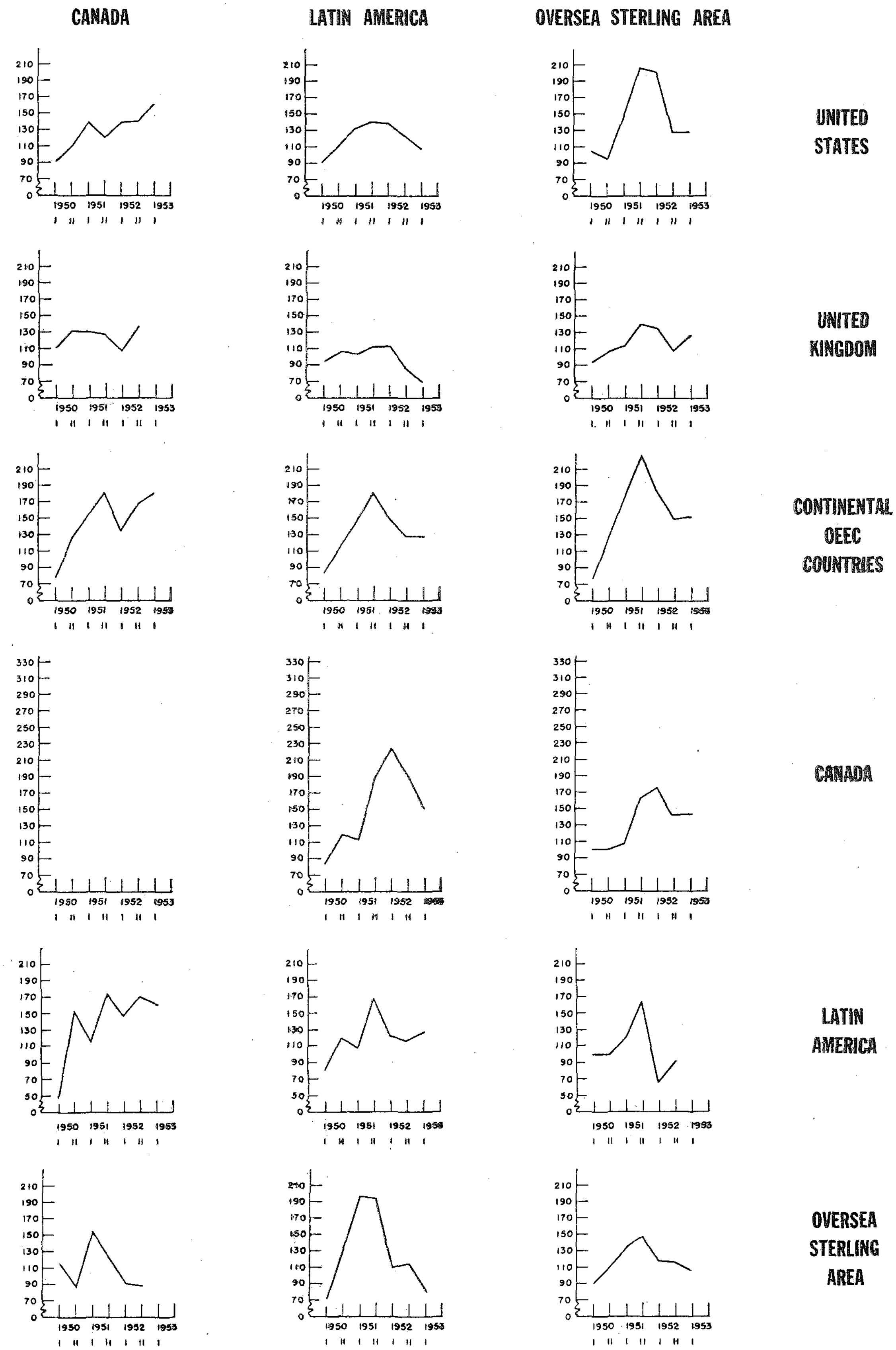
[12] The value of United States grain exports in the first half of 1953, although much below the peak levels, was nevertheless higher than in the first half of 1950. Further improvement in European wheat output in 1953/54, however, suggests a continued decline in United States commercial exports.

Chart 3. World Exports, by Origin




*Source:* See table 40.

and Destination, 1950 to 1953 (1950 = 100)



plies from non-dollar areas. Unlike United States exports of foodstuffs and raw materials, its exports of manufactured goods to Europe were subject to little cyclical fluctuation; the major factors in the decline in quantum of such exports from 1950 to 1953 appear to have been higher European output and the increased liberalization of intra-European trade.

In contrast to exports of the United States to Europe, the more than doubling in value of Europe's exports to the United States represents a considerable increase in quantum. The increase appears to have been most significant in foods and in durable manufactured goods. The largest part of the increase occurred from 1950 to 1951; in the first half of 1952 there was a setback, but since then there has been an additional rise in exports, largely of finished manufactures. On the supply side this increase was made possible by the growth in European productive capacity but was to some extent also facilitated by various export incentive schemes. On the demand side the rise in United States imports was related to the higher level of United States output and income and to the rise in inventory accumulation. The greater increase in its import demand for European goods than in its income reflected in part temporary shortages arising from the rapid rate of expansion of the United States economy. It is significant in this respect that a large part of the increase in exports to that country was concentrated in the investment goods industries. Nevertheless, the fact that the higher level has been maintained and even increased since 1951 suggests that more fundamental factors have also been operative, not only on the supply side but on the demand side as well. One such demand factor may be the longer-term reaction to the 1949 devaluation. While a part of the price differential has been eliminated through the larger increase in European than in United States prices since 1950, European goods in 1953 were on the whole still relatively cheaper in United States dollars than they had been prior to the devaluation.

The position of the primary producers in relation to the United States varied from country to country. While Canadian exports to the United States rose more rapidly than world exports, the increase in United States exports to Canada was very much greater. These exports to Canada were associated with the expansion of United States private direct investment in that country, as well as with the rapid growth in Canadian output and income. They were also stimulated by the large inflow of capital funds into Canada, which contributed both to an appreciation of the Canadian dollar and to elimination of import restrictions.

Among the other primary producers the position of Latin America improved as compared with 1950, but there was deterioration elsewhere, especially in the oversea sterling area. While Latin American exports to the United States fell sharply in 1951/52, they recovered significantly in 1952/53; the rise in this trade from the first half of 1950 to the first half of 1953 was somewhat greater than the increase in total world exports. On the other hand, United States exports to Latin America, after rising throughout 1950 and 1951, fell considerably in 1952 and continued moderately downward in 1953, so that the increase from the first half of 1950 to the first half of 1953 was substantially smaller than that in total world exports.

Trade of the oversea sterling area with the United States fluctuated more violently, having deteriorated significantly by the first half of 1953 compared with the first half of 1950. The rise in the area's exports to the United States in 1950/51 was greater than in the case of Latin America, but the subsequent decline was larger and there was little upturn in 1953. In the first half of that year the value of exports to the United States was about 10 per cent below that of the first half of 1950 in current prices, and the quantum must have fallen considerably more. The difference in the value of exports of these two areas to the United States was attributable largely to the difference in commodity composition. Latin American exports to the United States consisted mainly of foodstuffs and minerals, which, as has been previously noted, were more stable than other primary products. The oversea sterling area exports to the United States, on the other hand, were heavily weighted by wool, rubber and tin, which slumped badly after the 1950/51 boom. Exports of the United States to this area had risen even more sharply in 1950/51 than trade in the opposite direction, but with the falling off of export receipts in the oversea sterling area, the latter drastically curtailed imports from the United States. Nevertheless, exports of the United States to this area in the first half of 1953 were higher than in the corresponding 1950 period, although proportionately not so high as the rise in the world total. There was accordingly a significant decrease in net dollar earnings of the oversea sterling area from 1950 to 1953.

### Trade pattern of the OEEC countries

The improvement in the trade position of western Europe with the United States was far more significant in continental OEEC countries than in the United Kingdom. Their trade with the United States was greatly unbalanced in the first half of 1950, and the improvement by the first half of 1953 was striking. The continental OEEC countries gained more than the United Kingdom, both in raising exports to the United States and in reducing imports from that country. The United Kingdom had already severely curtailed its imports from the dollar area by 1950, so that there was less room for further cuts in United Kingdom imports than in the case of continental OEEC countries. While 1952/53 showed almost a complete reversal of the extraordinary rise which had occurred in 1951, the value of United States exports to the United Kingdom in the first half of 1953 was still about 30 per cent above that of the first half of 1950. The value of exports of the United States to continental OEEC countries, on the other hand, not only rose more modestly in 1951 but by the first half of 1953 had fallen to a level below that of the first half of 1950. This change mainly reflected expanded supplies both within the area and in other non-dollar countries, which reduced import requirements from the United States. This same factor was also significant with respect to exports to the United States since the large increase in output of the OEEC countries enabled them to expand their exports to the United States very considerably.

Exports of the continental OEEC countries, not only to the United States and Europe but also to primary producers, were affected by this factor. In addition, several countries, notably western Germany, promoted exports through extension of credit facilities and various export incentive programmes. The result was that, from the first half of 1950 to the same period in 1953, continental OEEC exports rose more than those of the United Kingdom to all major primary producing areas. It is noteworthy that this occurred even in exports to Canada and the oversea sterling area. The value of United Kingdom exports to Latin America was even lower in absolute amount than in the earlier period, and the quantum of exports must have fallen sharply. An important factor contributing to this development was the drastic curtailment of United Kingdom imports from Latin America during 1952, owing to lower exportable supplies of grain and meat in Argentina, to the reluctance of some countries to meet competitive prices, and in some instances to reduced demand by the United Kingdom.

The difference in rates of growth of output in the United Kingdom and in OEEC countries was also reflected in the exports of primary producers to them. Even Canada and the oversea sterling area showed a smaller rise in exports to the United Kingdom than in exports to continental OEEC countries. Latin American exports to the United Kingdom fell even in absolute amount as compared with the first half of 1950, whereas exports from this area to continental OEEC countries were significantly higher. The same was true with respect to exports of other primary producers considered as a group.

The rise in total exports of the United Kingdom to primary producers was smaller than the rise in exports of primary producing countries to the United Kingdom. On the other hand, the rise in exports of the continental OEEC countries to primary producers was nearly double the increase in trade in the opposite direction. In the aggregate, exports from the United Kingdom dropped from 12 to 11 per cent of the world total while world exports to the United Kingdom declined from 13 to 12 per cent between the first half of 1950 and the first half of 1953. Exports of continental OEEC countries, on the other hand, increased their share from over 22 per cent to over 27 per cent of the world total, while world exports to them decreased slightly in relation to the world total. This shift brought the total trade of continental OEEC countries into closer balance than it had previously been during the post-war period.

### Trade patterns of primary producers

It has already been noted that there were important differences among Canada, Latin America and the oversea sterling area in their trade with the United States. United States exports to Canada normally exceed Canadian exports to the United States; during the period under consideration the amount of this excess increased. On the other hand, exports of Latin America and also of the oversea sterling area to the United States in each case normally exceed United States exports to them. From the first half of 1950 to the first half of 1953 this excess increased for Latin America but decreased for the oversea sterling area. There were, however, offsetting changes for each of these three areas in their trade with the rest of the world.

In the case of Canada, the increase in its exports to western Europe offset a part of the gap which had developed in its trade with the United States. These exports, it is true, had fallen considerably below the peak levels of 1952, when Canada recorded an exceptionally large volume of wheat exports, but they remained nevertheless significantly above the pre-Korean level. The increase was, in fact, proportionately greater than in total world exports. The rise in European exports to Canada, while significant, was not so large as that in Canadian exports to Europe.

In Latin America, in contrast to Canada, the deterioration in trade with the United Kingdom offset a part of the improvement in its trade with the United States. As has already been noted, both exports of Latin America to the United Kingdom and United Kingdom exports to Latin America fell significantly, but the balance in favour of Latin America was substantially reduced.

The changed position in the regional trade pattern of the oversea sterling area was even more striking. Owing to balance of payments difficulties stemming from reduced exports and greatly enlarged imports in 1951/52, it drastically curtailed its imports in the first half of 1953. The reduction affected even exports from the United Kingdom and the oversea sterling area itself. At the same time its exports to the rest of the world, except the United States, recovered significantly. In the first half of 1953 its exports to continental OEEC countries and to Japan had in fact risen more than in proportion to world exports, owing in large part to the increased demand associated with the rapid recovery and growth of national output in western Germany and Japan. These changes in trade of the oversea sterling area, both in exports to and imports from other areas, were more than sufficient to compensate for the deterioration in its balance with the dollar area. While the oversea sterling area thus increased the strength of sterling in world markets during this period, it reduced its contribution to the central gold and dollar reserves.

# Chapter 5

# INTERNATIONAL TRADE AND PAYMENTS OF THE UNITED STATES, WESTERN EUROPE[1] AND JAPAN

## The Balance in Dollar Transactions

In 1953 the export balance of the United States on current transactions in goods and services, excluding military aid exports, amounted to some $400 million. This balance represented a considerable reduction from the level of $2.3 billion in 1952, and was, in fact, the lowest in any year of the post-war period. The rest of the world added some $2.3 billion to gold and dollar reserves during 1953 as a result of transactions with the United States, including the receipt of $2.0 billion in economic grants and loans made by the United States Government.

The total world supply of dollars from transactions with the United States was slightly lower in 1953 than in 1952. An increase in the value of imports of goods and services of over $800 million, as shown in table 42, offset most of the decline in economic aid and private capital outflow.

The total value of imports of merchandise for domestic consumption was little changed from 1952 to 1953; average import prices decreased over 4 per cent, and the quantum of imports rose more than 4 per cent, accompanying an approximately equivalent increase in the real national product.

There was some increase in the value of imports from the Western Hemisphere and particularly from western Europe. This was due mainly to larger purchases of foodstuffs and manufactured consumer goods, in line with higher domestic consumption, and of metals. Imports of metals, which had been increasing since the early part of 1952, rose to a peak in the second quarter of 1953 as a result of the greater supplies and competitiveness of foreign products, and of higher deliveries to private and strategic stocks, which were facilitated by a drop in consumption in western Europe. However, overbuilding of private stocks of metals caused a sharp reversal in imports in the second half of 1953.

On the other hand, the value of merchandise imports from the oversea sterling area and from other countries in Africa and Asia was lower in 1953 than in 1952. Of major importance was a drastic cut in the value of rubber imports due to lower purchases for the strategic stockpile, but there were also lesser declines in the import values of such products as cocoa, textile fibres and burlap—partly or wholly as a result of a fall in prices.

Gross outlay on transport account rose slightly in 1953 notwithstanding a decline in freight rates, owing to greater competitiveness of foreign shipping. Travel expenditure increased by nearly $90 million in relation to 1952. In addition, the supply of dollars, particularly to western Europe and Japan, was augmented by an increase in United States oversea military expenditure of $680 million from 1952 to 1953.

Economic aid to western Europe as a whole continued to decline in 1953, but remained at a relatively high level for France, Greece, Italy and the United Kingdom. Improvements in balance of payments positions made it possible during 1953 to terminate economic aid to Austria, Denmark, Iceland, the Netherlands and Norway; economic aid allocations to western Germany also ceased during this period except for special funds for western Berlin. Aid had previously been ended for Belgium, Ireland, Luxembourg, Portugal and Sweden. However, there was an increase in United States economic and technical assistance to a number of underdeveloped countries.

The sharp drop in the net outflow of private capital mainly affected portfolio investment and short-term capital outflow, though direct investment declined as well.[2] There was probably a decline in short-term credit accommodating commercial exports as the latter fell. In addition, as dollar balances improved in other countries, repayments were made to the United States of both short-term and long-term liabilities. In the case of Brazil, a reduction in commercial arrears to the United States was made possible by an advance of $300 million from the Export-Import Bank of Washington.

[1]Except where otherwise indicated, "western Europe" refers to the countries which are members of the Organisation for European Economic Co-operation (OEEC): Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey and the United Kingdom.

[2]Excluding reinvested earnings of foreign subsidiary companies.

Table 42. Supply of Dollars by the United States and their Use by Other Countries, 1952 and 1953
(Millions of United States dollars)

| *Item and period* | *Total* | *Western Europe*[a] | *Western European dependencies* | *Eastern Europe* | *Canada* | *Latin America* | *All other countries* | *International institutions* |
|---|---|---|---|---|---|---|---|---|
| SUPPLY OF DOLLARS BY THE UNITED STATES | | | | | | | | |
| *United States imports of goods and services:*[b] | | | | | | | | |
| 1952 First half | 7,784 | 2,004 | 680 | 21 | 1,391 | 2,098 | 1,578 | 12 |
| 1952 Second half | 8,010 | 2,173 | 520 | 21 | 1,621 | 2,137 | 1,501 | 37 |
| 1953 First half | 8,350 | 2,351 | 595 | 22 | 1,501 | 2,228 | 1,644 | 9 |
| 1953 Second half | 8,278 | 2,528 | 544 | 17 | 1,657 | 1,968 | 1,528 | 35 |
| *United States government unilateral transfers and loans:*[c] | | | | | | | | |
| 1952 First half | 1,446 | 915 | 5 | — | 7 | 30 | 448 | 41 |
| 1952 Second half | 1,095 | 658 | 25 | −2 | 12 | 56 | 320 | 26 |
| 1953 First half | 1,087 | 594 | 2 | −2 | 5 | 152 | 274 | 61 |
| 1953 Second half | 1,044 | 410 | −1 | 4 | 5 | 219 | 375 | 32 |
| *Private capital and donations (net):*[d] | | | | | | | | |
| 1952 First half | 959 | 94 | −12 | 7 | 272 | 378 | 163 | 57 |
| 1952 Second half | 541 | 152 | 2 | 7 | 139 | 53 | 126 | 62 |
| 1953 First half | 361 | 2 | 48 | 6 | 148 | 7 | 163 | −14 |
| 1953 Second half | 495 | 92 | 34 | 11 | 202 | −78 | 158 | 77 |
| *Total supply of dollars:* | | | | | | | | |
| 1952 First half | 10,189 | 3,013 | 673 | 28 | 1,670 | 2,506 | 2,189 | 110 |
| 1952 Second half | 9,646 | 2,983 | 547 | 26 | 1,772 | 2,246 | 1,947 | 125 |
| 1953 First half | 9,798 | 2,947 | 645 | 26 | 1,654 | 2,387 | 2,081 | 56 |
| 1953 Second half | 9,819 | 3,030 | 577 | 32 | 1,864 | 2,109 | 2,061 | 144 |
| USE OF DOLLARS BY OTHER COUNTRIES | | | | | | | | |
| *United States exports of goods and services:*[c d] | | | | | | | | |
| 1952 First half | 9,659 | 2,707 | 387 | 7 | 1,874 | 2,557 | 2,094 | 33 |
| 1952 Second half | 8,397 | 2,131 | 341 | 10 | 1,959 | 2,237 | 1,682 | 37 |
| 1953 First half | 8,509 | 2,097 | 343 | 5 | 2,120 | 2,124 | 1,788 | 31 |
| 1953 Second half | 8,545 | 2,176 | 331 | 20 | 1,933 | 2,213 | 1,819 | 33 |
| *Increase in gold and dollar assets:*[e] | | | | | | | | |
| 1952 First half | −19 | −305 | 25 | −3 | 161 | −37 | 141 | −1 |
| 1952 Second half | 1,202 | 771 | 64 | — | 141 | 170 | −14 | 70 |
| 1953 First half | 1,156 | 1,057 | 5 | −1 | −247 | 293 | 63 | −12 |
| 1953 Second half | 1,140 | 1,020 | −18 | −1 | 121 | −23 | −47 | 87 |
| *Multilateral settlements and errors and omissions:*[f] | | | | | | | | |
| 1952 First half | 549 | 611 | 261 | 24 | −365 | −14 | −46 | 78 |
| 1952 Second half | 47 | 81 | 142 | 16 | −328 | −161 | 279 | 18 |
| 1953 First half | 133 | −208 | 297 | 22 | −220 | −29 | 230 | 38 |
| 1953 Second half | 134 | −166 | 265 | 14 | −192 | −98 | 289 | 22 |

*Source:* United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), June 1953 and March 1954.

[a] Countries in the Organisation for European Economic Co-operation (OEEC), Finland, Spain and Yugoslavia.

[b] Including oversea military expenditures.

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

[d] Excluding reinvested earnings of foreign subsidiary companies.

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

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

The major change in the world use of dollars supplied by the United States in 1953 was a sharp decline in imports from the United States. Excluding special category shipments,[3] United States exports of merchandise fell from $12.6 billion in 1952 to $11.6 billion in 1953. As is explained more fully below, this was due to larger supplies, particularly of agricultural products, fuels and metal goods in non-dollar countries, a fall in the rate of accumulation of inventories of certain dollar goods, particularly raw cotton, and a tightening of import restrictions, notably in the sterling area and in South America.

The fall in merchandise exports of the United States was concentrated in the non-dollar area, while exports

[3] Consisting of commodities to which security restrictions apply regarding the publication of certain detailed export statistics.

to dollar countries were relatively well maintained, or even increased, especially to Canada, Colombia and the Philippines. The large increase in deliveries to Canada in 1953 reflected a further growth in output in that country, and the expansion of United States investment in Canadian natural resources. Canada's share in United States commercial exports rose from about 22 per cent in 1952 to more than 25 per cent in 1953.

Accompanying the fall in exports of merchandise in 1953 was a decline in gross receipts on transport account by the United States. Income from private investments fell slightly, while higher returns on government loans reflected interest payments by western Germany in respect of a settlement of the costs of post-war assistance to that country, and by other countries on reconstruction and other loans.

The rest of the world was able to add substantially to its gold and dollar assets in 1953, as already indicated. A major exception to this trend was Canada, where the combined effect of a considerably greater rise in imports from the United States than in exports to that country and of a fall in dollar receipts from third countries, was to cause some drawing upon gold and dollar reserves. In western Europe and, to a lesser extent, in Latin America, there were important additions to such reserves, which would have been even greater but for the repayment of long-term and short-term debts to the United States, already mentioned.

The improvement in the dollar balance of western Europe from 1952 to 1953 is also reflected in the residual item for that area in table 42, comprising multilateral settlements and errors and omissions. This item shows a change from net payments by western Europe of $692 million in 1952 to net receipts in 1953 provisionally estimated at $374 million. In part this change was due to higher net dollar earnings transferred to western Europe by affiliated currency areas; and to a reduction in western Europe's deficit with dollar countries other than the United States—the counterpart of lower multilateral receipts by Latin America and especially by Canada. In addition, it is likely that the outflow of unrecorded speculative capital from western Europe, as well as from other areas, to the United States dropped in 1953 as balance of payments positions improved.[4]

Although the total supply and use of dollars resulting from transactions with the United States were roughly stable from the first to the second half of 1953, as indicated in table 42, there were some important shifts in the composition of the dollar supply. Imports of merchandise for domestic consumption dropped 6 per cent in value, and approximately the same percentage in volume, between the two half years. This development accompanied a small decline in the real national product, and a changeover from a relatively high rate of inventory accumulation in the second quarter to inventory liquidation by the last quarter of the year. The commodity group mainly affected was semi-manufactures, particularly non-ferrous metals, but imports of rubber and textile fibres also fell.

The effect of this decline in imports and of the continued downward trend in economic aid upon the supply of dollars to the rest of the world was offset by rising oversea military expenditures by the United States and some increase in private capital outflow. Since commercial exports of goods and services were approximately unchanged from the first to the second half of 1953, the rate of additions to gold and dollar reserves by the rest of the world as a result of transactions with the United States was maintained. There were deteriorations in dollar balances in a number of primary producing countries, with the notable exception of Canada. On the other hand, while western Europe's commercial imports of goods from the United States fell further, dollar receipts from commercial exports to the United States were maintained, and from military expenditures continued to rise. Although the United Kingdom position was also affected by the payment of interest and principal on Canadian and United States loans at the end of the year, by a deterioration in the balance of the oversea sterling area with the United States, and by a reversal of the earlier favourable balance in the European Payments Union, gold and dollar reserves increased from the middle to the end of the year, but at a slower rate than in the previous period.[5]

### Factors in the dollar balance

The question naturally arises as to how far the situation in 1953 represented a trend towards equilibrium in international transactions, or how far, on the other hand, it was the result of temporary or special conditions. In order to throw light on this matter, it will be convenient to compare the position in the first half of 1953 with that prevailing immediately before the outbreak of hostilities in Korea in the first half of 1950. The selection of the first half of 1953 for comparison with the first half of 1950 is appropriate partly because

[4]Fluctuations in the total residual item in the United States balance of payments frequently reflect movements of unrecorded speculative capital, especially during periods of uncertainty regarding the balance of payments position of important countries or areas. Thus this item showed net unrecorded dollar payments to the United States of $156 million in 1950, when there was a substantial improvement in the world dollar balance compared with 1949. The value of such payments rose, however, to $536 million in 1951 and an annual rate of $1,098 million in the first half of 1952, as balance of payments positions deteriorated, especially in the franc and sterling areas and in South America. Subsequently as balance of payments deficits were reduced once more, unrecorded transactions dropped sharply in the second half of 1952 and in 1953.

[5]There was also an inflow of gold—estimated at over $200 million—from the Soviet Union into western Europe, much of it to the United Kingdom. See, for example, a statement by the Director of the United States Foreign Operations Administration, as cited in Foreign Operations Administration, *Secretariat Note S-27* (Washington, D.C., 6 January 1954), page 4.

**Table 43. United States Balance with Rest of World, 1950 and 1953**
(Millions of United States dollars)

| Item | 1950 First half | 1953 First half |
|---|---|---|
| United States imports of goods and services | 5,239 | 8,350 |
| Oversea military expenditures | 182 | 1,193 |
| Imports less oversea military expenditures | 5,057 | 7,157 |
| United States exports of goods and services | 6,783 | 11,175 |
| Military aid exports | 111 | 2,666 |
| Exports less military aid exports | 6,672 | 8,509 |
| Private donations (net) | −247 | −242 |
| United States private direct investment (net) | −347 | −378 |
| Total United States balance on goods and services, and private donations and direct investment | 950 | 2,205 |
| Total balance net of military aid exports | 839 | −461[a] |
| Total commercial balance[b] | 1,021 | 732 |

*Source:* United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), December 1953 and *Balance of Payments of the United States, 1949–1951.*

[a] Minus sign indicates United States deficit.

[b] Net of military aid exports and oversea military expenditures.

seasonal differences are thereby eliminated. In addition, changes in inventories, which normally contain a relatively high import component, are of particular significance in the determination of the level of imports in the United States, as in other countries. The ratio of business inventory accumulation to the gross national product was at approximately the same level—1.6 per cent—in the first half of 1950 and of 1953. It may be assumed, therefore, that the two periods are at least roughly comparable from the point of view of the effect of total business inventory changes upon total imports.

In table 43 details are given of the United States balance with the rest of the world in the first half years of 1950 and 1953 on account of goods, services, private donations and United States private net direct investment.[6] Excluding United States military aid transactions, the world balance with the United States improved by $1.3 billion. If both military aid transactions and oversea military expenditures[7] of the United States are excluded, the improvement in the balance from the first half of 1950 to the first half of 1953 was about $300 million. This reflects a reduction in the deficit with the United States on account of special merchandise trade[8] of some $600 million, offset in part by a deterioration of $300 million in the balance of other items. The latter include particularly an increase of nearly $130 million in United States private income on the growing volume of oversea investments. Although the transport account in the first half of 1953 showed a higher United States active balance than in the first half of 1950, net transport receipts decreased from 1951-52 to 1953, reflecting the resumption of an earlier trend towards increased utilization of foreign vessels for the transport of dollar goods which had been temporarily interrupted after the outbreak of hostilities in Korea. There was also a decrease in the United States passive balance on travel account but this was due primarily to higher expenditures by Canadian tourists in the United States; net United States travel expenditures in western Europe and its dependencies and, to a lesser extent, in Latin America, rose during the period under review.

### The balance on commercial trade

Over one-half of the improvement of $600 million in the commercial trade balance with the United States from the first half of 1950 to the first half of 1953 was due to the larger rise in the quantum of United States imports than in the quantum of exports, and the remainder to the deterioration in United States terms of trade. If the unit value index of imports had not risen more than that of exports so that United States terms of trade had remained unchanged, the value of imports would have been lower by approximately $300 million.

A major factor in the rise in United States import demand was the large increase in real output in the United States, amounting to approximately 20 per cent from the first half of 1950 to the first half of 1953. This increase in production was accompanied by a greater degree of utilization of capacity, as is suggested by the decline in average unemployment from 6.2 per cent of the labour force in the first half of 1950 to only 2.6 per cent in the first half of 1953—lower than in any other post-war year. In some cases in which output was at or in excess of normal capacity rates in the first half of 1953, special import demands for specific goods were generated.

The situation developed differently in western Europe, which accounted for nearly 60 per cent of the total world deficit with the United States on current transactions in goods and services[9] in the first half of 1950, and for almost 90 per cent of the improvement in the dollar balance by the first half of 1953. Except in western Germany and Italy, production rose much less than in the United States, and in many instances some unutilized capacity in certain consumer goods industries developed. One of the important factors tending to hold

[6] The outflow of portfolio capital from the United States is excluded as being subject to relatively sharp speculative fluctuations and other short-term influences.

[7] The increase in United States oversea military expenditures offset, or more than offset, the decline in economic aid afforded to other countries in the form of grants and loans, so that the total of dollars received from these various operations of the United States Government by other countries was maintained throughout the period from 1950 to 1953 at a level of more than $4 billion per annum.

[8] Excluding special category exports of the United States. Between the two periods under review, however, there was an increase of $100 million in United States special category exports paid for by cash rather than from United States military aid appropriations.

[9] Excluding military aid imports.

down the rate of increase in western Europe's output from 1950 to 1953 was the decline in demand for cotton textiles, which have a relatively high dollar import content.

*Commodity imports*

While imports of crude materials by the United States rose by only 4 per cent in real terms from the first half of 1950 to the first half of 1953, imports of manufactured foodstuffs and of finished manufactures increased by 31 and 43 per cent, respectively, as shown in table 44. Some of the reasons for these divergencies are suggested by a comparison of increases in the volume of United States imports, by major commodity categories, with corresponding movements in domestic production or consumption.

The rise in the total volume of imports between the two periods under review was approximately proportional to the increase in real gross national product, which, as noted above, was about 20 per cent. However, imports of foodstuffs and of finished manufactures increased in relation to domestic consumption or production while imports of raw materials declined in relation to manufacturing output.

The increase of 17 per cent in the volume of imports of crude foodstuffs from the first half of 1950 to the first half of 1953 accompanied a rise in total food consumption of about 9 per cent. Imports of crude foodstuffs appear, however, to have been relatively low in the former period owing to the high level of such imports in the preceding year. On the whole, it seems that the relationship between United States imports of crude foodstuffs and total food consumption has been fairly stable during the post-war years, except for the period of abnormal buying from mid-1950 to mid-1951. Coffee, cocoa and tea, which together accounted for three-quarters of the value of imports in this group in 1950, are not produced in the United States. It was therefore to be expected that, in the absence of significant shifts in tastes, imports of crude foodstuffs would rise more or less in line with food consumption.

Imports of manufactured foodstuffs, on the other hand, have increased in relation to consumption, partly because of a growth in exportable supplies abroad, but partly also because the prices of imports are often lower than of domestic products, especially where domestic price support programmes are in force.

United States manufacturing output increased nearly 31 per cent from the first half of 1950 to the first half of 1953, but imports of crude materials and of semi-manufactures did not keep pace. The demand for such crude materials as hides and skins, undressed furs and certain textile fibres declined while the demand for metals rose. In particular, imports of raw wool for domestic consumption fell nearly 40 per cent in real terms between these two periods in response to a contraction in wool textile output of 14 per cent; it is probable that whereas commercial inventories were expanding in the earlier period, they were declining in 1953. The further development of synthetic textile fibres may also have influenced the demand for imported natural fibres, including raw wool. In addition, the volume of imports of natural rubber declined 11 per cent even though total domestic rubber consumption rose 20 per cent. This was due to the expansion in domestic production of synthetic rubber, and to the fact that the price of natural rubber was above that of synthetic rubber in the first half of 1953—a reversal of the relationship which had prevailed in the first half of 1950.

Imports of finished manufactures increased significantly in relation to manufacturing output in the United States during the period under consideration. Both long-

**Table 44. United States: Merchandise Trade,[a] 1950 and 1953**
(Millions of United States dollars)

| *Item and period* | *Total* | *Crude materials* | *Crude foodstuffs* | *Manufactured foodstuffs* | *Semi-manufactures* | *Finished manufactures* |
|---|---|---|---|---|---|---|
| Value of imports: | | | | | | |
| 1950 First half | 3,781 | 1,052 | 770 | 398 | 897 | 664 |
| 1953 First half | 5,567 | 1,348 | 1,089 | 577 | 1,451 | 1,102 |
| Value of exports: | | | | | | |
| 1950 First half | 4,628[b] | 937 | 367 | 286 | 528 | 2,511[b] |
| 1953 First half | 5,787[b] | 763 | 528 | 335 | 671 | 3,491[b] |
| *Indices, First half of 1953* (First half of 1950=100): | | | | | | |
| Quantum of imports | 121 | 104 | 117 | 131 | 120 | 143 |
| Quantum of exports | 107[b] | 74 | 126 | 94 | 104 | 122[b] |
| Unit value of imports | 123 | 123 | 122 | 110 | 134 | 116 |
| Unit value of exports | 116 | 111 | 114 | 124 | 122 | 114 |

*Source:* United States Department of Commerce, Business Information Service, *Total United States Export and Import Trade* (Washington, D.C.), January–June 1951 and January–June 1953.

[a] Special trade.

[b] Excluding special category exports.

term and short-term factors were probably involved in this development. Exportable supplies of finished manufactures from western Europe rose considerably from 1950 to 1953, owing especially to the rapid recovery and expansion of western Germany. Most western European countries devoted special efforts to increasing the effectiveness of their marketing in the United States, and several of them provided special incentives to exporters to the dollar area. It is possible that the rise in the general level of consumption in the United States was associated with a more than proportional increase in imports of certain European luxury and other products. Finally, part of the increase in imports of finished manufactures may in some cases have reflected the longer term effects of the decline in dollar prices of western European manufactures resulting from the devaluations of 1949.

It is probable, on the other hand, that part of the increase in United States imports both of finished manufactures and of certain semi-manufactures was of a short-term or medium-term character. It is noteworthy in this connexion that some of the largest increases in United States non-food imports occurred not in goods for which the United States is normally dependent on external sources of supply, but in such goods as steel mill products and machinery, in respect of which United States output and productivity are generally considered to be pre-eminent. The three groups, metals and manufactures, machinery and vehicles, and chemicals, accounted for two-thirds of the aggregate increase in the value of United States non-food imports from the first half of 1950 to the first half of 1953, although imports of these items were equivalent to less than 25 per cent of the total value of non-food imports in the first half of 1950. In the particular case of metal products, the high volume of imports in the first half of 1953 reflects a level of demand which was maintaining domestic steel output at rates in excess of normal capacity operations, while imports of non-ferrous metals received some impetus from an increased rate of deliveries to private and strategic stocks in the first half of the year.

*Commodity exports*

Total commercial exports of the United States rose 7 per cent in quantum from the first half of 1950 to the corresponding period of 1953, as shown in table 44. There was, however, a significant shift in the destination of United States exports. Whereas the dollar area[10] took 41 per cent of United States commercial exports in the first half of 1950, that area accounted for 50 per cent of such exports in the first half of 1953. It would appear that the quantum of United States exports to the dollar area rose by about one-quarter between the two periods under consideration while exports to the non-dollar area probably fell by some 5 to 10 per cent.

A major part of the increase in exports to the dollar area went to Canada: exports to Canada rose 75 per cent in value, and therefore probably not less than 40 per cent in quantum. This was due to higher demand generated by the increase of 18 per cent in Canadian real output, the elimination of import restrictions, the appreciation of the Canadian dollar in relation to the United States dollar and the expansion of United States private direct investment in Canada.

The curtailment of exports to the non-dollar area was greatest with respect to continental western Europe: exports to this area declined 17 per cent in value and therefore probably about 30 per cent in quantum. Exports to continental western Europe in the first half of 1950 had been relatively high,[11] leaving considerable scope for reduction as agricultural production improved, and expanding manufactured exports from western Germany to some extent replaced those of the United States. Exports to the sterling area, on the other hand, rose some 17 per cent in value, so that the decline in quantum, if any, was presumably very small. In the first half of 1950 exports to the sterling area had already been severely cut owing to the relatively stringent import restrictions imposed by that area during the post-war years, and particularly in 1949. Thus the renewed sterling area import restrictions of 1952/53, resulting from the dollar crisis of the previous year, simply restored the quantum of imports from the United States to the 1950 level.

There were significant changes also in the commodity structure of United States recorded commercial exports from the first half of 1950 to the corresponding period of 1953. It will be seen from table 44 that while exports of crude materials and of manufactured foodstuffs declined, and of semi-manufactures rose little, exports of crude foodstuffs and of finished manufactures increased substantially.

The decline in exports of manufactured foodstuffs, notably meat and dairy products, fats and oils, and refined sugar, was due to an improvement in output in the rest of the world. The large increase, on the other hand, in exports of crude foodstuffs[12]—mainly grains—reflects

[10] Defined for this purpose as consisting of Canada, the Philippines and Latin America, aside from Argentina, Brazil, Chile, Paraguay, Perù and Uruguay.

[11] The current dollar value of United States exports to continental western Europe in 1950 was over three times as high as in 1937. The corresponding increase in exports to the sterling area was less than 50 per cent.

[12] The increase in Canadian exports of wheat and wheat flour from the first half of 1950 to the corresponding period of 1953 was even larger than in United States exports. Exports of wheat and wheat flour by Canada and the United States together were some 40 per cent higher in the first half of 1953 than in the first half of 1950.

the relatively low level of such exports in 1950.[13] Of more importance from a long-term point of view was the sharp increase in grain production in non-dollar countries in 1952/53, compared with any other post-war year, as reflected in table 45. Since much of the increase occurred in importing countries, notably in western Europe and India, there was a reduction in world wheat exports from 28.4 million tons in 1951/52 to 26.1 million tons in 1952/53. While too much emphasis should not be placed in any general assessment of the position upon the good results of a single year's harvest, there are reasons[14] for believing that part of the rise in production represents a long-term trend.

With respect to non-food exports, the decline in United States shipments of crude materials abroad was due primarily to the contraction of raw cotton exports, which accounted for two-thirds of the value of exports in this category in the first half of 1950. Although the production of cotton yarn in private enterprise economies outside the United States rose about 10 per cent between the two periods under consideration, more than half of the increase occurred in India and Pakistan; in the former country higher domestic production of raw cotton and a running down of stocks made it possible to reduce imports considerably in 1952/53 compared with 1949/50, while the latter country is a net exporter of raw cotton. Production of cotton yarn in western Europe actually declined some 4 per cent from the first half of 1950 to the first half of 1953, while exportable supplies of raw cotton available from non-dollar countries increased significantly, as indicated in table 46. At the same time, the prices of "American type" cottons from most non-dollar sources of supply declined below the level of United States prices during the 1952/53 season, so that large-scale substitutions for United States cotton became possible. In addition, notwithstanding the recovery in cotton textile trade from the recession of 1951/52, manufacturers continued to follow a relatively cautious inventory policy. In western Europe, for example, the level of stocks of raw cotton was considerably lower in relation to consumption in 1953 than in 1949 or 1950.

Not all of the increase in exportable supplies of raw cotton available from non-dollar countries in 1952/53 reflects underlying trends: in part it was due to releases from stocks previously withheld from the market by a number of countries attempting to maintain their export prices. Owing to this factor, and a decline in production in 1953/54, exportable supplies from non-dollar countries in 1953/54 were expected to fall.

An additional factor of a long-term character tending to reduce the dependence of the non-dollar world on the United States for imports of raw cotton was the growth in the output and productive capacity of synthetic fibres and fabrics, the raw materials for which were likewise in steadily improving supply in the non-dollar area.

Exports of other crude materials and semi-manufactures—including coal, petroleum products and steel mill products—were higher in the first half of 1953 than in the first half of 1950. However, as in the case of wheat, the general trend in exports of these goods was downward compared with 1951-52, when shipments had increased considerably owing to the repercussions of the Korean conflict.

Western Europe's imports of coal from the United States had been reduced to low levels by the first half of 1950, but were subsequently resumed on a large scale in 1951 and the first half of 1952 owing to the fact that the output of coal in western Europe did not rise rapidly enough to keep pace with the growth in industrial

[13] Of the total decline in world wheat and wheat flour exports of 4.4 million metric tons from 1948/49 to 1949/50, about three-quarters was accounted for by the reduced imports of western Germany, Italy and the United Kingdom, especially from North America. In the first two countries, domestic production rose considerably in 1949/50, and in western Germany there was a significant fall in stocks. In the United Kingdom, where stocks also declined to some extent, the fall in imports reflected the high levels of preceding periods, when stocks had been built up, and the need to conserve dollar exchange following the balance of payments crisis of 1949.

[14] Among them are favourable harvests in non-dollar countries in 1953/54.

Table 45. **Production and Exports of Wheat, 1948/49 to 1952/53**
(Millions of metric tons)

| *Item and area* | *1948/49* | *1949/50* | *1950/51* | *1951/52* | *1952/53* |
|---|---|---|---|---|---|
| *Production:* | | | | | |
| Canada and United States | 45.8 | 40.0 | 40.3 | 41.7 | 54.1 |
| Non-dollar countries[a] | 99.2 | 98.8 | 103.6 | 101.1 | 110.9 |
| OEEC countries | 26.8 | 26.9 | 29.1 | 29.1 | 33.1 |
| *Exports:*[b] | | | | | |
| Canada and United States | 19.7 | 14.9 | 16.1 | 22.4 | 19.4 |
| Non-dollar countries[c] | 7.3 | 7.7 | 9.5 | 6.0 | 6.7 |

*Source:* Food and Agriculture Organization of the United Nations.
[a] Excluding the Union of Soviet Socialist Republics.
[b] Including wheat flour.
[c] Including the Union of Soviet Socialist Republics.

Table 46. Production, Consumption and Exportable Supplies of Raw Cotton, 1949/50 to 1953/54
(Millions of bales)

| Item and area | 1949/50 | 1950/51 | 1951/52 | 1952/53 | 1953/54 |
|---|---|---|---|---|---|
| *Production:* | | | | | |
| Mexico and United States | 16.9 | 11.0 | 16.4 | 16.4 | 17.5[a] |
| Non-dollar countries[b] | 9.8 | 11.2 | 12.2 | 12.4 | 12.0[a] |
| TOTAL [b] | 26.7 | 22.2 | 28.6 | 28.8 | 29.5[a] |
| *Consumption:* | | | | | |
| United States and Canada | 9.3 | 11.0 | 9.5 | 9.8[a] | ... |
| Other countries [b] | 14.4 | 15.5 | 15.7 | 16.1[a] | ... |
| TOTAL [b] | 23.7 | 26.5 | 25.2 | 25.9[a] | ... |
| *Exportable supplies:* | | | | | |
| Dollar area | 10.5 | 4.9 | 6.9 | 7.0 | 10.5[a] |
| Other countries[b] | 7.2 | 7.9 | 8.0 | 10.3 | 9.6[a] |
| TOTAL [b] | 17.7 | 12.8 | 14.9 | 17.3 | 20.1[a] |

*Source:* International Cotton Advisory Committee, *Cotton Quarterly Statistical Bulletin*, September 1953, *Monthly Review*, December 1953, and *International Cotton Trade and the Balance of Payments* (Washington, D.C.), November 1953.

[a] Provisional.

[b] Excluding eastern Europe and mainland China.

consumption. While the situation improved materially by the end of 1952, this was probably due at least as much to a slackening in industrial activity as to a rise in coal production. The pressure on coal supplies in western Europe was also eased to some extent by a gain in the importance of petroleum as a source of energy requirements, which again, however, necessitated heavy net dollar expenditures. There was nevertheless a substantial improvement in the dollar balance on petroleum account during the period under review, notwithstanding the upward trend in consumption, as indicated in table 47, and a temporary setback during 1951 and 1952 due to the interruption of supplies from Iran. Most easily identifiable was the shift in the composition of western European imports from refined products to crude petroleum, made possible by the expansion of refinery capacity[15] in western Europe, thus permitting significant dollar savings. By 1952 production and consumption (including bunkering) of refined petroleum products in western Europe were almost in balance, and an export balance in these products was probably achieved in 1953. In addition there were substantial shifts to non-dollar sources of supply for crude petroleum—particularly to sterling sources in the Middle East.[16]

Table 47. Production and Consumption of Refined Petroleum in Western Europe, 1948 to 1953
(Millions of metric tons)

| Period | Production[a] | Consumption[b] |
|---|---|---|
| 1948 | 17.8 | 36.3 |
| 1949 | 26.2 | 41.0 |
| 1950 | 37.8 | 48.2 |
| 1951 | 53.9 | 55.5 |
| 1952 | 67.8 | 58.3 |
| 1953 First half [c] | 78.0 | 61.7 |

*Source:* Organisation for European Economic Co-operation, *General Statistical Bulletin* (Paris), January 1954.

[a] Net production (after deducting refinery consumption) at refineries, of motor and aviation fuels, fuel oil, gas diesel oil, kerosene, lubricants, etc.

[b] Data refer to deliveries of petroleum products from refineries, for inland consumption, excluding bunkering. Bunker fuels amounted to 10.0 million tons in 1951 and 11.0 million tons in 1952.

[c] Annual rate.

Although gross exports of semi-manufactured iron and steel by the United States were somewhat higher in the first half of 1953 than in the first half of 1950, they were much lower than in the previous year, when a temporary shortage in the United Kingdom had necessitated recourse to imports from the United States. Moreover, net exports were substantially lower than in the first half of 1950 owing to the rise in United States imports. Here again the expansion of output from 1950 to 1953 in western Europe, as well as in a number of other non-dollar countries, made possible a reduction in the dependence of these countries upon supplies from the United States.

To summarize the foregoing, trends from 1950 to 1953 indicate a rising output in the non-dollar area of foodstuffs, raw materials and semi-manufactures effectively substituting for supplies from the dollar area. This applies particularly to the increase in the production of raw cotton, grain, petroleum products, steel mill products and, to some extent, of coal in non-dollar countries. The decline in United States exports of the above five commodity groups alone, from the first half of 1952

[15] Most of the increase in capacity occurred in France, Italy, the Netherlands and the United Kingdom.

[16] There have also been indications of a growing tendency for United States petroleum companies to accept non-dollar currencies in part payment for sales of petroleum, making use of these currencies to secure supplies and equipment from non-dollar sources.

to the first half of 1953, amounted to $864 million,[17] equivalent to more than half of the over-all improvement in the rest of the world's balance with the United States between the same periods.

To assess the extent to which United States manufactures have been displaced in world markets by those of non-dollar countries is much more difficult than in the case of such relatively homogeneous commodities as coal, raw cotton, petroleum products and wheat. Manufactures are, of course, subject to much greater market imperfections, generally speaking, than foodstuffs and raw materials. Moreover, it is with respect to this category of goods that the advanced technology of the United States makes its clearest impact upon the buyer.

In the first half of 1953 United States commercial exports of finished manufactures were about 22 per cent higher in quantum than in the first half of 1950. On the basis of rough calculations, it would appear that while the quantum of exports of finished manufactures to the non-dollar area increased slightly between the two periods, the quantum of exports to the dollar area probably rose as much as 40 to 50 per cent. Inasmuch as the total consumption of finished manufactures in the non-dollar area must have risen substantially between these periods, the above implies a significant relative substitution for United States manufactured goods in that area. Available data suggest that the major part of this substitution occurred in western Europe, where the pressure of demand upon capacity in the heavy industries was much reduced in 1953, compared with 1950, partly owing to the rise in output, and partly, in several countries, owing to a slackening of demand in 1953. In particular, as is indicated below in connexion with the discussion of intra-European payments, the reduction in western Europe's deficit with the dollar area was to some extent the counterpart of the growth in exportable supplies from western Germany.

In other non-dollar countries the position is less clear. The balance of payments difficulties experienced in the oversea sterling area and South America in 1952/53 induced many of the countries in these areas to tighten their import restrictions once more, as they had in 1949/50. While in the first half of 1950 these restrictions applied mainly to imports from the dollar area, in the first half of 1953 deliveries from western Europe were affected as well, especially where sterling balances had been reduced to low levels during the preceding period.

At the same time, although the share of western Europe in exports of manufactures to Canada and the Latin American dollar countries—as well as to the United States market—rose to some extent during this period, the inroads made upon the dominant position of United States manufactures in the dollar area were relatively small.[18]

[17]These five groups accounted for a little more than one-third of the total value of United States commercial exports in the first half of 1952. The over-all decline in commercial exports from the first half of 1952 to the first half of 1953 was $1,069 million.

### Summary

In the first half of 1950 the United States export balance on account of goods and services (other than military aid exports) and of private donations and direct investment was running at an annual rate of $1.7 billion. In the first half of 1953 this export balance was replaced by a deficit at an annual rate of $0.9 billion. Of this change, $2 billion, at an annual rate, was due to a rise in oversea military expenditures of the United States. Thus the decline in the commercial balance was at an annual rate of some $600 million. The reduction in the commercial trade balance was about twice this amount, but was offset in part by a rise in the surplus on other transactions, especially investment income. Both long-term and short-term factors were involved in these changes.

While the total volume of commercial exports of the United States rose between these two periods, exports to the non-dollar area fell. Among the more lasting causes of this development was a growth in production in the non-dollar area, especially of foodstuffs, raw materials and semi-manufactures, effectively competing with dollar supplies. There was also a significant relative substitution for United States manufactures, although the volume of United States exports of these goods to non-dollar countries appears to have increased.

At the same time, shipments to the United States rose in line with the rapid expansion of income in that country, although there was a shift in the composition of United States imports away from raw materials and in favour of manufactured goods.

Account must also be taken, however, of a number of special factors entering into the determination of the commercial dollar balance. The balance in 1953, as in 1950, was affected by import restrictions against dollar goods, notably in the sterling area and South America. The terms of trade were less favourable to the United States in the first half of 1953 than in the corresponding period of 1950. There was a reduction in stocks of raw cotton in non-dollar countries in 1953. Finally, the rise in United States imports reflects in part an exceptional increase in the degree of utilization of capacity, generating special import demands for certain products.

The reduction in the deficit of the rest of the world with the United States was almost entirely concentrated in western Europe, which had accounted for more than half of the deficit in the first six months of 1950. There was little or no tendency for the dollar balance of western Europe to improve through larger multilateral earnings of dollars in non-dollar markets since the dollar position in the latter areas had not eased appreciably in comparison with 1950.

[18]For example, the percentage ratio of the value of total exports by OEEC countries to Canada and the Latin American dollar countries, to the corresponding value of exports by the United States, rose from 19.7 per cent in the first half of 1950 to 22.8 per cent in the first six months of 1953. The corresponding figure in 1937 was 42.2 per cent.

# Balance of Payments of Western Europe and Japan

## General Trends

In 1953, the balance of western Europe on account of external commercial trade improved in relation to the preceding years, as indicated in the following data (monthly rates in billions of United States dollars, based on customs returns):[19]

| | *Exports, f.o.b.* | *Imports, c.i.f.* | *Balance* |
|---|---|---|---|
| 1950 | 1.65 | 2.02 | −0.37 |
| 1951 | 2.27 | 2.81 | −0.54 |
| 1952 | 2.26 | 2.69 | −0.43 |
| 1953[a] | 2.30 | 2.62 | −0.32 |

[a] Preliminary.

The surplus on service transactions in 1953, which was larger than in previous periods, more than offset the deficit on account of merchandise trade.

The year 1953 marks the end of the period of abnormal fluctuations in the foreign trade of western Europe which had gathered momentum in the latter months of 1950 and during 1951. In particular, the demand for goods for inventories, changes in which had been a major factor in the development of the balance of payments positions of most countries during the earlier part of the period, returned generally to more normal proportions by 1953. At the same time the deterioration in terms of trade which had been experienced by western Europe as a result of the raw material boom was reversed beginning in mid-1951, so that by 1953 the terms of trade had recovered approximately to the position prevailing immediately before the outbreak of hostilities in Korea.

The improved external balance of western Europe in 1953 occurred at a higher level of production, trade and prices than in 1950. Industrial production in 1953 was about 16 per cent higher than in 1950, while agricultural output in 1952/53 was about 10 per cent greater than in 1949/50 and was expected to rise a further 2 per cent to 3 per cent in 1953/54. The total expansion in the quantum of commercial imports was approximately proportional to the growth in industrial production, and exports rose slightly more than imports. The average level of import prices, having risen to a peak 32 per cent above the 1950 level in the third quarter of 1951, owing to the raw material boom, declined by the second half of 1953 to only 13 per cent above that level. The upsurge in import prices was followed by general upward price adjustments within the western European countries so that export prices also increased, reaching in the first quarter of 1952 a maximum 31 per cent above the 1950 average level. Subsequently the decrease in import prices of raw materials contributed to a decline in export prices to a level 16 per cent above that of 1950 in the second half of 1953.

Part of the rise in output from 1950 to 1953, especially in agriculture, made it possible to increase the proportion of the demand for certain goods which could be satisfied either from domestic supplies or from trade among western European countries. Although domestic supplies rose, total imports of food increased in relation to 1950 because of higher consumption levels as well as a relative shift from grains to other foodstuffs such as meat, dairy products, fruits and vegetables, the supplies of which likewise improved. There was probably also an increase in the proportion of western European requirements in products of the heavy goods industries which were supplied from output within the area, especially in view of the rapid growth in the production and exports of western Germany.

There was a fall in the share of the dollar area in the imports of western Europe, for reasons which have been examined above. Canada and the United States accounted for less than 14 per cent of the total imports of OEEC countries in the first nine months of 1953, compared with nearly 16 per cent in 1950.

The oversea exports of western Europe increased 18 per cent in real terms from 1950 to 1951 as a result of the expansion of demand in North America and the higher incomes and foreign exchange resources of primary producing countries, generated by the raw material boom. Shipments to North America declined in 1952 when the rate of accumulation of inventories in that area fell, but resumed their upward course in 1953 in line with a further rise in output and demand. Exports to primary producing countries, however, fell sharply after mid-1952 owing to declines in incomes and demand associated with the downward trend in raw material prices, and to a tightening of import restrictions to support balances of payments in countries in the oversea sterling area and in South America. Thus, the total volume of oversea exports declined to 11 per cent above the 1950 level in 1952, and 12 per cent above that level in the first six months of 1953. In the second half of 1953 there was a major recovery of exports to primary producing countries, reflecting improvements in balances of payments and a relaxation of import controls, so that the oversea exports of western Europe for the full year 1953 equalled the 1951 peak.

[19] Trade data based on customs returns differ from those embodied in balance of payments figures, not merely by virtue of differences in coverage and methods of valuation (imports being generally valued c.i.f. in the former figures and f.o.b. in the latter) but also, in a few countries, owing to differences in timing. This difference may be of great importance during a period of rapid changes in the level of trade, such as occurred from 1950 to 1952. For example, the United Kingdom visible trade balance according to customs returns deteriorated considerably from 1950 to 1952 but improved slightly according to balance of payments estimates. Since not all countries record their balance of payments data in the same way, the above comparison of the balance of exports and imports of OEEC countries according to customs returns appears to provide the most uniform measure of recent changes in the trade balance of western Europe.

Several of the continental European countries improved their positions on transport account during this period. A considerable expansion in merchant shipping tonnages from mid-1950 to mid-1952[20] occurred in Denmark, France, Italy, Norway, Sweden and especially in western Germany.[21] These increases in capacity together with a sharp rise in freight rates resulted in higher net earnings or a reduction in net deficits on transport account of substantial or major importance in the current balances of these countries in 1951-52. These developments resulted in a fall in the share in world freight receipts of the United Kingdom and especially of the United States, average shipping costs being higher in the latter country. In 1953, net earnings on transport account declined in several countries as the fall in freight rates, which had begun much earlier, affected current receipts.[22] In western Germany and the United Kingdom, however, payments to foreign shipping companies fell more than gross receipts,[23] so that the balance on transport account improved in 1953.

Net income on foreign investments, especially in the oversea sterling area, was affected by the cycle in the demand for, and prices of, raw materials, tending to this extent to rise in 1951 and decline thereafter. Net income from oversea petroleum investments, however, probably showed a fairly stable rate of increase except for the effect on United Kingdom income of the nationalization of the petroleum industry in Iran.

Finally, North American tourist expenditures in western Europe rose to some extent from 1950 to 1953 as a result of the expansion of personal incomes in Canada and the United States, and the further development of facilities for tourist travel to Europe.

Economic aid from the United States, though declining during the period from 1950 to 1953, remained at a relatively high level even in the latter year. Moreover, much of the decrease in economic aid was offset by higher United States military expenditures in western Europe. These factors, together with the improvement in the commercial balance, resulted in a considerable strengthening of western Europe's gold and dollar reserves, as may be seen in the data in table 48.

Not all countries showed improvements in external balances from 1950 to 1953, as may be seen from table 49. In the first group of countries listed in that table, however, trade balances improved both in current value and in real terms. In these cases there was an increase in exportable supplies in relation to domestic production during the period under consideration, and in many instances there was also a substitution of domestic production for imports. In some countries part of the improvement in the trade balance reflected a relatively

[20]As recorded in *Lloyd's Register of Shipping* (London).

[21]There was also a large growth in Japan's merchant fleet. Japan, together with the above six countries, which possessed 20 per cent of the world's merchant shipping in 1950, accounted for over two-thirds of the increase in the world total from mid-1950 to mid-1952.

[22]A large proportion of shipments takes place under long-term contracts. Moreover, there is frequently a time lag between the earning and collection of freight revenues.

[23]This probably also applied to Belgium-Luxembourg.

Table 48. Gold Reserves and Dollar Holdings of Western Europe and Japan, 1950 to 1953

(Millions of United States dollars; end of period)

| Country | *June 1950* | *June 1951* | *June 1952* | *June 1953* | *December 1953* |
|---|---|---|---|---|---|
| Iceland | 3 | 4 | 5 | 5 | 5 |
| Ireland | 17 | 18 | 18 | 18 | 18 |
| United Kingdom | 2,612 | 4,145 | 2,219 | 2,861 | 3,009 |
| Continental OEEC countries | 5,755 | 5,777 | 6,521 | 7,556 | 8,619 |
| Austria[a] | 85 | 94 | 100 | 169 | 241 |
| Belgium-Luxembourg | 769 | 710 | 807 | 823 | 906 |
| Denmark | 68 | 77 | 65 | 102 | 127 |
| France | 742 | 793 | 872 | 881 | 1,006 |
| Germany, western | 228 | 358 | 545 | 892 | 1,225 |
| Greece | 44 | 44 | 51 | 81 | 111 |
| Italy | 536 | 532 | 613 | 657 | 795 |
| Netherlands | 457 | 446 | 547 | 883 | 980 |
| Norway | 117 | 110 | 145 | 164 | 170 |
| Portugal | 209 | 263 | 315 | 381 | 433 |
| Sweden | 184 | 228 | 281 | 281 | 336 |
| Switzerland | 2,154 | 1,960 | 2,009 | 2,090 | 2,132 |
| Turkey | 162 | 162 | 171 | 152 | 157 |
| Japan | 467 | 471 | 849 | 1,024 | 958 |

*Source:* International Monetary Fund, *International Financial Statistics* (Washington, D.C.); and Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin* (Washington).

[a] Including estimate of gold holdings, based on data appearing in Federal Reserve Bank of New York, *Monthly Bulletin* (New York), February 1954.

Table 49. Balances on Merchandise Trade, and Terms of Trade, of Countries of Western Europe and Japan, 1950 and 1953[a]

| Country | Current trade balances[b] (millions of United States dollars) 1950 | 1953 | Indices (1950=100) Quantum ratio[c] 1953 | Terms of trade[d] 1953 |
|---|---|---|---|---|
| *Countries with improved balances:* | | | | |
| Austria | −10.5 | −0.7 | 161 | 86 |
| Belgium-Luxembourg | −24.2 | −13.6 | 107 | 102 |
| Denmark | −15.7 | −8.9 | 116 | 97 |
| Germany, western | −60.3 | 50.7 | 135 | 116 |
| Greece | −28.2 | −13.5 | ... | ... |
| Ireland | −20.3 | −16.2 | 145 | 95 |
| Netherlands | −53.5 | −16.5 | 135 | 100 |
| Switzerland | −12.0 | 1.8 | 124 | 97 |
| *Other countries:* | | | | |
| France | 1.1 | −18.2 | 92 | 105 |
| Italy[e] | −23.3 | −75.6 | 80 | 96 |
| Japan | −12.8 | −94.6 | 52 | 120 |
| Norway | −24.0 | −33.6 | 91 | 104 |
| Portugal | −7.4 | −9.4 | 100[f] | 101[f] |
| Sweden | −6.6 | −8.5 | 92 | 110 |
| Turkey | −1.9 | −11.4 | 86 | 97 |
| United Kingdom | −80.9 | −153.4 | 88 | 104 |

*Source:* Statistical Office of the United Nations.

[a] Preliminary estimates for 1953 based on latest available monthly data.

[b] Monthly averages; exports, f.o.b., less imports, c.i.f.

[c] Quantum index of exports divided by quantum index of imports.

[d] Unit value index of exports divided by unit value index of imports. Calculated in terms of national currencies, except in dollars for Japan.

[e] Including United States-United Kingdom zone of Trieste.

[f] Data from Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series I, February 1954.

high rate of inventory accumulation and imports in 1950. In most, with the notable exceptions of Denmark and Ireland, one-half or more of exports consisted of shipments to other countries in continental western Europe, where demand increased from 1950 to 1953, while deliveries were relatively much smaller to the sterling area and South America, where new restrictions affected imports in 1953. On the other hand, a considerable part of the exports of Denmark and Ireland to the United Kingdom was subject to long-term contracts, and Denmark was in addition able to increase exports to other European countries. In general, the exports of the first group of countries listed in table 49 were concentrated on commodities the demand for which in western Europe was higher in 1953 than in 1950—notably foodstuffs and machinery and equipment. Only in western Germany was there an improvement in terms of trade of major consequence.

The other countries shown in table 49 experienced deteriorations in the real balance of trade from 1950 to 1953, partly offset by somewhat better terms of trade except in Italy and Turkey. In France, Italy, Japan and the United Kingdom, consumer goods have a relatively large weight in exports, and primary producing countries, where incomes declined in 1952-53, are important markets for all of them. The imports of the sterling area and South America, especially of consumer goods, were subject to restrictions in 1950, as well as in 1953; but while in the earlier year these had been directed mainly against imports from the dollar area, in 1953 they applied also to imports from western Europe. In addition, the import restrictions imposed in France and the United Kingdom were of considerable importance to their mutual trade, as well as to exports from Italy.

In France and the United Kingdom, part of the deterioration in the position from 1950 to 1953 reflected the fact that the relatively favourable trade balance of 1950 had been achieved at the expense of a decrease in stocks. In France, the high level of imports in the first half of 1953 included a significant speculative component, which may, however, have been offset to some extent in the subsequent decline in imports as confidence in the franc improved. The increased deficit in the trade balance of Japan was associated with a relatively rapid expansion of the economy, involving substantial accumulation of raw material inventories,[24] and was offset to a large extent by deliveries against special procurement orders and other invisible receipts. In Italy the deterioration in the balance reflected a considerable rise in imports associated with a relatively large expansion of output and a virtually complete liberalization of imports from other western European countries.

In Norway and Turkey the increases in real trade deficits from 1950 to 1953 were to a large extent the counterpart of relatively high rates of expansion of capacity,

[24] Part of the rise in Japanese imports in 1953 may have reflected speculative buying in anticipation of a tightening of import controls.

involving heavy expenditures on imports of machinery and transport equipment. Norway and Sweden were affected by the inventory cycle which occurred in respect of their exports of wood products: the low point of the cycle was reached in 1952, and demand did not recover strongly until the second half of 1953.

### Factors underlying changes from 1950 to 1953

The experience of individual western European countries and of Japan during the period from 1950 to 1953 depended upon a considerable number of factors, the relative significance of which varied from country to country. Among the most important factors affecting exports were the degree to which exportable supplies could be expanded in the particular circumstances of the period under consideration; the structure of exports, as regards both commodity composition and geographic distribution; and the effect of domestic and other developments upon competitiveness in export markets. Imports responded to changes in the national product, and particularly to the inventory cycle, as well as to disinflationary fiscal and monetary restraints on demand and modifications in administrative controls. Fluctuations in terms of trade were also of great importance for the balance of trade in this period.

*Exports: Supply and demand position*

The supply situation differed appreciably as between the various western European countries and Japan at the onset of hostilities in Korea. In the Netherlands, the United Kingdom and the Scandinavian countries, resources were relatively fully employed at that time and further expansion in output and exports therefore depended primarily upon greater productivity and a growth in capacity. There were, on the other hand, substantially greater resources available to expand output in Belgium-Luxembourg, France and Italy, and especially in western Germany and Japan.

The simultaneous increase after mid-1950 in domestic and external demand consequently posed considerably greater problems for the former group of countries than for the latter. This was particularly important where expanded government expenditures impinged directly upon exportable supplies. In the United Kingdom, for example, it was estimated[25] that the increase in defence claims on metal-using industries between 1950 and 1952 was equivalent to between one-fifth and one-fourth of the exports of these industries. Denmark, the Netherlands and the United Kingdom instituted disinflationary fiscal and monetary measures with the object, among other things, of making additional resources available for the export trade. The United Kingdom also employed direct controls designed to divert capital goods and vehicles from the home market to exports. The supply problem was of lesser importance in Norway and Sweden, where the upturn in domestic demand did not seriously affect supplies of the principal export goods—wood, wood-pulp and paper products—and shipping services.

The situation in France differed from that prevailing in other countries in the second group. Some slack had developed in the French economy in the first half of 1950, but there was a significant increase in economic activity and incomes in the following year accompanied by a relatively pronounced wage-price spiral in 1951 and 1952. As is indicated further below, certain supply difficulties developed in the latter period.

In most other countries there was no significant problem of adequacy of supplies for export throughout the period under consideration. By 1953, moreover, the supply position had greatly eased—even in those countries which had previously had difficulties in this respect both because output had increased and because demands on engineering industries were slackening. In many cases, in fact, anti-inflationary measures were relaxed since not only were consumer goods industries still operating below capacity, despite the substantial rise in consumption in 1953, but the output of capital goods industries was tending to decline for lack of demand, both internal and external.

The factors affecting the exports of western Europe and Japan from 1950 to 1953 on the demand side depended both on the commodity composition and on the geographic distribution of exports. On the whole, the demand for foodstuffs and capital goods increased fairly steadily throughout the period, while the demand for raw materials and manufactured consumer goods was affected by inventory cycles. Again, fluctuations in the import demand of primary producing countries were generally greater than for the industrially advanced countries of western Europe and the United States.

The growth in demand for food in western Europe from 1950 to 1953 is reflected in the general expansion of food exports of such countries as Denmark, Ireland, the Netherlands and Turkey. In Denmark, however, exports suffered a temporary setback in 1952 owing to restrictions on imports of certain food products imposed in the United Kingdom.

The development of exports of Norway and Sweden, on the other hand, exhibited the cycle common to most countries whose exports consisted largely or predominantly of raw materials. Thus, a rise in shipments of wood products in 1951 was followed by a contraction in 1952, which was due not only to a slowing down of inventory accumulation but to the controls on timber imports imposed in the United Kingdom with the object of exerting a downward pressure on prices. In 1953 demand recovered once again. Exports of steel by Belgium-Luxembourg exhibited a pattern similar in many ways to that for raw materials. In Turkey a generally upward

[25] United Kingdom Treasury, *Bulletin for Industry* (London), November 1953.

trend in raw cotton exports reflected growing domestic output. Exports declined sharply in 1951/52 owing to attempts to maintain export prices in the face of declining demand, but recovered to new high rates in the following year as Turkish prices fell to world levels.

The effect of the various supply and demand factors indicated above is strikingly reflected in the development of exports by the three major western European exporters of finished manufactures—France, western Germany and the United Kingdom. The following are indices of the quantum of exports of these three countries and of OEEC countries as a whole (1938=100):

| | *France* | *Western Germany* | *United Kingdom* | *OEEC countries* |
|---|---|---|---|---|
| 1950 | 161 | 82 | 161 | 130 |
| 1951 | 190 | 117 | 163 | 148 |
| 1952 | 168 | 126 | 153 | 140 |
| 1953: | | | | |
| First quarter | 173 | 124 | 152 | 142 |
| Second quarter | 182 | 143 | 155 | 149 |
| Third quarter | 155 | 147 | 156 | 149 |

*Source:* Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, Series I (Paris), December 1953, table 4.

Western Germany accounted for approximately half of the total expansion in the exports of western Europe from 1950 to 1953, and virtually regained, by the third quarter of 1953, the pre-war share of the same area of Germany in the exports of western Europe.

From 1950 to 1951 there was a large-scale expansion of exports in France and western Germany due in both countries to considerably higher shipments of capital goods and in the case of France to a sharp rise in deliveries of raw materials and semi-manufactures. The United Kingdom, however, experienced a shortage of steel in the second half of 1951, which continued into the first half of 1952, as a result of inability to secure adequate imports of certain raw materials, particularly of scrap from western Germany. Exports rose little, both because supply difficulties were encountered in the capital goods industries, where external demand was strongest, and because shipments of consumer goods, especially textiles, dropped as inventory accumulation abroad was halted or slowed in the course of 1951.

In 1952 the exports both of France and of the United Kingdom dropped, while those of western Germany continued to rise. In France the large expansion of exports in the latter months of 1950 and the first half of 1951 had represented to a considerable extent the shipment of raw materials at the expense of domestic stocks. Moreover, the wheat harvest of 1951/52 was relatively poor. It thus proved necessary to impose restrictions on the export of a wide range of foodstuffs and raw materials so as to conserve domestic supplies and restrain the rise in prices. Exports of capital goods declined, higher output being devoted to domestic investment and military production; and exports of consumer goods also fell with the weakening in external demand. In the United Kingdom, likewise, exports of consumer goods were lower and, while supply difficulties in the capital goods industries began to ease in the course of the year, owing to a rise in output and to significant imports of steel from the United States, demand from many of the primary producing countries for capital goods began to slacken. In western Germany, on the other hand, exports of consumer goods were a much smaller proportion of total exports than in France and the United Kingdom. Moreover, western Germany's export markets were concentrated mainly in western Europe, where the demand for the types of goods produced for export by that country was continuing to increase.[26]

There was an important difference between developments in the exports of France and the United Kingdom in that, while France was able to sell in the protected franc area a large proportion of its goods, especially in the consumer categories, failing to find markets elsewhere, restrictions were placed on imports from the United Kingdom in the oversea sterling area to support balances of payments. However, the import restrictions imposed by the sterling area, including the United Kingdom, also affected French exports to a considerable extent.

In 1953 there was an increase in the volume of exports of all three countries, but the rise in western Germany was much larger than in the other two. In France a slackening in domestic economic activity and an improved harvest in 1952/53 eased the supply position for foodstuffs and raw materials. Shipments of manufactures dropped, however, largely because of a decline in demand in the oversea franc area, where there had probably been completion of some investment projects as well as a considerable accumulation of inventories during the previous year. In United Kingdom exports to other industrial countries there was some recovery, notably of consumer goods, but deliveries to primary producing countries—even deliveries of capital goods, the supply of which had improved—continued to be affected by import restrictions in the first half of 1953. The relaxation of these restrictions did, however, bring about an increase in its exports during the second half of the year. In both France and the United Kingdom, part of the rise in exports reflected increases in exportable supplies of petroleum products.

In the case of western Germany, about half of the expansion in exports in 1953 continued to consist of higher deliveries of capital goods to western Europe and North America. However, there was also a considerable increase in exports to other areas, particularly Latin America, the Middle East and the oversea sterling area, though in many cases these gains consisted of an expansion of exports from low levels. It would appear that, while differences in the commodity composition

[26] In 1952, western Europe accounted for 35 per cent and 27 per cent of the exports of France and the United Kingdom, respectively, and for 63 per cent of the exports of western Germany.

**Table 50. Quantum of Imports and Exports of Western Europe, Japan and the United States, 1951 to 1953**
(1950=100)

| Country | Quantum of imports | | | Quantum of exports | | |
|---|---|---|---|---|---|---|
| | 1951 | 1952 | 1953[a] | 1951 | 1952 | 1953[a] |
| Austria | 104 | 99 | 90 | 109 | 108 | 145 |
| Belgium-Luxembourg | 109 | 108 [105] | 108 | 121 | 112 [111] | 116 |
| Denmark | 94 | 91 | 101 | 114 | 108 | 117 |
| France | 117 | 119 | 120 | 118 | 104 | 110 |
| Germany, western | 102 | 118 | 133 | 143 | 154 | 180 |
| Ireland | 104 | 88 | 96 | 99 | 120 | 139 |
| Italy[b] | 113 | 125 [122] | 138 | 117 | 102 [99] | 110 |
| Netherlands | 102 | 90 | 105 | 119 | 125 | 142 |
| Norway | 109 | 106 | 116 | 111 | 102 | 105 |
| Portugal[c] | 96 | 99 | 98 | 115 | 100 | 98 |
| Sweden | 119 | 109 | 108 | 104 | 93 | 99 |
| Switzerland | 118 | 104 | 108 | 120 | 119 | 134 |
| Turkey | 120 | 166 | 159 | 101 | 122 | 136 |
| United Kingdom | 113 | 101 | 112 | 101 | 95 | 98 |
| TOTAL, OEEC COUNTRIES[c] | 111 | 108 | 115 | 114 | 108 | 118 |
| Japan | 147 | 165 | 227 | 106 | 106 | 118 |
| United States[d] | 99 | 103 | 108 | 122 | 115 | 107 |

*Source:* Statistical Office of the United Nations.

[a] Preliminary estimates based on latest monthly data; for purposes of comparison with 1952, where averages of monthly data for 1952 do not correspond to annual data for that year the former have been shown in brackets.

[b] Including United States-United Kingdom zone of Trieste.

[c] Data from Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series I, February 1954.

[d] Excluding special category exports.

of exports, and in their geographical distribution, as well as in the available supplies of goods for export, accounted for much or most of the variation in export trends experienced by France, western Germany and the United Kingdom during the period under review, other factors may also have been involved. Some of these factors are considered further below.

Exports of manufactures by other countries from 1950 to 1953 were generally subject to influences similar to those considered above. Thus, for example, the exports of Italy and Japan, both of which are important producers of textiles for external markets, increased from 1950 to 1951, as shown in table 50, but levelled off or declined thereafter.[27] Both countries were affected by the textile recession in 1951/52 and by the import restrictions imposed in 1952 by the sterling area; Italian exports were also depressed by the tightening of French import controls in 1952/53. In 1953 the exports of both countries rose once more. Exports of textiles continued to be depressed, particularly by import restrictions in the sterling area, though Japanese exports to other areas rose and there was also some recovery in Italian shipments of synthetic fabrics. Both countries recorded higher exports of foodstuffs. In Italy an important factor in the growth of exports was the rise in the export capacity for petroleum products, while in Japan there were higher foreign shipments of chemicals and machinery and equipment.

[27] It should be noted however, in the case of Japan, that if shipments under special procurement by the United States armed forces were included, the volume of exports would show a further increase from 1951 to 1952.

*Competitiveness of exports*

From mid-1950 to the early part of 1951 there was a seller's market for most types of goods, so that increases in the volume of exports depended mainly upon the rapidity with which orders could be filled by suppliers. There were, in fact, important instances, notably in Belgium-Luxembourg and western Germany, in which premium prices were obtainable for quick delivery, especially of steel and other metal goods. In the case of capital goods this situation continued to prevail throughout 1951 and most of 1952. The effect of supply factors has already been considered above.

From mid-1951 for consumer goods and from the end of 1952 in the case of capital goods, the relative importance of the price factor and of other factors in competition increased. Premium prices were reduced or eliminated. Apart from this, however, the limitations on the available data concerning price competition are such that it is extremely difficult to come to definite conclusions in this field. This is particularly true in respect of the manufactured goods which are of major importance in the exports of western Europe and Japan: the heterogeneity of these goods renders price comparisons based on export statistics very hazardous.

Such data as are available suggest that at least in some cases relative price movements may have contributed to differences between countries in the development of exports of broadly comparable goods. United Kingdom export prices appear to have been less flexible than those of other countries both during the period when prices were rising and subsequently when they declined.

During the earlier period an improvement in the competitive position of the United Kingdom was offset by domestic supply difficulties. However, part of the subsequent decrease in its cotton textile exports, in 1952, may have been due to the failure of prices to decline as much as in countries such as western Germany, Italy, the Netherlands and the United States. In France the relatively pronounced wage-price spiral was not accompanied by any major divergence of French export unit value indices from those of other countries for comparable commodity groups. This is not necessarily inconsistent with the possibility that the export of some French goods was reduced by relatively high prices, since the weight of such goods in the relevant indices would have fallen. The category of French exports most likely to have been limited by high prices was consumer goods, for which, moreover, demand in the domestic and oversea franc area markets was relatively strong up to the latter part of 1952. Finally, part of the increase in the exports of the Netherlands during the period under review may have been due to the policy of stabilization of wages and prices.

Several western European countries, as well as Japan, introduced or extended the scope of export incentive schemes during 1952 and 1953. The nature of these schemes was briefly examined in *World Economic Report, 1951-52*,[28] in which it was pointed out that three main categories existed: those enabling exporters to dispose of some proportion of the foreign exchange proceeds of their exports; those providing some other form of open or concealed subsidy to exporters, especially through remission of taxation; and, finally, those involving the extension of especially favourable credit facilities to foreign importers.

The first of these types of incentive probably contributed to the expansion in the exports of some western European countries, especially to the dollar area. However, the benefits accruing to exporters by virtue of these arrangements[29] diminished considerably during 1953, owing to the general improvement in dollar balances of payments and the accompanying decrease in the premium prices which the special dollar import goods available under the various schemes could command in terms of domestic currencies. Therefore, several countries[30] abolished this form of export incentive towards the end of 1952 or in the course of 1953. Japan, however, extended the scope of its scheme in September 1953 to provide benefits to exporters to the sterling area as well as to the dollar area.

There was, on the other hand, some increase during 1952 and 1953 in the use of tax rebates and long-term credit facilities to aid exporters. Austria, France and western Germany, for example, considerably enlarged the scope of tax rebates to exporters. Several countries, notably western Germany and the United Kingdom, expanded their export credit facilities in 1952-53.

*Factors in import demand*

Changes in imports generally reflected the pattern of developments in economic activity. The total output of western Europe rose nearly 5 per cent in real terms from 1950 to 1951. In the following year the rate of increase in output was lower, and in several countries output remained virtually unchanged. In 1953 production rose in most countries, with the exception of Belgium-Luxembourg. In line with these developments, the volume of imports by western Europe as a whole rose 11 per cent from 1950 to 1951, declined to 8 per cent above the 1950 level in 1952, and then recovered to about 15 per cent above that level in 1953.

The phasing of the cycle of import demand from 1950 to 1952 differed among the various countries. In many, imports began to rise in response to higher levels of activity and larger additions to inventories during 1950. In these cases the rate of accumulation of inventories and hence the volume of imports began to diminish during the course of 1951, partly owing to anti-inflationary fiscal and monetary measures, especially in Denmark and the Netherlands. In France and the United Kingdom, however, there had been a reduction in stocks of imported goods in 1950, which therefore had to be replenished in 1951. Government stockpiling was an additional factor in the rise in imports into the United Kingdom in 1951.

In 1952, a fall in the rate of voluntary inventory accumulation was accompanied by declines in the volume of imports in Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom. In the United Kingdom the decline also resulted from the tightening of import controls at the end of 1951 and early in 1952, as well as the disinflationary measures referred to earlier, and from a reduced rate of governmental stockpiling. Substantial increases in imports were, however, recorded in western Germany, Italy, Japan and Turkey.

In western Germany and Japan, the steep increases in imports characteristic of a large part of the period from 1950 to 1953[31] accompanied a relatively rapid growth in output, necessitating a corresponding expansion of inventories of raw materials. This was also true to some extent of Turkey, where apart from the favourable effects on income and consumption of good harvests, there was a considerable expansion in the demand for machin-

[28] Pages 85 to 87. See also International Monetary Fund, *Fourth Annual Report on Exchange Restrictions, 1953* (Washington, D.C.), pages 14 *et seq.*

[29] See *World Economic Report, 1951-52*, page 86.

[30] Including Norway and Sweden in 1952, and western Germany and the Netherlands in 1953.

[31] The relatively small increase in western Germany's imports from 1950 to 1951 reflects in part a reaction against the high rate of imports of the previous year and in part the effect of a tightening of import restrictions early in 1951 as a result of a temporary deterioration in the balance of payments.

ery and transport equipment associated with a rise in domestic investment. In Italy, the increase in production in 1952 was small, but there was an almost complete freeing of controls on imports from other western European countries.

The fact that imports rose further in France in 1952 was due to heavy deliveries early in the year against advance payments in the latter part of 1951, in anticipation of a tightening of import restrictions, which in fact occurred in February 1952. Similar speculation was probably involved to some extent in the rise in United Kingdom imports in 1951, in Turkish imports in 1952, and in Japanese imports in 1953.

In 1953 the volume of imports rose in most western European countries and in Japan. This reflected increases in production and consumption as well as a measure of restocking, especially in consumer goods industries, in which activity recovered from the slack period of 1951/52. These developments were partly the result of a relaxation of disinflationary policies. In the United Kingdom, for example, where the pressure of internal and external demand for capital goods had slackened, and where the consumer goods industries, despite some recovery, were still operating below capacity, the Government took steps to increase the level of domestic demand both for consumption and for private investment by such measures as a reduction in direct and indirect taxation, the reinstatement of initial allowances for capital expenditure and an easing of credit restrictions. Similar measures were adopted in a number of other countries.

The quantum of French imports was slightly higher in 1953 than in 1952. This occurred notwithstanding the fact that imports early in 1952 had included a large-scale speculative component and that total manufacturing activity in 1953 declined. The programme of import quotas was adhered to, but, being established in terms of value, may not have affected the quantum of restricted imports proportionally, since import prices were falling. Moreover, the restrictions imposed did not cover all imports. There was a partial recovery in the output of consumer goods industries in 1953, necessitating some replenishment of stocks of raw materials such as hides and skins and textile fibres. In addition, however, it appears probable that there was a renewed increase in speculative imports, especially in the first half of 1953, owing to fear of devaluation or of a further tightening of import controls, in view of the persistence of the French external deficit.[32]

The quantum of imports declined significantly from 1952 to 1953 only in Austria and Turkey. In Austria this was the result of disinflationary domestic policies and a levelling off in industrial production.[33] The fall in Turkish imports was due to a lower rate of inventory accumulation following the very high imports of the previous year, part of which had been speculative in character, in anticipation of import restrictions. Restrictions were in fact imposed early in 1953, but appear to have been designed to prevent further increases in imports rather than to bring about an actual decline.

In general, imports of foodstuffs were higher in 1953 than in 1952, owing to a rise in food consumption in most countries. The upward trend was particularly marked in non-staple foods such as meat, dairy products, fruits and vegetables, the supplies of which improved. On the other hand, the increase in the grain harvest in western Europe in 1952/53 made it possible for grain imports to be reduced, especially from North America.

Among the raw material imports of industrial countries which increased in 1953, textile fibres, especially raw wool, were prominent. Textile products and other consumer goods also accounted for a large or major proportion of the increase in imports of manufactures.

The rise in imports of foodstuffs, and of industrial consumer goods and the raw materials required for their production, was partly offset by a fall in the demand of several countries for metals and metal manufactures, associated with a slackening of the rate of increase in military production, and with a levelling off or decline in private investment in plant and equipment and in capital goods exports. The main exceptions to this trend were western Germany and Japan, where engineering production continued to rise significantly as a result of higher domestic investment and exports.

### *Changes in terms of trade*

The basic factors underlying changes in the terms of trade between industrial and primary producing countries from 1950 to 1953 have been reviewed in the preceding chapter. It remains only to consider the impact of these developments on western European countries and Japan (table 51).

While the terms of trade of western Europe as a whole deteriorated by 5 per cent from 1950 to 1951, the position of individual countries depended upon the importance of raw materials relative to foodstuffs and manufactured goods in both imports and exports. As noted in the preceding chapter, the prices of the latter commodity groups lagged considerably behind raw material prices.

Those of the western European countries which are largely exporters of industrial raw materials, such as Belgium-Luxembourg (steel), Norway and Sweden (forest products) and Turkey (textile fibres), experienced improved terms of trade in 1951. Although Japan is primarily an exporter of finished manufactures and an importer of foodstuffs and raw materials, its

[32]See also the discussion below of French imports from members of the European Payments Union in 1953.

[33]It is not possible from the available data to estimate the effect on imports of the devaluation of 4 May 1953.

**Table 51. Terms of Trade[a] of Western Europe, Japan and the United States, 1951 to 1953**
(1950=100)

| Country | 1951 | 1952 | 1953[b] |
|---|---|---|---|
| Austria | 92 | 99 | 86 |
| Belgium-Luxembourg | 110 | 114 | 102 |
| Denmark | 88 | 94 | 97 |
| France | 91 | 102 | 105 |
| Germany, western | 96 | 108 | 116 |
| Ireland | 93 | 95 | 95 |
| Italy[c] | 90 | 90 | 96 |
| Netherlands | 97 | 98 | 100 |
| Norway | 116 | 111 | 104 |
| Portugal[d] | 110 | 108 [110] | 101 |
| Sweden | 122 | 115 | 110 |
| Switzerland | 91 | 93 | 97 |
| Turkey | 107 | 102 [100] | 97 |
| United Kingdom | 88 | 95 | 104 |
| TOTAL, OEEC COUNTRIES[d] | 95 | 101 | 103 |
| Japan | 108 | 116 | 120 |
| United States | 90 | 95 | 99 |

*Source:* Statistical Office of the United Nations.

[a] Unit value index of exports divided by unit value index of imports; calculated in terms of national currencies, except in dollars for Japan and for OEEC countries as a whole.

[b] Preliminary estimates based on latest monthly data; for purposes of comparison with 1952, where averages of 1952 monthly data do not correspond to annual data for that year, the former have been shown in brackets.

[c] Including United States-United Kingdom zone of Trieste.

[d] Data from Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin,* series I, February 1954.

terms of trade actually improved in 1951 because Japanese exporters of textiles and steel products raised their export prices sharply in response to the increase in world demand.

The extent of the deterioration in terms of trade of the other countries varied widely. In western Germany the deterioration was slight: export prices rose rapidly, the ability to make quick deliveries of heavy industry products being reflected in premium prices. Although raw material import prices rose still more sharply, the effect of this rise upon the total import price index was damped by the large share of foodstuffs, and especially grains, in imports. Similar factors affected the United Kingdom on the import side, but in this case export prices rose more slowly and the deterioration in terms of trade was larger. There was also a considerable worsening of the terms of trade of France and Italy, both of which are large-scale importers of raw materials.

In 1952, the balance of payments position of western Europe as a whole was affected by a recovery in terms of trade. Several of the countries which had in the previous year enjoyed improving terms of trade now experienced the opposite; falling export prices and rising prices for the manufactured goods which are important in their imports resulted in deterioration in the terms of trade of Norway, Sweden and Turkey. On the other hand, the terms of trade of such exporters of manufactures and importers of raw materials as France, western Germany and the United Kingdom now showed improvement. In the United Kingdom, however, the terms of trade were still adverse compared with 1950 levels. While raw material import prices fell sharply, there was some increase in food import prices as a result largely of revisions in prices under the long-term and other bulk purchase agreements; the fall in total import prices was therefore small. The effect of the change in food import prices of the United Kingdom was reflected in the improved position of Denmark, where the terms of trade recovered to some extent from the deterioration in the previous year.

Prices of most goods eased during 1953, declines being greatest for raw materials. Thus, the 1952 trend towards improving terms of trade for western Europe as a whole—and especially for those countries which are primarily raw material importers—continued into 1953. In that year the terms of trade for western Europe as a whole were slightly more favourable than in the first half of 1950, while the average price level was some 20 per cent higher.

In general, in 1953 the prices of many of the primary products of which western Europe is a net importer stood not much above the 1950 level; this applied particularly to textile fibres and wheat. Import prices of metals, and of manufactured goods generally, however, were substantially above 1950 levels. Prices of manufactured goods and certain raw materials such as timber, which bulk large in western Europe's exports, had risen some 20 per cent above the 1950 levels; the prices of exported textile manufactures, however, do not appear to have been much above the level prevailing in early 1950.

The terms of trade of western Germany continued to improve in 1953 since export prices did not decline as much as import prices; by the fourth quarter of 1953 the terms of trade were 16 per cent better than in mid-1950. In the case of the United Kingdom, the terms of trade at the end of 1953 were slightly more favourable than at mid-1950, the greater increase in prices of imported foodstuffs being largely responsible for the failure of its terms of trade to improve as much as those of western Germany. Average export prices of the United Kingdom, as well as of France and Italy, were particularly affected by the fact that the prices of certain consumer goods, such as textiles, had risen less than those of capital goods, in relation to 1950. Lesser increases in export prices for food from 1950 to 1953 than for other commodities contributed to the adverse change in the terms of trade of such food exporting countries as Denmark and Italy.

While export prices of Sweden, and Norway to some extent, continued to fall as a result of the decline in timber prices, the level obtaining during 1953 was still considerably above that of early 1950. Consequently, the terms of trade of both of these countries in 1953, though less favourable than in 1951 and 1952, were considerably better than in the first half of 1950. The terms of trade of Japan improved throughout the period under review: export prices, having risen more than import prices in 1951, declined much less than import prices in 1952 and 1953. Although export prices for textiles dropped considerably in 1952 and appear to have fallen further in 1953, the effect of this on the total export unit value index was moderated by a rise in the proportion of exports consisting of capital goods, the prices of which seem to have declined less significantly.

### Geographic distribution of external balances

It has already been indicated that the trade balance of western Europe, having deteriorated significantly in 1951, improved subsequently, and by 1953 was slightly more favourable than in 1950. The distribution of the balance in 1953 was, however, somewhat different from that in 1950, as is shown in the following data[34] (in billions of United States dollars at monthly rates):

| | *1950* | *1953* |
|---|---|---|
| Total trade balance of OEEC countries | −0.37 | −0.32 |
| Balance with: | | |
| Dollar area | −0.20 | −0.13 |
| Rest of world | −0.17 | −0.19 |
| Oversea sterling area | −0.07 | −0.15 |

While the deficit with the dollar area was lower in 1953 than in 1950, the balance with the oversea sterling area was less favourable in 1953. The main causes of the improvement in the dollar balance have been reviewed above. Thus, exports to the dollar area rose with the rapid expansion of production and incomes in that area, while commercial imports increased less than exports because of substitutions for dollar supplies and the continuing restrictions on dollar imports in western Europe. The deterioration in the balance with some of the primary producing countries, especially in the sterling area, was due to the effect of restrictions on imports from western Europe imposed in 1952 and relaxed only in the course of 1953. This development has been referred to in the preceding chapter.

It remains to consider changes in the balances among the western European countries themselves, which are cleared through the European Payments Union. It must be borne in mind, in this discussion, that transactions within the European Payments Union are affected by the balances of western European member countries with the affiliated currency areas of other members.

In 1952 and 1953 there were significant reductions in some of the more extreme surpluses and deficits which had arisen in the payments union in 1951, so that a somewhat better balance within the union was achieved, as shown in table 52. The residual imbalance in 1953 was mainly concentrated in three countries: France, Italy and western Germany.

Table 52. Surpluses and Deficits in the European Payments Union, 1951 to 1953
(Millions of units of account[a])

| *Country or monetary area*[b] | *1951* | *1952* | *1953* |
|---|---|---|---|
| Austria | −93.2 | 21.8 | 79.2 |
| Belgium-Luxembourg | 595.5 | 149.4 | −41.5 |
| Denmark | 8.0 | 6.8 | −44.7 |
| France | −413.1 | −421.7 | −299.5 |
| Germany, western | 405.0 | 330.8 | 434.9 |
| Greece | −114.8 | −42.3 | −27.5 |
| Iceland | −5.2 | −4.0 | −6.6 |
| Italy | 225.7 | −93.0 | −260.0 |
| Netherlands | 57.8 | 316.5 | 68.5 |
| Norway | −18.5 | −6.5 | −88.4 |
| Portugal | 59.7 | −31.8 | −11.6 |
| Sweden | 193.0 | 28.7 | 3.5 |
| Switzerland | 153.8 | 41.3 | 125.5 |
| Turkey | −105.9 | −117.7 | −31.3 |
| United Kingdom | −948.0 | −178.3 | 99.5 |
| Total surpluses and deficits | ±1,698.5 | ±895.3 | ±811.1 |

*Source:* Press releases of the European Payments Union.

[a] Equivalent to United States dollars.

[b] Ireland and Trieste are included in the monetary areas of the United Kingdom and Italy, respectively. All dependent territories are included with the respective metropolitan countries. The United Kingdom entry also includes the independent members of the sterling area.

Gross surpluses with the union rose to a peak in the latter part of 1951, when the franc and sterling areas were running large current deficits with other members, to which were added speculative capital outflows; the counterpart of these deficits was to be found in the surplus positions of such countries as Belgium-Luxembourg, Italy, western Germany and Switzerland, where the peak of import demand[35] was reached earlier than in France and the United Kingdom, and where substantial capacity was available for the expansion of exports, especially of heavy industry products.[36]

France and the United Kingdom, as well as members of the oversea sterling area, restricted their imports from other European Payments Union countries late in 1951 and early in 1952. At the same time the creditor countries liberalized their imports and adopted other measures affecting both current and capital transactions with a view to reducing their surpluses with the union.[37]

The effect of these measures was to reduce the degree of imbalance between members of the union in 1952. However, the French deficit did not decline, for reasons which will be discussed further below; and the Nether-

[34] Exports, f.o.b., less imports, c.i.f.; 1953 data preliminary.

[35] In the case of western Germany, imports were affected by restrictions imposed in February 1951 to support the balance of payments.

[36] The relatively large surplus of Sweden was due to improved terms of trade resulting from heavy demand for exported forest products.

[37] For an account of these measures see *World Economic Report, 1951-52*, page 95.

lands emerged as a major surplus country, partly as a result of the disinflationary fiscal and monetary policies adopted in that country in the previous year. Moreover, the decline in the surplus of western Germany was attributable to a special factor, namely to purchases of dollar commodities, valued at some $80 million, from the United Kingdom.[38]

The further reduction in gross surpluses and deficits in 1953 continued to reflect the impact of measures which had previously been adopted by surplus and deficit countries to correct the imbalance in the European Payments Union. Some of these measures, in fact, now began to be reversed. Belgium-Luxembourg had already relaxed provisions for the temporary blocking of proceeds of exports to countries in the union during 1952;[39] in February 1953 an export tax introduced in November 1951 was abolished, and the import tax was increased, while credit facilities for exports to the dollar area and for imports from the European Payments Union area were reduced.

The reduction in the Netherlands balance with countries in the union in 1953 was due not only to progressive liberalization of commodity imports and of invisible transactions, but also to increased production and to cessation of inventory liquidation, giving rise to higher import demand. These developments were in part the result of a relaxation of the fiscal and monetary measures previously adopted with the object of correcting the external disequilibrium.

In the course of 1953, France, the United Kingdom and the oversea sterling area took steps to lift restrictions on imports from other members of the European Payments Union.[40] In the second half of 1953, the sterling area recorded a deficit in transactions with the union, mainly, it appears, as a result of the rise in continental western Europe's exports to the oversea sterling area.

While most extreme surpluses and deficits diminished somewhat or were reversed in 1953, the surplus of western Germany persisted, accounting for more than one-half of the gross surpluses recorded in that year. The emergence of western Germany as a structural creditor country in the union represents, to some extent, the counterpart of the reduction in the dollar deficit of western Europe. In the immediate post-war years the dollar deficit of western Europe was aggravated by the low level of exportable supplies in western Germany, which not only resulted in a large import balance for that country but also prompted other European countries to seek in the dollar area supplies of industrial goods such as chemicals, metal products and equipment traditionally obtained from Germany. As western Germany's industrial production recovered, it was able to replace the dollar area as the source of many of these commodities. While western Europe's deficits with the dollar area had to be settled fully in convertible currencies, the deficit with western Germany did not require full payment in gold or dollars under the machinery of the European Payments Union, a major part being settled by advances of credit.

France and Italy accounted for almost 70 per cent of the gross deficits recorded in 1953. During 1951, Italy had recorded rather large surpluses in trade with western European countries as a result primarily of the high level of demand for its exports of textiles. At the end of 1951, measures were taken to free virtually all of Italy's imports from countries of the union, while at the same time the expansion in industrial production and domestic consumption was associated with a large increase in imports. Italian exports, however, fell sharply in 1952 and, though recovering in 1953, rose less than imports.[41]

The improvement in the French position in the European Payments Union in 1953 was much smaller than in the case of the United Kingdom largely because not all imports were affected by the restrictions imposed and because substantial speculative imports occurred, especially in the first half of the year. In particular, the programme of import quotas established by the French Government did not cover imports secured under the provisions whereby exporters might use some proportion of foreign exchange proceeds from their exports for approved transactions. It is clear from the data available on the import quotas and on the actual level of French imports that purchases outside the framework of the controls were relatively large in 1952 and probably increased further in 1953.[42] This may have been attributable to renewed fear of devaluation or of still tighter import controls resulting from the continuing deficits of France in its external accounts, and the failure of the import restrictions enacted up to that time to eliminate such deficits.[43] There was a moderate improve-

[38] These transactions took place under an arbitrage scheme temporarily introduced by the United Kingdom in August 1952, whereby goods might be purchased from the dollar area by United Kingdom dealers and resold to western Europe for sterling.

[39] The proportion of blocked proceeds was further reduced as of 1 February 1954.

[40] In March 1953, the United Kingdom freed 54 per cent of imports from other OEEC countries and raised the proportion further to 75 per cent in November. France, which had completely suspended liberalization in 1952, freed 20 per cent of its imports in October 1953.

[41] As noted previously, the imposition of import restrictions by France and the sterling area in 1952 particularly affected Italian exports to these countries. The partial reversal of these measures in the course of 1953 appears to have resulted in some increase in exports to them at the end of the year.

[42] New regulations introduced by the French Government in September 1953 were designed to limit the scope of these facilities and in particular to reduce the accumulation of balances held abroad in connexion with them.

[43] It is also noteworthy that, while the deficit of the franc area (exports, f.o.b., less imports, c.i.f.) fell from $129 million in the first quarter of 1953 to $88 million in the second quarter, the payments deficit according to EPU returns rose from $62 million to $146 million, indicating the possibility of a flight of capital from France in the second quarter.

ment, however, in the second half of the year, when imports declined and speculation subsided as the slack in domestic activity continued and it became clear that French dollar resources were sufficient to finance deficits with the European Payments Union and even to allow relaxing of the import restrictions in some degree.

The object of the import restrictions imposed early in 1952 was stated to be that the whole of the imports from the payments union area should be covered by proceeds from exports to that area, so as to avoid losses of gold and dollars to the union. Nevertheless, the accounting deficit of France with the union from mid-1952 to mid-1953 amounted to $335 million, calling for gold and dollar payments of $294 million in that period compared with $171 million in the preceding year, when, although the deficit was larger, the proportion of credit available under the payments union procedure was also much higher.[44] In the second half of 1953, further gold or dollar payments of $101 million were made. France was in the position, in 1953, of having a surplus of dollars arising from transactions with the dollar area[45] side by side with a large deficit with the European Payments Union, which had to be settled fully in gold or dollars. Although the active trade balance with continental western Europe rose significantly from 1952 to 1953, owing to a recovery in exports and a decline in imports, trade with the sterling area, affected by import restrictions on both sides, resulted in a slightly larger French deficit in 1953 than in 1952. By virtue of its deficit with the sterling area in 1953, France acted as the channel whereby dollars flowed from the United States[46] to the surplus countries in the union, notably western Germany, the Netherlands, Switzerland and the United Kingdom.[47]

[44]France passed the limit of its deficit quota in the European Payments Union at the end of October 1952; all additional deficits after that period had to be settled fully in gold or dollars.

[45]The improvement in the French dollar balance in 1953 was due not only to a reduction in the deficit with the dollar area on commercial trade account, but also to a substantial increase in United States offshore purchases and other local expenditures in France, and the proceeds of a continuing high level of United States economic aid and of expanded military aid to the oversea franc area. It was estimated that exceptional dollar resources available to France amounted to approximately $600 million in 1952 and $800 million in 1953 (Organisation for European Economic Co-operation, *Progress and Problems of the European Economy* (Paris), January 1954, pages 92 and 94.)

[46]In addition to other dollar settlements with the European Payments Union in this period, the deficits of France with the union in April and May 1953 were settled with the aid of "special resources" amounting to $89 million allotted directly by the United States Government.

[47]A similar situation existed in the case of Japan, which likewise had a surplus with the dollar area, resulting from a continued high level of United States special procurement, and a deficit with the sterling area, in the second half of 1952 and the first nine months of 1953. The deficit with the sterling area was due to a considerable expansion of imports, while exports declined owing to the import restrictions applied by sterling area countries. Since Japan's holdings of sterling fell below working levels, a number of measures were adopted to deal with the situation. Allocations of foreign exchange for imports from the sterling area were reduced sharply in the period March to September 1953, and still further in respect of the following six months, though allocations for dollar imports were raised. Special arrangements were made with the United Kingdom in April 1953 whereby spot sterling was purchased for dollars by Japan with provision for repurchase of the dollars against sterling after a lapse of six months. These arrangements were, however, extended in August 1953. In addition, the Japanese Government decided to extend special incentives to exporters to the sterling area. Finally, in the last four months of 1953, Japan purchased sterling equivalent to $124 million from the International Monetary Fund, of which an amount equivalent to $61.6 million was purchased with dollars.

# Chapter 6

# INTERNATIONAL TRADE AND PAYMENTS OF PRIMARY PRODUCING COUNTRIES

## General Trends

In the first half of 1953 exports and imports of primary producing countries[1] were again virtually in balance as they had been three years earlier, before the beginning of the commodity boom connected with the outbreak of hostilities in Korea in mid-1950. In the interval the trade balances had fluctuated considerably, large active balances during the first year being followed by large passive balances over the subsequent year and a half. These changes in trade balances were decisive for the external accounts of the primary producing countries; changes in the balances on account of services, private capital flow, and government loans and other payments were comparatively small, and at times partly cancelled each other out (see table 53).

The general character of the fluctuations in exports and imports has been briefly reviewed in chapter 4. In the first twelve months after June 1950 the demand for primary products expanded rapidly and substantially; total export receipts of primary producing countries rose, and by the first half of 1951 reached a level more than 50 per cent above that of the corresponding period of 1950. Imports also rose, partly in response to the increase in income that resulted from the higher

[1]Including countries of Asia (except Japan and mainland China), Africa, Latin America and Oceania; and Canada, Finland, Spain and Yugoslavia.

Table 53. Balance of Payments of Primary Producing Countries, 1950 to 1953
(Billions of United States dollars)

| Item | 1950 | | 1951 | | 1952 | | 1953 |
|---|---|---|---|---|---|---|---|
| | *First half* | *Second half* | *First half* | *Second half* | *First half* | *Second half* | *First half* |
| Exports | 10.9 | 14.0 | 17.0 | 15.3 | 14.9 | 14.7 | 14.8 |
| Imports (c.i.f.) | 10.7 | 12.7 | 15.4 | 17.5 | 17.6 | 15.6 | 14.7 |
| BALANCE | 0.2 | 1.3 | 1.6 | −2.2 | −2.7 | −0.9 | 0.1 |
| *Other identifiable items:*[a] | | | | | | | |
| Payments on account of services (excluding transportation and government services): | | | | | | | |
| To the United States | −0.6 | −0.7 | −0.7 | −0.8 | −0.7 | −0.7 | −0.7 |
| To the United Kingdom | −0.4 | −0.5 | −0.6 | −0.5 | −0.5 | −0.5 | −0.5 |
| *Capital flows (net):* | | | | | | | |
| From the United States (private), total | 0.2 | 0.8 | 0.5 | 0.4 | 0.7 | 0.2 | 0.3 |
| Long-term capital | 0.3 | 0.6 | 0.5 | 0.3 | 0.6 | 0.2 | 0.3 |
| From the United Kingdom | 0.3 | 0.2 | 0.4 | 0.1 | 0.2 | 0.1 | 0.2 |
| From the International Bank for Reconstruction and Development | — | — | — | 0.1 | 0.1 | 0.1 | 0.1 |
| *United States and United Kingdom government grants, loans and service payments (net)* | 0.5 | 0.5 | 0.5 | 0.8 | 0.9 | 0.8 | 0.8 |
| *Change in gold reserves and dollar and sterling assets (increase —)* | −0.7 | −1.6 | −1.6 | 1.0 | 0.9 | −0.2 | −0.9 |

*Source:* United Nations Department of Economic Affairs; based on national trade statistics; United States Department of Commerce, *Survey of Current Business* (Washington, D.C.) and *Balance of Payments of the United States, 1949–51* (Washington, D.C.); Federal Reserve Board, *Federal Reserve Bulletin* (Washington, D.C.); *United Kingdom Balance of Payments, 1946 to 1953*, Cmd 8976 (London); International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

[a] Major items not taken into account were transactions on service account (other than transportation included in c.i.f. imports) and capital account with continental western Europe; the net flow of long-term capital from primary producing countries (chiefly important in the case of Canada); gold production in primary producing countries; and earnings on transportation account by primary producing countries.

export receipts, and partly owing to speculative and inventory buying. Since the increase in the value of imports up to the first half of 1951 did not match that in exports, however, the export balance of primary producers rose to a record post-war level.

In the second half of 1951, exports fell from the boom levels, and aggregate proceeds in terms of United States dollars declined by 10 per cent; as the value of imports continued rising, the export surplus of the preceding twelve months was replaced by an even larger import balance. The import balance increased in the first half of 1952, and severe balance of payments difficulties developed in many primary producing countries, particularly in the sterling area and in Latin America. Import restrictions were subsequently tightened, with the result that imports fell sharply in the second half of 1952 and the first half of 1953. After mid-1952 the decline in the value of exports levelled off, and in the first half of 1953 the trade of primary producing countries was, as noted above, again in balance.

In 1950/51[2] the rise in the export balance of the primary producers was partially offset by an increase in net payments on account of services.[3] These were due to some extent to increased profits derived from the commodity boom, especially in the oversea sterling area. Most of the increase in payments of investment income, however, arose in connexion with increased earnings in the petroleum industry in Latin America and the Middle East, where capacity and output had recently been substantially expanded. After mid-1951 total payments on account of services were approximately unchanged, but payments of investment income proper declined, reflecting both lower profits and a higher rate of reinvestment of earnings of subsidiaries.

The greater part of the flow of capital[4] to primary producing countries has continued to be directed towards Canada, other developed Commonwealth countries, dependencies of western Europe and a number of mining and petroleum producing countries. The increase in world demand for primary commodities led to greater United States foreign investment, both in the form of reinvestment of earnings of subsidiaries (not shown in table 53) and in the form of capital outflow. In 1951 increased flow of United States capital into mining—especially in Latin America—was offset by a substantial reflux of capital to the United States from the petroleum industry abroad. United States portfolio investment fell from the high level attained in 1950.

In 1952, especially in the first half of the year, there was a substantial rise in the flow of United States capital into direct investment, particularly into the petroleum industry in Latin America and the Middle East, and into mining in Canada and Venezuela. The reinvestment of earnings of subsidiaries also increased over 1951; portfolio investment, however, became, on balance, negligible. In the first half of 1953 private direct investment fell to well below the 1952 average, and portfolio investment became negative.

United States Government lending had increased in 1951/52 as India drew on its wheat loan from the United States, and large disbursements were made to Indonesia, Israel and Mexico by the Export-Import Bank of Washington. Disbursements tapered off in the first half of 1953, except in the case of a funding loan for Brazil's commercial arrears.

The United Kingdom data do not provide a basis for separating long-term from short-term capital, but it is likely that the changes in total capital outflow from the United Kingdom reflected primarily movements in short-term capital. The decline in 1951/52 was associated with a reversal of the outflow of speculative capital to Australia and the Union of South Africa in the preceding year, while the increase in 1952/53 was accounted for to some extent by accumulation of commercial arrears in Latin America but more importantly by increased outflow to the oversea sterling area.

The expansion which occurred in 1951 in loan disbursements to primary producing countries by the International Bank for Reconstruction and Development continued in 1952; in 1953 the rate of disbursement was substantially the same as in the preceding year.

The restoration of balance in the trade of primary producing countries in 1953 enabled them once more to build up their gold and foreign exchange reserves, which had been drawn down during the period 1951/52 (see table 54). In the boom year following mid-1950, primary producers had increased their holdings by the equivalent of over $3 billion, somewhat more than half of this in gold and dollars. The oversea sterling area had accounted for about half of the total increase in reserves from mid-1950 to mid-1951, but in the following year of reaction to the boom, when primary producers lost the equivalent of nearly $2 billion in reserves, the oversea sterling area lost virtually all of its earlier gain. In fact, the reserves of the independent countries of the oversea sterling area were about $1 billion lower in mid-1952 than in mid-1950, but this was somewhat more than offset by a continued gain in reserves of the dependencies. Sterling holdings of all primary producers fell more than oversea sterling area reserves because of a further sharp decline in the sterling holdings of Latin America, and of other non-sterling countries. Around the middle of 1952 several primary producing countries began to experience an acute sterling shortage.

[2]Throughout this chapter, non-calendar years, shown with a slash as in 1951/52, refer to the twelve-month period beginning 1 July of the first year to 30 June of the second year.

[3]Excluding payments for transportation, which are included in value of imports.

[4]Including reinvested earnings of branches of United States companies, but not of subsidiaries.

Table 54. Gold Reserves and Foreign Exchange Assets[a] of Primary Producing Countries, 1950 to 1953

(Billions of United States dollars)

| *Type of asset and area distribution* | *June 1950* | *June 1951* | *June 1952* | *June 1953* |
|---|---|---|---|---|
| Gold | 3.4 | 4.0 | 4.1 | 4.3 |
| Dollars | 3.0 | 4.1 | 4.2 | 4.1 |
| Sterling | 8.4 | 9.8 | 7.7 | 8.7 |
| TOTAL, ALL PRIMARY PRODUCING COUNTRIES | 14.8 | 17.9 | 16.0 | 17.1 |
| Canada | 1.5 | 2.0 | 2.4 | 2.1 |
| Latin America, total | 3.4 | 3.9 | 3.4 | 4.0 |
| Dollar countries | 1.8 | 2.0 | 2.0 | 2.3 |
| Non-dollar countries | 1.6 | 1.9 | 1.4 | 1.7 |
| Oversea sterling area, total | 7.4 | 9.0 | 7.5 | 8.5 |
| Independent countries | 5.6 | 6.5 | 4.6 | 5.3 |
| Dependencies | 1.8 | 2.5 | 2.9 | 3.2 |

*Source:* United Nations Department of Economic Affairs; based on International Monetary Fund, *International Financial Statistics;* Federal Reserve Board, *Federal Reserve Bulletin;* and *United Kingdom Balance of Payments, 1946 to 1953,* Cmd 8976. Data as of end of month.

[a] Including short-term dollar holdings and sterling balances, public and private.

The reduction in imports in the latter part of 1952 enabled primary producing countries to replenish their reserves, so that by June 1953 more than half of the previous loss in reserves had been regained.

The largest increases in foreign exchange reserves from mid-1950 to mid-1953 were in Canada, the Latin American dollar countries and the dependencies of the oversea sterling area. In all three cases the rise was well in excess of the increase in import prices, so that the value of holdings in terms of imports was significantly increased. In the other primary producing countries there was little if any rise in exchange reserves, while in the independent countries of the oversea sterling area the dollar value of reserves was lower in mid-1953 than it had been in mid-1950.

## Exports

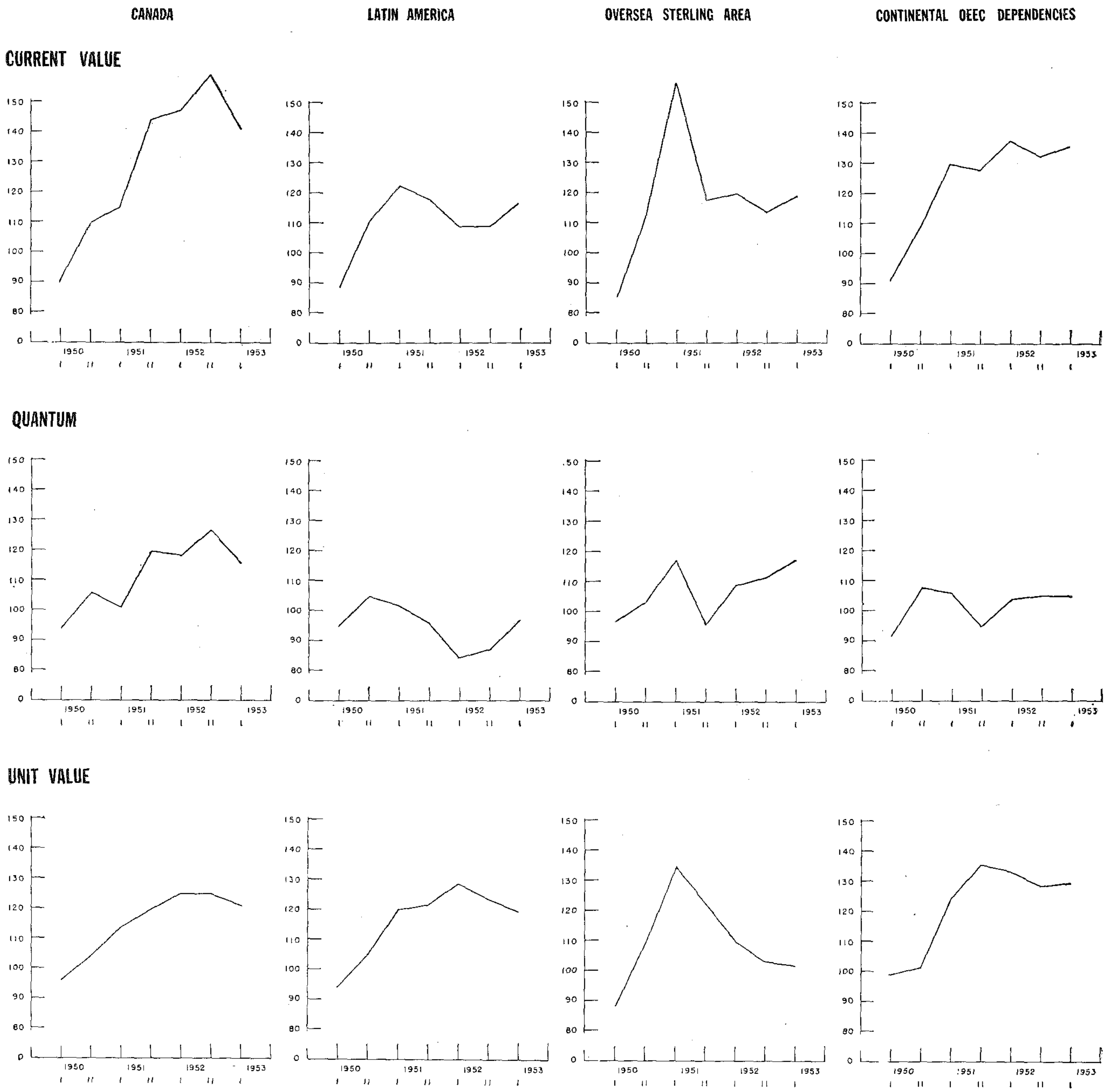
### Factors affecting exports

The principal factor in changes in export receipts of primary producing countries has been the nature of the import demand of the industrial countries. In 1950-53, approximately 72 per cent in value of exports of primary producing countries went to the countries of western Europe, the United States and Japan; some 25 per cent consisted of trade among primary producing countries; and the remaining 3 per cent was sold to eastern Europe, the Soviet Union and mainland China. In the industrial countries, the growth in national economic activity and income generated an increased demand for food and raw materials; food consumption rose continuously from 1950 to 1953, while manufacturing activity rose sharply in 1951 and levelled off in 1952, to resume its upward trend in the first half of 1953. The increase in demand for primary commodities for industrial production and for consumption was partially obscured, however, by sharp fluctuations in inventory accumulation and strategic stockpiling; following an initial rise in the rate of accumulation of stocks of raw materials in 1950/51 there was a decline in the rate, or actual inventory liquidation, in 1951/52; this was followed by a resumption of accumulation in 1952/53. These general developments have been considered in more detail in preceding chapters.

During this period, exports of primary producing countries to each other were characterized by even wider swings than those to industrial countries. In part they were affected by the changes in income resulting from fluctuations in exports to industrial countries and in part also influenced by some speculative inventory changes in the primary producing countries. A large part of the downturn in intra-group exports after 1951, however, was accounted for by special factors; in 1952 these included a decrease in the entrepôt trade of Hong Kong, a reduction in exports of rubber from Indonesia to Malaya, cessation of petroleum shipments from Iran, and a much smaller wheat crop in Argentina.

Exports from primary producing countries to eastern Europe, the Soviet Union and mainland China are largely accounted for by only a few countries, a number of which are members of the oversea sterling area, exporting mainly rubber, tin, cotton and wool. Following a sharp downturn in the value of such exports from 1951

Chart 4. Indices of Current Value, Quantum and Unit Value of Exports of Primary Producing Countries, 1950 to 1953
(1950=100)




*Source:* See table 55.

to 1952, there was a further slight decline in the first half of 1953.

The cycle in foreign exchange receipts of primary producing countries was determined largely by the movement of commodity prices. The early reaction to increased demand in 1950 was a steep rise in the price level of primary products; the rise in quantum of exports was much smaller. This was followed by a period extending over more than two years during which about one-half of the initial price increases were eliminated. The quantum of exports, after a sharp decline in the latter part of 1951, rose moderately during the remainder of the period. In the first half of 1953 the average unit value of exports of primary producers was approximately 21 per cent above the level of the same period in 1950, while the quantum was about 12 per cent higher (see table 55 and chart 4).

Table 55. Indices of Current Value, Quantum and Unit Value of Exports of Primary Producing Countries, 1950 to 1953

(1950=100)

| Country or area | 1950 First half | 1950 Second half | 1951 First half | 1951 Second half | 1952 First half | 1952 Second half | 1953 First half |
|---|---|---|---|---|---|---|---|
| *Current value:*[a] | | | | | | | |
| All primary producing countries | 87 | 113 | 137 | 123 | 120 | 118 | 119 |
| Canada | 90 | 110 | 115 | 144 | 147 | 159 | 141 |
| Latin America | 89 | 111 | 123 | 118 | 109 | 109 | 117 |
| Oversea sterling area[b] | 86 | 114 | 157 | 118 | 120 | 114 | 119 |
| Dependencies of continental OEEC countries | 91 | 109 | 130 | 128 | 138 | 133 | 136 |
| Other countries | 84 | 116 | 137 | 125 | 112 | 105 | 100 |
| *Quantum:* | | | | | | | |
| All primary producing countries | 95 | 105 | 109 | 99 | 101 | 104 | 107 |
| Canada | 94 | 106 | 101 | 120 | 118 | 127 | 116 |
| Latin America | 95 | 105 | 102 | 96 | 85 | 87 | 97 |
| Oversea sterling area[b] | 97 | 103 | 117 | 96 | 109 | 111 | 117 |
| Dependencies of continental OEEC countries | 92 | 108 | 106 | 95 | 104 | 105 | 105 |
| Other countries | 94 | 106 | 109 | 97 | 97 | 101 | 100 |
| *Unit value:*[a] | | | | | | | |
| All primary producing countries | 92 | 107 | 126 | 124 | 119 | 113 | 111 |
| Canada | 96 | 104 | 114 | 120 | 125 | 125 | 121 |
| Latin America | 94 | 105 | 120 | 122 | 129 | 124 | 120 |
| Oversea sterling area[b] | 89 | 110 | 135 | 122 | 110 | 103 | 102 |
| Dependencies of continental OEEC countries | 99 | 101 | 124 | 135 | 133 | 128 | 129 |
| Other countries | 90 | 109 | 125 | 129 | 115 | 105 | 100 |

*Source:* Statistical Office of the United Nations.

[a] Based on United States dollar values.

[b] Estimated on basis of data for selected countries of the area; value indices are therefore not fully consistent with the value of exports shown in table 65.

The large fluctuations in unit values as compared with quantum of exports reflect the fact that both demand and supply, for most primary products, tend to be relatively unresponsive to price changes over short periods of time. The demand for primary products is affected mostly by changes in the level of economic activity and income in industrial countries; while the demand for individual primary products between which substitution is possible may be significantly influenced by relative price movements, the aggregate demand for all primary products at given levels of economic activity is not very responsive to general price changes affecting substitutable commodities in common. On the supply side, changes in total agricultural production are limited by many factors, some of which, such as weather conditions, are not amenable to human control and others of which can be adjusted only slowly, especially in under-developed countries, in response to price changes. While some adjustment of exportable supplies may take place as a result of inventory changes—and indeed did take place during the period 1950 to 1953—the magnitude of such adjustments is limited by costs of storing goods in large quantities.

During the early phase of the 1950/51 upturn the response of demand to price changes may even have been perverse. The increase in prices generated expectations of a further increase and stimulated speculative purchases which contributed to such an increase. At a later stage government intervention, especially in the United States but also in Europe, helped to curb the increase in prices, and speculative liquidation of inventories also began. After a sharp fall in prices the quantum of exports of primary products did begin to recover, but, although the rise has continued since the beginning of 1952 under the added impetus of expanding economic activity and income in the industrial countries, the dollar value of exports has remained below the 1951 level.

Varying export trends among major commodity groups were associated with differences in price movements. On the average, prices of raw materials have been subject to more violent swings since 1950 than have food prices, and among raw materials, agricultural products have shown the greatest changes. Thus, rubber and fibre prices rose substantially in 1950/51 only to fall back later towards levels prevailing before the boom; on the other hand, prices of minerals changed more moderately and in the first half of 1953 were generally considerably higher than in the same period of 1950. The extreme fluctuations of a number of raw materials reflected speculative movements and changes in stockpiling in importing countries. For cotton and wool an important factor was the world-wide fluctuation in activity in the textile industries. The demand for minerals, however, was generally sustained by the rising output of heavy industry and by increased fuel consumption in the United States and Europe. Weakening in prices of non-ferrous metals after mid-1952 resulted from the unbroken rise in world mining output and from the tapering off in the rate of increase of output in heavy goods industries in European countries. The upward trend in food prices from 1950 to 1953 was associated with growth in personal money incomes in a large part of the world, which exceeded the rise in food output.

The influence of the divergent price movements upon export receipts from primary products since 1951 may be seen from the following figures, which refer to the value of imports of the United States and western Europe from primary producers:

| Commodity group | Value, 1951 (billions of United States dollars) | Indices (1951 = 100) 1952 Full year | 1953 First half |
|---|---|---|---|
| Grain | 1.1 | 118 | 97 |
| Other food | 6.0 | 103 | 116 |
| Metals | 2.2 | 139 | 132 |
| Petroleum | 2.5 | 116 | 112 |
| Fibres (including jute) | 4.2 | 65 | 75 |
| Rubber | 1.7 | 71 | 47 |
| Other | 5.5 | 88 | 85 |
| TOTAL | 23.2 | 96 | 97 |

*Source:* Statistical Office of the United Nations; based on import statistics of the United States and OEEC countries of Europe. "Grain" relates to division 04 of the Standard International Trade Classification; "Other food" relates to all other commodities in sections 0 and 1; "Metals" relates to divisions 28 and 68; "Petroleum" to section 3; "Fibres" to divisions 26 and 65; and "Rubber" to division 23.

It is evident that in 1952 the decline resulted from raw materials other than minerals. The value of fibre imports fell by more than one-third, or about $1.5 billion; the decline in rubber was nearly 30 per cent. Contrasting with these declines was the increase in value of their wheat imports and the greater demand for metals and petroleum. In the first half of 1953 imports of food continued to rise, while raw materials were virtually unchanged in the aggregate. Within the food category, there was a decline in grain imports that was more than offset by an increase in other food, while among the raw materials minerals declined slightly, and fibres recovered partially.

Differences in relative shares of the major commodity groups accounted for much of the variation in export incomes among the major trading areas (see table 56). Fluctuations in aggregate export value have in part been determined by the changes in earnings of the oversea sterling area, where rubber, fibres and textile products are of major importance in total exports. Canadian exports, in contrast with those of most other primary producing countries, continued to rise until 1953. This resulted chiefly from a considerable expansion in wheat shipments and from sustained demand for such materials as newsprint and non-ferrous metals, especially aluminium and copper. The decline in the quantum of its exports in the first half of 1953 reflected increased world supplies of most of these commodities. Dependencies of continental OEEC countries also had a higher level of exports than in previous years: this has been due to the high share of food, metals and petroleum in their exports. Similarly, Latin American export proceeds were generally maintained by sales of foodstuffs and minerals; however, those of Argentina, Brazil, and Uruguay were adversely affected in 1951/52 by the slump in demand for cotton and wool, and Argentina also lost income from the failure of its wheat crop and reduction in exportable supplies of meat.

Divergencies in commercial policy contributed to differences in movement of export receipts among both commodities and countries. On the one hand some commodities, such as wool and rubber, were sold in gen-

**Table 56. Indices of Current Value of Imports from Primary Producing Countries and Industrial Countries by the United States and Western Europe, 1951 to 1953**

(Value in billions of United States dollars; indices, 1951 = 100)

| Imports from | Food and beverages: Value 1951 Full year | Indices 1952 Full year | Indices 1953 First half | Raw materials: Value 1951 Full year | Indices 1952 Full year | Indices 1953 First half | Manufactures: Value 1951 Full year | Indices 1952 Full year | Indices 1953 First half | All commodities: Value 1951 Full year | Indices 1952 Full year | Indices 1953 First half |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Primary producing countries, total | 7.13 | 105 | 113 | 12.95 | 87 | 83 | 3.14 | 112 | 114 | 23.23 | 96 | 97 |
| Canada | 0.94 | 112 | 97 | 1.05 | 106 | 86 | 1.38 | 118 | 123 | 3.36 | 113 | 104 |
| Latin America | 3.11 | 98 | 103 | 2.20 | 78 | 82 | 0.44 | 131 | 133 | 5.76 | 93 | 97 |
| Oversea sterling area | 1.70 | 107 | 125 | 5.29 | 90 | 93 | 0.82 | 99 | 96 | 7.81 | 95 | 100 |
| Dependencies of continental OEEC countries | 0.78 | 113 | 123 | 1.34 | 97 | 90 | 0.17 | 133 | 125 | 2.29 | 105 | 104 |
| Other countries | 0.60 | 121 | 147 | 3.07 | 77 | 63 | 0.34 | 86 | 85 | 4.01 | 84 | 77 |
| Industrial countries, total | 3.78 | 93 | 92 | 5.38 | 99 | 87 | 9.92 | 106 | 106 | 19.09 | 101 | 98 |
| United States | 1.26 | 78 | 72 | 1.73 | 88 | 58 | 1.27 | 114 | 97 | 4.27 | 93 | 74 |
| TOTAL, ALL COUNTRIES | 10.91 | 101 | 106 | 18.34 | 90 | 84 | 13.07 | 107 | 107 | 42.32 | 98 | 97 |

*Source:* Statistical Office of the United Nations; data from import statistics of the United States and OEEC countries of Europe. Food and beverages include commodities in sections 0 and 1 of United Nations, *Standard International Trade Classification;* raw materials include commodities in sections 2, 3 and 4; manufactures include commodities in sections 5, 6, 7, 8 and 9.

erally free markets; their prices fluctuated considerably. On the other hand, a number of others, notably foodstuffs, were marketed under bilateral purchasing arrangements and a large part of wheat exports were made under an international agreement; prices of these goods generally showed a gradual upward trend to mid-1953, with relatively little fluctuation. A number of countries also employed various unilateral commercial policies, some of which had later to be abandoned, in attempts to offset world market influences affecting their economies. These included changes in export duties, direct controls, incentive schemes, and several instances of devaluation.

In 1950/51 a number of exporting countries had levied increased export duties on specific commodities to siphon off inflationary profits, and the revenues from such duties increased by about 50 per cent or more in one year. After the downturn in prices, however, many of the countries gradually reduced the duties as a means of checking the fall in exporters' profits, and in some instances the revenue declined towards the 1950 level. In South East Asia, cotton, jute and rubber, and in Egypt cotton, were the main commodities subject to such changes.[5] Direct controls on exports were also employed in some instances, even apart from strategic considerations. A number of countries during the boom imposed quantitative restrictions on exports of essential consumer goods in order to conserve supplies for domestic use, relaxing them during the recession. India, for example, imposed such controls on textiles early in 1951[6] and relaxed them during the period of declining income in 1952 and 1953. In addition, some countries, especially in Latin America, sought to maintain export price levels during the downturn of 1951/52, accepting the alternative of a reduced quantum of exports and inventory accumulation. Subsequently many of these attempts were abandoned, prices were permitted to fall to world levels, and exports were resumed.

Several countries also undertook to raise exports by means of various incentive schemes or by devaluation of currencies. In Indonesia, the effective exchange rate for exports was reduced by about 50 per cent in February 1952 and was accompanied by the introduction of a scheme to increase exports to the dollar area. Israel, in May 1953, established an effective rate of exchange for most industrial exports at a level substantially below the basic rate previously applicable. A more limited series of changes in exchange rates for specific commodity exports was undertaken by Argentina and Brazil; in the former, an effective devaluation of 25 per cent was introduced in July 1952 for exports of wool for dollars or sterling, both of these currencies being in short supply.[7] Brazil permitted exporters to sell certain proportions of exchange proceeds from specified commodities at the free market rate. In February 1953, Egypt permitted exporters receiving payments in either dollars or sterling—and later in the year also in German marks—to repurchase all or part of these exchange proceeds for the import of designated commodities or to sell this right to other importers.

Owing to the high concentration of exports of most primary producing countries on only a few commodities or areas of destination, export receipts of individual countries are subject to particularly wide variation. Even in 1953, when aggregate export sales of primary producers were approximately stable, there was considerable instability in the proceeds of many individual countries. While a detailed description of the changes in earnings by commodities or countries is beyond the scope of this report, an indication of the wide range of variation which characterized exports during this period is given in the following brief review of the main developments affecting some of the major raw materials and food products.

## Composition of exports

This discussion of the major developments in trade in raw materials and foodstuffs deals with wool, cotton, rubber, jute, copper, tin and petroleum among the raw materials, and with wheat, rice, meat, sugar, copra, coffee, tea and cocoa among the foodstuffs. Figures relating to prices are given in table 57; data on production and exports of raw materials appear in table 58 and of foodstuffs in table 59.

### *Exports of raw materials*

The demand for wool since 1950 has been affected by considerable fluctuation in activity in the textile industry. Since the middle of 1952 wool consumption in the major consuming countries has recovered from the low levels to which it had fallen in 1951; consumption in the first half of 1953 was approximately the same as in the first half of 1950. Output of wool also increased significantly in 1952/53 after having remained fairly stable in the two preceding years. Prices in 1952/53 were approximately stable at a level about 10 per cent above the first half of 1950, after having fluctuated sharply for two years. Speculative buying in 1950/51 had led to more than a doubling in world market prices of wool,[8] but the reaction of 1951/52 had wiped out all of the gain. The break in prices was the major adverse factor in determining the export receipts of Australia, New Zealand and the Union of South Africa. In Argentina, however, wool exports were suspended when prices began to fall, and large inventories accumulated.

[5] In Argentina the duty on wool was entirely eliminated.

[6] Indonesia, Iraq, Egypt, the Union of South Africa and Mexico also introduced restrictions on exports of particular foods in 1952, and in March 1953 Argentina curtailed exports of beef.

[7] The scheme for sterling was discontinued in May 1953.

[8] It should be noted that world consumption of wool had continuously exceeded world production since the end of the war, the difference being supplied from large stocks accumulated during the war. The virtual exhaustion of these stocks by the end of the 1949/50 season contributed to the exceptional price increases for wool in the latter part of 1950 and early in 1951.

Table 57. Indices of Prices[a] of Selected Commodities in Principal Markets, 1950 to 1953
(1950 = 100)

| Commodity and market | 1950 First half | 1950 Second half | 1951 First half | 1951 Second half | 1952 First half | 1952 Second half | 1953 First half | 1953 Second half |
|---|---|---|---|---|---|---|---|---|
| *Raw materials:* | | | | | | | | |
| Wool (Australia) | 76 | 124 | 160 | 80 | 69 | 83 | 87 | 89 |
| Cotton (Egypt) | 94 | 106 | 133 | 106 | 84 | 66 | 54 | 54 |
| Rubber (Malaya) | 59 | 141 | 177 | 136 | 101 | 77 | 68 | 57 |
| Jute (India) | 100 | 100 | 192 | 157 | 112 | 70 | 64 | 75 |
| Aluminium (United States) | 97 | 103 | 107 | 107 | 107 | 112 | 115 | 121 |
| Tin (Malaya) | 80 | 120 | 166 | 122 | 132 | 131 | 115 | 84 |
| *Food products:* | | | | | | | | |
| Wheat (Australia) | 101 | 99 | 101 | 106 | 115 | 115 | 112 | 95 |
| Rice (Burma) | 97 | 103 | 103 | 107 | 111 | 114 | 107 | 116 |
| Sugar (United States) | 98 | 102 | 104 | 105 | 105 | 109 | 109 | 110 |
| Copra (Philippines) | 97 | 103 | 118 | 83 | 61 | 76 | 106 | 97 |
| Coffee (United States) | 94 | 106 | 107 | 106 | 106 | 106 | 111 | 119 |
| Tea (Ceylon) | 97 | 103 | 101 | 81 | 83 | 92 | 90 | 86 |
| Cocoa (United States) | 82 | 118 | 118 | 103 | 115 | 105 | 102 | 129 |

*Source:* Statistical Office of the United Nations.

[a] Based on prices in national currencies.

After a lapse of more than a year, exports were resumed following the establishment of more advantageous rates of exchange for exporters of wool and an adjustment of tax rates. Argentine wool exports in 1953 recovered and surpassed the 1950 level after having fallen by about 60 per cent in 1951. There was also a significant rise in the quantity of wool exported from Australia in 1953.

The demand for cotton, like that for wool, was affected by the fluctuations in output of textiles. Unlike wool, however, cotton continued to fall in price in 1952/53 even though world consumption had recovered and production remained unchanged. This was due to the fact that cotton production remained in excess of consumption, so that stocks continued to mount. Weakness in the cotton market had in fact already appeared in 1949/50, as a result of which the United States decided to curb production. The reduction in the 1950/51 crop in the face of the actual and anticipated increase in demand generated by the outbreak of hostilities in Korea led to intensive speculation and a steep rise in prices. This gave renewed stimulus to cotton production but, by the time the new crop appeared, the textile industry was experiencing a recession, and world market prices broke sharply. In 1953 cotton prices generally were substantially below the level of the first half of 1950.

A number of cotton exporting countries whose exports had declined considerably in 1951 and early 1952, when prices fell, took various measures to promote exports in 1952 and 1953; their exports generally expanded after the middle of 1952 while those of the United States fell. Price competition was a major factor in the replacement of United States cotton in world export markets during 1952/53, but other influences were also at work. On the one hand, imports of cotton from the United States were discouraged by the need to economize on dollar expenditure; on the other, exports from primary producing countries were in some instances encouraged by a reduction in export duties and by trade and payments agreements. In Egypt, payment was accepted in some currencies that had previously not been permitted, exporters to the dollar and sterling areas were allowed to sell to importers their rights to repurchase foreign exchange proceeds, and various barter agreements were negotiated. In Pakistan, both prices and duties on cotton were substantially reduced, and the quantity exported rose. In Brazil, on the other hand, where prices had been fixed above world market levels, cotton exports were extremely low until mid-1953 when the Government decided to release cotton at competitive prices. The increase in the second half of the year was sufficient to raise the total volume for the year above the 1950 level.

The fall in the value of rubber exports from 1951 to 1952 of over $800 million had accounted for more than one-half of the decline in foreign exchange earnings of south-eastern Asia in that year. In 1953 there was a further substantial decline in value. As in the earlier phase of expansion, so in the period of contraction the change in price was the major element in the change in export value. Despite the expansion in output of the rubber goods industries since 1950, the demand for natural rubber has been kept in check by the continued growth in synthetic rubber consumption. Demand has also been affected by important changes in the rate of accumulation of strategic stocks during this period. Indonesia has improved its position in United States markets in relation to Malaya by shipping more rubber directly to the United States instead of sending it to Malaya for processing. In the latter part of the period Ceylon partially offset the reduced level of its exports to the industrial countries by means of greatly expanded

Table 58. Indices of Production and Quantity of Exports of Selected Raw Materials from Major Primary Producing Countries, 1950 to 1953[a]

(1950 = 100)

| *Commodity and country* | *1951* | *1952* | *1953* |
|---|---|---|---|
| *Wool:* | | | |
| *Argentina:* | | | |
| Exports | 41 | 75 | 107 |
| Production | 100 | 96 | 100 |
| *Australia:* | | | |
| Exports | 82 | 94 | 109 |
| Production | 96 | 116 | 117 |
| *New Zealand:* | | | |
| Exports | 80 | 111 | 104 |
| Production | 106 | 108 | 108 |
| *Cotton:* | | | |
| *Brazil:* | | | |
| Exports | 111 | 22 | 104 |
| Production | 122 | 144 | 119 |
| *Egypt:* | | | |
| Exports | 67 | 71 | 84 |
| Production | 99 | 94 | 115 |
| *Pakistan:* | | | |
| Exports | 97 | 109 | 136 |
| Production | 120 | 129 | 151 |
| *Rubber:* | | | |
| *Ceylon:* | | | |
| Exports | 87 | 75 | 82 |
| Production | 93 | 85 | 82 |
| *Indonesia:* | | | |
| Exports | 115 | 108 | 99 |
| Production | 117 | 107 | 101 |
| *Malaya:* | | | |
| Exports | 92 | 87 | 87 |
| Production | 87 | 84 | 83 |
| *Copper:* | | | |
| *Belgian Congo:* | | | |
| Exports | 110 | 122 | 111 |
| Production | 109 | 117 | 116 |
| *Chile:* | | | |
| Exports | 94 | 107 | 107 |
| Production | 105 | 112 | 99 |
| *Northern Rhodesia:* | | | |
| Exports | 99 | 117 | 122 |
| Production | 107 | 111 | 125 |
| *Tin:*[b] | | | |
| *Indonesia:* | | | |
| Exports | 98 | 110 | 104 |
| Production | 97 | 109 | 105 |
| *Malaya:* | | | |
| Exports | 79 | 78 | 75 |
| Production | 99 | 99 | 98 |
| *Crude petroleum:* | | | |
| *Kuwait:* | | | |
| Exports | 168 | 226 | 257 |
| Production | 163 | 218 | 248 |
| *Saudi Arabia:* | | | |
| Exports | 145 | 155 | 152 |
| Production | 139 | 151 | 155 |
| *Venezuela:* | | | |
| Exports | 111 | 117 | 106 |
| Production | 114 | 121 | 116 |

*Source:* United Nations Department of Economic Affairs; based on data from publications of the Food and Agriculture Organization and from national and commodity publications.

exports to mainland China; in the first half of 1953, over half of the rubber exported by Ceylon was to this destination.

The trend in total export proceeds from jute and jute manufactures has been broadly similar to that of rubber. The high level to which prices had climbed in mid-1951 limited consumption. Raw jute production continued to rise, however, not only in Pakistan but also in India, total output in 1952/53 being about 80 per cent above 1949/50. During this period, prices slumped and inventories accumulated. Severe acreage restrictions on jute were imposed in Pakistan in 1953, and output fell by more than half. This led to some recovery in prices in the second half of 1953.

In contrast to the demand for fibres and rubber, that for minerals was relatively well sustained until 1953 as a result of increased fuel consumption and higher output in durable goods industries in industrial countries. In 1952 imports of metals and petroleum by industrial countries from primary producing countries exceeded those of the previous year by more than one-quarter in dollar value. The subsequent levelling off in export proceeds resulted from the fall in price and quantity of exports of several non-ferrous metals in 1953 and the slowing down in the rate of increase in the quantity of petroleum exported.

The expansion from 1950 to 1952 in export proceeds of Chile, the Belgian Congo and Northern Rhodesia was due primarily to the high level of receipts from copper exports. Until 1953 copper was in tight supply; during the greater part of 1951 Chilean copper was selling in free markets at a substantial premium above the price of 27½ cents per pound fixed in its agreement with the United States. Following the termination of the agreement in May 1952, Chilean copper exports to all destinations were priced at 35½ cents per pound. In the first half of 1953, however, demand for copper in western Europe declined. In the United States, following the end of price control in February 1953, copper imports were made at market prices which were below the level fixed by Chile. As a result, Chilean copper exports are reported to have declined sharply during 1953, although the average for the first half-year was approximately equal, at an annual rate, to the 1952 level.

Tin prices had risen steeply in the second half of 1950 and in early 1951. In an endeavour to check the rise, the United States Government early in 1951 imposed controls on imports and suspended new pur-

Notes to table 58 *(continued)*

[a] Production indices for wool and cotton relate to crop years ending in the years stated at head of column (1949/50 = 100). All other production indices and all export indices relate to calendar years (1950 = 100). Indices for 1953 for wool, cotton (except Pakistan exports), rubber and tin are based on full crop year or calendar year data. Other indices for 1953 are based on partial data; Chilean exports based on six months' data.

[b] Production relates to concentrates; exports to concentrates and tin metal.

**Table 59. Indices of Production and Quantity of Exports of Selected Foodstuffs from Major Primary Producing Countries,[a] 1950 to 1953**

(1950 = 100)

| Commodity and country | 1951 | 1952 | 1953 |
|---|---|---|---|
| *Wheat:* | | | |
| *Argentina:* | | | |
| Exports | 89 | 2 | 90 |
| Production | 113 | 41 | 147 |
| *Australia:* | | | |
| Exports | 104 | 69 | 92 |
| Production | 84 | 73 | 89 |
| *Canada:* | | | |
| Exports | 140 | 190 | 163 |
| Production | 134 | 149 | 185 |
| *Rice:* | | | |
| *Burma:* | | | |
| Exports | 106 | 105 | 82 |
| Production | 101 | 106 | 113 |
| *Thailand:* | | | |
| Exports | 107 | 94 | 92 |
| Production | 101 | 110 | 99 |
| *Meat:* | | | |
| *Argentina:* | | | |
| Exports | 87 | 70 | ... |
| Production[b] | 83 | 89 | 85 |
| *Australia:* | | | |
| Exports | 72 | 80 | 180 |
| Production | 98 | 103 | 115 |
| *New Zealand:* | | | |
| Exports | 82 | 117 | 122 |
| Production | 92 | 105 | 99 |
| *Sugar:* | | | |
| *Cuba:* | | | |
| Exports | 106 | 99 | 109 |
| Production | 104 | 130 | 93 |
| *Philippines:* | | | |
| Exports | 144 | 195 | 193 |
| Production | 137 | 157 | 164 |
| *Copra:* | | | |
| *Indonesia:* | | | |
| Exports | 166 | 111 | 90 |
| Production | 122 | 91 | ... |
| *Philippines:* | | | |
| Exports | 109 | 93 | 85 |
| Production | 133 | 117 | ... |
| *Coffee:* | | | |
| *Brazil:* | | | |
| Exports | 110 | 107 | 105 |
| Production | 100 | 101 | 108 |
| *Colombia:* | | | |
| Exports | 107 | 112 | 145 |
| Production | 92 | 96 | 102 |
| *Tea:* | | | |
| *Ceylon:* | | | |
| Exports | 102 | 106 | 113 |
| Production | 103 | 100 | 108 |
| *India:* | | | |
| Exports | 112 | 102 | 124 |
| Production | 103 | 102 | 100 |
| *Cocoa:* | | | |
| *Brazil:* | | | |
| Exports | 73 | 44 | 80 |
| Production | 84 | 66 | 60 |
| *Gold Coast and Togoland under British administration:* | | | |
| Exports | 86 | 79 | 89 |
| Production | 106 | 85 | 100 |

chases for stockpile; as a result, exports of tin to the United States dwindled. Early in 1952, after a sharp break in market prices, the United States negotiated for certain quantities from major exporting countries at reduced prices. Following the conclusion of these agreements, the quantity of such exports rose. The total quantity of tin exported in 1953 was about the same as in 1952, but prices outside the agreements fell sharply and by the second half of 1953 were nearly back to the level of the first half of 1950.

The value of crude and refined petroleum exports from primary producing countries as a whole has remained well above the 1950 level, despite the virtual cessation of oil operations in Iran in the middle of 1951. The value of such exports to industrial countries is of about the same order of magnitude as that of metallic ores and metals, but production is concentrated in the Middle East and Venezuela. The quantity of crude petroleum exported by all primary producers rose throughout the period although at a decreasing rate, and in 1953 was close to 50 per cent above the 1950 level. The quantity of refined petroleum exported by primary producers fell after 1951, however, owing to the interruption of Iranian supplies and the expansion of refining capacity in importing countries.

### *Exports of foodstuffs*

The increased receipts which primary producing countries have obtained since 1950 from the export of foodstuffs have been derived in part from a substantial expansion of wheat exports. World import demand for wheat reached a peak in 1951 owing to short crops in a number of countries, a continuing drought in India, a desire on the part of a number of countries to build up reserve stocks of grain, and, more generally, higher incomes. Changes in the volume and distribution of wheat exports from primary producing countries in 1952 were principally determined by the larger crop in Canada and the small harvests in Australia and especially in Argentina; exports from the latter country virtually disappeared during 1952. In 1953 import demand for wheat fell off to some extent as grain output in deficit countries generally recovered or increased in 1952/53. This decline in demand was largely absorbed through a sharp reduction in exports from the United States, but there was also some decrease in exports from Canada. Improved harvests in Argentina and Australia,

Notes to table 59

*Source:* Food and Agriculture Organization, and data from national and commodity publications.

[a] Production indices relate to crop years ending in the years stated at head of column (1949/50 = 100), except for meat, copra and tea, for which data are on calendar year basis (1950 = 100). All export indices are on calendar year basis (1950 = 100). Indices for 1953 relating to meat production and exports are estimates based on data for six months of 1953 compared with corresponding period of 1952.

[b] Production indices for 1951 and 1952 relate to controlled production: index for 1953 is based on total slaughtering.

on the other hand, resulted in 1953 in a recovery in their exports to about 90 per cent of the 1950 levels.

The value of rice exports also has increased since 1950, although in this commodity likewise total import demand appears to have weakened significantly in 1953. Prior to the crop year 1952/53, there had not been any substantial increase in rice production in the deficit countries of south-eastern Asia, and import prices had continued to rise under the impetus of increasing demand for food consumption. The decision of Thailand early in 1952 to retain supplies for inventory contributed to the price increase. In 1953, the quantity of rice exported declined further, partly as a result of increases in rice production in most of the deficit countries. Export receipts from rice, however, declined less, since exporting countries were able to obtain further increases in prices under government-negotiated contracts in the first half of 1953. Free market prices began to drop in 1953, however, and the negotiated price for Burmese rice exports to Ceylon in 1954 was reduced to a level below that for 1953. Rising prices of rice were primarily responsible for the steady increase in the export earnings of Burma in 1951 and 1952, but a decline in the quantum of rice exports produced a slight drop in the country's export proceeds in the first half of 1953. The generally rising export proceeds of this country since 1950 from the sale of rice may be contrasted with the instability during the same period in the export receipts, and hence import purchasing power, of the other countries of south-eastern Asia from the sale of their raw materials.

The upward revisions of prices paid for meat imported by the United Kingdom under the terms of its contracts with primary producing countries have been a further factor in sustaining the level of their earnings from the export of foodstuffs. However, their exportable supplies in 1951 and 1952 were generally lower than in 1950. Three consecutive years of unfavourable weather conditions reduced supplies in Argentina, and resulted not only in smaller exports but also in a reduction, in 1952, in the amount of beef and veal available for domestic consumption. Although the export of meat from Argentina was suspended in March 1953, data on imports into the United Kingdom during 1953 indicate that the quantity of Argentine meat imported was significantly above the 1952 level. The quantity of meat exported from Australia more than doubled in the first half of 1953 compared with the same period of 1952, and there was also a small rise in exports from New Zealand.[9] Most of this increase was accounted for by the United Kingdom, which raised its per capita meat consumption in 1953 well above the level of the preceding two years.

Following a period of relative stability from 1950 to 1952, in the total quantity of sugar exported from primary producing countries, there was a sizable increase in 1953. The level of earnings from sugar in 1952, as well as in 1953, was determined to a large extent by the Cuban bumper crop in 1951/52. Although a large part of this crop went into inventory, the price of sugar declined in transactions outside trade agreements, and continued to do so despite the reduction in the 1952/53 Cuban crop. In attempts to stem the decline in earnings, Cuba agreed to accept French francs in partial payment for sugar exported to France, and in the early part of 1953 undertook to export a considerable amount of sugar to the United Kingdom at prices below current market levels. As a result, the quantity of sugar exported increased to about 10 per cent over 1950, after having fallen to about the 1950 level in 1952. In the Philippines and in China:Taiwan there was a substantial expansion in the quantity of sugar exported in 1952. Exports of the former remained at the high level in 1953, while in China:Taiwan there was a further considerable rise in the first nine months of 1953. At the end of 1953 a number of major exporting and importing countries announced their adherence to a new International Sugar Agreement negotiated earlier in the year.

A substantial part of the demand for fats and oils is for non-food uses, and the trend in export receipts for these products has differed from that for the group of staples discussed above. Increased exports of vegetable fats and oils in 1951, which paralleled an expansion in production, appear to have been sufficient to meet requirements for current use and for inventory accumulation, and from early 1951 to early 1952 prices generally fell. Since then, however, prices of some fats and oils have again risen. Copra production fell in Indonesia and the Philippines in 1952, owing both to lower prices and to such factors as poor weather and plant disease; this led to reduced export quantities and to generally higher prices in the latter part of 1952 and in 1953.

Export receipts from coffee rose from 1950 to 1953, owing to increased demand. The increasing quantity of coffee exports during this period reflected higher output, but the increase in exports was smaller in Brazil than in other Latin American countries. The added volume was absorbed by a number of European countries, whose coffee imports, while still less than before the war, were expanding steadily; exports to the United States, on the other hand, remained fairly steady between 1951 and the first half of 1953. During the first half of 1953, there was evidence of a decline in coffee inventories in some countries, and prices, which had been relatively stable in 1952, rose once again.

Export receipts from tea and cocoa were less favourable than those from coffee. For tea this situation was accounted for entirely by relatively low prices, the quantity exported being consistently above the volume

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[9] Data for the first nine months, however, show a decline in meat exports from New Zealand as compared with the same period a year earlier.

in 1950. Although tea prices had risen very little in 1950/51, they nevertheless declined considerably in 1951/52, and even after their recovery in 1952/53 they were still 10 to 15 per cent below 1950. The situation in cocoa was the reverse: the quantity exported was consistently below the 1950 level, owing to poor crops, while prices were above the 1950 price level in both 1951/52 and 1952/53, although less than the peak reached in 1950/51. In the second half of 1953, cocoa prices rose sharply, to a new peak.

## Imports

### Factors affecting imports

The expansion in imports of primary producers which had begun in 1950 came to a stop in the early months of 1952, after the quantum had reached a level some 20 per cent above the average for 1950, and 30 per cent above the first half of that year (see table 60 and chart 5). By that time exports had been falling for about a year, and their current value had, in fact, nearly reached the trough of the cycle. The subsequent decline in imports reduced their quantum by the first half of 1953 to a level some 7 per cent above the average for 1950 and 15 per cent above the first half of that year. Imports recovered somewhat in the third quarter of 1953, and there are indications that the increase was maintained in the fourth quarter.

The major factors affecting imports of primary producers were the changes in national income and in holdings of foreign exchange that were generated by the fluctuations in their exports. Speculation associated with changing expectations relating to prices and availabilities of goods was a contributing element. In addition, adjustment of trade restrictions in response to changes in foreign exchange reserves influenced the flow of imports in a large number of countries. Poor harvests in several also added to the import demand for foodstuffs.

The time lag of about a year between the downturn in exports and the downturn in imports reflects a multiplicity of factors. The fall in export prices tended to lower profits more than other elements of income, which were generally sustained by the recovery in the quantum of exports. The decline in profits might normally have been reflected in lower import demand for luxury goods; however, since even after the relaxation of restrictions some restraints were maintained on luxury imports, the impact of this factor was limited. While the fall in profits discouraged investment in fixed capital, there is generally a considerable time lag before changes in profits are translated into investment decisions, and a further lag before these decisions affect actual imports of capital goods. In addition, imports in 1951/52 were still rising in many countries as a result of earlier relaxation of trade restrictions, and these controls were generally not tightened until after serious balance of payments difficulties had emerged.

During the upturn, import prices rose simultaneously with the quantum of imports, reaching in the first half of 1952 a peak 25 per cent above the average for 1950; the subsequent decline in prices, however, was much less marked than that in quantum. In the first half of 1953 average import unit values of primary producers were about 18 per cent higher than in the same period of 1950. Canada and the Latin American dollar countries, which obtain the major part of their imports from the United States, experienced over the whole period the least increase in average import unit values, as United States export prices increased less than those of other industrial countries. The oversea sterling area's import prices showed a movement in general similar to that of the export prices of the United Kingdom.[10] In areas such as the Latin American non-dollar countries, the Middle East and Far East, import prices reflected the sharper fluctuations in the export prices of continental Europe as compared with those of the United Kingdom and the United States. Import unit values of the dependencies of continental OEEC countries exhibited a movement very similar to changes in export prices of continental OEEC countries, but with a considerably smaller amplitude in fluctuations.

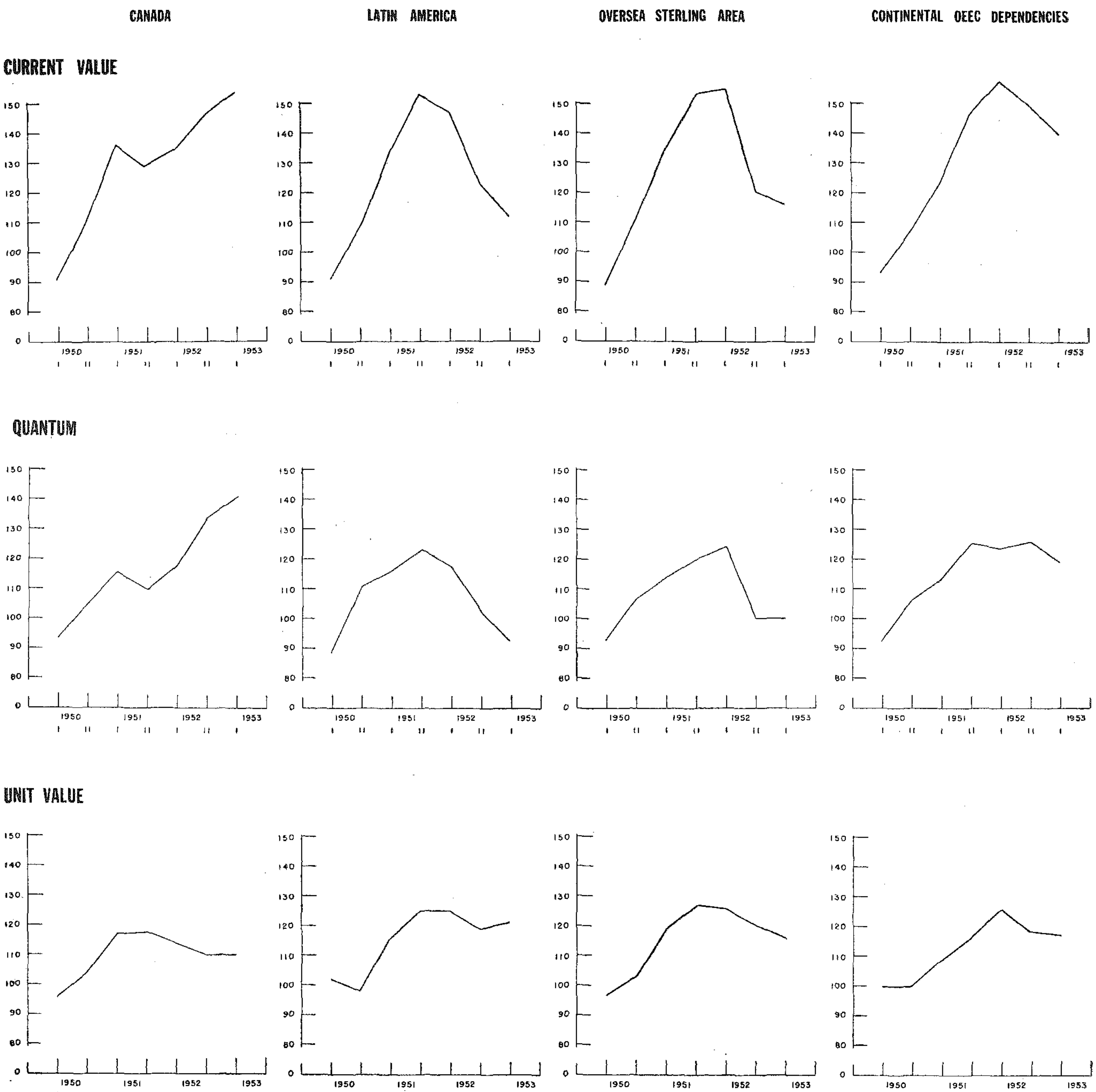
Changes in the commodity composition of imports from 1951 to 1952 were such as to enhance to some extent the effect of price movements upon average import unit values. The quantum of textile imports by all primary producing countries taken together declined from 1951 to 1952, while machinery imports in 1952 were on the average well above the 1951 level, although they fell sharply in the second half of the year. In the industrial countries which supplied primary producing countries with these manufactures, export unit values for textiles fell from 1951 to 1952, while unit values for machinery, on the other hand, rose by approximately 7 per cent. The relative shift in the composition of imports from goods whose prices were reduced, to those whose prices had increased, contributed to the rise in average import unit values.

The decline in the quantum of imports in 1952 was accounted for by the oversea sterling area and Latin America—largely the non-dollar countries, some of which had reduced imports even before mid-1952. During this period there was as yet no general decline in imports into other areas; in fact, a fairly marked increase occurred in Canada and in countries, primarily

[10] In 1950/51, however, import prices were also affected by the sharp rise in prices of raw materials entering into the mutual trade of countries of the oversea sterling area.

Chart 5. Indices of Current Value, Quantum and Unit Value of Imports of Primary Producing Countries, 1950 to 1953

(1950=100)




*Source:* See table 60.

in the Middle East and Far East, shown in table 60 under the heading "Other countries". In the first half of 1953 the decline in oversea sterling area imports ceased; it continued, however, in Latin American non-dollar countries, and a significant fall occurred in the rest of the primary producing areas other than Canada.

The fluctuations in imports of the oversea sterling area were most pronounced in the independent countries and in Malaya. The high export receipts of these countries during the commodity boom and the relaxation of restrictions in 1950/51 had given rise to a flood of orders—some of them speculative—for imports. Stocks

Table 60. Indices of Current Value, Quantum and Unit Value of Imports of Primary Producing Countries,[a] 1950 to 1953
(1950=100)

| Area and country | 1950 First half | 1950 Second half | 1951 First half | 1951 Second half | 1952 First half | 1952 Second half | 1953 First half |
|---|---|---|---|---|---|---|---|
| *Current value:*[b] | | | | | | | |
| All primary producing countries | 91 | 109 | 131 | 149 | 150 | 133 | 126 |
| Canada | 90 | 110 | 136 | 129 | 135 | 147 | 154 |
| Latin America | 91 | 109 | 134 | 153 | 147 | 123 | 112 |
| Oversea sterling area | 89 | 111 | 135 | 153 | 155 | 120 | 116 |
| Dependencies of continental OEEC countries | 93 | 107 | 124 | 147 | 158 | 150 | 140 |
| Other countries | 94 | 106 | 121 | 152 | 151 | 151 | 131 |
| *Quantum:* | | | | | | | |
| All primary producing countries | 93 | 107 | 113 | 120 | 120 | 112 | 107 |
| Canada | 94 | 106 | 116 | 110 | 118 | 134 | 141 |
| Latin America | 89 | 111 | 116 | 123 | 118 | 103 | 93 |
| Oversea sterling area | 93 | 107 | 114 | 120 | 124 | 100 | 100 |
| Dependencies of continental OEEC countries | 93 | 107 | 114 | 126 | 124 | 126 | 119 |
| Other countries | 96 | 104 | 107 | 116 | 115 | 120 | 107 |
| *Unit value:*[b] | | | | | | | |
| All primary producing countries | 99 | 101 | 116 | 124 | 125 | 119 | 117 |
| Canada | 96 | 104 | 117 | 118 | 114 | 110 | 110 |
| Latin America | 102 | 98 | 116 | 125 | 125 | 119 | 121 |
| Oversea sterling area | 97 | 103 | 119 | 127 | 126 | 120 | 116 |
| Dependencies of continental OEEC countries | 100 | 100 | 109 | 117 | 127 | 119 | 118 |
| Other countries | 99 | 101 | 113 | 130 | 131 | 126 | 122 |

*Source:* United Nations Department of Economic Affairs.

[a] Unit value indices: estimates based on sample for each area; quantum indices: indices of total current value of imports for each area divided by estimated unit value indices.

[b] Based on United States dollar values.

of consumer goods, especially of textiles, were built up by merchants during this period. Moreover, there was in 1951 a marked expansion of investment in fixed capital in countries such as Australia, South Africa and, with the notable exception of India, in most of the sterling countries of south-eastern Asia. Expanded investment brought increased demand for imports, chiefly of capital goods, which, being subject to longer delivery periods, were partly responsible for the fact that the expansion in imports continued into 1952. An important contributory factor in the expansion of imports of oversea sterling area countries was the fact that several of the food deficit countries among them increased food imports substantially.

By the time the import peak occurred in most oversea sterling area countries, export earnings had already fallen severely; as a result of the decline in exporters' incomes, and of anti-inflationary measures adopted earlier, domestic demand had already begun to decline before the tightened import restrictions became effective in the second half of 1952. The rapid fall in imports and some recovery in the export earnings of several oversea sterling area countries reduced or eliminated trade deficits in 1952/53. It thus became possible once more to relax restrictions and to permit imports to rise in the second half of 1953.

In contrast to imports of the independent sterling countries, those of the dependencies other than Malaya were maintained at the high level they had reached in the first half of 1951; in the first half of 1953 their current value was about 60 per cent above the average for 1950. This was due in large part to the fact that the dependencies' exports, which had risen sharply at the time of the commodity boom, increased further in the subsequent period. The comparatively high level of income, together with increased public investment, maintained demand for a large volume of both consumer and investment goods.

The Latin American non-dollar countries as a group had permitted imports to rise rapidly in 1950/51, partly in anticipation of scarcities and substantial price increases. The expansion greatly exceeded the group's gains from the export boom, and consequently foreign exchange reserves, notably those of Argentina and Brazil, fell sharply in 1951. Late in 1951 and early in 1952 Argentina tightened restrictions, while Brazil curtailed imports beginning in mid-1952. Chile and Uruguay also resumed a greater degree of control over imports in 1952. The import cuts of 1952 in some of these countries were carried out in the face of continued inflationary pressure, but sales from inventories maintained domestic supplies for some time after the cuts were made. Peru, the only country in the group that did not reimpose restrictions after having freed imports in 1951, nonetheless experienced some decline in imports in 1952 from their exceptionally high level in 1951. Imports of the Latin American dollar countries in 1953 were in quantum some 5 per cent above the level of 1950. After the period 1950/51, when the imports of most of these countries rose sharply, the total quantum of imports of this area remained fairly stable. However, Venezuela's imports continued to rise in 1952, as United States investment in the petroleum industry and in mining was expanded. Import demand in Cuba and Mexico, on the other hand, decreased in the latter part of 1952, and in Mexico import controls were tightened.

While some of the non-sterling countries of the Middle East and Far East had experienced fluctuations in export earnings similar to those of the major oversea sterling area countries, they did not react in the same way to these changes. In Egypt and Indonesia, for instance, the fall in imports became substantial only in 1953. In both countries reduced export prices and earnings had only partly been translated into reduced domestic demand in 1952: in Egypt because cotton producers' incomes were maintained in 1952 by means of a price support programme, and in Indonesia as a result of a considerable inflation. Both countries took steps to curtail imports significantly only in the second half of 1952.

The fall in the first half of 1953 in the imports of the dependencies of continental European countries—the first marked decline in their import quantum in several years—was to some extent unconnected with the factors accounting for changes in other primary producing areas. The rising level of imports had been largely sustained by investments of the metropolitan countries; as some of the investment projects were completed, imports began to decline. Investment goods imports had already begun to decline in the second half of 1952, but a substantial rise in imports of certain consumer goods, especially of certain types of textiles, prevented a fall in the total import volume. In 1953, capital goods imports continued to fall, and imports of the other commodities, of which stocks had been built up in 1952, also declined.

Canada held a special position among primary producing countries throughout the 1950 to 1953 cycle. Wih one minor interruption in the second half of 1951, its imports rose steadily until late in 1953. This rise was associated with the rapid rate of growth of the Canadian economy and with the high rate of United States direct investment in Canada during this period.

### Composition of imports

In contrast to the fluctuations in total imports of primary producing countries, food imports, which had

**Table 61. Imports of Wheat and Wheat Flour by Primary Producing Countries, 1950 to 1953**

(Thousands of metric tons; wheat equivalent)

| *Area and country* | *1950* | *1951* | *1952* | *January-September 1952* | *January-September 1953* |
|---|---|---|---|---|---|
| All primary producing countries | 7,422 | 10,440 | 10,062[a] | 7,621 | 8,183 |
| *Selected Latin American countries:* | | | | | |
| Brazil | 1,148 | 1,304 | 1,239 | 847 | 902 |
| Chile | 123 | 241 | 200 | 170 | 180 |
| Cuba | 198 | 215 | 213 | 166 | 151 |
| Mexico | 444 | 382 | 474 | 370 | 188 |
| Peru | 244 | 204 | 252 | 186 | 189 |
| Venezuela | 155 | 177 | 169 | 137 | 133 |
| *Selected oversea sterling area countries:* | | | | | |
| British West Indies | 194 | 191 | 230 | 175 | 138 |
| Ceylon | 226 | 311 | 276 | 221 | 291 |
| Hong Kong | 125 | 59 | 66 | 46 | 37 |
| India | 1,593 | 3,322 | 2,251 | 2,041 | 1,573 |
| Malaya | 171 | 226 | 192 | 137 | 143 |
| New Zealand | 145 | 157 | 241 | 205 | 159 |
| Pakistan | — | — | 191 | — | 854 |
| Union of South Africa | 267 | 154 | 215 | 215 | 250 |
| *Other countries:* | | | | | |
| Egypt | 499 | 872 | 745 | 374 | 433 |
| French Africa | 16 | 219 | 208 | 200 | 17 |
| Indonesia | 74 | 188 | 197 | 159 | 131 |
| Korea, southern | — | 34 | 89 | 40 | 164 |
| Philippines | 227 | 246 | 252 | 188 | 184 |
| Syria and Lebanon | 9 | 225 | 142 | 70 | 104 |

*Source:* United Nations Food and Agriculture Organization, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome).

[a] Including Argentine imports in July-December 1952 of 207,000 metric tons.

Table 62. Imports of Rice by Primary Producing Countries, 1950 to 1953
(Thousands of metric tons)

| Country | 1950 | 1951 | 1952 | January-September 1952 | January-September 1953 |
|---|---|---|---|---|---|
| All primary producing countries | 2,854 | 3,683 | 3,356 | 2,537 | 2,128 |
| Ceylon | 452 | 413 | 358 | 264 | 256 |
| Hong Kong | 164 | 209 | 208 | 158 | 284 |
| India | 336 | 783 | 704 | 585 | 194 |
| Indonesia | 333 | 500 | 630 | 522 | 264 |
| Korea, southern | 30 | 116 | 158 | 121 | 227 |
| Malaya | 496 | 511 | 529 | 343 | 441 |
| Philippines | 7 | 111 | 63 | 53 | — |

*Source:* United Nations Food and Agriculture Organization, *Monthly Bulletin of Agricultural Economics and Statistics.*

increased substantially from 1950 to 1951, were in the aggregate maintained through 1952 and 1953 at a level not much below that of 1951.

The large imports of 1951 had reflected a variety of factors, chief among them the increase in incomes in primary producing countries; in view of the generally low level of food consumption in many of these countries, the higher incomes had been quickly translated into increased demand for foodstuffs. In addition, a number of governments had made special arrangements to expand food imports in order to forestall or arrest increases in the cost of living. Added to these general factors were the crop failure in India, which necessitated exceptionally large food imports, mainly financed by a United States loan, and below average crops in certain countries of the Middle East, in Algeria and Tunisia, and in some other parts of Africa. Tables 61 and 62 show the changes in imports of wheat and rice, which account for the major part of food imports by primary producing countries.

Despite a reduction in their income in 1952, and somewhat better harvests in 1951/52 than in the preceding year in the majority of food deficit countries, food imports in 1952 declined only slightly, and the decline affected high quality foods rather than staples. There was some decline in total wheat imports, but if India—which was able to reduce such imports sharply from the record level of 1951—is excluded, wheat imports increased on balance. This was in part due to special circumstances such as crop failure in Pakistan, which is not normally an importer of wheat. Argentina also was compelled to resort to imports of wheat as a result of crop failure. Even apart from these instances, however, there were increases in wheat imports in several Latin American and Far Eastern countries, as well as in South Africa and New Zealand.

Total rice imports, which had risen sharply in 1951, fell somewhat in 1952. Some of this decline was brought about by improved domestic supplies of cereals, notably in India and the Philippines, but in part it was accounted for by a withholding of supplies by Thailand.

In 1953 total wheat imports were at a higher rate than in 1952, chiefly owing to continued large emergency imports by Pakistan. Rice imports of the major deficit countries, with the notable exception of Malaya, Hong Kong and southern Korea, fell further in 1953, largely as a result of some increase in domestic supplies.

Textile imports had risen sharply in the early phase of the 1950 to 1953 import cycle of primary producing countries, but they began to decline before the peak in total imports was reached. The rise in demand for textiles had resulted not only from increased consumption but also from speculative purchases. With the collapse of the commodity boom it became difficult to move accumulated stocks, and demand for imported textiles fell off in many places late in 1951. Import restrictions or other measures designed to reduce imports of less essential goods were applied in various countries and contributed to a sharp fall in textile imports in 1952 (see table 63).

Until mid-1952 this decline was concentrated in comparatively few countries, notably in Australia, the Union of South Africa, Southern Rhodesia, Malaya, Indonesia, and—to a lesser extent—the Philippines. With the exception of the latter, all these countries had record textile imports in 1951. Australia and South Africa alone accounted for nearly two-thirds of the decline from 1951 to 1952 in imports of cotton piecegoods by primary producing countries, although in 1951 these two countries had accounted for only one-sixth of these imports. In both cases the decline began somewhat before the announcement of restrictions, but it subsequently became more precipitate. In Malaya the fall was due more to a decline in demand for inventories than to restrictions; while textile imports from Japan were severely restricted, imports from the United Kingdom and India, which were not restricted, also fell quite sharply. In Indonesia the increase in money incomes in 1950/51 and expectation of higher prices had led to a sharp rise in textile purchases. This was followed by a sharp decline in the first half of 1952 as hoarding

Table 63. Imports of Cotton Piece-Goods by Primary Producing Countries from Major Exporting Countries, 1951 to 1953

(Thousands of metric tons)

| Period | Independent sterling countries | | | | United Kingdom dependencies | | | | French dependencies | Indonesia | Other countries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Australia | Union of South Africa | Pakistan | Total | Gold Coast | Nigeria | Malaya | | | | |
| 1951 | 118.1 | 33.8 | 24.9 | 31.7 | 86.2 | 7.6 | 10.3 | 30.9 | 56.7 | 40.2 | 61.9 | 363.1 |
| 1952 | 80.2 | 11.8 | 12.1 | 29.4 | 83.2 | 7.2 | 16.9 | 14.6 | 58.0 | 25.4 | 58.3 | 305.1 |
| 1952 First half | 49.5 | 8.3 | 5.9 | 21.9 | 40.7 | ... | ... | ... | 29.9 | 9.4 | 29.2 | 158.7 |
| 1952 Second half | 30.8 | 3.5 | 6.3 | 7.5 | 42.4 | ... | ... | ... | 28.2 | 15.9 | 29.1 | 146.4 |
| 1953 First half | 28.5 | 5.6 | 9.0 | 0.5 | 34.6 | 3.4 | 8.0 | 6.8 | 26.3 | 15.8 | 32.7 | 137.9 |

*Source:* United Nations Department of Economic Affairs, based on national trade statistics of exporting countries.

ceased. Later in 1952, however, textile imports recovered.

Early in 1953 the decline in imports of cotton textiles into many of the countries which had previously experienced the severest contraction was arrested, but a reduction in imports occurred in some areas previously unaffected, notably in the dependencies of continental European countries, where the building up of inventories had continued through 1952, and in the African dependencies of the United Kingdom. Other declines were recorded in Cuba, where consumer demand was lower, and in Pakistan, where the effect on imports of declining demand was reinforced by the use of quantitative restrictions.

Imports of cotton textiles recovered to some extent in the second or third quarter of 1953, as stocks became low and restrictions were relaxed. However, the recovery was not widespread. Easing of restrictions in Australia led to a 75 per cent increase in the rate of such imports during the third quarter over the first half of the year; some increase also occurred in Burma, Ceylon, Malaya, Hong Kong, the Sudan, and some of the non-sterling countries of the Far East.

Imports of capital goods rose more slowly than those of food and textiles and did not begin to decline until some time after the downturn had occurred in textile imports. The expansion in investment in primary producing countries stimulated by the commodity boom created additional demand for imported capital goods, and the increased foreign exchange assets that had been accumulated made it possible to finance them. The simultaneous growth in the demand for capital goods of the industrial countries themselves did not prevent their exports from rising substantially, since output increased. The export quantum from the United States and western Europe reached a peak in the first half of 1952 one-fourth above the 1950 rate (see table 64). Available information suggests that, in 1953, investment generally tended to decline in primary producing countries. In addition, the tightening of restrictions at the beginning of 1952 has had some adverse effect also on capital goods imports.

Among the categories of capital goods, imports of metals and metal products—primarily iron and steel—declined sooner in quantum than those of machinery. This difference may be accounted for by the fact that such imports have usually reflected changes in domestic demand and in import regulations sooner than have

Table 64. Indices of Exports from the United States and Western Europe of Metals and Engineering Products to Primary Producing Countries, 1951 to 1953

(1950=100)

| Period | Quantum[a] | | | Current value | |
|---|---|---|---|---|---|
| | Machinery and transport equipment | Metals and metal manufactures | Total | Total | Total excluding Canada |
| 1951 | 125 | 108 | 120 | 135 | 136 |
| 1952 First half | 134 | 106 | 126 | 154 | 155 |
| 1952 Second half | 120 | 86 | 109 | 136 | 135 |
| 1953 First half | 121 | 87 | 110 | 138 | 129 |

*Source:* United Nations Department of Economic Affairs.

[a] Estimates based on current values as reported in national trade statistics, deflated by export or wholesale price indices of exporting countries.

machinery imports.[11] Imports of machinery and transport equipment continued to rise until well into 1952, when the quantum was about one-third above the average for 1950. The subsequent decline was more gradual than for metals, and in primary producing countries other than Canada it tended to continue in 1953.

The decline in imports of capital goods in the latter part of 1952 was on the average more moderate than the earlier expansion had been. However, a sharp contraction occurred in some of the major importing countries, notably in Argentina and Brazil, in Australia, and in Finland; all of these countries were forced to introduce drastic import restrictions affecting even essential goods, and in several of them investment in fixed capital was declining in the latter part of 1952 (see table 65). Several of the sterling area countries of south-eastern Asia experienced also a moderate reduction in capital goods imports. Private investment in India declined, and in Pakistan, which went through severe balance of payments difficulties in late 1952, there was a sharp reduction in capital goods imports as the previous liberal import policy was reversed late in 1952. The pattern in other Far Eastern primary producing countries was similar to that in the sterling countries. An exception in this group was the Philippines, where a substantial rise occurred in capital goods imports both in 1952 and 1953 despite a sharp curtailment of total imports after the first quarter of 1952; this was due to a marked increase in capital flow to the Philippines, partly in response to the increased protection afforded to domestic industry. The increase in capital goods imports of dollar area countries in Latin America in 1953 was chiefly in Venezuela and Colombia; among the other major countries of the group, Cuba reduced imports both in 1952 and 1953 and Mexico in 1953.

Capital goods imports by both French and Belgian oversea territories declined in 1953; the decline in the case of the French oversea territories, which had begun earlier, reflects the completion of some investment programmes under the French five-year plan for equipment and modernization. Imports of capital goods by British dependencies, which had risen in 1951 and more substantially in 1952 as investment expanded, showed a further moderate increase in 1953. The increase in 1952 in the value of capital goods imports by these dependencies, excluding Malaya, was over 30 per cent. The rise in demand, especially for steel, was such that, in spite of increased United Kingdom allocations, some orders had to be diverted to other exporting countries.

[11]The fact that in 1951 the former did not expand as rapidly as the latter was possibly due to supply difficulties in exporting countries and to some expansion in domestic supplies of primary producing countries rather than to a smaller increase in investment demand. This is suggested by the fact that primary producing countries which had their own iron and steel industry expanded output substantially in 1951 and continued to do so in 1952.

Table 65. Exports from the United States and Western Europe of Machinery and Transport Equipment, and Metals and Metal Manufactures, to Primary Producing Countries, 1951 to 1953
(Millions of United States dollars)

| Exports to | *Machinery and transport equipment* | | | *Metals and metal manufactures* | | | *Total* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *1951* | *1952* | *1953*[a] | *1951* | *1952* | *1953*[a] | *1951* | *1952* | *1953*[a] |
| All primary producing countries | 6,177 | 6,674 | 6,500 | 2,394 | 2,483 | 2,194 | 8,571 | 9,157 | 8,694 |
| Canada | 984 | 1,110 | 1,486 | 363 | 382 | 400 | 1,347 | 1,492 | 1,886 |
| Latin America | 2,199 | 2,935 | 1,752 | 702 | 633 | 546 | 2,901 | 2,668 | 2,298 |
| Dollar area countries | 958 | 1,014 | 1,070 | 325 | 327 | 352 | 1,283 | 1,341 | 1,422 |
| Non-dollar countries | 1,241 | 1,021 | 682 | 377 | 306 | 194 | 1,618 | 1,327 | 876 |
| Argentina | 250 | 179 | 170 | 155 | 95 | 48 | 405 | 274 | 218 |
| Brazil | 632 | 591 | 298 | 143 | 140 | 78 | 775 | 731 | 376 |
| Oversea sterling area | 1,694 | 1,800 | 1,668 | 738 | 727 | 636 | 2,432 | 2,527 | 2,304 |
| Independent countries | 1,310 | 1,316 | 1,184 | 512 | 493 | 386 | 1,822 | 1,809 | 1,570 |
| Australia, New Zealand, South Africa | 905 | 867 | 770 | 339 | 324 | 222 | 1,244 | 1,191 | 992 |
| India | 270 | 271 | 252 | 71 | 75 | 72 | 341 | 346 | 324 |
| Pakistan | 70 | 84 | 58 | 48 | 49 | 32 | 118 | 133 | 90 |
| Dependencies | 384 | 484 | 484 | 226 | 234 | 250 | 610 | 718 | 734 |
| Malaya and Hong Kong | 118 | 119 | 106 | 83 | 57 | 64 | 201 | 176 | 170 |
| Dependencies of continental European countries | 540 | 671 | 610 | 245 | 325 | 266 | 785 | 996 | 876 |
| All other | 760 | 1,058 | 984 | 346 | 416 | 346 | 1,106 | 1,474 | 1,330 |
| Egypt | 97 | 94 | 74 | 41 | 38 | 34 | 138 | 132 | 108 |
| Indonesia | 96 | 135 | 92 | 50 | 50 | 44 | 146 | 185 | 136 |
| Philippines | 53 | 61 | 76 | 25 | 25 | 32 | 78 | 86 | 108 |

*Source:* Statistical Office of the United Nations.

[a] First half at annual rate.

## Balances of Trade

The trade position of primary producers in the first half of 1953 appears remarkably similar to their position in the first half of 1950, especially when viewed in the light of the magnitude of fluctuations in 1950/51 and 1951/52. The volume of trade was higher, but the terms of trade were not much different, and the value of trade was again in balance. As may be seen from table 66 and chart 6, the distribution of these balances among the major trading areas was also similar in the two periods. Areas with import balances in the first half of 1950 also had such balances in the later period, and the same was true for areas with export balances.

Canada had a passive trade balance in the first half of 1950, which was virtually eliminated by the second half of 1951 as a result of a considerable increase in exports, especially of wheat, but which reappeared in the

**Table 66. Trade and Balances of Primary Producing Countries from 1950 to 1953, in Current Prices and in Prices of 1950, First Half**

(Millions of United States dollars)

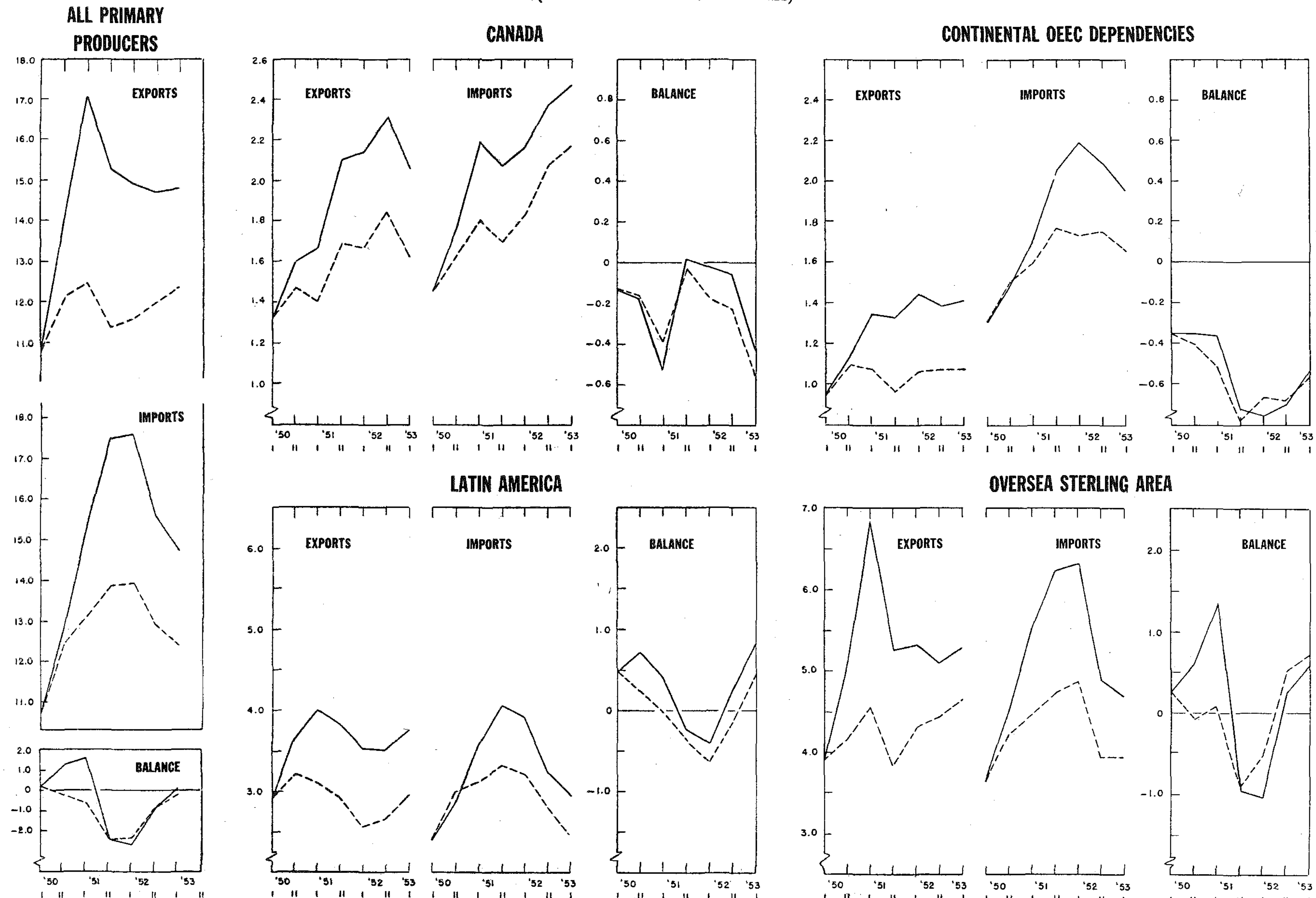
| Country or group | Value of exports[a] | | Value of imports[b] | | Balance | |
|---|---|---|---|---|---|---|
| | *Current prices* | *Constant prices* | *Current prices* | *Constant prices* | *Current prices* | *Constant prices* |
| *All primary producers:* | | | | | | |
| 1950 First half | 10,870 | 10,870 | 10,710 | 10,710 | 160 | 160 |
| 1950 Second half | 14,030 | 12,120 | 12,740 | 12,400 | 1,290 | −280 |
| 1951 First half | 17,010 | 12,460 | 15,400 | 13,100 | 1,610 | −640 |
| 1951 Second half | 15,280 | 11,340 | 17,460 | 13,830 | −2,180 | −2,490 |
| 1952 First half | 14,920 | 11,560 | 17,610 | 13,920 | −2,690 | −2,360 |
| 1952 Second half | 14,690 | 11,990 | 15,620 | 12,920 | −930 | −930 |
| 1953 First half | 14,780 | 12,330 | 14,750 | 12,380 | 30 | −50 |
| *Canada:* | | | | | | |
| 1950 First half | 1,320 | 1,320 | 1,450 | 1,450 | −130 | −130 |
| 1950 Second half | 1,590 | 1,480 | 1,770 | 1,640 | −180 | −160 |
| 1951 First half | 1,670 | 1,410 | 2,190 | 1,800 | −520 | −390 |
| 1951 Second half | 2,100 | 1,680 | 2,080 | 1,700 | 20 | −20 |
| 1952 First half | 2,140 | 1,670 | 2,170 | 1,840 | −30 | −170 |
| 1952 Second half | 2,310 | 1,840 | 2,370 | 2,070 | −60 | −230 |
| 1953 First half | 2,050 | 1,630 | 2,480 | 2,180 | −430 | −550 |
| *Latin America:* | | | | | | |
| 1950 First half | 2,900 | 2,900 | 2,430 | 2,430 | 470 | 470 |
| 1950 Second half | 3,620 | 3,240 | 2,890 | 3,000 | 730 | 240 |
| 1951 First half | 4,000 | 3,130 | 3,570 | 3,130 | 430 | — |
| 1951 Second half | 3,820 | 2,940 | 4,070 | 3,340 | −250 | −400 |
| 1952 First half | 3,520 | 2,570 | 3,910 | 3,210 | −390 | −640 |
| 1952 Second half | 3,520 | 2,660 | 3,260 | 2,810 | 260 | −150 |
| 1953 First half | 3,780 | 2,960 | 2,990 | 2,520 | 790 | 440 |
| *Oversea sterling area:* | | | | | | |
| 1950 First half | 3,890 | 3,890 | 3,650 | 3,650 | 240 | 240 |
| 1950 Second half | 5,110 | 4,160 | 4,520 | 4,220 | 590 | −60 |
| 1951 First half | 6,870 | 4,560 | 5,520 | 4,490 | 1,350 | 70 |
| 1951 Second half | 5,250 | 3,850 | 6,240 | 4,750 | −990 | −900 |
| 1952 First half | 5,330 | 4,340 | 6,340 | 4,880 | −1,010 | −540 |
| 1952 Second half | 5,120 | 4,460 | 4,910 | 3,940 | 210 | 520 |
| 1953 First half | 5,290 | 4,650 | 4,720 | 3,940 | 570 | 710 |
| *Continental OEEC dependencies:* | | | | | | |
| 1950 First half | 950 | 950 | 1,300 | 1,300 | −350 | −350 |
| 1950 Second half | 1,140 | 1,110 | 1,490 | 1,500 | −350 | −390 |
| 1951 First half | 1,360 | 1,080 | 1,720 | 1,590 | −360 | −510 |
| 1951 Second half | 1,340 | 980 | 2,050 | 1,760 | −710 | −780 |
| 1952 First half | 1,440 | 1,070 | 2,200 | 1,740 | −760 | −670 |
| 1952 Second half | 1,390 | 1,070 | 2,090 | 1,760 | −700 | −690 |
| 1953 First half | 1,420 | 1,080 | 1,960 | 1,660 | −540 | −580 |

*Source:* Based on data supplied by the Statistical Office of the United Nations.

[a] F.o.b.

[b] C.i.f.; data for Canada and several other countries which are normally reported on an f.o.b. basis have been adjusted to an arbitrary c.i.f. basis (f.o.b. + 10 per cent) in order to make data comparable for all countries.

Chart 6. Trade and Balances of Primary Producing Countries from 1950 to 1953, in Current Prices and in Prices of 1950, First Half
(Billions of United States dollars)




*Source:* See table 66.
_____ In current prices.
- - - - - In constant prices.

first half of 1953 owing primarily to increased imports. The larger passive balance in the first half of 1953 as compared with the first half of 1950 was due entirely to a greater real import balance; Canada's terms of trade were more favourable at the end than at the beginning of the period.

Normally Canada has an import balance with the United States and an export balance with OEEC countries. Each of these balances was larger in the first half of 1953 than in the same period of 1950. The rise in its import balance with the United States reflected the extraordinary expansion in the value of United States exports to Canada—by 75 per cent—which was associated with the rapid rate of economic development in Canada and with the rise in United States private direct investment in that country. The increase in its export balance with OEEC countries was accounted for largely by the increased demand for primary products, especially on the European continent, stemming from the increase in economic activity and income in that area. Canada also gained in relation to the United States as a source of supply of grain to Europe. The increase in OEEC exports to Canada, while substantial, was on a lower scale.

Dependencies of continental OEEC countries, as well as Canada, had a passive balance in the first half of 1950, which increased in the first half of 1953, notwithstanding an improvement in their terms of trade. In their case, however, the passive balance had decreased rather than increased since 1952. The changes in the balance were largely accounted for by changes in long-term capital flow from the metropolitan areas.

In contrast to the areas just mentioned, Latin America and the oversea sterling area each had active balances in the first half of 1950, and larger ones in the first half of 1953, although extreme fluctuations had occurred in the intervening years. In several important respects, however, the two areas were dissimilar. Whereas in Latin America the terms of trade were more favourable in the first half of 1953 than before the conflict in Korea, in the oversea sterling area they had deteriorated. In addition, Latin America succeeded in increasing its export balance with the United States and Canada from the first half of 1950 to the first half of 1953, while the oversea sterling area experienced a significant reduction in its export balance with those countries. On the other hand, both areas increased their export balance with OEEC countries, the increase being especially significant for the oversea sterling area. An important element in this increase in each area was the imposition of restrictions on imports. Latin American imports from western Europe were adversely affected by import restrictions which had been imposed in 1952 by countries in balance of payments difficulties as well as by the active discouragement of exports by some western European countries which had accumulated large short-term claims, especially upon Argentina and Brazil. In the oversea sterling area trade restrictions in the first half of 1953 applied not only to dollar goods, as they had in the first half of 1950, but also to imports from western Europe. Whereas the restrictions in effect in the earlier period had been imposed when the oversea sterling area had a global export balance and the primary objective of the controls had been to strengthen the dollar position of the sterling area, the restrictions in effect in the later period were imposed at a time when the area had a global import balance and it was necessary to reduce total imports. By the second half of 1953 the balance of payments of both areas had improved sufficiently to permit a significant increase in imports from western Europe.

# Chapter 7

# INTERNATIONAL TRADE OF EASTERN EUROPE AND MAINLAND CHINA[1]

## Trade with the Rest of the World

The dollar value of the trade of eastern Europe and mainland China with the rest of the world, which had risen from 1950 to 1951, fell in 1952 and the first half of 1953. Measured at an annual rate, the dollar value in the latter period was below the 1950 level, and if allowance is made for the rise in prices over the period, the decline in quantum must have been substantial. The largest decrease from 1951 to 1952 was in Chinese trade; in that year the trade of the Union of Soviet Socialist Republics rose. In the first half of 1953, however, Chinese trade partially recovered while that of the Soviet Union fell sharply (see table 67). The most notable changes in the pattern of east-west trade were the decline of trade with the United States and the increased importance of Finnish trade with eastern Europe (see table 68).

The largest increases from 1951 to 1952 in the dollar value of Soviet Union exports to the west were those to Finland, France, Italy, Netherlands and Sweden and, among non-European countries, to Egypt and Iran. In the first six months of 1953, the value of exports to all these countries,[2] except Finland, declined, compared with the corresponding period of 1952, while total exports fell by nearly one-half, the largest factor in this fall being the sharp drop in exports to the United Kingdom. The increase in exports from 1951 to 1952 was primarily in grain, the value of crude materials showing a decline during the period. While the latter continued to fall in the first half of 1953, the sharp drop in total exports was due largely to a steep decline in grain exports. The value of Soviet Union imports also increased between 1951 and 1952, the main increases occurring in imports from Denmark, Egypt, Finland, Iran and Sweden; here again there was a general fall in the first six months of 1953, of about the same magnitude as the decline in total exports, the only exceptions being imports from Norway and Pakistan.

For the other eastern European countries as a whole, the dollar value of trade with the west declined from 1951 to 1952, and from the first half of 1952 to the first half of 1953. There were, however, exceptions to the general decline. Bulgaria and Romania, the two countries of the area with the least east-west trade, increased the dollar value of this trade in both 1952 and the first half of 1953, and eastern Germany showed an increase in 1952. Bulgaria's largest increases were in its trade with Austria and, in the first half of 1953, with Turkey, while the increased trade of Romania was with Austria, Belgium-Luxembourg and western Germany, both in 1952 and in the first half of 1953. Eastern Germany increased the value of trade in 1952 with all the western European countries except Denmark, Sweden and the

[1] Eastern Europe here includes Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Union of Soviet Socialist Republics; mainland China, the area controlled by the Central People's Government of the People's Republic of China.

[2] No figures are available on trade with Iran for the first half of 1953.

Table 67. Trade of Eastern Europe[a] and Mainland China with Rest of World, 1950 to 1953
(Millions of United States dollars)

| Period | USSR | | Other eastern European countries | | Mainland China | | Total | |
|---|---|---|---|---|---|---|---|---|
| | *Exports* | *Imports* | *Exports* | *Imports* | *Exports* | *Imports* | *Exports* | *Imports* |
| 1950 | 229 | 298 | 738 | 685 | 476 | 410 | 1,443 | 1,393 |
| 1951 | 356 | 383 | 826 | 809 | 473 | 444 | 1,655 | 1,636 |
| 1952 | 421 | 477 | 674 | 616 | 324 | 248 | 1,419 | 1,341 |
| 1953 First half | 135 | 161 | 312 | 288 | 205 | 163 | 652 | 612 |

*Source:* Statistical Office of the United Nations. All values are f.o.b., country of origin.

[a] Albania, Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Union of Soviet Socialist Republics.

Table 68. Trade of Eastern Europe and Mainland China with Selected Major Trading Areas, 1950 to 1953
(Millions of United States dollars)

| *Country and period* | *USSR* | | *Other eastern European countries* | | *Mainland China* | |
|---|---|---|---|---|---|---|
| | *Exports* | *Imports* | *Exports* | *Imports* | *Exports* | *Imports* |
| *United States:* | | | | | | |
| 1950 | 38 | 1 | 42 | 26 | 147 | 46 |
| 1951 | 27 | — | 36 | 3 | 47 | — |
| 1952 | 17 | — | 22 | 1 | 28 | — |
| 1953 First half | 6 | — | 14 | 1 | 4 | — |
| *United Kingdom:*[a] | | | | | | |
| 1950 | 87 | 40 | 73 | 47 | 26 | 10 |
| 1951 | 153 | 67 | 88 | 44 | 20 | 8 |
| 1952 | 148 | 105 | 65 | 38 | 8 | 13 |
| 1953 First half | 26 | 20 | 45 | 18 | 11 | 9 |
| *Other western European countries:*[b] | | | | | | |
| 1950 | 50 | 80 | 449 | 444 | 61 | 46 |
| 1951 | 95 | 99 | 482 | 506 | 128 | 46 |
| 1952 | 126 | 124 | 419 | 429 | 44 | 31 |
| 1953 First half | 34 | 38 | 167 | 199 | 48 | 50 |
| *Oversea sterling area:*[c] | | | | | | |
| 1950 | 6 | 85 | 43 | 74 | 180 | 282 |
| 1951 | 6 | 68 | 63 | 129 | 229 | 376 |
| 1952 | 3 | 41 | 39 | 54 | 213 | 182 |
| 1953 First half | 1 | 16 | 13 | 24 | 120 | 97 |
| *Finland:* | | | | | | |
| 1950 | 22 | 64[d] | 42 | 16 | — | — |
| 1951 | 38 | 122[d] | 60 | 26 | 1 | 1 |
| 1952 | 74 | 155[d] | 65 | 22 | — | 7 |
| 1953 First half | 44 | 63 | 34 | 13 | — | 1 |

*Source:* Statistical Office of the United Nations and the United Nations Economic Commission for Europe. Values in each case are f.o.b., country of origin.

[a] Imports from the United Kingdom include goods re-exported from the United Kingdom.

[b] Austria, Belgium-Luxembourg, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey. Excluding trade between eastern and western Germany.

[c] Commonwealth countries (except Canada), British colonial possessions, and Burma and Iraq.

[d] Including exports to the Union of Soviet Socialist Republics for war reparations in 1950, 1951 and 1952, amounting to $34.1 million (also $3.3 million for restitution of German assets), $53.9 and $35.7 million, respectively.

United Kingdom; its imports from western Europe were maintained at approximately the same value in the first half of 1953 but exports to this area declined, this fall being somewhat offset by increased exports to Japan and the United States.[3]

One of the most important of eastern Europe's trade partners in recent years has been Finland. The value of Finnish trade with the Union of Soviet Socialist Republics and other eastern European countries expanded rapidly from 1951 to 1952, though it declined somewhat in the first half of 1953; despite this decline, the Soviet Union displaced the United Kingdom as Finland's chief trading partner at this time.[4] A feature of Finland's trade with eastern Europe and mainland China in 1952 and 1953 has been the extension of triangular trade. In September 1952 Finland signed a triangular agreement with mainland China and the Union of Soviet Socialist Republics whereby Finnish shipments to the former country were to be paid for by imports from the latter; in 1953, Finland signed triangular agreements with Czechoslovakia, eastern Germany, Hungary, Poland and Romania, under which part of the trade is bilateral and part consists of additional Finnish imports from these countries, which are set off against the Finnish export surplus with the Soviet Union.[5]

According to current trade figures for the first ten months of 1953, Finnish trade with eastern Europe is in

[3] Eastern German sources state that the trade between eastern and western Germany in 1952 was at 84 per cent of its 1951 level, but that this trade increased again in 1953, particularly in the third quarter of the year (*Statistische Praxis* (Berlin), March 1953; *Die Wirtschaft* (Berlin), 14 August and 6 November 1953).

[4] Bank of Finland, *Monthly Bulletin* (Helsinki), September-October 1953.

[5] Bank of Finland, *Monthly Bulletin;* on the basis of these reports, the value of trilateral trade alone appears to be about $30 million in 1953, the largest element of which is a surplus of imports worth $14.5 million from Poland.

approximate balance. This balance has been achieved by increased imports from Czechoslovakia, Romania and the Soviet Union, and decreased exports to Poland and the Soviet Union, as compared with the corresponding period of 1952.

Other than the Union of Soviet Socialist Republics, the only countries in eastern Europe with more than an insignificant amount of trade with countries outside Europe were Czechoslovakia and Poland. This trade fell slightly from 1951 to 1952 and still more in the first half of 1953; the only exception was an increase in imports from Australia by both of these countries in the latter period.

The rise in the value of the trade of mainland China in the first half of 1953, after its sharp general fall in 1952, was chiefly due to increases in trade with Hong Kong and with western Europe, particularly western Germany and the United Kingdom.

It has been estimated that the quantum of eastern Europe's exports to western Europe fell by 5 per cent from 1951 to 1952, most of this drop being accounted for by a reduction in coal exports. The quantum of western Europe's exports to eastern Europe fell by 7 per cent during the same period.[6]

In addition to coal, the quantum of exports of fodder grains and sugar from eastern to western European countries declined steadily from 1951 onwards. Wheat and timber exports rose in 1952, largely as a result of higher deliveries provided for under the 1951/52 trade agreement between the United Kingdom and the Soviet Union. The agreement for the following year provided for much smaller amounts, and this was reflected in the decline in exports of both these commodities in the first half of 1953. Meat exports alone rose, as a result of larger British imports of bacon from Poland (table 69). Although eastern European exports still concentrate on grain, timber and coal, petroleum exports are beginning to play a larger, though still very modest part; they doubled from 1951 to 1952, and expanded further in the first half of 1953. A number of east-west trade agreements signed since the middle of 1953 specified petroleum, either crude or processed, as one of the eastern European exports.

Eastern Europe's imports from western Europe were concentrated on manufactures, the proportion being higher in the case of the Union of Soviet Socialist Republics than of the other countries in that area. From 1951 to 1952, the Soviet Union increased the value of its imports of both foodstuffs and manufactures from western Europe, while in the first half of 1953 its imports of foodstuffs, raw materials and manufactures all fell, the largest decline occurring in manufactures, particularly of machinery and transport equipment (table 70).

[6]Economic Commission for Europe, *Economic Bulletin for Europe*, vol. V, No. 2 (Geneva, 1953), table I, page 27.

Table 69. Imports by Western Europe[a] of Selected Commodities from Eastern Europe,[b] 1951 to 1953

(Thousands of metric tons, unless otherwise stated)

| *Commodity[c] and major importer* | *1951 Full year* | *1952 Full year* | *1953 First half* |
|---|---|---|---|
| Coal, coke, etc. | 11,421 | 9,089 | 3,650 |
| Sweden | 3,541 | 2,831 | 722 |
| Austria | 2,138 | 1,640 | 678 |
| Denmark | 1,835 | 518 | 466 |
| Italy | 1,261 | 1,065 | 352 |
| France | 1,087 | 1,059 | 356 |
| Germany, western | 903 | 1,419 | 788 |
| Switzerland | 254 | 83 | 21 |
| Timber: wood in the round[d] | 495 | 800 | 249 |
| United Kingdom | 218 | 298 | 79 |
| Germany, western | 74 | 260 | 86 |
| Belgium-Luxembourg | 68 | 71 | 4 |
| Timber: wood, shaped[d] | 866 | 959 | 427 |
| United Kingdom | 518 | 461 | 299 |
| Belgium-Luxembourg | 143 | 155 | 33 |
| Netherlands | 141 | 245 | 53 |
| Wheat | 404 | 734 | 134 |
| Italy | 153 | 202 | 19 |
| United Kingdom | 80 | 218 | — |
| Norway | 67 | 53 | 10 |
| Sweden | 51 | 141 | 5 |
| Germany, western | 29 | 66 | 10 |
| Austria | 13 | 3 | 63 |
| Coarse grains[e] | 1,217 | 1,111 | 269 |
| United Kingdom | 858 | 737 | 126 |
| Netherlands | 109 | 112 | 9 |
| Belgium-Luxembourg | 104 | 33 | 31 |
| Meat[f] | 54 | 49 | 33 |
| United Kingdom | 48 | 44 | 31 |
| Sugar | 228 | 208 | 37 |
| Germany, western | 66 | 65 | 5 |
| United Kingdom | 59 | 2 | — |
| Sweden | 46 | 34 | 6 |

*Source:* United Nations, *Commodity Trade Statistics;* Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin,* series IV (Paris), 1952 and 1953; Economic Commission for Europe, *Coal Bulletin* (Geneva); Food and Agriculture Organization of the United Nations, *Timber Statistics for Europe* (Rome); United Kingdom Board of Trade, *Accounts relating to Trade and Navigation of the United Kingdom* (London), December 1952 and June 1953.

[a] Western Germany's imports from eastern Germany and all Swiss imports are excluded, except in the case of coal.

[b] Excluding Albania, which had no trade with western Europe.

[c] These items represented 60 per cent of the total value of imports of countries in the Organisation for European Economic Co-operation from eastern Europe in 1952. Each of the items shown represented a value of more than $30 million in 1952, except for "timber: wood in the round", which was valued at $19.8 million.

[d] Thousands of cubic metres.

[e] Barley, maize and other unmilled cereals.

[f] Including fresh, frozen, dried and canned meat; excluding livestock for food.

Table 70. Composition of Exports[a] to Eastern Europe by Western Europe and the United States, 1951 to 1953
(Millions of United States dollars)

| Item | USSR | | | Other eastern European countries | | |
|---|---|---|---|---|---|---|
| | 1951 Full year | 1952 Full year | 1953 First half | 1951 Full year | 1952 Full year | 1953 First half |
| Foodstuffs | 11 | 23 | 10 | 60 | 51 | 35 |
| Raw materials and fuels | 14 | 13 | 6 | 137 | 92 | 40 |
| Manufactures | 82 | 98 | 24 | 323 | 283 | 135 |
| Textiles | 5 | 13 | 3 | 17 | 15 | 5 |
| Base metals | 7 | 14 | 7 | 40 | 63 | 47 |
| Machinery and transport equipment | 64 | 62 | 11 | 156 | 118 | 47 |
| Other manufactures | 6 | 9 | 3 | 110 | 87 | 36 |
| TOTAL | 107 | 134 | 40 | 520 | 426 | 210 |

*Source:* Statistical Office of the United Nations.

[a] Excluding re-exports from the United Kingdom; this accounts for the difference between the totals for the Union of Soviet Socialist Republics in this table and the corresponding figures that may be derived from table 68. For "other eastern European countries" the difference appears to be due primarily to the incomplete classification of commodity export statistics, especially of manufactures, by destination.

The other eastern European countries showed declines in each of the three major commodity groups, both in 1952 and in the first half of 1953, the greatest decline being in imports of raw materials.

There were indications of a reversal of recent trends in east-west trade in the latter months of 1953. While in the first half of the year the total value of trade between eastern and western Europe was some 30 per cent below that of the first half of 1952, in the following four months this trade increased by about 5 per cent above that of the corresponding period of 1952.

## Trade within the Group and Total Trade

The increases from 1950 to 1952 in total foreign trade reported by eastern Europe and mainland China are shown in table 71. Further increases were planned for 1953. The Union of Soviet Socialist Republics announced that its foreign trade increased by 11 per cent in 1953.[7]

Czechoslovakia and Poland were exceptions to the general increase reported for eastern European trade in 1952; for Poland this constituted the first check in the expansion of its trade since the war, but for Czechoslovakia it represented a less marked decline than that which had taken place in 1950. In both these countries, the decline was caused by the contraction of trade with the west, since their trade with the rest of eastern Europe and with mainland China expanded in this period. Bulgaria, eastern Germany and Romania all showed increases in total trade of more than 20 per cent from 1951 to 1952, these being the countries, of those included in table 71, which also showed increases in trade with the west.

[7] *Pravda* (Moscow), 31 January 1954.

Table 71. Indices of Foreign Trade of Eastern European Countries,[a] 1951 and 1952
(1950 = 100)[b]

| Country | 1951 | 1952 |
|---|---|---|
| Bulgaria | 101 | 127 |
| Czechoslovakia | 128 | 124 |
| Germany, eastern | 160 | 192 |
| Hungary | 121 | 137 |
| Poland | 130 | 127 |
| Romania | 115 | 139 |

*Source:* 1950 and 1951: *Probleme Economice* (Bucharest), September 1952, except for eastern Germany: *Die Wirtschaft*, 30 January 1953; 1952: *Kommunist* (Moscow), No. 5, March 1953. The indices as discussed in the original sources appear to relate to the quantum of trade, but no explicit definition of the indices is available.

[a] Albanian trade, not included here, is small and is carried on exclusively with eastern Europe.

[b] Original data are published on a 1946 base except for eastern Germany, where the base is 1947.

The major part of the trade of the eastern European countries and mainland China consists of their mutual trade. The proportion has generally continued to rise during this period.[8] Three countries reported some declines in the proportion of their total trade which was conducted with other members of the group: Romania in 1951, Bulgaria in 1952 and eastern Germany in both years. In each case this was a reflection of increases in trade with the west, particularly with western Europe. In eastern Germany, this tendency for trade with the west to expand more rapidly than trade with the other members of the group was reversed in the first three quarters of 1953, since for each quarter the index of trade within the group rose further, compared with the corresponding quarter of 1952, than the index of total foreign trade for the same period.[9] Czechoslovakia, Hungary and Poland had the lowest proportion of mutual trade to total trade, but these proportions were increased in each case from 1950 to 1952.

There was a major reorientation in the trade of mainland China from 1950 to 1952; according to official statements, Chinese trade with the other members of the group nearly tripled in this period. In 1953, the recovery in trade with the west was roughly matched by the increase in trade with eastern Europe.[10] In the 1953 plan for Chinese trade with the Union of Soviet Socialist Republics, the latter was to deliver equipment for a number of Chinese heavy industries, including foundries, mining and machine construction, and also assist in the development of electric power resources. Chinese exports were to consist of fruits, jute, raw leather, meat, non-ferrous metals, vegetable oil and oilseeds, rice, silk, tea, tobacco and wool.[11]

In the trade of Hungary and Poland with the Soviet Union, exports to the latter country consisted of ships, railway equipment and rolling stock, together with some consumer goods; in addition, Poland sent cement, coal, coke and zinc. Imports from the Soviet Union were predominantly industrial raw materials. Poland's trade with the Soviet Union was reported to have increased by one-quarter from 1951 to 1952,[12] and a further increase was planned for 1953. In that year, Poland stated that as a result of a bad harvest it would be necessary to import about a million tons of grain.[13]

Czechoslovakia's trade with the Soviet Union rose an estimated 50 per cent between 1950 and 1952,[14] and it was planned that there would be a further increase in 1953. In 1952 as in 1951, Czechoslovakia imported one million tons of grain, mostly from the Soviet Union, and in the early months of 1953 further large shipments were reported.[15] For 1953 as a whole substantial increases were reported in food imports from other members of the group.[16] On the export side, producer goods, particularly machinery, predominated in Czechoslovakia's trade with countries in the group, to a greater extent than in its trade with the west. Eastern Germany's trade pattern was similar to that of Czechoslovakia, except that the former carried on a somewhat higher proportion of its trade with the other countries of the group, particularly with the Soviet Union, than did Czechoslovakia. Trade between eastern Germany and the Soviet Union increased an estimated 78 per cent between 1950 and 1952.[17]

In order to deal with the serious problem of inadequate supplies of consumer goods which had developed in most eastern European countries by 1953, several of them announced their intentions in the second half of the year of increasing or reorienting their foreign trade as a means of achieving a larger volume of consumer goods. Following a food crisis which emerged in the middle of 1953, eastern Germany signed supplementary trade agreements with Bulgaria, China, Hungary and the Soviet Union, providing for large increases in the imports of certain foods, particularly fats and meats,[18] and for added imports of other products, including textile fibres and coal.[19]

[8] *Vneshnyaya Torgovlya* (Moscow) for March 1953 reported that the proportion of this trade is nearly three-fourths of the total trade of the area. There is no information, however, as to relative prices used in calculating trade within and outside the group; differences in prices would of course affect the size of the proportion. It is also not known whether these proportions refer to value in current or constant prices; if they relate to current prices the changes in the proportions from one year to the next would, of course, be affected by relative changes in prices of intra-group and extra-group trade.

[9] *Statistische Praxis,* June 1953; *Statisztikai Tajekostato* (Budapest), March 1953; *Statisztikai Szemle* (Budapest), November 1953.

[10] *People's Daily* (Peking), 16 December 1953.

[11] *Vneshnyaya Torgovlya,* March 1953.

[12] *Ibid.,* July 1953.

[13] *Nowe Drogi* (Warsaw), November 1953.

[14] *Czechoslovak Economic Bulletin* (Prague), 1 March 1953.

[15] *Zahranicni Obchod* (Prague), March 1953.

[16] *Rudé Právo* (Prague), 31 January 1954.

[17] *Die Wirtschaft,* 8 May 1953.

[18] *Die Wirtschaft,* 24 July and 28 August 1953. Deliveries of meat and fats specified for 1953 delivery in the April agreement with the Soviet Union were increased under the supplementary agreement as follows: butter, increased from 30,000 tons to 57,000 tons; animal fats, 1,000 to 9,500; vegetable oils, 18,500 to 29,500; and meat, from 5,000 tons to 25,000 tons.

[19] Part of the increase was to be financed by a credit of 485 million roubles from the Soviet Union, including 135 million roubles of free currency to be used for the purchase of goods in other countries; this credit was granted at 2 per cent interest and was to be repaid within two years, beginning in 1955 (*Pravda,* 23 August 1953).

# APPENDIX

# APPENDIX

## A Technical Explanation of the Construction of Table 10 in Chapter 1

### *Analysis of influences on the relation of consumption to national product*

For the purpose of analysing changes in the ratio of real consumption to real gross national product, the ratio has to be resolved into a number of factors. By real consumption and real gross national product are meant their values in a given year expressed in terms of prices of a certain base year. The first factor to be considered is the ratio:

$$\text{(i)}\ \frac{\text{real consumption}}{\text{real gross national product}} \div \frac{\text{money value of consumption}}{\text{money value of gross national product}}$$

This ratio will obviously be equal to one, if consumer prices change proportionately to "national product prices" from the base year to the given year. However, if there is any discrepancy in changes in the two sets of prices, such will not be the case. If, for instance, consumer prices rise less than "national product prices", the ratio will show an increase, and conversely.

After having considered the discrepancy between the ratios of consumption to gross national product in real and in money terms, the ratio in money terms can be resolved into the following factors:

$$\text{(ii)}\ \frac{\text{gross private income from work and property}^{1}}{\text{gross national product}}$$

$$\text{(iii)}\ \frac{\text{net personal income from work and property}^{1}}{\text{gross private income from work and property}^{1}}$$

$$\text{(iv)}\ \frac{\text{personal disposable income}^{2}}{\text{net personal income from work and property}^{1}}$$

$$\text{(v)}\ \frac{\text{consumption}}{\text{personal disposable income}^{2}}$$

The numerator of each ratio is the denominator of the next so that the product of ratios (ii) to (v) equals the ratio of consumption to gross national product (both valued at current prices).

The size of each of these factors depends on the items included in the denominator but not in the numerator. Thus, moving from the national product to private income from work and property, indirect taxes, profits of government marketing boards and government property income have to be subtracted; and subsidies, losses of marketing boards and public debt interest have to be added. Ratio (ii) depends therefore on the net sum of all these items in relation to the national product. The difference between *gross private* and *net personal* income from work and property is that the former includes depreciation allowances and undistributed corporate profits (before deduction of taxes). The third ratio therefore depends on the relative importance of these items. To this point, only income from work and property has been considered; to reach total personal income, social security benefits and other transfers have to be added, and to reach *disposable* income, direct taxes on persons (including social security contributions) have to be subtracted. The fourth ratio therefore depends on the relative size of direct taxes, net of transfer payments.[3] The final ratio (v) depends on the rate of personal saving.

In each case the factor for a given year was divided by the factor for the preceding year. In this way the change in the ratio of real consumption to real national product from year to year has been factorized into five components[4] showing the effects of changes in (i) relative prices, (ii) indirect taxes net of subsidies, etc., (iii) gross undistributed profits, (iv) direct taxes, net of transfers and (v) proportion of disposable income saved. The two factors representing fiscal changes were grouped in table 10, i.e., ratios (ii) and (iv) were multiplied, to show their combined effect.

Columns 2 to 5 of the table thus broadly correspond to four different types of influence: relative price movements, changes in the distribution of income, changes in the burden of taxation and changes in the rate of saving.

While these factors were worked out quantitatively, only positive or negative influences are shown in table 10, corresponding to ranges of values, because of the weakness of much of the information. In some cases, particularly for 1953, direct calculation could be made only of some of the component items, and the entry in the table may depend either on a guess at the direction of the movement of other items, or on an estimate of the maximum error attributable to them.

[1]Including interest on public debt.

[2]See footnote 35 in chapter 1.

[3]Tax statistics frequently refer to tax *payments*, rather than tax *liabilities*. This ratio may therefore reflect previous tax rates, and it may also be affected by accelerating collection, e.g., by reducing arrears or encouraging advance payments.

[4]Since this ratio can be expressed as the product of five factors for each year, the proportionate change in the ratio can be expressed as the product of the proportionate changes in each of the five factors.

# INDEX

# INDEX


A

Africa, food imports, 130
African dependent territories, cotton imports, 131
Agricultural production, *see* Production, agricultural
Agricultural products
  decline in prices, 29
  inventory accumulation, 14, 29
  prices, 28, 46
Agriculture
  economic policy, eastern Europe, 45-47
  government controls over, 41
  investment in, USSR, 43
Algeria, food import, 130
Argentina
  agricultural output, 57-58
  balance of payments, 62
  consumption, 61
  cost of living, 63
  decline in imports of capital goods, 132
  embargo on wool exports, 55
  employment, 64
  export earnings, 120
  export incentive scheme, 121
  exports, 81
  fall of foreign exchange reserves, 128
  gross national product, 59, 62, 63
  import restrictions, 128
  imports, 62
  industrial production, 58
  investment in inventories, 61, 62
  investments, 60-61
  meat exports, 125
  price increase, 63
  price-wage spirals, 57
  public investment, 62
  real wages, 63-64
  terms of trade, 60, 62
  trade balance, 59, 63
  wheat production, 78, 79, 117, 124
  wool exports, 121-22
Armed forces, remuneration, 21*n*
Asia
  food supply, 5
  *see also* South-eastern Asia
Australia
  agricultural production, 23
  consumption, 28-29
  cost of living, 31*n*
  cotton imports, 131
  decline in imports of capital goods, 132
  employment, 24
  exports, 81; to Czechoslovakia and Poland, 139
  fall in proportion of income spent, 39*n*
  farm income, 39
  fluctuations in terms of trade, 34*n*
  government expenditures, 27
  gross national product, 23, 25
  industrial production, 21
  inventory investment, 27
  investment in fixed capital, 27, 128
  operations of marketing authorities, 38
  prices of foodstuffs, 23, 29
  real wages, 31
  terms of trade, 35
  textile imports, 130
Australia (*continued*)
  trade balance, 28
  wheat production, 78, 79, 124
  wool exports, 121-22
Austria
  economic aid, 93
  export incentive scheme, 108
  quantum of imports, 109
  trade with Bulgaria, 137; with Romania, 137

B

Balance of trade
  Burma, 67
  deterioration, 104
  Far East, 65, 66
  geographic distribution, 111-13
  India, 68, 69
  Japan, 70
  Latin America, 56, 57, 59-60, 62-63
  primary producing countries, 75, 115-16, 133-35
  private enterprise economies, 13, 19-20, 28
  regional pattern, 85-91
  Thailand, 67
  US, 96-101
  western Europe, 5, 103-4, 111
Balance of trade, real, definition, 19
Belgian Congo, copper exports, 123
Belgian oversea territories, capital goods imports, 132
Belgium
  consumption, 28
  employment, 24
  gross national product, 23, 25
  industrial production, 21
  real wages, 31
  terms of trade, 28, 35
Belgium-Luxembourg
  demand-supply situation, 105
  economic aid, 93
  export incentives, 107
  steel exports, 105
  surplus position, 111
  terms of trade, 109
  trade balance, 112
  trade with Romania, 137
  volume of imports, 108
Brazil
  agricultural output, 57-58
  balance of payments, 62
  coffee exports, 125
  consumption, 61
  cost of living, 64
  decline in imports of capital goods, 132
  export earnings, 120
  export incentive scheme, 121
  exports, 62
  fall in cotton output, 57
  fall of foreign exchange reserves, 128
  gross national product, 59, 62, 63
  import restrictions, 128
  imports, 60, 62
  industrial production, 58
  inventory investment, 55, 56, 61, 62
  investment, 61, 62
  real wages, 63-64
  reduction in commercial arrears to US, 93-94
Brazil (*continued*)
  terms of trade, 60, 62
  trade balance, 59, 62-63
Bread, scarcity in, Poland, 50
British dependencies, capital goods imports, 132
Bulgaria
  agricultural output, 40, 48
  collectivization, 41
  consumption, 49
  demand-supply situation, 49, 50
  dollar value of trade with West, 137
  food exports to eastern Germany, 141
  increase in trade, 140
  industrial production, 47
  trade, 141
Burma
  cotton imports, 131
  economic changes, 67
  export earnings, 125
  rice exports, 67; to Ceylon, 125
  trade balance, 67

C

Canada
  accumulation of foodstuffs, 29
  agricultural production, 23
  economic aid to western Europe, 5
  employment, 25
  export earnings, 120
  exports, 81; of wheat and wheat flour, 98*n*, 99*n*; to UK, 91
  farm income, 39
  food prices, 23
  foreign exchange reserves, 117
  gold and dollar balance, 95
  government expenditures, 25
  import prices, 31
  imports from US, 95, 98
  import unit values, 126
  industrial production, 21, 22
  inventory investment, 27
  military expenditure, 25
  mining, 116
  old-age pensions, 38*n*
  operations of marketing authorities, 38
  proportion of income spent, 39
  quantum of imports, 126-27
  real wages, 32
  relative decline in consumption, 39
  residential building, 28
  terms of trade, 28, 135
  trade balance, 90, 133
  trade with US, 91
  unemployment, 25
  wheat exports, 124
  wheat production, 78, 79
Capital
  flow to primary producing countries, 116
  outflow, 93, 95, 96*n*
  transfers to under-developed countries, 13
Capital, fixed
  investment, 9, 19, 27, 28, 32, 33, 128
  Latin America, 56-57
  private enterprise economies, 13
  *see also* Investment, fixed capital; Investment in plant and equipment
Capital goods
  competition factors, 107

Capital goods (*continued*)
decline in demand, western Europe, 10
demand, 8, 128
eastern Europe, 40
exports, 79, 106
imports, Far East, 65; by primary producing countries, 131-32
Mainland China, 52-53
Mexico, 59
prices, 110
USSR, 50
*see also* Investment goods
Capital goods industries, 8, 132
Centrally planned economies, *see* Planned economies
Ceylon
cotton imports, 131
exports, 65
food production, 67
imports, 65
rice imports, 125
rubber exports, 122-23
Chile
agricultural output, 57-58
balance of payments, 60, 62
consumption, 61
copper exports, 123
cost of living, 63, 64
decline in exports, 62
gross national product, 59, 62, 63
import restrictions, 128
industrial production, 58
inventory investment, 55, 56, 62
investments, 61
mining, 59
price-wage spiral, 57
real wages, 63
rise in investment, 62
terms of trade, 60, 62
trade balance, 59, 63
China (mainland)
economic policies, 52-53
exports from primary producing countries, 117-18
food exports to eastern Germany, 141
international trade, 136-41
rise in production, 11-12
trade, 139; with eastern Europe, 140-41; with Finland, 138
China: Taiwan
economic situation, 71-72
sugar export, 125
Coal, export from US, 99-100
Cocoa
exports, 125-26
prices, 29
Coffee
demand for, 62
exports, 125
prices, 29, 55
production, Brazil, 57*n*
Collective farms, 11, 42
eastern Europe, 41, 46
Colombia
capital goods imports, 132
imports from US, 95
Commercial policy, 120-21
Construction
Far East, 65, 66
Japan, 70
US, 5
Consumer goods
competition factors, 107
decline in manufacture, 9
demand, 4, 8, 141
eastern Europe, 12, 44-45
eastern Germany, 51
export from industrialized countries, 79
imports, 104
inventories, 9
Consumer goods (*continued*)
mainland China, 52-53
oversea sterling area, 128
prices, 35, 110
private enterprise economies, 22
production, centrally planned economies, 11; eastern Europe, 40-41, 42; USSR, 42, 43
shortages, eastern Europe, 41
targets, eastern Europe, 12
USSR, 42, 43, 49, 50
Consumer goods industries
France, 109
private enterprise economies, 21
western Europe and Japan, 109
Consumption
Belgium, 28
Bulgaria, 49
centrally planned economies, 12
decline, 8
eastern Europe, 49
India, 68, 69-70
Japan, 70-71
Latin America, 61-62, 63
limitations, centrally planned economies, 11
private enterprise economies, 13, 20-21, 25, 28-29, 33-35
ratio to gross national product, 28, 33-35, 63, 145
rise (1953), 10
stimulative measures, 9
USSR, 4, 50
world increase, 3
Co-operatives, mainland China, 53
Copper, exports, 123
Copra, production, 125
Cost of living, 8
Far East, 67
private enterprise economies, 21, 31
USSR, 49
Cotton
exports, 99, 106
production, 23; in India, 69
production curbs, 122
world demand, 122
Cotton textiles
decline in demand, 97
imports by primary producing countries, 131
India, 69
Credit, tightening, 28*n*
Credit facilities, 108
Credit restrictions, 8
Cuba
agricultural output, 57-58
balance of payments, 62
capital goods imports, 132
consumption, 61
cost of living, 63, 64
cotton imports, 131
gross national product, 59, 62, 63
import demand, 129
inventory accumulation, 55, 56, 61, 62
investments, 60-61, 62
price level, 63
public investment, 62
real wages, 63
sugar export, 125
terms of trade, 60, 62
trade balance, 60, 62-63
Currency changes, *see* Monetary reform
Czechoslovakia
agricultural output, 40, 48
consumption, 49
decline in trade, 140
demand-supply situation, 50, 51-52
industrial production, 47
investments, 49
productivity, 41
Czechoslovakia (*continued*)
rationing, 51
reduction of delivery quotas, 46-47
restriction of withdrawal of manpower from agriculture, 46
trade, 139, 141
trade agreement with Finland, 138

D

Deflation
avoidance, 6
Far East, 66
Delivery quotas for agricultural products
reduction, 46-47
USSR, 46-47
Demand, pent-up, 3-4
centrally planned economies, 4
Demand and supply
centrally planned economies, 11
eastern Europe, 49-52
Far East, 66
Japan, 105-7
post-war years, 3-6
western Europe, 7, 105-7
Denmark
balance of trade, 28
demand-supply situation, 105
economic aid, 93
employment, 24
exports to USSR, 137
food exports, 105
gross national product, 23
imports, 108
increase in shipping, 103
prices of consumer goods, 35
residential building, 28
terms of trade, 110
trade balance, 104
volume of imports, 108
Derationing
eastern Europe, 41
India, 69
Poland, 50
Devaluation, sterling area, 6
Dollar area
balance of payments with, 86
decline in imports from, 87
import restrictions, 6
imports from US, 98
inventories, 7
Dollar balance
factors in, 95-96
western Europe, 95
Dollar deficits, 4, 9, 10, 14, 93-101, 111
western Europe, 5
Dollar reserves, 4, 6, 14, 95
improvement, 8
Dollar supply, 93, 95
effect of drop in imports from US, 94
increase due to price rise of raw material imports, 7

E

East-west trade, 5, 140
basis for recovery, 12
dollar value of trade, 137-38
Economic policies
changes, 3
eastern Europe, 40-52
Economic stability, 15
private enterprise economies, 13, 14
Egypt
export incentive scheme, 121
export restrictions, 121
exports to USSR, 137
imports, 129, 137
Employment
Argentina, 64
eastern Europe, 48
Japan, 70

Employment (*continued*)
private enterprise economies, 14, 21, 23-25
Yugoslavia, 54
Employment, non-agricultural, eastern Europe, 42
EPU, *see* European Payments Union
Europe, eastern
expansion in industrial production, 12
exports from primary producing countries, 117-18
imports from western Europe, 139
investment, 12
planned economies, 40-52
quantum of exports to western Europe, 139
trade, 137-41
Europe, western
balance of payments, 102-13
coal imports from US, 99-100
decline in inventory expenditure, 8
decrease in dollar imports, 98
demand for dollar goods, 5
dollar aid, 5
dollar balances, 10, 95
dollar deficit, 96
export quantum of capital goods, 131
exports, 80, 90
fluctuations in foreign trade, 102
food supply, 5
geographic distribution of external balances, 111-13
import demand, 108-9
import liberalization, 6
imports from US, 95
liberalization of trade within the area, 79
oversea exports, 102
petroleum imports, 100
price controls, 7
production of cotton yarn, 99
quantum of exports to eastern Europe, 139
quantum of imports, 102
reduction of dollar deficit, 101
rise in exports to US, 87
rise in government expenditures, 6
terms of trade, 102, 109-11
trade balance with US, 90-91
value of imports from, 93
value of imports from primary producers, 120
European Payments Union, 95, 111-13
balances with, 86-87
establishment, 6
repayments to UK, 10
surpluses with, 8
transactions with franc and sterling areas, 9; with western Germany, 10
Excise taxes, US, 33
Export duties and restrictions, 121
Export earnings, 15
Latin America, 55-56
relation to import demand, 84
Export-Import Bank (US), 94
Export incentive schemes, 108
primary producing countries, 121
Export inventories, Latin America, 55-56
Export profits, fluctuations in, 35, 38
Exports
competitiveness, 107-8
Far East, 65
industrialized countries, 79
Latin America, 57-62
primary producing countries, 75-79, 117-26
private enterprise economies, 28
quantum, 87
unit values, 119
volume, US, 98-101

F

Far East
fluctuations in export earnings, 129
import prices, 126
major changes in economic activity, 64-72
quantum of imports, 127
wheat import, 130
Farm income
Australia, 39
Canada, 38
Poland, 50
USSR, 47
US, 19*n*
Farm products, *see* Agricultural products; Foodstuffs
Farms, collective, *see* Collective farms
Fats and oils, world demand, 125
Finland
decline in imports of capital goods, 132
exports to USSR, 137
imports from USSR, 137
trade with eastern Europe, 138-39
Five-year plans, *see* China (mainland); Europe, eastern; Union of Soviet Socialist Republics
Fixed capital, *see* Capital, fixed
Food
European imports, 109
export by primary producing countries, 78, 124-26
exports from US, 87-90, 98
import by primary producing countries, 130
import demand for, 126
imports, US, 97
prices, 7, 23, 29, 110, 120
Latin America, 64
production, 23; eastern Europe, 40-41; Far East, 67; mainland China, 53
Food processing
eastern Europe, 45
investment in, USSR, 43
Food supply
eastern Germany, 141
Philippines, 66
western Europe, 5
Foreign exchange
holdings, 126
primary producing countries, 8
receipts of primary producing countries, 118
Foreign exchange reserves, Latin America, 128
Franc area, deficit with EPU, 9
France
balance of payments, 106
demand-supply situation, 105
economic aid, 93
employment, 24
export incentive scheme, 108
export prices, 108
exports, 106
government expenditures, 25
gross national product, 23, 25
import restrictions, 104
imports, 83, 108, 109, 112-13, 137
improvement of dollar balance, 113*n*
increase in shipping, 103
industrial production, 21
investment in fixed capital, 27
quantum of exports, 106-7
quantum of imports, 109
ratio of real consumption to real national product, 34
real wages, 32
removal of import restrictions from EPU members, 112
sugar import, 125
France (*continued*)
terms of trade, 110
total investment in fixed capital, 28
trade balance, 28, 104, 111-13
French oversea territories, capital goods imports, 132

G

Germany, eastern
agricultural output, 45, 48
collective farms, 46
collectivization, 41
consumption, 49
demand-supply situation, 50-51, 52
dollar value of trade with west, 137
food imports, 141
imports from western Europe, 137-38
increase in trade, 140
industrial production, 47
investments, 49
productivity, 41
trade, 137, 141
trade agreement with Finland, 138
Germany, western
consumption, 28-29
decline in surplus, 112
demand-supply situation, 105
economic aid, 93
employment, 24
engineering production, 109
export incentives, 107-8
exports, 91, 98, 101, 106
growth of national output, 91
heavy industry, 10
imports, 83
income distribution, 35
increased production, 9
increase in imports, 108
increase in shipping, 103
increases in profit margins, 38
industrial production, 8, 21
interest payments to US, 95
inventory investment, 27
proportion of income spent, 39
quantum of exports, 106-7
real wages, 32
rise in share of undistributed profits, 35
surplus position, 111, 112
terms of trade, 110
trade with mainland China, 139; with Romania, 137
volume of exports, 106-7
volume of imports, 108
Gold and foreign exchange reserves, 5, 95
non-dollar area, 14
primary producing countries, 116-17
western Europe, 103
Government expenditures
decrease, 4
Far East, 65
increase, in private enterprise economies, 25, 27
India, 68
Japan, 70
private enterprise economies, 13, 19
US, 32-33
Grain
imports, western Europe, 109
India, 69
production, non-dollar countries, 99
Greece, economic aid, 93
Gross national product
components, 25-29, 59-63, 145
eastern Europe, 47-49
impact of foreign trade, Latin America, 56-57
increase, 23
India, 67-69
Japan, 70-71
Latin America, 57, 59, 62, 63

Gross national product (*continued*)
private enterprise economies, 19
relation to consumption, 28, 33-35, 63, 145
relation to income, 83

H

Hides and skins, import by US, 97
Hong Kong
cotton imports, 131
entrepôt trade, 117
rice import, 130
trade, 139
Hungary
agricultural output, 40, 45, 48
change in gross national product, 49
collective farms, 46
consumption, 49
demand-supply situation, 50, 52
food exports to eastern Germany, 141
industrial production, 47
investments, 49
productivity, 41
rationing, 50
reduction of delivery quotas, 46-47
restriction of withdrawal of manpower from agriculture, 46
trade, 141
trade agreement with Finland, 138

I

Iceland, economic aid, 93
Import prices
decline in, 28, 126
private enterprise economies, 29-31
Import restrictions, 79, 85, 127, 128
against dollar area, 104
Far East, 65
Latin America, 56-57, 62
primary producing countries, 116, 130
relaxation, 79
sterling area, 106
western Europe, 113
Imports
changes in commodity composition, 126
decline in quantum, 126
demand, 108-9
Far East, 65, 66
increase, in private enterprise economies, 28
industrial countries, 81-84
Latin America, 60, 62
primary producing countries, 84-85, 126-32
quantum, 93
relation of demand to export earnings, 84
volume, US, 97-98
Income
distribution, 33-34, 35, 39, 71
primary producing countries, 130
proportion spent on consumption, 34, 35, 38-39
relation to gross national product, 83
Income, national
changes in, 126
eastern Europe, 49
Yugoslavia, 54
Income, real
changes, 9
eastern Europe, 41
increase, under-developed countries, 11
private enterprise economies, 13
USSR, 49-50
Income tax
effect on real wages, 32
US, 33

India
consumption, 69-70
cotton production, 99
decline in private investment, 132
drought, 124
economic situation, 67-69
export restrictions, 121
food imports, 130
jute production, 123
reduction in wheat imports, 130
rice imports, 130
textile exports, 130
trade balance, 68, 69
unemployment, 68
Indonesia
copra production, 125
export incentive scheme, 121
exports, 65
imports, 65, 129
increase in food production, 66
rubber exports, 117, 122
textile imports, 130
Industrialization
eastern Europe, 41-42
mainland China, 52-53
Industrialized countries
development of basic industries, 4
exports, 79-81, 93-113
imports, 81-84
trade fluctuations, 75-85
Industrial production, *see* Production, industrial
Inflationary pressures, 82
Argentina, 64
Brazil, 64
centrally planned economies, 4
China: Taiwan, 71-72
control measures, 5
private enterprise economies, 7
reduction, 3, 10
Romania, 50
International Bank for Reconstruction and Development, loans to primary producing countries, 116
International Sugar Agreement, 125
International trade and payments, 6, 12, 54, 75-141
disequilibrium, 4, 9
increase in quantum of world trade, 75
Latin America, 56-57
private enterprise economies, 93-113
relaxation of restrictions on, 3
Inventories, investment in, 6, 7, 9, 19, 76
India, 68, 69
industrialized countries, 79, 82
Japan, 70
Latin America, 55-56, 61, 62
private enterprise economies, 6, 13, 25, 27
US, 5, 21, 32
western Europe, 108
Inventory boom (1950-51), 6-8
Investment
China: Taiwan, 71
eastern Europe, 12, 42-44, 49
expansion in primary producing countries, 131
Latin America, 62
Yugoslavia, 54
Investment, fixed capital, 9, 19, 27, 28, 32, 33, 128
India, 68
Japan, 70
Latin America, 56-57, 60-61, 62
private enterprise economies, 13
western Germany, 9
*see also* Capital, fixed; Investment in plant and equipment

Investment, foreign, 96, 103
oversea sterling area, 103
Investment, private, 27
India, 68-69
primary producing countries, 116
under-developed countries, 10
US, 95
Investment, public
Far East, 65, 66
India, 68-69
Latin America, 62
private enterprise economies, 13
under-developed countries, 7, 10
Investment goods, 41
prices, 35
*see also* Capital goods
Investment goods industries, US, 90
Investment in plant and equipment
private enterprise economies, 14, 19, 28
US, 27-28
western Europe, 9
*see also* Capital, fixed; Investment, fixed capital
Iran
cessation of oil operations, 124
exports to USSR, 137
imports from USSR, 137
Ireland
economic aid to, 93
food exports, 105
trade balance, 104
Israel, export incentive scheme, 121
Italy
demand-supply situation, 105
economic aid to, 93
government expenditures, 27
gross national product, 23
imports from USSR, 137
income distribution, 35
increase in production, 109
increase in profit margins, 38
increase in shipping, 103
industrial production, 21
inventory investment, 27
quantum of exports, 107
real wages, 32
rise in share of undistributed profits, 35
surplus position, 111
taxation, 38
terms of trade, 110
trade balance, 104, 112
volume of imports, 108

J

Japan
consumption, 70-71
demand-supply situation, 105
economic situation, 70-71
employment, 70
engineering production, 109
export incentive scheme, 108
gross national product, 70-71
growth of national output, 91
imports, 83, 108, 138
increase in imports, 108, 109
quantum of exports, 107
terms of trade, 109, 111
textile imports, 130
trade balance, 70, 104
Jute
export earnings, 123
export prices, 8
manufacture, India, 68, 69

K

Korea, southern, rice import, 130
Korean hostilities, effect on:
cotton market, 122
economic situation, 6-12
export earnings, Latin America, 56

Korean hostilities, effect on: (*continued*)
exports of primary producing countries, 75-76
inventory accumulation, 7
Latin American imports, 60
prices, 3, 7, 29
transport of dollar goods, 96
world trade, 75
Korean truce, effects on military expenditures, 3

L

Land, redistribution, centrally planned economies, 4
Land ownership, Yugoslavia, 54
Latin America
agricultural output, 7
balance of payments, 116
export controls, 121
export earnings, 55-56, 120
exports, 79, 91
foreign exchange reserves, 10, 117
gross national product, 57
major changes in economic activity, 55-64
mining, 116
petroleum industry, 116
quantum of imports, 126
shortages, 4
sterling holdings, 116-17
trade balance, 135; with US. 90, 91
wheat import, 130
Latin American dollar countries
import unit values, 126
quantum of imports, 128-29
Latin American non-dollar countries
imports, 128
import prices, 126
quantum of imports, 127
Light industry
eastern Europe, 45
investment in, USSR, 43
Livestock
Argentina, 58
eastern Europe, 48
products, 23, 29
USSR, 45-46
*see also* Meat
Luxury goods, restrictions on import, 126

M

Machinery, 8; import by primary producing countries, 132
Mainland China, *see* China (mainland)
Malaya
cotton imports, 131
exports, 65
food production, 67
import restrictions, 127
imports, 65
rice import, 130
rubber exports, 122
rubber imports from Indonesia, 117
rubber production, 66
textile imports, 130
trade balance, 66
Management of enterprises, Yugoslavia, 53
Manpower, withdrawal from agriculture to industry 46
Manufactured goods
imports, industrial countries, 83
quantum of exports, 87
Manufactures
export from US, 101; western Europe, 106
imports, 184: by eastern Europe, 139; by US, 97-98
prices, 110
Meat
export earnings, 125
export from eastern Europe, 139
*see also* Livestock
Metal industries
industrial countries, 83
recovery, US, 9
Metals and metal products
decline in import, 131
decreased demand, western Europe and Japan, 109
Mexico
agricultural output, 57-58
balance of payments, 62
capital goods imports, 132
consumption, 62, 63
cost of living, 63, 64
exports, 62
gross national product, 59, 62, 63
import demand, 129
imports, 60, 62
industrial production, 58-59
investment in inventories, 61
investments, 61
mining, 59
price increase, 63
public investment, 62
real wages, 63-64
terms of trade, 60, 62
trade balance, 59, 62-63
unemployment, 59
Middle East
fluctuations in export earnings, 129
food import, 130
import prices, 126
petroleum export, 100
petroleum industry, 116, 124
quantum of imports, 127
Military expenditure, 6
decline, 3, 14, 28
increases, 25, 27
Japan, 70
western Europe, 10
Yugoslavia, 54
Minerals
demand, 119-20, 83, 123-24
prices, 7, 78
Mining
flow of US capital into, 116
industrial countries, 83
Latin America, 59
Monetary reform
centrally planned economies, 4
Czechoslovakia, 52
Mutual Security Agency, aid to China: Taiwan, 71, 72

N

Nationalization of industry, 4
Netherlands
demand-supply situation, 105
economic aid to, 93
exports, 108
food exports, 105
government expenditures, 25, 27
imports, 108; from USSR, 137
increases in profit margins, 38
industrial production, 21
inventory investment, 27
prices of consumer goods, 35
real wages, 31
residential building, 28
trade balance, 112
trade surplus, 111-12
volume of imports, 108
New Zealand
wheat imports, 130
Non-dollar countries
wool exports, 121-22
balance of payments difficulties, 101
decrease in imports from US, 98
increased production, 85, 100-101
increase in grain production, 99
rise of gold and dollar reserves, 10
trade, 5
Non-sterling countries
cotton textile imports, 131
fluctuations in export earnings, 129
North America
decline in imports, 14
production, 10
rise in government expenditures, 6
trade balance, 5
*see also* Canada and United States
Northern Rhodesia, copper exports, 123
Norway
economic aid, 93
export prices of raw materials, 35
export profits, 38
exports to USSR, 137
import prices, 29*n*
increase in shipping, 103
real wages, 31, 32
taxation, 38
terms of trade, 28, 34, 35, 109, 110
trade deficits, 104-5
volume of imports, 108
wood exports, 105

O

OEEC, *see* Organisation for European Economic Co-operation
Organisation for European Economic Co-operation countries
decline in exports, 81
dependencies, 135
exports of dependencies, 120; to primary producers, 91
imports, 102
import unit values of dependencies, 126
quantum of exports, 79
trade balance with Canada, 135
trade pattern, 90-91
Output per man, *see* Productivity
Oversea sterling area, *see* Sterling area, oversea

P

Pakistan
contraction in imports of capital goods, 132
cotton imports, 131
cotton production, 99
exports, 65, 66, 137
export subsidies, 65
food production, 67
imports, 65
jute production, 123
wheat import, 130
Peasants' incomes, *see* Farm income
Peru, decline in imports, 128
Petroleum
exports from primary producing countries, 124
import by western Europe, 100
Petroleum industry
Iran, 103
Latin America and Middle East, 116
Petroleum products, export from US, 99
Philippines
copra production, 125
decline in building, 65
exports, 65
imports, 65, 95, 132
increase in food production, 66
rice imports, 130
sugar exports, 125
textile imports, 130

Planned economies
economic activities, 11-12, 40-45
production and trade, 4
rationing, 4, 11
trade, 137-41
Poland
agricultural output, 40, 45, 48
consumption, 49
decline in trade, 140
demand-supply situation, 49, 50
employment, 48
export of bacon to UK, 139
grain crop, 48
industrial production, 47
intra-eastern European trade, 141
investments, 49
rationing, 50
reduction of delivery quotas, 46-47
restriction of withdrawal of manpower from agriculture, 46
trade, 139, 141
trade agreement with Finland, 138
wages, 50
Portugal, economic aid to, 93
Prices
China: Taiwan, 71-72
Czechoslovakia, 52
of exports, western Europe, 107-8
fluctuations, 29-31
increase, Poland, 50
increase, Romania, 50
India, 69
influence of changes on ratio of consumption to national product, 35
Japan, 71
Latin America, 55, 57, 63-64
primary producing countries, 78, 119-20
rise, 7
Taiwan, 71-72
western Europe, 110
Prices, retail, 8
private enterprise economies, 21
Price-wage spiral, 8, 81
Chile, 64
France, 108
Latin America, 64
Primary producing countries
composition of exports, 121-26
composition of imports, 129-32
economic changes, 64-66
European trade balance with, 111
exports, 75-79; of metals and petroleum, 123; to UK, 91
factors affecting exports, 117-21
factors affecting imports, 126-29
fluctuations in export earnings, 84
fluctuations in import demand, 105
imports, 84-85
increase in quantum of exports, 77-78
international trade and payments, 115-35
intra-group exports, 117
loans by International Bank, 116
relation to US, 90
rise in export earnings, 79
trade balance, 135-35
trade fluctuations, 75-85
trade patterns, 91
volume of exports, 8
*see also* Under-developed countries
Primary products
changes in demand, 83
demand-supply situation, 119
export, US, 81
export prices, 83
prices, 3, 10-11, 81, 110
world output, 83
Private enterprise economies
demand-supply situation, 4, 14
economic changes, 6-11, 19-39
regional pattern of commercial trade, 85
Producer goods, *see* Capital goods
Production, agricultural
centrally planned economies, 11
China: Taiwan, 71
eastern Europe, 12, 40, 42, 45-47, 48
Far East, 65
India, 67-68
industrial countries, 83
Japan, 70
Latin America, 57-58
mainland China, 53
private enterprise economies, 23
USSR, 41
western Europe, 102
Yugoslavia, 54
Production, increase, 3, 108
Production, industrial, 4
centrally planned economies, 11
China: Taiwan, 71
eastern Europe, 12, 40, 47-48
Far East, 67
increase, North America, 10
India, 68
Japan, 70
Latin America, 58-59
private enterprise economies, 5, 6, 21-22, 23
under-developed countries, 7
US, 5, 96
western Europe, 96-97, 102
Yugoslavia, 54
Productivity, 21
eastern Europe, 41, 48, 52
incentives to, 46
increases in, 21
India, 68
Profit margins, 38
private enterprise economies, 21
Profits, undistributed, changes in, 35, 38

R

Rationing
centrally planned economies, 4, 11
Czechoslovakia, 51
eastern Europe, 41
Hungary, 50
Poland, 50
Romania, 50
Raw material exporting countries, *see* Primary producing countries
Raw materials
boom, 21, 29, 79, 81, 102
decline in import by eastern Europe, 140
export by primary producing countries, 78, 121-24
export prices, 35
exports from US, 87-90, 99
fall in production, 10
imports, Europe, 109
increase in supply, 29
prices, 7, 8, 9, 19-20, 78, 80-81, 102, 110, 119
slump, 65-66
Reconstruction Finance Corporation (US), 7
Residential construction
increase, 9, 28
US, 27-28
western Europe, 14
Retail trade, eastern Europe, 45
Rice
exports, 125
primary producing countries, 130
Rice-exporting countries, 67
Romania
agricultural output, 40, 45, 48
collective farms, 46
demand-supply situation, 50, 52
dollar value of trade with West, 137
Romania (*continued*)
increase in trade, 140
industrial production, 47
investments, 49
rationing, 50
trade, 141
trade agreement with Finland, 138
Rubber
export prices, 8
import by US, 97
production, 66
world demand, 122-23

S

Scandinavian countries
demand-supply situation, 105
industrial production, 21
inventory investment, 27
South Africa, Union of, *see* Union of South Africa
South America
import restrictions, 101
imports, 104
*see also* Latin America
South-eastern Asia
decline in imports of capital goods, 132
export restrictions, 121
investment in fixed capital, 128
rice production, 125
rubber export, 122-23
Southern Rhodesia, textile imports, 130
Speculation, 126
Steel
demand, 132
exports, Belgium-Luxembourg, 105
Steel mill products, export from US, 99
Steel strike (US), 22
Sterling area
balance of payments, 86, 116
deficit with EPU, 9
dollar reserves, 8
fall in dollar earnings, 6
higher earnings, 8
import restrictions against dollar goods, 101
imports, 98, 104
Sterling area, oversea
changes in earnings, 120
decline in export earnings, 128
decline in imports of capital goods, 132
expansion of imports, 128
exports, 91, 117-18
fluctuations in exports, 79, 127
foreign exchange reserves, 10, 117
gold and dollar reserves, 116-17
import restrictions, 101
imports, 126, 128
increased profits, 116
quantum of imports, 126, 127
relaxation of import restrictions, 79
removal of import restrictions from EPU members, 112
trade balance, 111-12, 135
trade with US, 90, 91
value of imports from, 93
Sterling reserves, 4
Stockpiling of strategic materials, 7, 9, 29, 77, 82, 93
Sudan, cotton imports, 131
Sugar, exports from primary producing countries, 125
Sweden
balance of trade, 28
economic aid to, 93
export prices of raw materials, 35
export profits, 38
exports to USSR, 137
favourable movement in terms of trade, 34
government expenditures, 27

Sweden (*continued*)
gross national product, 23
import prices, 29*n*
imports from USSR, 137
increase in shipping, 103
real wages, 31, 32
terms of trade, 28, 35, 109, 110
trade deficits, 105
volume of imports, 108
wood exports, 105
Switzerland
surplus position, 111
volume of imports, 108

T

Taiwan, *see* China: Taiwan
Taxation
influence of changes, 38
influence on ratio of consumption to national product, 34
Latin America, 63
private enterprise economies, 20, 25, 28
reduction, 13, 109
US, 33
*see also* Income tax
Tax rebates, 108
Tea
exports, 125-26
prices, 29
Terms of trade, 20, 104
changes in, 35, 109-11
Far East, 65
fluctuations, 105
improvement, 28
India, 69-70
Japan, 71
Latin America, 60, 62
private enterprise economies, 34, 85
under-developed countries, 7, 9, 11, 13
Textile fibres, import by US, 97
Textile industry
recession in, 83, 122
unemployment in, 8
Textiles
export controls, 121
import, primary producing countries, 130
imports, Europe, 109
prices, 29, 110
production, 22, 52
Thailand
economic changes, 67
rice exports, 67
rice imports, 130
rice inventory, 125
trade balance, 67
Tin
export prices, 8
exports, 123-24
Tourist expenditures, 96
western Europe, 103
Trade, *see* International trade and payments
Trade agreements, 138, 139, 141
Transfer payments, 38
Transport account, 93
western Europe, 103
Transport equipment, import by primary producing countries, 132
Tunisia, food import, 130
Turkey
food exports, 105
increase in imports, 109
increase in production, 108-9
quantum of imports, 109
raw cotton exports, 105-6
terms of trade, 109, 110
trade deficits, 104-5
trade with Bulgaria, 137
volume of imports, 108

U

Under-developed countries
decline in export income, 9
decline in export profits, 15
economic problems, 14-15
economic setbacks, 3
employment expansion, 4
imports, 10
industrial production, 7
volume of imports, 9
*see also* Primary producing countries
Unemployment, 3, 14, 20, 21, 24-25, 57, 64, 66
Canada, 25
increase, 8
India, 68
Mexico, 59
US, 24-25
western Europe, 24
Union of South Africa
investment in fixed capital, 128
textile imports, 130
wheat imports, 130
wool exports, 121-22
Union of Soviet Socialist Republics
agricultural output, 41-42, 48
agricultural policy, 46
consumption, 49
delivery quotas, 46-47
demand-supply situation, 49-50
employment, 48
exports to West, 137
food exports to eastern Germany, 141
imports from primary producing countries, 117-18; from western Europe, 139
increase in imports, 137
industrialization, 41-42
industrial production, 40, 47
investments, 43, 49
lag in agricultural production, 11, 12
livestock, 45-46
production of consumer goods, 45
rationing, 4
restriction of withdrawal of manpower from agriculture, 46
trade, 49, 140, 141
wages, 50
United Kingdom
balance of payments, 106
capital outflow, 116
competitive position, 108
decline in exports from USSR, 137
demand-supply situation, 105
economic aid to, 93
employment, 24
export incentive scheme, 108
exports, 81, 106; to Latin America, 91; to primary producing countries, 91
food prices, 31*n*
government expenditures, 25
import restrictions, 104
imports, 83, 108
increase in imports, 109
increase in national product, 25
increase in profit margins, 38
industrial production, 21
inventory investment, 27
meat imports, 125
payment on loans, 95
payments by EPU, 10
prices of consumer goods, 35
proportion of income spent, 39*n*
quantum of exports, 106-7
real wages, 31, 32
removal of import restrictions from EPU members, 112
restrictions on food imports, 105

United Kingdom (*continued*)
rise in share of undistributed profits, 35
shipping, 103
shortages, 8
sugar import, 125
taxation, 38
tax reduction, 109
terms of trade, 110
textile exports, 130
timber import controls, 105
trade balance, 90, 102*n*, 104, 111-12
trade with mainland China, 139
volume of imports, 108
United States
accumulation of farm product inventories, 14, 29
agricultural production, 23
changes in commodity structure of exports, 98-99
coffee import, 125
cotton export, 122
curb on cotton production, 122
decline in cotton exports, 99
decline in exports, 80
decline in investment, 14
decline in relative share of world exports, 87
demand-supply situation, 7
economic aid to western Europe, 5, 10, 84, 93, 103
economic tendencies, 32-33
employment, 24-25
export balance, 93, 101
export quantum of capital goods, 131
exports, 81
export unit values, 81
food production, 23
government expenditures, 14, 25
gross national product, 13, 32
import decline, 14
import demand, 85, 96
imports, 101; of manufactures, 84-85; of raw materials, 97; from western Europe, 90; from western Germany, 138
industrial production, 8, 21, 22
inventory investment, 13, 21, 27
investment in plant and equipment and residential building, 27-28
loans, 116
military expenditure, 25, 85, 95, 103
price and wage controls, 7
quantum of imports and exports, 96
real wages, 32
recession, 5-6
reduction of transfer payments, 38
relative decline in consumption, 39
shipping, 103
terms of trade, 85, 87, 96, 101
tin imports, 124
trade, 96
trade balance, 9, 10, 96-101; with Canada, 90, 135; with Latin America, 90
trade pattern, 87-90
trade with oversea sterling area, 90
trade with primary producing countries, 91
unemployment, 24-25
unit value of imports, 96
upward surge, 9
value of imports, 97-98, 120
Uruguay
export earnings, 120
import restrictions, 128

V

Venezuela
  capital goods imports, 132
  imports, 129
  mining, 116
  petroleum production, 124
Voivodina, Yugoslavia, land, 54

W

Wage-price spiral, *see* Price-wage spiral
Wages, 21, 31-32, 80
  Latin America, 63-64
  Poland, 50
  USSR, 50
Wages, money, increases in industrial countries, 80
Wages, real
  eastern Europe, 41
  Latin America, 63-64
  private enterprise economies, 21, 31-32
Wheat
  exports, 124-25; from Canada and US, 98*n*, 99*n*,
  import by primary producing countries, 130
  prices, 7
  production, 78; Argentina, 58; Chile, 57*n*
Wheat Board (Canada), 38*n*
Wood and wood products, exports, Norway and Sweden, 105
Wool
  export prices, 8
  import by US, 97
  prices, 25
  production, Australia, 28
  world demand, 121-22

Y

Yugoslavia
  economic policy, 53-54
  employment, 54
  supply-demand situation, 54

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Printed in U.S.A.
9486—May 1954—4650

Price: \$U.S. \$1.75; 12/6 stg.; Sw.fr. 7.00
(or equivalent in other currencies)

United Nations publication
Sales No.: 1954.II.C.1