WORLD ECONOMIC SURVEY 1957

UNITED NATIONS

WORLD ECONOMIC SURVEY 1957

UNITED NATIONS
Department of Economic and Social Affairs
New York, 1958

E/3110
ST/ECA/53

UNITED NATIONS PUBLICATION

Sales No.: 58. II.C. 1

Price: $U.S. 2.50; 18/- stg.; Sw. fr. 10.50
(or equivalent in other currencies)

FOREWORD

This report, *World Economic Survey, 1957*, is the tenth in a series of comprehensive reviews of world economic conditions published by the United Nations. It is issued in response to General Assembly resolution 118 (II), in which the Secretary-General was asked to prepare annual factual surveys and analyses of world economic conditions and trends. The 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 survey is the third in the series to contain a special study of an economic question of general interest. In the *World Economic Survey, 1955*, the development of production and trade throughout the world during the first post-war decade was reviewed. Drawing in part upon this review, the *World Economic Survey, 1956* contained an analysis of balance of payments problems in the post-war period. The present *Survey* complies with the request of the Economic and Social Council, contained in a resolution of July 1957, that part I of *World Economic Survey, 1957* should examine the problem of inflation. This study draws not only upon published data but also upon replies by Governments to a questionnaire on inflation circulated by the Secretary-General in October 1957. In chapter 1, following a general discussion of the nature of inflation, the main factors underlying recent advances in prices in North America, western Europe and Japan are analysed. Together with a review of the evidence indicative of excess aggregate demand or excess sectoral demand, the process of cost inflation is examined in detail. The relationship between domestic inflation and the external balance is then considered briefly. The chapter contains an extensive review and discussion of recent governmental anti-inflationary policies, particular emphasis being given to the role of monetary policy. Chapter 2 similarly examines the forces determining recent price advances in the primary producing private enterprise economies. Both demand and cost elements and the significance of monetary factors are reviewed. The chapter also includes an examination both of the special nature of the relationship between domestic inflation and the external balance in these economies and of budgetary, monetary and other anti-inflationary policies. Chapter 3 examines the problem of inflation in the centrally planned economies. A discussion of the nature and possibility of inflation in economies with central allocation of resources precedes an analysis of the causes underlying inflationary pressure. The process of price formation and recent price developments are reviewed.

Part II of the *Survey* contains an examination of recent events in the world economy. Chapter 4 provides an analysis of the recent situation in the industrially advanced private enterprise economies, special attention being given to the factors underlying the recessionary trends that emerged in 1957. Chapter 5 reviews recent events in the primary producing private enterprise economies, the early impact of the recessionary trends in the industrially advanced economies being examined in the light of the development programmes upon which many of the primary producing countries are engaged. An assessment of the economic outlook at the beginning of 1958 is given for both these groups of countries; this is based largely on replies by Governments to a questionnaire on economic trends, problems and policies circulated by the Secretary-General in November 1957. Chapter 6 provides an account of recent changes in the centrally planned economies.

The Introduction to the *Survey* contrasts the sources and major characteristics of inflation in the three broad groups of the world economy and relates past experience to current trends.

There are published as supplements to this survey reviews of economic conditions in areas outside the scope of the work of the regional economic commissions of the United Nations: *Economic Developments in the Middle East, 1956-1957* (sales number: 58.II.C.2) and *Economic Developments in Africa, 1956-1957* (sales number: 58.II.C.3).

The basic data used in the report are, in general, as published in governmental or inter-governmental sources, or as officially reported to the United Nations and its specialized agencies. 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 this report or in the publications of the United Nations and of the specialized agencies that contain the basic data from which many of the tables have been prepared. Some of the data have been specially tabulated by the Statistical Office of the United Nations.

The *Survey* was prepared in the Department of Economic and Social Affairs by the Bureau of Economic Affairs.

EXPLANATORY NOTE

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

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

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

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

A minus sign (—) indicates a deficit or decrease, except as indicated

A full stop (.) is used to indicate decimals

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

A slash (/) indicates a crop year or financial year, e.g., 1955/56

Use of a hyphen (-) between dates representing years, e.g., 1953-1955, signifies the full period involved, including the beginning and end years.

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.

Certain abbreviations have been used: EPU for European Payments Union; GNP for gross national product; IBRD for International Bank for Reconstruction and Development; OEEC for Organisation for European Economic Co-operation; FAO for Food and Agriculture Organization of the United Nations. "Rhodesia and Nyasaland" stands for Federation of Rhodesia and Nyasaland; "Malaya" stands for Federation of Malaya.

Wherever the terms "Syria" and "Egypt" are used, reference is to the northern and southern regions of the United Arab Republic. The latter terms have not been used since the study covers the period ending in 1957, while the United Arab Republic was established in 1958. For the same reason no use is made of the term "Arab Federation".

The designation of countries and territories and the arrangement of material in this publication should not be considered as implying any endorsement or other judgement by the Secretariat of the United Nations regarding the legal status of any country or territory, or of its authorities, or in respect of the delimitation of its boundaries.

TABLE OF CONTENTS

List of Tables

Part I

Inflation in the nineteen fifties

List of Charts

1. Inflation in industrial countries

2. Inflation in primary producing countries

4. Recent trends in industrial countries

5. Recent trends in primary exporting countries

INTRODUCTION

Introduction

ELEMENTS OF INFLATION AND THEIR SIGNIFICANCE FOR ECONOMIC RECESSION

The year 1957 marked another turning point in the curve of economic growth traced by the developed countries during the nineteen fifties. The post-Korean expansion, which had already been proceeding at a decelerating rate in 1956, lost most of its momentum in the course of the past year. In North America the rate of economic activity levelled off early in 1957 and began moving downwards during the latter part of the year. Although in western Europe the average level of economic activity was still higher than a year earlier, in a number of countries end-year output fell below the beginning-year rate; and, as had already happened in the United States, burdensome surpluses and excess capacity were beginning to appear in 1958 even in sectors of the economy which had once been disturbed by equally troublesome shortages.

At this writing it is still too soon to foresee how far the recession may develop or how long it may last. There is no question of the recession taking on the dimensions of the pre-war depression; a decline on any such catastrophic scale is inconceivable, on social and political, as well as on economic, grounds. Despite the current downturn in business plans for investment, confidence in the longer run built up by a decade of continued economic growth remains unshaken. Major institutional changes in all industrial countries have both lessened their instability and strengthened their resistance to shock. Banking and other financial institutions, which proved most vulnerable to cyclical downturns in the past, have been immeasurably strengthened. Speculative excesses, which historically triggered many of the reactions from boom to collapse, have also been more successfully controlled during the recent expansion phase. Of more immediate significance is the vastly enlarged role of the government budget in the national economy. Though the longer-term implications of the expanded share of government in private enterprise economies may remain in dispute, there can be little debate over its short-term stabilizing influence. The relatively high post-war level of government spending, determined independently of market conditions and subject more to counter-cyclical than to cyclical forces, supplies an important element of stability in national expenditure that was not available in the nineteen thirties. At the same time, the more than proportionate change in tax yield than in national product, associated with steep post-war income tax rates, provides strong support for private income after tax in relation to output. In addition, a number of built-in stabilizers, developed during the nineteen thirties and the war period —most notably, regardless of imperfections, the programmes for unemployment compensation and for sustaining farm incomes—impart a powerful braking effect on the rate of decline in economic activity. These elements have already proved their effectiveness in the past and they are undeniably of great significance in slowing down the current recession.

If a depression on the scale of the nineteen thirties need not be feared, however, neither may it be anticipated that in the United States—the country with maximum impact on the world economy—the recession will be as brief or as mild as in 1948/49 or 1953/54. The decline in its industrial production and the rise in its unemployment, indeed, already exceed those of the previous two downturns. Early in the recession attention was naturally focused on the large-scale reversal from accumulation to liquidation of inventories which has characterized all three post-war downturns. It was hoped that under the influence of favourable long-term economic trends the economy would right itself once again when excess inventories had been worked off; liquidation would then cease and give way to renewed stockbuilding. It has become increasingly evident, however, that despite the vastly expanded economic horizons and the firm confidence in the longer term, expectations of the rate of growth of demand in relation to capacity in the intermediate range are being revised downwards. With excess capacity having been built up for some time in many lines of industry, business plans for plant and equipment expenditure have been cut back significantly; given the time which must necessarily elapse before plans materialize, the full effects of these cuts may not be felt until 1959. The situation in housing and in consumer durables is also much less favourable than formerly; in both earlier recessions, residential construction and consumer outlays on durable goods, especially automobiles, paced the recovery and gave new impetus to business plans for investment, but in the recent phase these two industries have been among the first to become depressed.

Not least of the striking features of this recession is the apparent suddenness with which it came on the scene. As late as the summer of 1957 the overriding concern, both inside and outside the United States, was the problem of continuing inflation. This is reflected, among other things, in the debate of the Economic

and Social Council at its twenty-fourth session in mid-1957 and its resolution requesting the Secretary-General to study the subject of inflation in the present *Survey*. In the United States, though seasonally adjusted unemployment at the time of writing, in May 1958, was estimated at a post-war peak, carry-overs of earlier fears of inflation remained a major factor in the hesitation to counteract the recession through a reduction in taxes or through an increase in the government budget, as distinct from acceleration of already approved public expenditure. Production trends in many western European countries early in 1958 were reminiscent of those a year earlier in the United States; the boom of the preceding years had lost its momentum, and in very few instances was output significantly higher at the beginning of 1958 than a year earlier. Economic policy in western Europe, nevertheless, continued to be influenced by fears of inflation.

The ending of the boom in western Europe and the beginning of the recession in North America will be examined in some detail in part II of this *Survey*. It needs also to be considered, however, how it may happen that a situation so widely characterized as inflationary should suddenly be threatened by deflationary forces. Did circumstances change so suddenly, or may preoccupation with inflation have obscured elements of deflation that were present all along? If so, what sort of inflation was it that it could coexist with powerful deflationary tendencies? Part I of the *Survey*, which, at the request of the Economic and Social Council, is devoted to a study of inflation, addresses itself in large part to this question.

The Recent Inflation in Industrial Countries

It is probably no exaggeration to say that the world has never been so acutely sensitive as in recent years to the dangers of inflation. Nearly a generation of experience with the social and economic costs of war-time and of post-war inflation seems to have transformed the economic psychology of the world community; old fears of depression and mass unemployment apparently gave way to new anxieties over wage-price spirals and erosion in the value of money. These anxieties did diminish for a time with the growing liquidation of the acute inflationary pressures of the early post-war years; indeed, during 1948/49 even more than in the past year world concern was centred not so much on the remaining pockets of inflation as on the international impact of a recession in the United States. The outbreak of Korean hostilities generated a new shock-wave of inflation, however, and long before the new military plans could be translated into higher actual outlays, the world witnessed a boom in raw materials' prices of extraordinary proportions.

The boom collapsed soon after it began when the true economic dimensions of the Korean struggle became evident. For a short while it seemed that inflation would revert to the status of a local phenomenon, confined primarily to countries with a long history of continuing inflation. This expectation did not materialize, however. After a year or more of comparative stagnation, western Europe embarked in 1953 upon a period of vigorous economic growth. Welcome as was this expansion, it was soon accompanied in most countries by mounting concern over inflation. After its mild recession in 1953/54, the United States likewise entered upon a phase of rapid expansion, which, though of shorter duration than in western Europe, generated no less acute fears of inflation.

Paradoxically, the inflationary developments which gave rise to such widespread anxiety were of relatively modest proportions. Neither at the wholesale nor at the consumer level were the price increases comparable with those of the Second World War, the early post-war years or the Korean boom; indeed, the increases in wholesale prices were not as large as those which had accompanied the recovery from the depths of the depression in the nineteen thirties. Nor was the pattern of price increases typical of earlier periods of inflation; whereas normally prices of raw materials tend to rise relatively sharply under the pressure of demand, during this period significant increases were confined to a limited group of commodities. Farm food prices were notable for their weakness; so much so that several countries had to consider measures to bolster farm prices, hand in hand with the tightening of general controls against inflation.

That the modest and uneven character of the recent inflation in industrial countries was generally recognized is evident from the new term—creeping inflation—which was coined in order to distinguish it from earlier, more conventional, types. The deep-seated concern reflected not so much the magnitude of the pressures, as the setting in which they appeared. Three successive bouts with galloping inflation—during the war, the post-war reconstruction and Korean hostilities—had conditioned the public to fear even creeping inflation, especially since its pace appeared to be accelerating rather than diminishing. Of greater importance, perhaps, was the fact that for the first time, inflation was not generated by the abnormal forces of war or of post-war readjustment but was associated instead with the normal forces of economic growth. In the context of a universal commitment to maintain high levels of employment and a post-war drive for rapid long-term growth, inflation appeared not merely as a passing danger but as a permanent threat to stability. Thus, even creeping inflation had to be resolutely avoided

lest it gather momentum and develop into the galloping variety.

Concern over internal stability was prompted, in many instances, by anxiety over external balance. Even had countries been willing to overlook the effects of price increases upon the internal economy, they could not look with equanimity upon growing balance of payments deficits and dwindling foreign exchange reserves. These countries were the first to resort to restrictive measures; but since countries with surpluses in their balance of payments also felt obliged to impose anti-inflationary measures in the course of the expansion, such policies proved only of limited effectiveness in correcting the international imbalance.

What accounts for the apparently sudden economic reversal, beginning in mid-1957, from inflation to recession? Part of the explanation must be sought in the delicate balance which exists in a dynamic economy between inflation and deflation. Where advancing technology and high levels of investment constantly add to productive capacity and raise the average level of output per man, inadequate demand cannot be automatically equated with falling demand. Even a rising demand may prove inadequate to provide for full employment and full utilization of capacity. A problem of inadequate demand may thus develop while output, employment, incomes and profits are still increasing. It is true that even under such conditions symptoms of inadequate demand might emerge in the form of involuntary accumulation of inventories, unutilized capacity and growing slack in the labour market. But it is not easy to judge from recorded statistics whether the rate of inventory accumulation is voluntary or not, or whether capacity is excessive in relation to the potential rate of growth of demand; nor, in view of a widespread tendency of management to "hoard" labour during a period of growth, do data on unemployment provide a sensitive indicator of adequacy of aggregate effective demand. Psychologically, too, it is difficult to become aroused over unutilized capacity while profits are still rising, or concerned about developing slack in labour markets while employment is still increasing; in a word, it is hard to be pessimistic about demand while the economy is still climbing. Experience with each of the post-war recessions shows that it is all too likely instead that anxiety over inflation may persist for some time after the economic trend has already been reversed.

The possibility of a sudden shift to deflation is all the more likely when the inflation is of the creeping variety. It is not simply that creeping inflation involves a relatively minor degree of excess demand, so that a policy for its elimination may introduce a deflationary bias in the economy. Perhaps of even greater importance is the fact that creeping inflation tends to reflect mixed pressures, excess demand in one sector coinciding with excess capacity or surplus stocks in other segments of the economy. In an economy where inflation exists side by side with elements of deflation, exclusive concentration on the problem of rising prices may be especially hazardous.

In the traditional body of economic literature the possibility of mixed inflation does not seem to have been discussed; it seems universally to have been concluded that inflation is necessarily the result of a general excess of demand. This conclusion follows understandably from the classical assumption of a perfectly competitive market in which prices and wages are continuously adjusted so as to eliminate any excess demand or excess supply. In such a market, if there is no excess demand (or supply), prices will come to rest; if, therefore, prices are rising cumulatively, it can only be because excess demand is constantly tending to reemerge. The question as to whether inflation necessarily reflects a general excess of demand arises only because in the real world prices and wages are not always set so as to clear the market. They may be set, instead, at levels at which demand in some markets exceeds, and in others falls short of, supply. Needless to say, this does not imply that prices and wages are set without regard to demand and supply conditions—it only means that other considerations also enter into their determination. These considerations include conventional pricing formulae, collective wage-bargaining and government regulation. The direct links between prices and wages through such arrangements may frequently be stronger than any indirect links via demand and supply relationships. Prices may be set by adding a percentage markup over unit labour and materials costs; wage bargaining may be linked to the cost of living; and government regulations, especially of farm prices, may be designed to maintain some form of parity between prices received and prices paid by farmers. Because of these interlocking relationships, any demand or supply factor tending to raise prices or wages in important markets, or any independent move by a major income-earning group to raise its earnings, may easily touch off a chain reaction leading to a cumulative wage-price spiral.

Under such circumstances, it is clear, inflation cannot be automatically equated with an excess of aggregate demand over supply; it cannot be defined as necessarily standing at the opposite extreme from depression. Though analogies are never sufficiently precise, it may be helpful instead to compare inflation with unemployment. Just as unemployment may result not only from inadequate aggregate demand but also from certain structural features of the economy, so a cumulative rise in prices may be generated not only by excess aggregate demand but also by certain structural features of the pricing mechanism.

Naturally excess aggregate demand remains a major source of inflation, just as inadequate demand is a primary cause of unemployment. But just as unemploy-

ment may also arise from seasonal and frictional factors associated with the difficulties of transferring labour from one job to another without any general deficiency of demand, so inflation may result from bottlenecks in productive capacity in some industries without any general excess of demand. Management may feel encouraged to raise profit margins and trade unions to press for higher wages in industries experiencing excess demand. And the increases may spread, in accordance with prevailing price and wage patterns, to the rest of the economy, even where demand may not be sufficient to absorb the available supplies or productive capacity.

Moreover, a wage-price spiral need not originate only from a general or partial excess of demand over supply or productive capacity; it can be touched off whenever demand is sufficiently buoyant to prompt labour or management to press for higher wages or higher profit margins. Demand need not, in fact, be rising significantly everywhere; increases in earnings rates in key industries may release the catch to set off a wage-price spiral throughout the economy. It is not even necessary for prices in the key industries to rise more than, or indeed as much as the average level; increased productivity may partly offset higher wages and higher markups in the sectors benefiting from expanding demand. Wage rates are also likely to be increased in other parts of the economy, however, where they cannot be absorbed as readily by advances in productivity, so that prices elsewhere may rise to a greater extent than in the key industries.

Unfortunately, once a wage-price spiral sets in, it may continue to advance long after every trace of rising demand has disappeared; indeed, as current experience in the United States amply demonstrates, even well into a period of recession. In the light of this experience there can be little doubt that inflation, like unemployment, may be of a "structural" character, not too closely dependent upon the adequacy of demand in relation to productive capacity. Just as unemployment may stem from a lack of adequate productive capacity, rather than of effective demand, so cumulatively rising prices may stem from excessive claims for higher incomes rather than from an excess of demand for goods and services. And though the intensity of pressure for higher incomes may be expected to vary with the pressure of demand for goods and services, the relationship is hardly so close that a wage-price spiral may be taken as sufficient evidence of excess demand.

The recent inflation developed in association with a boom which began in demand for consumer durables and housing and spread to private investment in plant and equipment. In the investment goods industries there can be little doubt that, in a number of countries, some excess demand did develop for a time; new orders for durable goods outstripped deliveries, order books lengthened, and productive capacity in some industries was strained. With an important sector of the economy exhibiting such symptoms, concern over inflation tended to focus on excess demand as the primary cause. This was all the more true since unemployment was generally low and national income and production were increasing. Given the high level of aggregate activity and the symptoms of demand pressure in a segment of it, the distinction between high levels and excessive levels of aggregate demand tended to be blurred. The illusion was created that if prices are rising throughout the economy, the economy as a whole must be experiencing an excess of aggregate demand. And as price increases continued to spread and even to accelerate, less and less importance was attached in this context to the evidence of mounting surpluses of food and agricultural raw materials, or of the long-standing excess capacity in textile industries; even the significance of the subsequent decline in demand and the emergence of excess capacity in consumer durables, in housing and in related industries which had initially sparked the boom, tended to be overlooked. Though demand was falling ever more short of productive capacity, economic policy continued to concentrate on restraint of demand for curbing the upward movement of prices.

THE NATURE OF RECENT ANTI-INFLATIONARY POLICY

The policy of industrial countries for curbing inflation in recent years presents a striking contrast with that generally employed in the war and even the early post-war years. The most notable difference lies in the elimination of direct market controls; apart from one or two instances, anti-inflationary policy has been limited to measures of a general and indirect character. This shift towards an essentially free market economy had already been largely completed by 1950, although controls on foreign trade, in most countries, were relaxed more gradually. During the Korean hostilities the only important instances of direct controls for curbing inflationary pressures were the revival of machinery for international allocation of strategic raw materials and the re-introduction of moderate price-wage controls in the United States.

In the recent phase of expansion there could be no question of suppressing an excess of aggregate demand by means of direct controls, since demand pressures were not even remotely comparable in magnitude to those of the war or early post-war years. Though the expansion was based on a boom in investment which for a period strained the capacity of some industries, its inflationary effect was in part offset by mildly deflationary government budgets, and in part mitigated by means of foreign trade. With residential construction also coming to be widely discouraged in the course of the boom, only in a few countries was the pressure of demand for saving to finance domestic and foreign investment and budget deficits appreciably higher than during the first year of Korean hostilities; in many cases pressure was lower. In some countries the growth

of productivity and income was accompanied, moreover, by a rising proportion of income which people were prepared to save, particularly as their demand for consumer durables slackened. In the event, therefore, the supply of saving proved adequate to satisfy the demand without far-reaching government intervention.

Perhaps a more striking feature of recent anti-inflationary policy is the shift in emphasis from fiscal to monetary measures. After a revolutionary development during the war, fiscal policy became relatively passive in the nineteen fifties, and monetary policy gradually assumed the major active role in dealing with the new inflationary tendencies. This shift represented a social, as much as an economic, phenomenon. Though outright intervention in the market-place had been eliminated, government participation in economic life remained far more important than it had ever been in peace time, government budgets absorbing from 20 to 30 per cent of the national product in nearly all industrial countries. Given the growing public impatience with the high post-war taxes necessary to finance this enlarged share, an increase in taxation would have met with widespread disfavour as an anti-inflationary weapon. Even in countries experiencing balance of payments crises there was evidently a firm determination to avoid any increase in levies on personal incomes. At the same time requirements for national defence remained high, while budgetary obligations incurred as a result of the Second World War, together with pressing social and economic needs, made it impossible to moderate inflationary pressures by significant cuts in civilian government expenditure. Increasingly therefore, the centre of gravity in anti-inflationary policy shifted from the fiscal to the monetary zone.

These considerations found much of their economic support in the thesis that inflation is caused ultimately by "too much money chasing too few goods". The fact that price increases involve a greater rate of increase in the flow of money expenditure than in the flow of goods was widely taken to justify a policy of preventing inflation primarily by measures to restrict the flow of money. Since this flow is the product of the quantity of money times the velocity of its circulation, and since the velocity is largely determined by institutional forces which cannot be readily curbed in a period of rising prices, it was the quantity of money which emerged as the strategic factor for controlling inflation. Accordingly, the supply of credit was severely restricted and the rate of interest was raised to the highest levels since the nineteen thirties. A complex set of credit controls was developed, including, in addition to traditional open market operations and higher discount rates, variable reserve requirements, penalty rates on excess borrowing from central banks, and in several instances outright prohibition of any increase in lending.

There is little doubt that a policy of restriction of bank credit, if pursued with sufficient vigour, can succeed in reducing the flow of money outlays on goods and services. The evidence on the efficiency of the monetary measures during the recent expansion in industrial countries is not entirely persuasive, however. It is true that selective credit controls contributed significantly towards restraining expenditure on consumer durables and on residential construction. These restrictions were reinforced, however, by other government measures, including indirect taxation on durables, withdrawal of housing subsidies, and, in the United States, the maintenance of non-competitive rates on government-insured mortgages; moreover, at least part of the decline in demand in these industries may have been a natural reaction to the earlier boom. The efficiency of the general, as distinct from selective, credit controls during this period, it will be seen in chapter 1, is open to greater doubt. It is noteworthy that the recent boom was accompanied by a relatively moderate rate of inventory accumulation; but the significance of credit policy in this respect must be assessed in the light of the impact of other factors such as food surpluses, relatively depressed textile industries, and reduction in government stockpiling of strategic raw materials. The effect of monetary policy on business investment in plant and equipment is even more difficult to evaluate, particularly since investment in plant and equipment actually rose in relation to consumption in most of the industrial countries.

Credit restrictions, though they did not reduce the absolute level of business investment demand, may have retarded its rate of growth—if not directly, at least indirectly through the damping of business expectations. This effect was evidently subject to a considerable time lag, however. It is true that monetary restraints compare favourably with fiscal measures on the grounds of administrative flexibility and timing; whereas fiscal changes can be made only through relatively slow legislative processes, monetary measures may be altered by the central authorities as frequently and as rapidly as circumstances seem to warrant. In practice, however, this important advantage may be offset by a long time lag between monetary restrictions and their impact on actual expenditure for goods and services. In contrast to the direct links between private income and expenditure, the links between central bank operations and expenditure may be long and roundabout. Despite increasing stringency of credit controls, the monetary authorities generally did not prevent an expansion of bank advances during the recent inflation; in most instances, only the rate of growth in bank credit was reduced. Banks sold government bonds at a loss and borrowed at rising rates in order to obtain funds for more profitable bank advances. Moreover, the authority of the central banks over credit is far from comprehensive; in periods of credit restriction other financial institutions and even business corporations tend to supplement the credit operations of the banks. In addi-

tion, business generally tends to reduce its liquidity requirements so that restrictions on the quantity of money are partly offset by increases in its velocity of circulation. Given the inherent instability of investment demand, the danger cannot be overlooked, therefore, that central-bank policy may produce its maximum restrictive effect, not when investment demand is strongest and may need to be curbed, but only after plans have already turned downwards and need to be stimulated.

No less important than the effect of monetary policy upon the flow of expenditure is the effect of changes in this flow upon price movements. When the disparity between the flows of money expenditure and of goods and services reflects an excess of aggregate effective demand over productive capacity, a reduction in money outlays, whether it be achieved through monetary or through fiscal restraints, is an appropriate means of curbing inflationary pressure. It may then prevent cumulatively rising prices by eliminating excess demand without an adverse effect on production and employment. When, however, demand pressures are of a mixed character, with rising prices and wages generated in a sector experiencing excess demand spilling over into other sectors characterized by excess capacity, a policy of generalized monetary restraint may prove an inefficient weapon for coping with the inflation. Such a policy may, it is true, release resources from industries where pressure of demand is relatively low to those where it is relatively high. Its effectiveness in this respect is far from certain, however, particularly if investment is the sector with excess demand and consumption the sector with excess capacity; by curbing demand where capacity is ample, the restraints may then increasingly discourage expansion of capacity where it is inadequate. Thus, the growing slack in consumer goods industries may in the end adversely affect investment demand itself, the result being that even capital goods industries suddenly find their fortunes reversed, with excess capacity replacing excess demand.

Monetary policy may be even less efficient in halting inflation when the excess money flow is the effect rather than the cause of the wage-price spiral. This is the case, for instance, when the demand for credit stems not from pressure of excess demand for goods and services against total productive capacity but from labour pressure for higher wages or business decisions to raise profit markups. Monetary restrictions may not then prevent labour and management from setting higher wage bargains or profit markups; they may instead lead to a reduction in effective demand for goods and services below productive capacity. In so doing they may even slow down the rate of growth in investment and in average output per man, thereby raising costs of production and imparting another upward twist to the price spiral. Output and employment may thus fall significantly long before the wage-price spiral can be brought to a halt.

Many have hoped that the pressure of labour and business for higher earnings rates might be weakened by a policy of credit restriction even while output and employment continued to grow. Virtually all governments have resorted to exhortation to both labour and business to moderate their demands. In the absence of national wage-price policies, however, it is only natural that individual unions and corporations should seek to maximize their earnings—no labour union or business corporation can afford to lag behind the others in protecting its interests. This poses a fundamental dilemma for the industrial countries: how to reconcile rapid economic growth with price stability under conditions of minimum interference with the market mechanism for the allocation of resources.

It has not been an easy task to face up to this dilemma; it is never pleasant to discover that goals which have been regarded as absolute may not always be mutually consistent but may need instead to be harmonized and accommodated to one another. The very complexity of the challenge posed by this dilemma may have contributed in some measure to a tendency to minimize it or even to deny its existence. Thus it has been frequently assumed that the ultimate cause of inflation is in all instances an excessive flow of money expenditure and this excess has often been equated with an excess of aggregate effective demand over productive capacity. Were inflation necessarily the converse of depression—were cumulatively rising prices always the result of an excess of total demand, just as industrial depressions are the result of a deficiency in demand—there could of course be no conflict between the goals of economic growth and of price stability. Fiscal and monetary policy designed to maintain a proper balance between the rates of increase of effective demand and of productive capacity would then simultaneously ensure both maximum production and price stability.

Unfortunately, though a disparity between the flows of money expenditure and of goods is a necessary symptom, it is not always the ultimate cause of an inflationary process. Regardless of origin, rising prices must take the form of a higher rate of flow of money than of goods, and an excessive money flow of expenditure may be a result just as often as it may be a cause of rising prices. Once it is recognized that inflation is not solely a question of balance between aggregate demand and productive capacity, but that it depends also upon demand pressures in particular sectors of the economy and especially upon the pressure of competing groups for higher earnings, it will be seen that fiscal and monetary policy may not always be capable of ensuring the simultaneous realization of both rapid growth and price stability. Thus, in the face of excessive claims for higher incomes, generalized restraints on demand may not succeed in achieving price stability except at the expense of permanently curbing the rate of growth—indeed even at the expense of introducing higher levels of unemployment than the economy is

prepared to accept. With the recession developing in North America and the expansion grinding to a halt in much of western Europe, this dilemma has been coming into increasingly sharper relief.

Origins of Inflation in Centrally Planned Economies

From the analysis of the problem in private enterprise economies, it might appear at first sight that inflation could not be encountered in countries with a centrally planned economy. Since both incomes and supplies are centrally controlled, it should be possible to avoid pressure of excess demand upon supply, and since both prices and wages are fixed by central authorities there should be no problem of a wage-price spiral. It will be seen in chapter 3, however, that this group of countries was frequently subject to inflationary pressure of a type not altogether dissimilar from that encountered in countries with a private enterprise economy. Interestingly enough, even a distinction between demand and cost inflation is not without meaning for centrally planned economies, although its significance is naturally not the same as for those based on private enterprise.

In a fundamental sense, the problem of demand inflation in the centrally planned economies stems from the same source as everywhere else, namely, from an attempt to take out of the economy in consumption, investment and other uses more than it is capable of producing. This problem is basic to all economies; it derives not from political institutions but from the economic fact of scarcity, from the fact that no country, however much endowed with productive resources, is so rich that it need have no concern about achieving a proper balance between consumption and investment. If labour were paid entirely in kind, so that no imbalance between consumer income and supplies could arise, inflation, as a monetary phenomenon, would be eliminated; but there would still be a limit on the proportion of total output that could be set aside for purposes other than consumption, a limit which could not be exceeded without endangering both economic development and social stability. Since, however, all centrally planned economies rely upon a monetary system, not even the monetary form of inflationary pressure can be excluded from consideration; there is always a possibility of imbalance between flows of goods and services and of money incomes available for their purchase.

The problem of monetary imbalance is of little consequence in the producer goods sector, where prices, in any event, are not set so as to equate demand and supply. Supplies of producer goods are allocated to firms in accordance with the central plan rather than on the basis of demand of the individual firm. Producer goods prices, therefore, do not have any allocative function but serve only an administrative purpose. Since these prices are set by calculating unit costs on the basis of an assumed production norm and adding a fixed percentage markup to represent unit profits, any difference between recorded and planned unit profits serves as an index of achievement of the planned rate of output in relation to input.

In the consumer goods sector, however, prices are set with the objective of "clearing the market". To the unit cost plus a fixed percentage markup representing unit profits, the government adds a variable indirect tax which is adjusted so as to equate demand and supply. Since the demand for consumption depends upon the income paid out in the economy as a whole, it follows, as explained in chapter 3, that the pressure of demand on the supply of consumer goods will vary directly with the income paid out per unit of output, and inversely to the proportion of total output which is allocated to consumption.

If the central authorities could completely control all of the factors affecting the pressure of demand upon supply of consumer goods, in particular, the wage bill, the volume of output and the proportion of output devoted to consumption, they could in principle always adjust the turnover tax and prices of consumer goods so as to equate demand and supply. In fact, however, their control over these factors is not complete and any deviations in these elements from planned levels may lead to serious problems of imbalance between demand and supply. The major factor accounting for such imbalance in post-war years was a deficiency in the proportion of output devoted to consumption; output of food and of consumer goods dependent upon agricultural raw materials generally fell short of planned levels, while production in heavy industry often exceeded plan targets. At times, as during the Korean hostilities, plans for heavy industry were revised upwards so sharply in some countries that it proved impossible to reconcile the plans for production with those for wages and prices. The maximum shifts in allocation of resources in favour of heavy industry generally occurred during the first stages of fulfilment of long-term plans of economic expansion and during periods of exceptional military expenditure. In other years—in the Soviet Union largely since 1948 and in other centrally planned economies since 1953—when it proved possible to maintain or expand supplies of consumption goods in relation to the national product, inflationary pressures generally subsided.

Important contributing factors to the imbalance of post-war years have been unforeseen increases in unit wage costs resulting either from failure of output per

man to reach planned levels or from the need to pay wages and farm prices in excess of the plan in order to provide improved incentives for production. Even during years when the share of consumption in national output was not reduced, the balance between demand and supply of consumer goods was frequently upset, either by increases in unit costs or by larger than warranted reductions in prices. The resulting inflationary pressure was reflected in shortages of some essential goods or in upward revision of prices.

Circumstances of Inflation in Under-developed Countries

The special character of the recent inflation in the industrial, private enterprise economies emerges also from its relatively modest impact on the world economy. Normally, inflationary waves originating in the major industrial areas might be expected to beat with intensified force on the primary producing regions. In view of the comparatively low elasticity of both world demand and supply with respect to changes in prices of primary products—and of the relatively high elasticities, especially of supply, for industrial products—an inflation of world-wide dimensions tends typically to be accompanied by a considerable improvement in the terms of trade of primary producing countries and a rise in their export incomes. Striking examples of this phenomenon are to be found in the inflations of the war-time and early post-war years and of the first year of Korean hostilities. Though on the average balances of payments of under-developed countries also became more favourable during the recent phase of expansion, the improvement was extremely modest, and the terms of trade, far from showing a consistent trend, fluctuated irregularly. Raw materials for durable goods industries did benefit from sharply rising export earnings, but even this increase began to level off and was finally reversed as the rate of industrial expansion slackened. By the same token, the ending of the boom in western Europe and the onset of recession in North America appear also to have had a relatively modest impact on under-developed countries, other than exporters of minerals, during 1957. In that year, the deterioration in trade balances of under-developed countries was due to a considerable expansion in imports rather than to a decline in the value of exports.

This experience cannot, of course, be projected into 1958; the terms of trade of primary producers have been declining in the course of the past year and the outlook for 1958 is for a significant drop in export earnings. The more the industrial recession is prolonged the more damaging will its impact on the world economy inevitably become.

In so far as inflationary pressures have prevailed in under-developed countries in recent years, they have been primarily of domestic rather than of foreign origin. Such pressures may be caused in under-developed, as in developed, countries by an excess, at prevailing prices, of aggregate effective demand over total supply of goods and services. The source of the imbalance may lie in an excess of government expenditure over revenue, of exports over imports, or of investment over saving; in the aggregate these sources may also be viewed as representing an excess at prevailing prices of the total demand for saving over its supply. Though on the surface the analysis of demand pressure would thus seem to be identical for all countries, in a deeper sense the identity may be deceptive. The phenomenon of inflation in under-developed countries, like that of unemployment, cannot be adequately understood in the same terms as those that are relevant for developed countries.

The importance of underlying differences between the two types of economies for their basic problems of unemployment are by now fully recognized and clearly understood. The gravest problem of unemployment in a developed country is that which emerges during a depression, when a deficiency of demand in relation to productive capacity breeds a cumulative downturn in production, employment, income and demand. Though unemployment originating in inadequate effective demand is also not unknown in under-developed countries, a more fundamental problem for them is the lack of employment opportunities, reflected not only in visible unemployment in urban areas, but even more significantly perhaps in under-employment of a large part of the population. This problem arises not from insufficient effective demand but from inadequate productive capacity—whether that capacity be measured in terms of specific plant and equipment, general overhead capital, the state of technology, or the training and skill of the labour force. In short, the problem of unemployment in an under-developed country is as deep-seated as its total problem of economic development.

It sometimes tends to be overlooked that these differences are also fundamental for the problem of demand inflation. In developed countries where capital equipment is normally adequate to employ the total available labour force, pressure of excess demand arises only in a full-employment economy. It does not arise in the course of recovery from a depression because increases in demand may then be matched by putting the unemployed back to work to produce the additional supplies required. So long as there are idle resources that can be employed, any increase in the demand for saving, whether it be to finance higher domestic investment, or an export balance, or a budget deficit, will be capable, by raising the levels of production and income,

of generating a corresponding supply of additional saving at prevailing prices. Though the higher income will also involve an increase in demand for consumption goods and services, there will be no occasion for this demand to exceed the supply, as long as capacity is adequate to expand output. Since some proportion of the increase in income will tend to be saved, it follows that if only output and income are expanded sufficiently, any increase in the demand for saving will be capable of generating, at prevailing prices, the additional supply that is required.

Pressure of excess aggregate demand arises in developed countries, therefore, only when resources are fully utilized and it is no longer possible to match increases in demand with higher output and income. In that case a rise in investment, government expenditure or exports, unless offset by an equal increase in government revenue or imports, will involve an increase in the proportion of income that must be diverted from consumption. In the absence of a corresponding change in the proportion of income which the public is prepared to save, the economy will be subject to pressure of excess aggregate demand at prevailing prices. Thus in a developed country it is the allocation of resources as between consumption and other uses, but not the full utilization of resources, which may be limited by the threat of demand inflation.

What differentiates the problem in under-developed countries is that the threat of excess aggregate demand may set very narrow limits, not only on the allocation of resources but also on the rate at which the resources can be utilized. The reason is that the supply of consumption goods in an under-developed country is limited by the level and pattern of economic development which has already been reached, and cannot be freely expanded to match an increase in demand. It follows that even should there be adequate manpower, materials and equipment to produce additional investment without a reduction in the supply of consumption goods—indeed, even should it be possible to expand both investment and consumption simultaneously—if the increase in demand for consumption generated by the added output and income cannot be matched by a sufficient rise in the supply of such goods, the economy may become subject to intense inflationary pressure. Thus resources that might otherwise be used to increase both investment and consumption may be doomed to remain idle only because of difficulties of achieving a balance between output of consumption goods and of investment that will correspond to the proportions that may be demanded.

If the additional income generated by economic development could be saved in its entirety, no problem of inflationary demand pressure would emerge. The same results might be achieved, of course, if the investment could be made without payment of money income, as is true of programmes of community development recently introduced in some under-developed countries or, more generally, of communal volunteer work in any country. Such investment is limited, however, to small-scale local projects, requiring little capital equipment and using materials that can be made available free of charge. Most investment, on the other hand, involves a corresponding increase of money income; and in under-developed countries, especially, only a small fraction of such income is likely to be saved, the bulk of it adding to pressure of demand on the supply of consumption goods and services. To offset this pressure calls for an increase in taxation that is sufficient to reduce the consumption of the community by the amount of the excess consumption demand generated by the additional investment. Thus, even though the additional investment could be brought about by employing hitherto idle resources—even though all of the additional productive capacity would represent a net gain without any offsetting loss of output—an under-developed country might still be prevented from undertaking the investment because of its inability to cope with the resulting inflationary pressure. Though much has been accomplished in post-war years to widen the tax base and improve tax administration, the threat of inflationary demand pressure still constitutes a major obstacle to rapid economic development.

The significance of such pressure is further heightened by consideration of an important distinction which tends to set apart economic development of under-developed countries from normal economic growth in developed countries. Economic progress in a developed country seldom involves an abrupt change in the pattern of demand in relation to the composition of supply. It is true that there may be temporary bottlenecks in limited areas of the economy as a result of major shifts in demand, but, given the flexibility of a highly developed economy, the mobility of its resources, and its capacity for growth and technological discovery, the bottlenecks are not likely to prove of long duration.

Economic development of under-developed countries represents by comparison a far more fundamental break with the inherited structure of production. Owing to the rigidities inherent in the economy of an under-developed country, the process of development may thus easily generate considerable disparities between the pattern of demand and the structure of production and distribution. This is particularly true in so far as development is associated with industrialization and urbanization. Not only are per capita requirements for food, clothing, shelter, trade, transportation and services, both public and private, far greater in urban areas than in villages but, what is perhaps equally important, the provision of additional consumption to the cities itself requires additional investment in transportation facilities, in housing, in factories and stores, and in municipal facilities of all types.

Though experience has varied from country to coun-

try and period to period, and all generalization is therefore subject to important qualification, it has proved much less difficult, on the average, to expand the output of industrial consumer goods than the output of food. And as is well known, distribution of food to the towns may even lag behind food production. This follows partly from limitations of transportation, trade and storage facilities, but partly also because a decline in farm population is likely to lead to higher per capita food consumption on the farm, especially in countries with low levels of living. At the same time, a major share of any incremental income in urban areas may be expected to swell the demand for food. Shortages of food in relation to income may thus persist much longer than shortages of other consumer goods; indeed, the rate of growth of food production rather than of total output of consumer goods may well be crucial in the pressure of excess demand and thus in setting limits on a feasible rate of general economic development.

In those countries where it is the export sector of the economy which paves the way for total economic development, deficiencies in food production may be offset in whole or in part by higher imports. Export earnings, by providing a generalized form of purchasing power, may be used to compensate for imbalances between demand and domestic production generated in the course of economic growth. Unfortunately, as was shown in the *World Economic Survey, 1956*,[1] not all countries are in a position to expand exports sufficiently to finance the enlarged import requirements associated with economic development. The underlying long-term element in this respect is that world demand for primary production tends, for a variety of reasons, to lag behind the total level of economic activity. The effect of this factor has often been reinforced, however, both by policies to bolster primary production in industrial countries, and by growing domestic requirements for food and raw materials—in some instances in the face of discouragement of domestic production—in under-developed countries.

The vital role of food supplies in economic development calls attention to another important feature which may differentiate inflationary demand pressures in developed and under-developed countries. Excess demand pressure normally arises in developed countries as a result of an increase in aggregate demand—except in the case of war destruction there are hardly any instances of such pressures originating in a decrease of supply. Food consumption is not only a much smaller proportion of the total consumer budget in developed than in under-developed countries but, in addition, it may more readily be sustained in the face of crop failures by drawing on reserves of food or of foreign exchange. The supply of industrial goods, on the other hand, is determined by the available capacity, which may be taken as a given datum in any short period, and by the rate of its utilization, which depends upon the state of effective demand. Developed countries may therefore press ahead with the expansion of aggregate demand, with reasonably accurate knowledge of the prospective supply of consumer goods. In under-developed countries, however, where agriculture represents a large—often the largest—component of output, supplies available for consumption in any given year may depend more on the vagaries of climate than on the state of demand. Moreover, given the meagre food stocks and reserves of foreign currency available to most under-developed countries, it may often not be possible to offset crop failures by liquidation of stocks or by increasing imports. In such countries, therefore, inflationary demand pressure may originate as frequently from crop failures as from an increase of investment.

Inflationary pressure in under-developed countries would hardly constitute the economic danger that is so widely feared, however, if it gave rise merely to a once-for-all increase in prices which then equilibrated demand and supply. Inflation derives its distinctive character from the fact that it involves a cumulative price spiral which may continue for long on its own momentum and raise prices out of all proportion to the initial inflationary impulse. In developed countries the key factor in such a spiral is the direct two-way link between wage costs and prices. When prices rise labour seeks to offset the effect of higher costs upon its level of living by pressing for higher wages. The new wage, however, raises costs of production, thereby prompting business to raise prices in a second round and so the wage-price spiral continues on its upward course.

In under-developed countries, where industrial labour accounts for a much smaller—in some instances a relatively minor—proportion of output, it might seem at first glance that there should be little danger of setting off such cumulative price spirals. Experience shows, however, that just the reverse is true; an inflationary impulse may be converted into galloping inflation much more quickly in under-developed than in developed countries. Irresistible pressure for wage increases is, of course, part of the answer in many of the under-developed countries, particularly in those where an inflexible food supply leads to sharp increases in the cost of living; indeed, in countries with a long history of inflation wages may be contractually or legally linked to the cost of living. Though industry alone may be in position to mark up prices on the basis of higher wage costs, the indirect effect upon prices resulting from the spending of the incremental money wages may spread to the entire economy. Thus, though the wage sector may be considerably smaller in under-developed than in developed countries, the pressure of labour to protect its real wage rates, in the face of rising living costs associated with economic development, may set off an apparently endless wage-price spiral.

[1] United Nations, *World Economic Survey, 1956* (sales number: 1957.II.C.1).

Nevertheless, wage pressure cannot be the entire explanation of the price spiral in under-developed countries, since the tendency towards galloping inflation also prevails where the proportion of industrial to total production is exceedingly small and where organized labour has little bargaining strength. In such countries the momentum of the price spiral may be acquired not by the push of wages from below but by the pull of an excess money supply from above. In contrast with the forces that have been typically operative in industrially developed countries in recent years, where wage pressures have been the active factor in the spiral and the banking system has merely provided the additional currency necessary to absorb output at the higher price levels, in many under-developed countries money supply may play the active role in the spiral, with both prices and wages adjusting to rising cash balances.

The reason for this active role of money supply is to be found in the attitude of consumers and business towards holding of liquid assets. In many under-developed countries, where levels of living are low, and the real cost of holding larger cash balances as an alternative to additional consumption or investment is correspondingly high, liquidity preferences may be relatively inelastic; that is to say, the public may be relatively unwilling to expand its holdings of cash balances in relation to its income. Since capital markets are not highly organized in these countries, an increase in the stock of money in excess of requirements for the conduct of ordinary consumer and business transactions is thus likely to be spent on goods and services for consumption or investment. Though the problem may be important in any country where the stock of money is expanding rapidly, it is likely to be particularly acute in countries with long histories of rising prices in which confidence in the long-term stability of the value of the currency has been impaired. Except to the extent to which the higher money outlays resulting from growing money stocks may be offset by increased production, they must give rise to higher prices and wages. If the increase in stock of money can be halted, equilibrium may be reached when prices and wages have risen sufficiently so that the expanded transactions requirements match the enlarged stock of money. Otherwise, prices may rise indefinitely; and, as has happened, for example, in war-torn areas, the economy could conceivably be catapulted into a state of hyper-inflation.

Faced with the difficulty of reconciling the targets of economic growth and economic stability, a number of under-developed countries have at times sought to push economic development at the expense of stability. Taking cognizance of the fact that unutilized resources were available to expand production, they evidently intended to increase their productive capacity rapidly so that with the maturing of investment projects it would be possible to achieve higher levels of consumption, as well as of investment. They thus hoped to avoid inflationary pressure under rapid economic development on the basis of the same reasoning that applies to expansion of output in industrial countries during a period of depression. Experience has shown time and again, however, that this analogy is not valid. An industrial country may avoid pressure of excess demand from expansion during a period of depression because it has the capacity to increase output of consumption goods in line with expanding demand. An under-developed country is handicapped in this respect by its inability to expand the supplies of consumption goods, and particularly of food, in the proportion that demand is stimulated by economic development. Though the rate of growth may initially have been accelerated by such "crash" programmes, often the inflationary pressure so generated became sufficiently intense in the end to be destructive of economic development itself. Increasingly, countries have come to realize the dangers of seeking to purchase economic growth at the price of runaway inflation.

The first step in a programme of economic development which pays due regard to requirements of economic stability must surely be a proper production policy. The better the balance that can be achieved in the allocation of resources as between rates of growth in consumption and investment, the less will be the burden thrown upon fiscal and monetary policy for the maintenance of economic stability alongside rapid economic development. The better the balance, the easier will it be to achieve the saving required to finance any additional investment by means of increases in production and income rather than by cuts in consumption. It needs always to be borne in mind that the saving which is required to finance any rate of investment does not refer to the use of funds accumulated in the past, but to the proportion of income currently produced that the public is prepared to divert from current consumption. The higher the rate of growth of production and income made possible by a properly balanced allocation of resources as between consumption and investment, the more saving will it be possible to obtain from the higher income and the less will be the need to squeeze it out from curtailment of consumption.

Production policy needs to be co-ordinated, however, with fiscal and monetary policy if the economy is to achieve a rapid rate of development while preserving economic stability. Fiscal policy is doubly important in this respect, in view of its impact on both production and consumption. So far as the effect on production is concerned, it is necessary, at the expenditure level, to ensure that the budget should make the maximum contribution to development of the nation's human and material resources; and, at the revenue level, account must be taken of the impact of taxation on private initiative and incentives to produce. No less important, however, is the role of fiscal policy in the allocation of resources as between consumption and investment. If a rapid rate of development is to be attained, it will clearly be necessary to lift the proportion of income

devoted to investment in under-developed countries to levels more nearly comparable with those prevailing in the highly developed economies. This objective can be met only through the most vigorous fiscal policy designed to offset the excess demand for consumption generated by higher investment outlays.

Nor is fiscal policy likely to prove adequate by itself in containing inflationary pressure generated by economic growth; in under-developed, perhaps more than in developed countries, it needs to be accompanied by effective monetary policy. This follows from the special significance, noted above, which the quantity of money may have for secondary price spirals in many under-developed countries. Where liquidity preferences tend to be relatively inelastic, a balance between real demand and supply for saving may not be sufficient in itself to ensure a stable money demand for goods and services. An unchanging value of investment, of exports and imports, and of government expenditure and revenue, as a proportion of income, will only provide for an unchanging supply of consumption goods in relation to real income. It will not necessarily ensure stable prices, however, even in the absence of any cost pressures, in countries where consumers and business are unwilling to expand their holdings of cash balances in relation to incomes. Thus if investment, the government budget or the balance of payments should be financed by means involving a growing stock of money in relation to output, then money demand for goods and services, and with it the level of prices and wages, would rise continuously. To maintain price stability in such countries, the stock of money must be kept from rising more rapidly than production, except to the extent to which growing monetization of the economy may require additional currency. Fiscal policy must be reinforced by appropriate monetary policy to curb the price spiral.

International Aspects of Inflation

Part I of the present *Survey* concentrates very largely on domestic aspects of inflation; problems of international balance, having been examined at length in the *World Economic Survey, 1956*, are reviewed only briefly. Suffice it only to recall here that the problem of inflation, being world-wide in character, is a key factor in international economic balance. The role of external transactions in relation to internal pressures is a dual one. On the one hand, external balances may contribute to domestic economic stability by acting as a safety valve for the mitigation of internal pressures; excess demand may be partly offset by a rise in imports in relation to exports, and inadequate demand may be partly compensated by an offsetting change in the balance of exports over imports. On the other hand, external transactions also act as a transmission belt for spreading inflationary pressures from countries of origin to the rest of the world.

In trade among developed countries the compensatory role of external balances has tended to be of considerable significance during the post-war years. Increases in internal demand pressures have been partly offset by a rise in imports in relation to exports while decreases in internal demand pressures have been partly compensated by offsetting increases in the balance of exports over imports. So long as such adjustments take place within a framework of economic growth, they may be said to have the salutary effect of preventing unduly large disparities in the rate of advance of individual countries. Over the short term an external surplus may provide some stimulus to production in countries which might otherwise lag behind the average rate of advance, while an external deficit may relieve some inflationary pressure in countries which run ahead of the average rate. If the changes in external balances are then used as signals for expansion of demand in the first group and for restraint of demand in the second, the rates of advance of individual countries may be rendered more nearly comparable at the same time as international balance is restored. In recent years, however, concern over inflationary pressure, as has already been noted, has prompted both countries with deficits and countries with surpluses in their balances of payments to resort to restrictive measures. The result has been to maintain a relatively unstable balance in external payments, and even this has evidently been achieved only at the cost of slowing down the rate of economic growth.

In the trade of under-developed countries, the compensatory role of external balances has been relatively less important. Since most of these countries continue to specialize in the export of primary products which are of limited significance in domestic consumption, a change in domestic demand is, in general, likely to have little impact on exports. At the same time inadequacy of foreign exchange reserves restricts the ability of most under-developed countries to offset an expansion of domestic demand by higher imports of consumption goods; indeed, since an expansion of investment in such countries is possible only through higher imports of capital goods, it is even likely to necessitate a cut in imports of consumption goods, unless it can be offset by higher export earnings or by foreign capital funds. Both public and private capital flows to under-developed countries have increased significantly in recent years, but with the oncoming of the recession the outlook for the future has once again become clouded.

In contrast with their role as a compensatory factor, external transactions of under-developed countries have been of major importance as a transmission belt for the spread of both inflationary and deflationary pressures. The transmission of such pressures has proceeded largely in one direction, from developed to under-developed countries. In recent years, however, inflationary waves originating in developed countries have been reflected back to them, as increases in import prices of food and raw materials have added to the momentum of their wage-price spirals. In view of the downward inflexibility of wage rates, the higher costs have become embedded in the price structure, continuing to raise export prices of industrial goods even after import prices of primary products have fallen. At the same time, in so far as anxiety over the wage-price spiral has prompted the developed countries to impose restraints upon effective demand, the rate of their own economic growth, and with it the growth of the world economy, may have been adversely affected. Thus, the gyrations in prices in world trade associated with fluctuations in domestic pressures in developed countries have continued to be one of the most challenging problems facing the nations of the world. Recent experience has made it abundantly clear that mitigation of instability of commodity prices is not only vital for the economies of under-developed countries but is also in the economic self-interest of the developed countries.

Part I

INFLATION IN THE NINETEEN FIFTIES

Chapter 1

INFLATION IN INDUSTRIAL COUNTRIES

Widespread concern has been voiced about the increases in prices which have accompanied the growth in economic activity in the industrial countries since about 1954. Stabilization of the cost of living from 1952 to 1954 had encouraged the hope that an end had come to the long period of post-war price inflation which had begun with the reconstruction boom from 1946 to 1948, had continued in many countries as a direct result of the devaluations of 1949, and had reached a climax during the early phases of the Korean conflict. This hope proved vain, however, and the upward course of prices was resumed during 1954 or 1955, and continued into 1958, long after the greatest pressures of demand had subsided in most countries and production had, in some cases, already begun to fall.

Recent rates of increase in prices have not, in themselves, been remarkable by comparison with corresponding rates in previous periods of rising output. On the contrary, price increases have in general been relatively modest when viewed in a long historical perspective. As may be seen in table 1, there have been several periods since the eighteen seventies when wholesale and consumer prices in the United States were rising more rapidly than during the recent boom,[1] even if years of war, and of post-war shortage, are excluded. Experience in other countries was similar, on the whole, although in some countries the recent rate of increase in consumer prices appears to be higher than during previous peace-time periods prior to the Second World War for which data are available in table 1.[2]

[1] It has been pointed out that the average rise in wholesale prices in the United States during the ascending phase of eighteen price cycles from 1850 to 1950 (excluding war and immediate post-war years) was 17 per cent; and that this may be compared with an average increase of 8 per cent in wholesale prices from December 1954 to August 1957. See Arthur F. Burns, *Prosperity without Inflation* (New York, 1957), page 13.

[2] Where prices declined during past expansions in business activity, as in the late nineteenth century, and in the nineteen twenties, this seems to have been due to relatively large increases in supplies of primary products, which led to a decline in their prices. During other expansions, including the recent boom, commodity prices were generally stable or increasing.

Table 1. Industrial Production and Prices during Periods of Rising Output, by Country

(Average annual percentage change)

Country and period	Production[a]	Prices				
		General wholesale	Raw materials	Manufacturing[b]	Consumer	
					Total	Food
Federal Republic of Germany						
1880–1891	6.8	0.2	...	...	...	...
1892–1899	9.0	0.6	...	...	...	...
1901–1907	6.1	3.2	2.9	...	2.4	2.5
1908–1913	6.4	1.5	2.5	...	2.0	1.7
1924–1929	9.8	—	−1.9	...	4.1	2.7
1932–1938	20.4	1.6	1.2	2.1	0.8	0.9
1952–1957	11.6	0.4	0.2	0.5	0.9	1.2
France						
1879–1883	6.7	−1.5	−0.3	...	...	−2.8
1886–1890	6.0	1.3	2.0	...	...	0.2
1895–1900	4.6	3.3	6.1	...	...	−0.2
1902–1907	4.3	3.2	4.3	...	...	1.9
1908–1913	6.2	3.0	3.5	...	3.0	2.3
1923–1929	8.5	7.6	7.0	...	13.4	...
1932–1937	4.0	7.6	5.4	4.7	4.4	...
1952–1957	8.5	0.6	0.2	—	0.8	−0.2
Sweden						
1870–1876	12.3	1.1	...	...	...	...
1879–1885	9.1	−1.5	...	...	...	...
1888–1898	18.6	−0.4	...	...	...	...
1901–1907	5.0	2.0	...	...	1.7	...
1909–1913	7.2	3.1	...	...	1.3	...
1923–1929	9.8	−2.2	−2.3	−2.4	−0.7	−1.3
1932–1937	14.1	5.1	4.4	4.4	0.6	1.9
1952–1957	3.8	0.4	0.4	0.6	3.1	3.3

Table 1. Industrial Production and Prices during Periods of Rising Output, by Country (*continued*)

(Average annual percentage change)

Country and period	Production[a]	Prices				
		General wholesale	Raw materials	Manufacturing[b]	Consumer	
					Total	Food
United Kingdom						
1870–1874	3.9	1.6	−2.0	1.2	1.1	...
1879–1883	7.9	—	0.2	−0.6	0.4	...
1886–1890	5.2	0.9	1.6	2.0	—	−0.3
1893–1899	4.1	—	1.4	−0.4	−0.6	−0.6
1904–1907	4.0	4.4	6.5	4.0	1.1	1.1
1908–1913	6.2	3.3	4.5	1.5	1.9	1.5
1923–1929	2.7	−2.4	...	2.7	−0.8	−1.2
1932–1937	8.5	5.3	11.2	4.0	1.4	2.0
1952–1957	4.3	...	−0.6	1.8	3.7	1.9
United States						
1876–1882	12.0	−0.3	...	...	...	...
1885–1892	10.0	−1.5	...	...	...	...
1896–1903	11.0	4.0	...	...	2.2	...
1904–1907	9.9	3.1	...	...	3.2	...
1908–1913	9.8	2.2	...	...	2.4	...
1924–1929	7.0	−0.6	...	−0.4	—	1.6
1932–1937	20.0	6.6	10.8	4.8	1.0	4.3
1954–1957	5.0	2.2	−0.3	2.3	1.5	0.5
Belgium						
1923–1929	8.0	11.8	...	...	16.3	...
1932–1937	7.6	5.7	...	...	1.3	1.6
1953–1957	5.6	1.9	...	...	1.5	1.7
Canada						
1924–1929	10.0	−0.8	...	...	0.4	...
1932–1937	13.6	5.3	10.6	2.4	0.4	...
1954–1957	5.8	1.6	0.8	2.0	1.5	1.8
Denmark						
1923–1929	4.0		...	...	−2.7	...
1932–1937	9.1	8.3	...	...	3.3	4.8
1952–1957	4.0	—	−0.7	0.6	2.6	2.3
Italy						
1923–1929	6.6	−2.2	...	...	1.7	...
1932–1937	9.7	5.5	...	...	1.8	...
1952–1957	10.2	0.5	0.2	−0.2	2.9	2.4
Netherlands						
1923–1929	10.4	1.0	...	...	−0.5	...
1933–1938	7.0	2.8	4.0	1.6	−0.1	...
1952–1957	8.2	1.0	1.4	1.0	2.4	3.2
Norway						
1923–1929	4.6	−5.7	...	...	−4.1	...
1932–1937	7.8	5.6	8.6	4.0	2.2	2.5
1952–1957	6.5	2.3	...	...	2.9	2.9

Source: Production data for years before 1900, League of Nations, *Industrialization and Foreign Trade* (Geneva, 1945); production data for 1900–1937, Organisation for European Economic Cooperation, *Industrial Statistics, 1900–1955* (Paris, 1955); Federal Republic of Germany: Bremen Committee for Economic Research, *Wirtschaftsdaten, 1956* (Bremen) and current official sources; France: Statistical Office, *Annuaire Statistique de la France, 1956* (Paris) and National Institute of Statistics and Economic Studies, *Bulletin de la statistique générale de la France* (Paris); Sweden: Central Bureau of Statistics, *Statistisk Arsbok för Sverige*, 1921, 1922 and 1938 (Stockholm) and current official sources: United Kingdom: *Nineteenth Abstract of Labour Statistics*, Cmd 3140 (London, 1928); Werner Schlote, *British Overseas Trade from 1700 to the 1930's* (Oxford, 1952) and current official sources; United States: Department of Commerce, *Historical Statistics of the United States, 1879–1945* (Washington, D. C., 1949) and current official sources; all other countries: League of Nations, *Statistical Yearbook* (Geneva) and current official sources. Data for the various periods shown refer to the territorial boundaries then in existence in each country; except that data for the Federal Republic of Germany for 1938 relate to the 1937 boundaries.

[a] From 1900 to date, total industrial production; for earlier periods, manufacturing production; in the United States, manufacturing production up to 1903.

[b] United Kingdom: export unit values for manufactures.

While recent year-to-year increases in prices are not out of line with past experience, it is, perhaps, the persistence of such increases over a long period that should be regarded as the ultimate cause of concern, giving rise

to the expectation of an indefinitely continuing depreciation of the value of money.

Even this, however, is not an entirely new phenomenon. Longer periods of upward trends in prices than that since the Second World War can be found in the past. One such period comprises the years from 1895 to 1913, during which time wholesale prices in the United States rose at an average rate of 2.4 per cent per annum, compared with 1.4 per cent per annum from 1948 to 1957.[3] On this evidence it might seem that there would have been more grounds for loss of confidence in the value of money by, say, 1910 than in 1958.

Thus, if any distinction is to be drawn between the recent inflation and previous peace-time inflations it cannot depend simply upon either the extent or the persistence of price increases since the Second World War. If the distinction is to hold, it must rest rather upon new features in the post-war situation, giving rise to the belief that modern inflations are different in kind, rather than in degree, from those encountered in the past.

Since the Second World War, and to a growing extent in recent years, the belief has been steadily gaining strength that there is a new asymmetry in price movements, whereby prices of final goods, in particular, may rise but can rarely, if ever, fall. A variety of institutional and other changes since the nineteen thirties are thought to have combined to restrict the downward flexibility of prices, so that there is an inherent tendency to price inflation in all modern industrial economies. It is the upward bias in final prices that, if well founded, raises altogether new problems for policy consideration. It is the objective of the following section to throw light on this question through an examination of the nature of the inflationary forces at work in the industrial countries in recent years.

Causes of Inflation

NATURE OF PAST EXPERIENCE

An examination of relevant periods in the past suggests that not all the many situations which might be regarded, in common parlance, as "inflationary" can come within the framework of a single common definition. Much of the difficulty surrounding contemporary discussion of the problem of inflation derives from the frequently made, implicit or explicit, assumption that there is only one kind of inflation—and therefore only one sort of remedy, or group of remedies, appropriate to deal with it. Essential to an understanding of the problem of inflation is the recognition that the differences between one inflation and another may be at least as important as the similarities, and should therefore be taken adequately into account in the framing of anti-inflationary policy.

The great inflations of the past—those in which the most powerful pressures were built up—do seem to have had one basic element in common: a shortage of consumer goods in relation to private income brought about by some sharp upward shift in the appropriation of resources by one of the principal sectors of the economy—usually the government. In time of war, for example, governments would divert real resources away from production of consumer goods and use them for prosecution of the war. At first, government claims upon the economy could be satisfied simply by absorbing any excess labour and capacity available. Once full utilization of resources was reached, however, any further increase in government requirements could be met only by reducing supplies of goods for non-military purposes.

These developments were inevitably accompanied by higher taxation, but governments were usually unable or unwilling to use taxes to reduce consumer incomes as much as would have been required to maintain equilibrium between the demand for consumer goods and the supply at the existing level of prices. They generally resorted to deficit financing,[4] thereby permitting private income to rise to a level at which consumer demand exceeded the available supply of consumer goods at current price levels. Where the upward pressure on prices was contained by a system of controls, demand was brought into balance with supply through restrictions upon consumers, preventing them from securing all the goods that they would have been prepared to buy at prevailing prices. Alternatively, in so far as prices of consumer goods were allowed to increase, profits of entrepreneurs tended to rise relative to wages and salaries. The crucial point here is that a larger proportion of profits is customarily saved than of wages and salaries. Thus the resources required for war purposes, over and above those set aside through higher taxation, were secured either through involuntary savings by consumers or by the limitation on real consumer demand accompanying the shift from contractual incomes to profits.

Even where controls were not employed, inflations might have been limited in scope if the changes in real incomes which had taken place had been acceptable to the population. Indeed, it could be argued that had a new equilibrium in the market for consumer goods been brought about by a once-for-all rise in consumer prices, the situation could scarcely be characterized as inflationary at all. For the term "inflation" implies a cumu-

[3] The period of abnormal post-war price inflation from 1946 to 1948 is excluded from this comparison.

[4] In most cases it would have been necessary for governments to collect substantially more in taxes than they were currently disbursing if they were to eliminate excess demand altogether. For a lesser reduction in disposable personal incomes would probably have been offset in part by a fall in the proportion of income saved.

lative and self-sustaining process, while a single shift in prices does not.

In practice, however, even where people recognized the primary claims of war upon available resources, they were not usually prepared to acquiesce in a major redistribution of real income. Nor were they generally in agreement among themselves as to the proportion of the total burden which each group in society should bear. Consequently, various groups in the community would, in the absence of strong controls, seek to minimize the impact of income shifts upon themselves by claiming advances in money incomes to compensate for at least part of the primary rise in prices brought about by the initial excess of demand over supply. These increases in incomes would in turn affect final prices, and in this way self-sustaining price spirals were readily started.

It can be said, in fact, that almost as important in determining the extent of war-time inflations as the excess of demand over supply was the morale of the population as a whole, and the degree to which they were prepared to accept war-time controls and the changes in absolute and relative levels of living brought about in consequence of the war. It is striking that many of the runaway inflations associated with war have occurred not during the wars themselves, when governments could appeal to patriotism, but afterwards, when public morale could no longer tolerate the deprivations engendered by war.

While the most acute inflations of the past have been those associated with deficit spending by governments in time of war, there are certain other forms of inflation, on a lesser scale, which could logically be brought under the same general heading. It has been seen that the critical element in war-time inflations was the increase in the appropriation of real resources by the government without a fully commensurate advance in the appropriation of personal income through taxation, thus leading to a shortage of consumer goods at existing prices. Exactly the same situation could be brought about in the consumer sector by an increase in the use of resources by business for purposes of investment. Given full utilization of resources, so that the only growth in output is that which results from slowly rising employment, capacity and productivity, any considerable advance in investment must reduce the real resources available for the production of consumer goods in relation to personal money incomes. This would tend to generate the same sort of cumulative process as that discussed above in the case of the war-time inflations.

An inflation could also result from a diversion of real resources from the consumption sector for the purpose of increasing net investment abroad—with similar forces operating, once again, as in the case of a rise in domestic investment or government deficit. While there have been some instances in which an increase in net foreign investment has provided the primary impetus to an inflation in an industrial country, the expansion in the export sector has usually acted in combination with forces operating elsewhere in the economy, or has helped to promote an upsurge in domestic investment.

Thus far inflationary situations have been considered in which resources are shifted from the consumption sector of the economy to some other sector. However, even with a given distribution of resources at full employment between consumption and other uses of output, a shortage of consumer goods could develop if consumers decided to spend a higher proportion of their incomes than usual. With the aid of accumulated liquid assets they might even decide to spend more on consumption than they were currently earning. A typical instance of this occurred in the years immediately following the Second World War, when consumers used their war savings to replenish their stocks of items which had been unobtainable during the war; but other cases of significant relative increases in personal spending have occurred even without large backlogs of deferred demand. Circumstances of this type could initiate a conflict between various social groups for the limited goods available—in a manner analogous to that already discussed—in the process of which a more or less severe upward spiral of factor incomes and prices would develop.

The various situations described above, all of which have in common the appearance of over-all shortages of consumer goods, are referred to in the discussion which follows as situations of "excess aggregate demand". Under this heading should probably be included most, if not all, of the most intense inflations of the past, especially those associated with war.

In a second type of inflation the essential common element is a shortage of certain specific items; the prices of these items rise and thereby exert pressure on the prices of other goods. The most characteristic situation of this type is that in which supplies of raw materials respond sluggishly to a general advance in demand.

The basic difficulty here is not, as in the first case, that supply in general falls short of aggregate demand at existing prices. It is rather that the pattern of supply is ill adjusted to the pattern of demand; or, to put the same point in another way, that the typical elasticities of supply of various commodities are widely different, depending upon whether they are products of agriculture or industry, whether the time taken to produce them is long or short, whether there is excess capacity—and so forth. As before, the rise in prices becomes cumulative because of its tendency to affect the level or distribution of real income, and because of the resistance offered to this tendency by those adversely affected. This second type of inflation, which may be attributed to "excess sectoral demand", can occur under conditions in which resources in general are far from fully employed; experience during the economic re-

covery of the nineteen thirties provides an ample illustration.

The two forms of inflation discussed thus far both arise from an excess of demand—whether global, as in the first case, or sectoral, as in the second. A self-sustaining process of price inflation may, however, also be set in motion without any excess of demand. Various social groups may seek to change the level of their remuneration or their shares in total real income without any initial impetus such as would arise from government appropriation of resources in time of war, and this may prompt similar action by other groups. For example, labour may feel in a particular situation that its share of total real income, or, more simply, its level of income ought to be higher. To this end it may seek and obtain increases in money wage rates. This, however, may be followed by a rise in prices, entrepreneurs being unwilling to absorb the increase in costs themselves. If, as a result of such a situation, factor incomes begin to rise faster than productivity, prices will be forced upwards by the increase in factor incomes per unit of output. This sort of inflation is frequently described as "cost inflation" because it works through the impact of rising factor incomes upon costs of production.

Production costs may also be raised by increases in the prices of imports of food and raw materials. The latter will have both a direct effect upon costs, and also an indirect effect in so far as wages are increased in response to any rise in the cost of living due to the direct effect.

For the industrial countries as a whole, a rise in import prices could generally be regarded as coming under the heading of "excess sectoral demand", since it would normally be due to the inability of primary producing countries to increase supplies of primary products as rapidly as the growth in demand from the industrial countries warranted. But a single industrial country might be confronted with rising import prices even though its own demand was falling. This could occur either because the demand of other industrial countries important in world trade was rising, or because the country in question had devalued its currency. In either event, import prices, and hence costs of production, would rise without any growth in domestic demand.

The fact that cost inflation can—and, indeed, often does—accompany demand inflation has sometimes been thought to imply that the former is never present without the latter. It is argued that workers would not be able to secure advances in money wage rates if there were not excess demand for labour; or alternatively that it is only in a state of excess aggregate demand that entrepreneurs could succeed in passing on increases in wage costs to the consumer in the form of higher prices.

With respect to the first of these contentions, it may be conceded that the ability of any factor of production to raise its money income may depend to some extent upon the level of demand for its services. Thus, wage demands are not likely to be as aggressive nor as successful under conditions of mass unemployment as under full employment. It remains doubtful, however, whether wage demands are likely to be highly sensitive to the percentage of unemployment, and most governments are not prepared to see unemployment rise beyond a certain level. It is, of course, quite possible that wages might tend to increase somewhat faster when unemployment represented, say, one per cent of the labour force than at the level of 5 per cent; data examined below suggest that this may be so. This is not to say, however, that the rate of increase at the latter level would be negligible, or that it would not exert an upward pressure on prices.

Nor can it be assumed that wage increases can be passed on to the consumer only when demand is already excessive, and that a price spiral is therefore possible only within the context of an inflation brought about by other factors. Even under conditions in which output is at less than capacity rates, it is entirely possible for employers to apply a customary percentage markup to their direct costs in fixing their prices, and thus to raise their prices proportionally in response to any increase in wage costs. Consequential changes in the level of output and employment would depend on the effect of higher wages and prices upon personal savings and decisions to invest, which in turn would no doubt vary with circumstances. Thus if output were already declining and substantial excess capacity existed, price increases might well deter some expenditures which would otherwise have taken place. Other situations can be envisaged in which rising prices, by leading to the expectation of still further increases at a later stage, might accelerate expenditures for consumption and investment. In an economy operating reasonably close to full utilization of resources, wage and price increases, provided they were moderate, might have little effect on the level of output and employment.

THE QUESTION OF EXCESS AGGREGATE DEMAND

Inadequacy of data unfortunately makes it difficult to undertake a thoroughgoing comparison of the recent inflationary period with corresponding periods prior to the Second World War. However, data for the United Kingdom and the United States for the Second World War and early post-war years provide some striking contrasts with more recent developments. There is, of course, no suggestion that the inflationary forces encountered during recent years have been of a magnitude comparable with those experienced during the Second World War. Nevertheless, the war-time and early post-war record is of interest in drawing attention to the nature of the inflationary forces encountered in periods during which there was unquestionably excess aggregate demand.

It will be seen from table 2 that the outstanding feature of war-time developments in these two countries was a very large rise in the demand for private savings. Private savings represent that part of gross private income after tax which the community does not consume, but which it devotes instead to investment, domestic or foreign, or to financing any excess of government expenditures over revenues. The main claim upon private savings during the war resulted from the deficit financing of governments, which rose to a level equivalent to as much as 35 per cent of gross private income in the United Kingdom in 1942-1944 and 21 per cent in the United States in the same period.[5]

It is doubtful whether shifts in resources of this magnitude could have been achieved without general economic controls, one of the principal objects of which was to induce a larger volume of private saving than would otherwise have been forthcoming. As a result of the operation of these controls, consumers built up large accumulations of liquid assets, which, once the war was over, they began to use to purchase consumer goods which had long been in short supply. In spite of the fact that governments were rapidly releasing resources to peace-time use during the early post-war years, inflationary pressures grew owing to the large-scale purchasing power in the hands of consumers, and the inevitable delays before supplies of civilian goods could be expanded sufficiently. The pressure of consumer demand in the United States in 1947-1948 is reflected in the low level of personal saving, as shown in table 2; the ratio of personal saving would, in fact, have been considerably lower but for continuing shortages of durable consumer goods, particularly motor vehicles.[6]

Table 2. Gross Private Saving: Demand and Supply, United Kingdom and United States

(Percentage of gross private income after tax [a])

Item	United Kingdom			United States		
	1938	1942–1944 average	1947–1948 [b] average	1937	1942–1944 average	1947–1948 average
Demand for gross private savings						
Gross domestic investment	15.2	0.9	17.3	15.0	5.1	17.6
Budget deficit, or surplus (−)	1.2	35.3	−4.7	−0.7	21.2	−6.8
Export balance	−1.4	−9.1	−2.8	0.08	6.4	4.2
Total demand for gross private saving	15.0	27.0	9.8	14.3	32.7	15.0
Supply of gross private saving						
Personal disposable income	89.3	89.9	89.6	90.0	89.3	88.4
Personal saving	4.4	16.9	−0.5	4.8	21.9	3.5
Gross corporate saving	10.7	10.1	10.4	9.9	10.7	11.7
Total supply of gross private saving [d]	15.0	27.0	9.9	14.7	32.6	15.2

Source: United Kingdom: Central Statistical Office, *Statistical Digest of the War* (London, 1951) and *National Income and Expenditure* (London); United States: Department of Commerce, *National Income, 1954* (Washington, D. C., 1955).

[a] Gross private income after tax is defined as gross national expenditure less current government revenue plus current government transfer and interest payments. It is identically equal to the sum of the export surplus, budget deficit (government deficit on current account), gross domestic fixed capital and inventory formation, and private consumption (import and budget surpluses being treated as negative items).

[b] Data for 1947–1948 not fully comparable with data for previous periods.

[c] In the United States, government investment is reflected in the budget deficit, or surplus, rather than in gross domestic investment.

[d] Equal to the sum of personal saving, corporate saving and total capital consumption allowances less depreciation of general government sector—the last two components being combined in gross corporate saving. Apart from rounding error, supply of gross private saving differs from demand by the amount of the statistical discrepancy.

In the United Kingdom pressures were more intense because per capita consumption was lower than before the war and substantial resources had to be devoted to the replacement of war damage. Thus even though supplies of goods were much more limited than in the United States, consumption exceeded personal disposable income in 1947-1948. In these circumstances, rationing and price controls were retained, pent-up demand continued to affect the market for consumer goods for many years, and the price inflation resulting from the war was distributed over a much longer period than in the United States.

It is no surprise to find that the inflationary forces experienced in the industrial countries since 1950 have been much less powerful than those of the war and early post-war years. What is more significant, however, is the implication of the data that cases of excess aggregate demand involving a rise in demand for saving in relation to income have been fairly few and far between.

[5] The proportion for the United States would be 28 per cent if economic and military aid furnished to other countries were included in the government deficit instead of the export balance, as in table 2.

[6] Consumption of passenger cars alone was equivalent to only 2.5 per cent of gross private income in 1947-1948, compared with 3.9 per cent in 1949-1950, on the average. The ratio of personal savings to gross private income after tax averaged 6.3 per cent in the United States from 1950 to 1956.

If we consider first the inflationary upsurge from 1950 to 1951 associated with the Korean conflict, we find that government expenditures did increase significantly in a number of countries, and that in a few cases this was accompanied by rising domestic investment. Moreover, several countries in which no important advance occurred in the pressure of domestic demand nevertheless received an inflationary impetus from abroad in the form of a sharp rise in the demand for their exports.

Some countries had a sufficient margin of productive resources to enable them to meet a substantial advance in total demand. Others drew upon their foreign exchange reserves to finance greater shipments of supplies from abroad. But above all, the expansion of demand was itself held in check by government action, particularly in the form of substantial increases in tax rates. Thus in many cases budget surpluses increased considerably in 1951, as shown in table 3.

Although most countries experienced an increase in the total demand for saving out of gross private income after tax in 1951, this did not, in general, bring about a shift to profits, as is suggested by the data on gross corporate saving in table 4.[7] In several instances, moreover, the absence of serious pressure upon the economy in 1951 is suggested by a relative increase, or at least stability, in personal savings,[8] even though labour's share in private disposable income generally rose.

The salient point about the situation in 1951 was that governmental anti-inflationary measures were based on the assumption of a much larger rise in military expenditures than actually occurred. In practice, rearma-

[7] The main exceptions are Sweden and the United Kingdom, and probably also Norway. In Norway and Sweden the shift to profits was the result of windfall gains in the export market for wood products rather than of any excess of domestic demand.

[8] In France, however, pressure from consumer demand is suggested by a sharp relative decline in personal savings in 1951.

Table 3. Demand for Gross Private Saving, by Country

(Percentage of gross private income after tax [a])

Country and item	1950	1951	1952	1953	1954	1955	1956
Belgium							
Gross domestic investment	19.2	19.3	18.1	17.9	19.4	19.0	20.2
Budget deficit, or surplus (−)	−0.3	−1.0	1.4	2.2	3.4	1.0	0.3
Internal demand for saving	18.9	18.3	19.5	20.1	22.8	20.0	20.4
Export balance	−3.1	2.5	2.6	1.2	0.3	3.1	3.4
Total demand for gross private saving	15.8	20.7	22.0	21.3	23.0	23.1	23.8
Canada							
Gross domestic investment	28.7	32.9	28.8	30.6	26.3	29.5	34.5
Budgef deficit, or surplus (−)	−6.9	−9.0	−4.9	−3.9	−2.9	−3.7	−5.2
Internal demand for saving	21.8	23.9	24.0	26.8	23.4	25.8	29.3
Export balance	−2.4	−3.3	0.9	−2.2	−2.1	−3.0	−5.7
Total demand for gross private saving	19.4	20.7	24.8	24.6	21.2	22.8	23.6
Denmark							
Gross domestic investment	24.6	20.7	21.4	24.0	24.1	...	...
Budget deficit, or surplus (−)	−4.6	−3.8	−3.6	−4.5	−4.9	...	...
Internal demand for saving	20.0	16.8	17.8	19.5	19.1	...	...
Export balance	−4.5	−1.4	0.7	0.5	−2.2	...	...
Total demand for gross private saving	15.5	15.5	18.6	19.9	16.9	...	...
Federal Republic of Germany							
Gross domestic investment	28.0	28.9	29.3	27.9	28.7	33.2	31.3
Budget deficit, or surplus (−)	−4.8	−7.2	−8.4	−10.9	−11.3	−11.7	−11.8
Internal demand for saving	23.3	21.7	20.9	17.0	17.4	21.5	19.5
Export balance	−1.5	2.4	3.3	5.0	4.5	3.1	4.5
Total demand for gross private saving	21.8	24.1	24.2	22.0	21.9	24.6	24.0
France							
Gross domestic investment	23.5	22.6	22.8	21.1	20.7	21.8	23.0
Budget deficit, or surplus (−)	−4.4	−3.6	−1.7	−2.4	−2.8	−2.9	−2.2
Internal demand for saving	19.1	19.0	21.1	18.7	17.8	18.9	20.8
Export balance	−0.4	−1.9	−2.1	−0.9	0.2	0.7	−2.6
Total demand for gross private saving	18.7	17.1	19.0	17.7	18.0	19.6	18.2
Italy							
Gross domestic investment	...	...	...	...	23.1	24.9	25.0
Budget deficit, or surplus (−)	...	...	...	...	−1.6	−1.7	−2.6
Internal demand for saving	...	...	...	...	21.5	23.3	22.4
Export balance	...	...	...	...	−2.3	−2.0	−2.0
Total demand for gross private saving	...	...	...	...	19.2	21.3	20.5

Table 3. Demand for Gross Private Saving, by Country (*continued*)

(Percentage of gross private income after tax [a])

Country and item	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Japan							
Gross domestic investment [b]	31.6	39.7	33.7	34.5	29.7	29.4	34.5
Budget deficit, or surplus (−) [c]	−9.8	−13.2	−10.1	−9.1	−6.4	−5.2	−5.2
Internal demand for saving	21.9	26.5	23.6	25.4	23.3	24.2	29.3
Export balance	3.3	3.8	2.8	0.2	1.2	2.0	0.3
Total demand for gross private saving	25.2	30.3	26.4	25.6	24.5	26.2	29.5
Netherlands							
Gross domestic investment	36.3	32.5	24.7	28.4	33.7	31.5	36.8
Budget deficit, or surplus (−)	−10.8	−13.6	−16.4	−12.9	−10.3	−8.1	−11.3
Internal demand for saving	25.5	18.9	8.3	15.5	23.4	23.4	25.5
Export balance	−7.0	−0.5	11.0	7.8	1.6	4.2	−2.7
Total demand for gross private saving	18.5	18.4	19.3	23.3	25.1	27.6	22.7
Norway							
Gross domestic investment	34.1	34.6	35.3	36.8	36.3	36.7	33.7
Budget deficit, or surplus (−)	−8.3	−9.4	−9.9	−9.1	−8.0	−8.9	−8.6
Internal demand for saving	25.7	25.2	25.4	27.7	28.3	27.8	25.1
Export balance	−7.0	1.2	−0.7	−6.2	−7.2	−5.1	−0.4
Total demand for gross private saving	18.7	26.4	24.7	21.5	21.1	22.7	24.7
Sweden							
Gross domestic investment	21.4	25.7	27.0	24.5	26.3	28.5	27.5
Budget deficit, or surplus (−)	−3.0	−5.7	−6.9	−6.7	−6.9	−7.7	−8.3
Internal demand for saving	18.4	20.0	20.0	17.9	19.4	20.7	19.3
Export balance	0.7	3.2	0.6	1.2	−0.4	−1.1	−0.3
Total demand for gross private saving	19.0	23.2	20.6	19.1	19.0	19.6	19.0
United Kingdom							
Gross domestic investment	13.8	20.6	16.4	17.6	17.4	20.3	20.0
Budget deficit, or surplus (−)	−5.3	−3.9	−1.5	−0.7	−1.1	−2.6	−1.9
Internal demand for saving	8.6	16.7	14.9	16.9	16.4	17.7	18.1
Export balance	3.0	−3.3	1.3	0.9	1.6	−0.3	1.6
Total demand for gross private saving	11.5	13.4	16.2	17.7	18.0	17.4	19.7
United States [d]							
Gross domestic investment	24.3	24.7	21.7	21.9	20.5	23.1	23.2
Budget deficit, or surplus (−)	−6.5	−5.1	−1.7	−1.4	−1.0	−3.7	−3.9
Internal demand for saving	17.8	19.6	20.0	20.5	19.6	19.4	19.3
Export balance	0.8	1.4	0.9	0.1	0.5	0.4	1.0
Total demand for gross private saving	18.6	21.0	20.9	20.6	20.0	19.8	20.3

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

[a] See footnote *a* to table 2.

[b] Prior to inventory valuation adjustment.

[c] General government and public corporations.

[d] In the United States all government investment other than construction is reflected in the budget deficit, or surplus, rather than in gross domestic investment.

ment programmes were scheduled over considerably longer periods than had originally been contemplated in the latter months of 1950. Consequently, the measures of restraint tended to over-compensate for the growth in demand, with the result that industrial production, after allowance for seasonal movements, levelled off or declined before the end of 1951 in all the industrial countries. This was true even of France and the United Kingdom, where pressures appear, from data in tables 3 and 4, to have been greater than in the other countries listed.

If, despite the absence of serious demand pressures, prices nevertheless rose considerably, this was due largely to the effect of the upsurge in business activity upon the prices of primary products, supplies of which did not respond readily to the growth in demand. The impact of this development upon the general structure of prices is indicated further below.

Unlike the boom of 1950-1951, which was primarily the result of actual or anticipated increases in defence expenditures, the new expansion in economic activity which began in 1953 or 1954 was due entirely to developments in the private sector. The main source of pressure in this case seems to have been a growth in fixed investment and in the consumption of durable goods. Part of the increase in demand reflected purchases deferred from the period of the Korean conflict, when measures had been taken to free enginering resources for defence purposes. As the government absorption of military hardware levelled off or declined at the end of this period, it became possible to supply larger quantities of producer and consumer durables, and various

Table 4. Supply of Gross Private Saving,[a] Selected Countries

(Percentage of gross private income after tax [b])

Country and item	1950	1951	1952	1953	1954	1955	1956
Canada							
Personal disposable income	85.5	87.7	84.5	84.0	83.2	83.3	83.5
Personal saving	4.9	8.8	8.6	8.5	5.0	5.7	6.8
Gross corporate saving [c]	14.5	12.3	15.5	16.0	16.8	16.7	16.4
Total gross private saving	19.4	21.2	24.1	24.5	21.8	22.4	23.2
Denmark							
Personal disposable income	92.6	92.3	91.9	91.3	90.3	...	...
Personal saving	8.1	7.8	10.5	11.3	7.2	...	...
Gross corporate saving	7.4	7.7	8.1	8.7	9.7	...	...
Total gross private saving	15.5	15.5	18.6	19.9	16.9	...	...
France							
Personal disposable income	86.8	86.3	85.8	86.0	85.9	85.9	86.5
Personal saving	5.5	3.5	4.8	3.7	3.9	5.5	4.7
Gross corporate saving	13.2	13.7	14.2	14.0	14.1	14.1	13.5
Total gross private saving	18.7	17.1	19.0	17.7	18.0	19.6	18.2
Japan [d]							
Personal disposable income	87.5	86.9	89.4	86.5	87.6	86.9	85.4
Personal saving	12.5	16.7	16.2	10.9	10.8	13.7	15.4
Gross corporate saving [e]	12.5	13.1	10.6	13.5	12.4	13.1	14.6
Total gross private saving	25.1	29.8	26.8	24.4	23.1	26.8	30.1
Sweden							
Personal disposable income	82.8	79.9	85.5	86.5	87.0	89.1	89.5
Personal saving	1.9	3.1	6.2	5.7	6.0	8.7	8.5
Gross corporate saving	17.2	20.1	14.5	13.5	13.0	10.9	10.5
Total gross private saving	19.0	23.2	20.6	19.1	19.0	19.6	19.0
United Kingdom							
Personal disposable income	87.1	85.7	87.7	86.5	85.5	86.5	86.5
Personal saving	−1.2	−1.0	3.1	3.4	2.9	4.4	6.7
Gross corporate saving	12.9	14.3	12.3	13.5	14.5	13.5	13.5
Total gross private saving	11.7	13.3	15.4	16.9	17.4	17.9	20.2
United States							
Personal disposable income	86.8	86.4	86.9	87.2	86.8	86.0	86.3
Personal saving	5.4	7.0	7.2	7.1	6.3	5.2	6.2
Gross corporate saving	13.2	13.6	13.1	12.8	13.2	14.0	13.7
Total gross private saving	18.5	20.6	20.4	19.9	19.6	19.3	19.9

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

[a] Equal to the sum of personal saving, corporate saving and total capital consumption allowances, less depreciation, of general government sector—the last two components being combined in gross corporate saving. Apart from errors of rounding, the failure of details to add to total demand for saving shown in table 3 in some countries is attributable to one or more of the following: residual error, inventory valuation changes not adjusted for, or lack of conceptual comparability between the national and the United Nations system of accounts.

[b] See footnote *a* to table 2.

[c] After inventory valuation adjustment for non-corporate as well as corporate stocks.

[d] Before inventory valuation adjustment.

[e] Excluding public corporations.

restraints on private demand, including taxes, were therefore relaxed.

These sources of higher demand were, however, counterbalanced by other factors. Personal saving tended generally to advance in relation to total private income, without any significant shift in the distribution of such income. Furthermore, a mildly anti-inflationary influence was exerted by the government sector. As shown below, this was mainly because of the relative stability or decline of government expenditures while, at given tax rates, government revenue rose more than incomes by virtue of the operation of progressive personal tax systems. In those cases in which domestic demand nevertheless pressed upon supplies, over-all shortages were avoided through larger imports. The cushioning effect of supplies from abroad upon inflationary tendencies at home was felt more freely in 1955-1957 than in 1951 because of the much smaller degree of governmental control over imports.

The net effect of the interplay of these various forces was that, while demand for savings frequently rose in relation to gross private income from 1953 or 1954 to 1956, the increases were relatively small, on the whole. Moreover, in few cases was demand pressure appreciably higher than in 1951 or 1952, when output and income had been lower; and in several countries pressure was lower. In these circumstances there was generally sufficient elasticity in the consumption sector to absorb whatever increases in demand pressure took place during the recent boom. Thus the pressure from demand in 1955 and 1956 did not cause a general shift to profits; on the contrary, the rise in savings often accompanied a change in the distribution of income unfavourable to profits. Such data as are available for

1957 point to a considerable relaxation in demand pressure in that year in nearly all countries, as shown in chapter 4.

Indications on the side of demand are, therefore, that the usual symptoms of excess aggregate demand are not readily discerned in most of the industrial countries during the recent boom. However, some temporary pressures were experienced in the Netherlands, and a more acute situation developed in France.[9] Both countries allowed temporary deficiencies in supply to be made good through imports, though in France pressures in the second half of 1957 were aggravated by the need to impose import restrictions. In the Netherlands the peak of demand pressure was reached in 1956, probably as a result of a fall in personal savings in relation to disposable income as indicated by a 9 per cent rise in the volume of consumption in that year. French resources were severely strained by rising defence expenditures and private investment in 1956-1957; at the same time expectation of rising prices led consumers to devote a higher proportion of their incomes to consumption than in 1955. Despite these pressures of demand, the distribution of income shifted in favour of wages in both France and the Netherlands in 1956, owing to the introduction of price controls.

An examination of the supply situation in the industrial countries during the recent boom confirms the conclusions reached in the foregoing analysis of demand. While output rose in relation to capacity in the early stages of the expansion, there was little or no indication of significant pressure upon supplies of consumer goods. As may be seen in chart 1, by 1956, and still more in 1957, the rate of increase in total output was slackening, owing mainly to a slowing in the growth of demand, partly induced by government action.

No shortages of food emerged anywhere, and in North America heavy food surpluses accumulated. While the food component of the cost of living increased substantially in a number of western European countries, this was due to government policy with respect to farm prices and to higher costs of processing rather than to any shortage of supplies.[10] World export prices for food scarcely changed in the course of the boom, and raw materials were in sufficiently good supply to prevent prices from rising very much, except for the metals. There is, moreover, no evidence of any unusual pressure upon service facilities in any of the industrial countries nor of any difficulties in meeting transport requirements, except in so far as this was caused by the shortage of petroleum products and of shipping associated with events in Suez.

In manufacturing, no pressure upon supplies developed in the non-durable sector. Total textile production in western Europe averaged little or no higher during the period of strongest over-all demand in 1954-1955 than at the end of 1950, when production in the Federal Republic of Germany was still relatively low; and while a substantial advance in the output of textiles took place at the end of 1956 and the first half of 1957, there was still no indication of a textile shortage. In North America, textile production remained below previous post-war peaks throughout the recent boom.

It was mainly in the sector of the economy producing durable manufactures that significant shortages were encountered—if indeed, the term "shortage" can be used to describe the situation which developed temporarily in some countries during 1955 as a result of the clash between the growing claims of investment and of durable consumption upon the metals and engineering industries. The significance of these developments in generating price increases during the recent boom will be considered further in connexion with the examination of excess sectoral demand below.

Data on employment and unemployment confirm the general view of demand pressure in the industrial countries set forth above. Non-agricultural employment rose significantly in the course of the boom, although generally not more so than in the 1950-1951 upswing. In most countries, moreover, the rise in employment in manufacturing was not so marked as in 1950-1951. In fact in Denmark manufacturing employment at the high point of the boom in 1954 was lower than in 1950, while in Sweden such employment in 1954-1956 rose no higher than in 1951. In the United States total manufacturing employment during the recent boom did not regain the level reached at mid-1953.

In those western European countries for which data are available, average hours worked per week in manufacturing appear to have increased only slightly in 1954 and 1955—at which point they were generally little higher than in 1950-1951—and to have declined once more thereafter except in France. Although the same sort of movement occurred in Canada and the

[9] In the United Kingdom the demand for private savings increased fairly steadily in relation to income throughout the period from 1950 to 1956. It was possible for this to occur without aggregate demand becoming excessive, mainly because of a corresponding rise in personal saving without any major shift in income distribution. The later retention of rationing, as well as of various forms of restraint on consumer supplies, caused elements of pent-up demand to persist in that country much longer after the end of the war than in most other countries. In fact pent-up demand for consumer durables probably lasted well into the nineteen fifties, saturation of this demand being further postponed by diversion of resources to defence after 1950. As supplies of all types of consumer goods returned to normal after the end of the Korean conflict, while the ratio of cash balances in the hands of the public to the national product declined by 1956 to something like the pre-war level, the personal savings ratio in the United Kingdom reached a magnitude much more comparable with similar ratios in other countries than had been the case in 1950-1951. The rising trend of the personal savings ratio in Sweden also reflected some of the same factors as indicated above.

[10] The poor harvest experienced by some western European countries in 1954 was largely offset by increased food imports. In Sweden, however, a poor harvest contributed to rising food prices in 1955, since government policy was designed to compensate farmers for loss of income.

United States,[11] average weekly hours worked rose no higher than the level recorded in 1951.

Relatively few countries recorded lower unemployment percentages than in 1951, even in 1955. Although unemployment percentages in Belgium and the Federal Republic of Germany were substantially lower than in previous years and certain types of skilled workers were in great demand, neither country was confronted by an over-all shortage of labour. Unemployment in Denmark and Italy remained high. In Canada, Norway, Sweden and the United States unemployment percentages never declined to the level of 1951. Only in France, the Netherlands and the United Kingdom was the percentage of unemployment in the recent boom not only relatively low but also lower than in 1951.

It is worth emphasizing that the degree of flexibility in supply may easily be underestimated if unemployment percentages which appear very low are interpreted too literally. Real output did not tend to level off to any greater extent in 1956 in countries with very low unemployment than in countries with higher or even very high unemployment. Where the demand for labour is relatively strong, employers in particular industries experiencing slack demand may prefer to retain workers in the expectation of a rise in activity later on rather than dismiss them and run the danger of going short of labour subsequently.[12] Moreover, there has been a considerable growth in recent years in the importance of technical and supervisory personnel, who on the one hand cannot readily be dispensed with in the absence of major declines in output, and who also may be capable of servicing a much greater rate of output without significant reinforcement when demand rises. The fact that the service sectors of the economy were able to maintain or increase their share of the total labour supply, while in several countries manufacturing did not draw off labour from other sectors, is yet another indication that pressures in the labour market were not particularly severe during the recent boom.[13] For these reasons there was a much greater potential for the expansion of production, and even for shifts in the pattern of production, than might be deduced on the basis of some of the very low prevailing unemployment figures, in themselves.

[11] Except that average weekly hours worked in manufacturing dropped in 1954, owing to the recession.

[12] In explaining the failure of productivity to rise in the Netherlands in 1957, the Government, in its reply to the United Nations questionnaire on economic trends, problems and policies for 1957/58, stated that ". . . owing to demand factors, production did not further increase in the second half of 1957, without this having resulted in a proportionate discharge of workers." The United Kingdom Treasury, *Bulletin for Industry* (London), January 1958, stated, regarding recent productivity trends, that "If firms generally had concentrated on using their improved capital equipment to the full, the same output could have been achieved with fewer men . . ." Similar phenomena have occurred in most other industrial countries in recent years.

[13] In the United Kingdom, for example, the distributive trades and professional, financial and miscellaneous services together have been continuously increasing their share of total civilian employment throughout the period since mid-1951, albeit somewhat more slowly from mid-1954 to mid-1955 than in other years. This contrasts with the year from mid-1950 to mid-1951, when the share of these sectors dropped significantly. The share of manufacturing rose from mid-1954 to mid-1955, though less rapidly than from mid-1950 to mid-1951; its share declined in 1956 and further in 1957. In Norway likewise, the share of trade and miscellaneous activities in total employment was maintained or increased during the recent boom. The share of industry in Norway also rose up to 1956 but much more slowly than from 1950 to 1951; its share declined in 1957. In Canada and the United States the share of manufacturing in total civilian employment at the peak of the boom was lower than in 1953; in the United States, in fact, employment in manufacturing in 1955-1956 was less than in 1953, absolutely as well as relatively.

THE CHARACTER OF RECENT PRICE INFLATION

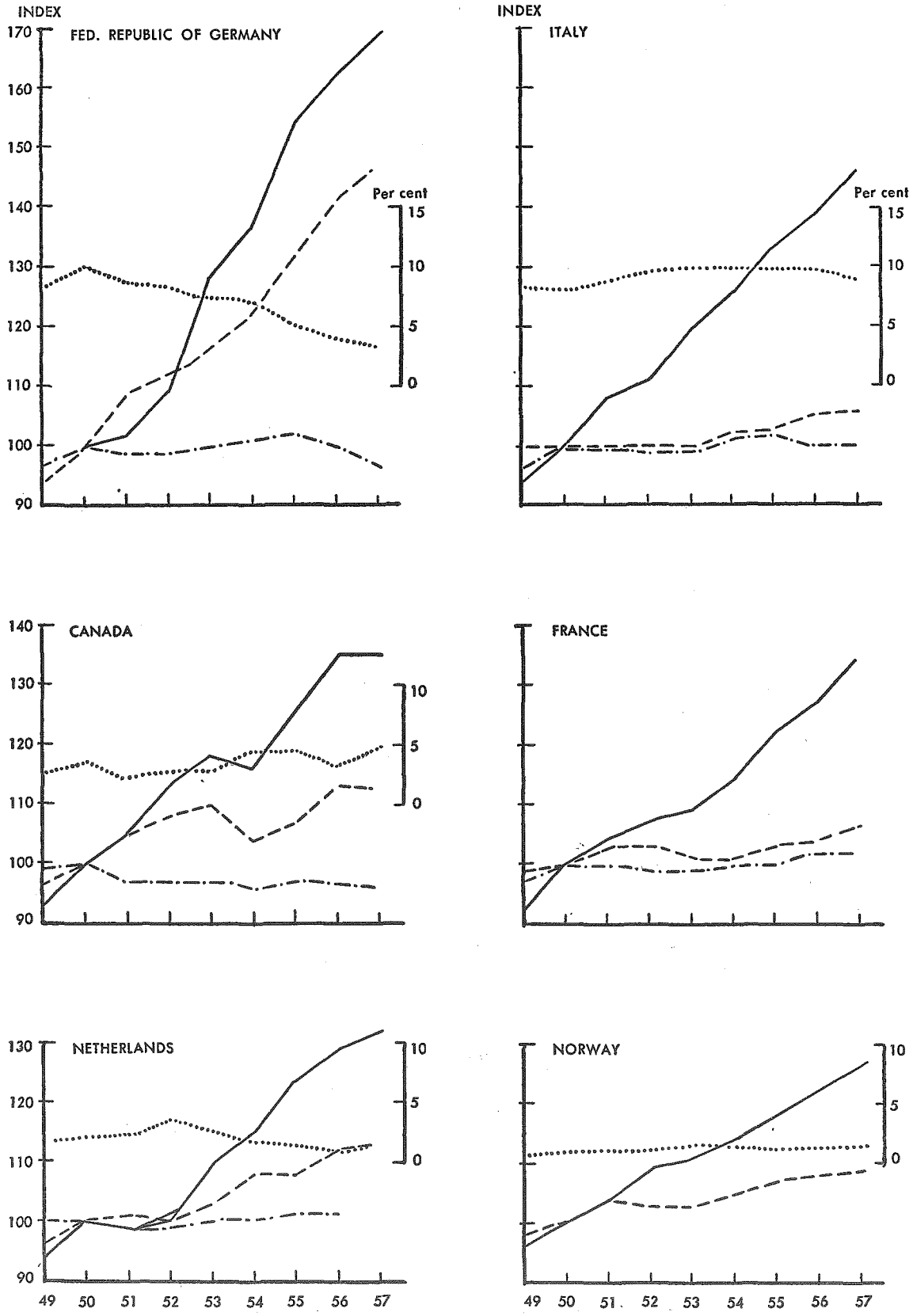
Three main elements may be distinguished in the price inflation in industrial countries during the recent boom. As demand increased, certain specific shortages or bottlenecks were encountered, especially in the basic metal and metal-using industries, which led to advances in the prices of the items affected; these increases exerted an upward pressure on the general level of prices through their impact upon the costs and prices of other sectors. Further pressure on prices was brought to bear through the tendency of wage increases granted in dynamic industries during the recent upswing to spread to the rest of the economy, where productivity was not increasing sufficiently rapidly to prevent wage costs from advancing. Finally, certain autonomous increases in the cost of living, due to such factors as the realignment of rents, gave added momentum to the wage-price spiral through their effect on wage demands.

The effect of excess sectoral demand

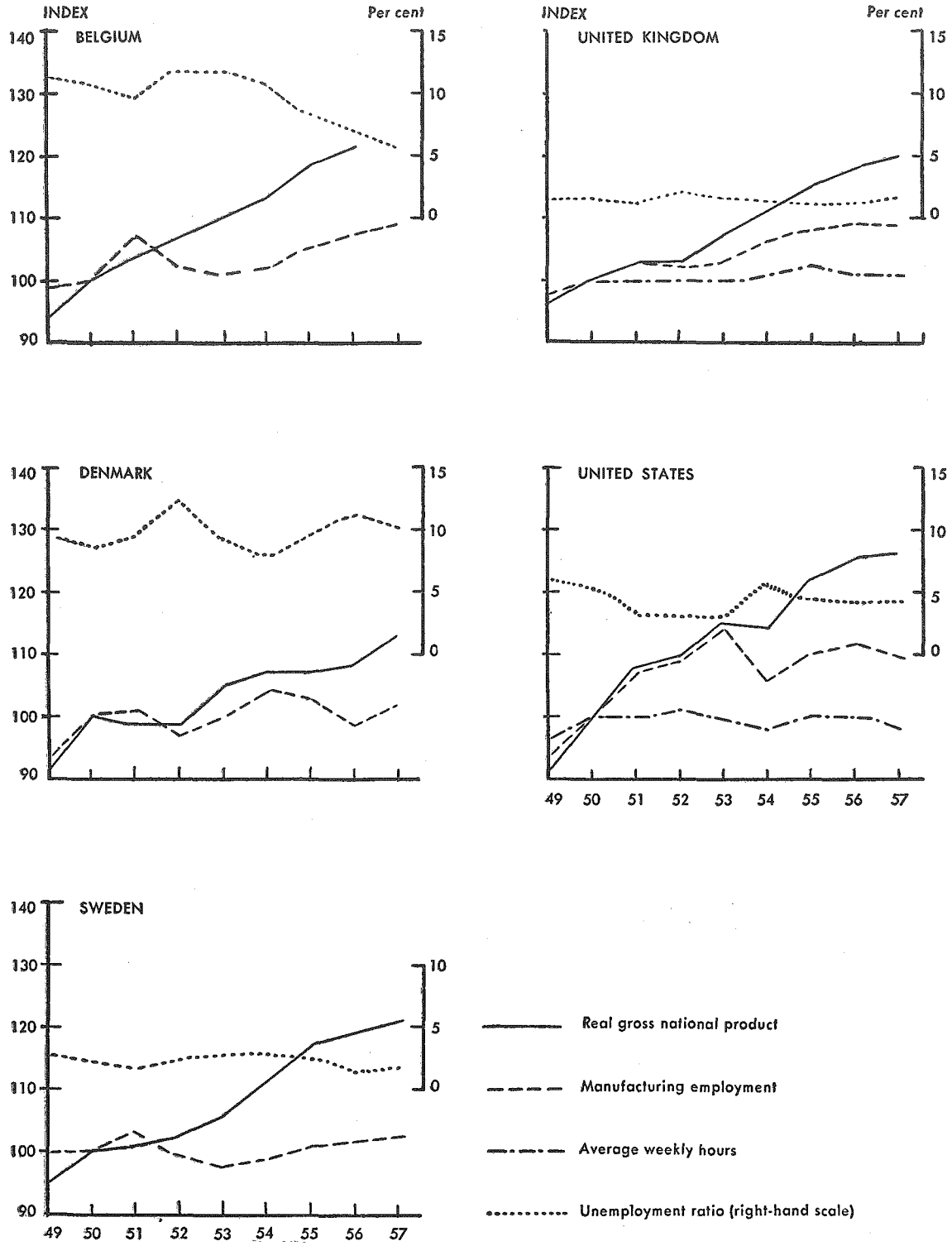
Increases in demand may lead to shortages of particular products long before the point is reached at which total demand exceeds total supply. Even where there is heavy unemployment and large-scale excess capacity, a general rise in demand will usually encounter differing elasticities of supply in various sectors of the economy, depending upon how quickly production can be expanded in each of them; furthermore, demand for some goods may rise much more rapidly than for others. This may result in temporary shortages in certain sectors, and consequent price increases in those sectors. Developments of this type certainly contributed to the rise in prices which occurred during the upswing from 1932 to 1937, despite the fact that at no point during that upswing did output as a whole press against capacity.

There are two ways in which shortages in particular sectors of the economy may lead to general price inflation, without any over-all excess demand. Costs may increase in the sectors experiencing shortages, and the resulting price increases may raise the costs—and hence the prices—of other sectors. In this way upward pressures of costs on prices may spread throughout the economy, and may become cumulative and self-sustaining. On the other hand, shortages of particular raw materials or types of equipment may limit the expansion of output

Chart 1. Production and Employment[a]



(Indices, 1950=100; unemployment in percentage)



Source: United Nations, *Monthly Bulletin of Statistics;* Organisation for European Economic Co-operation, *General Statistical Bulletin.*

[a] Changes for 1957, in some cases, are based on less than full year data.

in sectors dependent upon them, thus leading to a shift to profits in the latter sectors through price increases that are independent of, or greater than, the accompanying rise in costs. The two kinds of price effect are to some extent alternative, the one reflecting merely increases in costs and the other involving higher profit markups induced by shortages of supply.

As indicated above, it was primarily in the durable goods industries, and in the basic industries supplying them, that the question of sectoral demand pressure arose during the recent boom. There were two aspects of this question. The basic industries in western Europe were unable, during certain phases of the boom, to meet all demands placed upon them, and time had necessarily to elapse before additional investment could come to fruition in the form of enlarged capacity. On the other hand, the capital goods industries, even though able to supplement their supplies of raw materials through imports, could not always expand their own output as rapidly as demand increased, because the period of production in these industries is characteristically much longer than in other industries. The maximum pressure in the capital goods industries was experienced relatively early in the boom; it was primarily in 1955 or even 1954 that shortages in these industries were of sufficient importance to become a matter of public discussion. By 1956, and still more in 1957, new capacity was becoming available more rapidly than demand was expanding, and the problem became one of increasing costs and prices rather than of inadequacy of supplies.

In the United States the excess of new orders for machinery over deliveries averaged about 8 per cent during 1955 and the first half of 1956. This, however, appears to have been due primarily to the long lead time typical in the production of machinery. It seems clear that output was lower in relation to capacity in the durable goods industries at the peak of the boom in 1956 than at the previous peak in 1953;[14] moreover, employment in these industries was 3 per cent lower, while the total labour force and total unemployment were both higher than in 1953. There was, however, a grey market in steel structural shapes in 1955, though this was limited to special items. Whatever shortages there may have been in specific items were not serious enough to prevent total exports of steel mill products and of machinery from rising appreciably in 1955 and still more in 1956; nor did they suffice to prevent output per man-hour from advancing considerably in both steel-producing and steel-using industries.

In western Europe the growth of demand for engineering products led to pressures for supplies of coal and steel which could not be satisfied in full from western Europe's domestic resources. The deficiency was, however, met by higher imports from North America. There were, likewise, indications of heavy demand for the output of the engineering industries, notably the accumulation of new orders in excess of deliveries in the Federal Republic of Germany, the Netherlands and the United Kingdom. In the Federal Republic the peak of the build-up of excess orders was passed in 1954, and the backlog was already being rapidly reduced in 1955. Here again, the problem may have been primarily one of the length of time required for production to mature. In Belgium and Sweden, backlogs of orders in the engineering industries declined continuously from 1951 to the end of 1955. In both countries orders picked up in 1956, but not enough to warrant the conclusion that demand was pressing on capacity. In Italy domestic production of engineering products rose more than domestic consumption throughout the boom.

Aside from France and the Netherlands, where, as noted above, there was some pressure of aggregate demand upon supply, it was probably in the United Kingdom that the durable goods sector was hardest pressed, mainly in 1955;[15] the fall in production in 1956 occurred entirely in the consumer durable sector, but even in the capital goods sector the backlog of orders began to decline. Even in the United Kingdom, however, shortages were not sufficiently serious to prevent output per man-hour and the volume of exports[16] in the engineering industries from rising at about the same rate in 1955 as in the previous year, when output was lower in relation to capacity.

On the whole, therefore, while specific shortages were experienced temporarily in certain countries during the recent boom, they were not sufficiently widespread or prolonged to impede aggregate output significantly anywhere. It does not, of course, follow from this that shortages did not influence developments in prices or balances of payments.

Increasing demand for coal, steel or engineering products was reflected in the imports of many European countries, and contributed to the balance of payments difficulties experienced by the Scandinavian countries and the United Kingdom in 1954 or 1955, by the Netherlands in 1956 and by France in 1956-1957. As shown below, it was this fact which accounted for the relatively stronger anti-inflationary measures introduced in these countries than elsewhere.

The magnitude of changes in the prices of coal, steel and machinery is shown in table 5. The price of coal did not increase in 1955, but did rise sharply in 1956

[14] See chapter 4 for further discussion.

[15] The United Kingdom, *Economic Survey, 1956*, Cmd 9728 (London), characterized the situation in 1955 as follows: "Demand for capital goods remained high and, for the first time since 1950, new orders exceeded deliveries . . . Shortages of steel, which appeared during the year, were responsible for some restrictions of activity and, more frequently, lack of special shapes and sizes led to the accumulation of work in progress".

[16] After adjustment for the effect of the dock strike towards the end of 1954 on the distribution of exports between 1954 and 1955.

and again in 1957. Steel and machinery prices likewise rose little in 1955, in most countries, but accelerated their advance in 1956-1957. To what extent these price increases represent a delayed reaction to the increase in demand pressure, to what extent relative decreases in productive efficiency arising from the attempt to expand output, and to what extent rising wages is difficult to determine. It is worth noting, however, that in the basic metals and metal-fabricating industries direct unit costs generally rose as much, in 1956, as prices. Comparable data are not available for mining, but there are some indications that costs rose there too. The data on physical output per man-shift in coal production generally failed to show any substantial increase during this period, whereas average hourly earnings were rising sharply, so that wage costs per unit of output also rose. The greater utilization of imported coal and steel further increased costs, owing to high transport charges.

Table 5. Wholesale Prices of Coal, Steel and Machinery, Selected Countries
(1953 = 100)

Item and country	*1954*	*1955*	*1956*	*1957*
Coal				
Canada	98	98	104	109
Federal Republic of Germany	98	99	106	112
France	100	99	102	103[a]
United Kingdom	96	99	129	140
United States	94	94	106	116
Steel				
Belgium	97	113	124	132
Federal Republic of Germany	97	98	100	105
France	98	99	107	114
Japan	91	109	145	147
United Kingdom	78	86	110	122
United States	103	104	111	119
Machinery				
Federal Republic of Germany	98	100	105	106
Norway	99	100	103	104
Sweden[b]	92	94	101	106
United Kingdom[c]	101	103	108	115
United States	102	105	113	121

Source: Statistical Office of the United Nations; Organisation for European Economic Co-operation; machinery prices are calculated from national sources.
[a] Eight months.
[b] Including transport equipment.
[c] Export unit value.

It will be noted that if, in an attempt to avoid inflationary manifestations of this sort, total demand is reduced, the price paid for elimination of excess demand in the hard-pressed sectors of the economy will be reduction of output in all other sectors, where demand is not pressing upon capacity. This difficulty may, of course, be avoided by measures designed to limit demand for the goods in short supply while maintaining total demand. Even this kind of measure suffers from the shortcoming that the greater the restraint placed upon demand, the smaller the incentive to enterprise to remedy the specific shortage through creation of the necessary additional capacity. It is for this reason that it is important, in devising measures to deal with sectoral shortages, not to lose sight of the fact that relative increases in prices of goods in short supply may be an essential part of the mechanism to increase supplies in line with growing demand.

The process of cost inflation

It has already been explained that the extent and duration of any price inflation, whether it originates in excess aggregate or sectoral demand, depends on the degree to which the various income earning groups are willing to accept changes in their absolute or relative shares of income resulting from the primary price increase or seek to protect themselves against such changes by offsetting wage and price increases. It was also noted that cost-price inflation is possible without any excess of aggregate or even sectoral demand if the earnings of labour rise more rapidly than productivity, or if import prices go up for reasons unconnected with the level of demand in the importing country. In so far as entrepreneurs pass on to consumers the full amount of any increase in wage costs, the object of the original advance in wages is frustrated, and this tends to lead to a repetition of the cycle, and hence to a wage-price spiral. Some absorption of increased wage costs without any jump in prices is, of course, possible in the event that other costs decline or entrepreneurs decide to accept a cut in profit margins. When, however, total costs increase beyond a certain point, entrepreneurs are bound to raise their prices, and this, again, may provoke a further round of wage and therefore price advances. Increases in import prices have a direct effect upon the price level in proportion to the significance of imports in the economy, but they may also provide the occasion for a wage-price spiral through their impact upon the cost of living and thus upon wage demands.

It is in the very nature of wage-price spirals that it is difficult to determine ultimate responsibility for the starting of the spiral. However, autonomous increases in the cost of living have been of considerable importance in a number of countries in recent years in contributing to the upward spiral of wages and prices. It was noted earlier that in countries where rationing and other direct controls were retained for a relatively long period after the end of the Second World War, the price increases resulting from the war took very much longer to work themselves out than in countries where controls were withdrawn relatively early. Even in the latter countries rent controls were retained after other controls had disappeared, and they are still to be found in many countries. The recent realignment of rents with other consumer prices is reflected in table 10 below, where it can be seen that in every country

except the United Kingdom[17] rents rose significantly faster than consumer prices as a whole from 1953 to 1956. The raising of indirect taxes and reduction in subsidies have also had important effects in pushing up the cost of living in a number of countries.

The importance of autonomous factors of this type in affecting the cost of living may be illustrated by a comparison between developments in the Federal Republic of Germany and the United Kingdom. While retail food prices in the United Kingdom rose by about 50 per cent from 1950 to 1956, the corresponding increase in the Federal Republic was less than 20 per cent, despite the fact that prices paid to farmers in the two countries increased in about the same proportion. The main reasons for the difference were that food subsidies were reduced during that period in the United Kingdom, whereas they had been of minor importance in the Federal Republic in 1950; and that, with the expiration of government trading, the United Kingdom was no longer able to purchase food abroad on particularly favourable terms, while the Federal Republic was paying world market prices throughout. In consequence, the latter's import prices scarcely changed,[18] while United Kingdom food import prices rose 20 per cent.

Apart from the effects of spontaneous advances in the cost of living on wages, cost inflation may start, as noted above, wherever a conflict arises between various groups in the effort to maintain or improve their shares of total real income; such a conflict may result from pressure of excess aggregate or excess sectoral demand, but may also occur in the absence of any such pressure, depending upon the character of wage demands of employees and of price policies of entrepreneurs. The following section analyses the manner in which cost-price spirals have developed in the manufacturing sector of the economy in recent years.[19]

Prices and costs

Prices in manufacturing have, for the most part, conformed roughly to changes in costs throughout the period since 1950.[20] An examination of the year-to-year changes in individual countries shown in table 6 indicates that with very few exceptions the change in price fell between the change in wage cost and the change in materials cost. Gross margins[21] between direct costs and price tended to contract about as frequently as they tended to widen. Although the variations were frequently quite large in relation to the margins themselves, they were, on the whole, small in relation to price.

For all countries as a group, gross margins between prices and direct costs did not show any greater tendency to widen in the industries that are commonly considered to have administered prices[22] than they did in other industries; in fact, during the latter part of the period there was, if anything, a balance in the other direction. In only one of the "administered price" industries did margins widen in more countries than they narrowed; this was petroleum and coal products, and in the particular period under review the widening margins may have been due to changing technology and product mix.[23] Nor does it appear that there was any widespread tendency for margins to widen in the industries where prices increased most. Industries where widening margins were associated with increasing prices or narrowing margins with decreasing prices were no more common than industries showing the reverse relationship.

It is often argued that the importance of administered prices lies not in their quantitative significance but in their key position in such industries as the steel industry, where they play an important role not only in terms of their effect upon the costs of other industries but in setting a pattern for the economy as a whole. It has not been possible to test this proposition at the level of detail which would strictly be required. However, data for the two broad groups of industries producing basic metals and engineering products do not

[17] Control of rents in the United Kingdom was greatly eased in the Rent Act of 1957.

[18] For a more complete account of these developments, see United Nations, *World Economic Survey, 1956* (sales number: 1957.II.C.1), page 85.

[19] Similar studies cannot be made in most other sectors of the economy. In some cases, the problem arises from lack of adequate data on such sectors as distribution and trade. In other cases, such as government, services, and finance, there are intractable conceptual problems involved in identifying prices and products. Such difficulties also limit the usefulness of any aggregative analysis of cost-price relationships.

[20] The derivation of price and cost components is discussed in the footnote to table 6. It should be noted that the term "price", as used here, has a special meaning. It represents the average price of transactions that occur at all stages of the productive process and is, therefore, conceptually akin to the general wholesale price index; the latter, however, is a base-weighted price index, selective in coverage, whereas the former is current-weighted and covers the pricing of all inter-plant flows of primary materials, intermediate and final products in manufacturing. The extensive duplication that results from considering the pricing process at all stages of production is reflected in the preponderant share of materials cost in gross value of product. In 1950, cost of materials and fuel ranged between 52 and 65 per cent of gross value of product among the eight industrial countries considered here. In view of this, changes in the materials cost component can be expected to exert a substantial influence on changes in price purely as a result of duplicating transactions. On the other hand, wage cost in these countries in 1950 ranged between 14 and 19 per cent of gross value of production; were the value of supply of only final products considered, as measured by the gross national product plus imports, the range of variation in the share of wages (compensation of employees) would rise to between 29 and 52 per cent. Similarly, the gross margin over direct costs would represent a larger share of gross national product plus imports than of the gross value of production.

[21] Gross margins differ from profit margins in that they include overhead costs.

[22] Including metals and metal processing, products of petroleum and coal, transport equipment, chemicals and tobacco.

[23] In all countries, the proportion of petroleum products, which have extremely low direct costs, has been increasing, and the technology of petroleum refining itself has become increasingly capital-intensive.

Table 6. Indices of Price and Cost Components in Manufacturing,[a] Selected Countries
(1950 = 100)

Country and item	1951	1952	1953	1954	1955	1956
Canada						
Price	112	113	112	115	119	126
Direct cost per unit of output	113	114	111	114	117	125
Wage cost per unit of output	112	120	123	123	122	128
Materials cost per unit of output	113	112	108	112	116	124
Denmark						
Price	117	120	116	115	118	...
Direct cost per unit of output	122	125	118	116	120	...
Wage cost per unit of output	109	118	120	119	122	...
Materials cost per unit of output	126	127	118	115	119	...
Federal Republic of Germany						
Price	114	117	112	111	113	116
Direct cost per unit of output	...	...	...	118	...	...
Wage cost per unit of output	107	110	107	105	104	109
Materials cost per unit of output	...	...	...	120	...	...
Netherlands						
Price	117	117	111	113	114	120
Direct cost per unit of output	119	112	109	111	111	120
Wage cost per unit of output	108	111	108	116	119	127
Materials cost per unit of output	122	112	109	110	110	118
Norway						
Price	125	128	123	123	130	135
Direct cost per unit of output	125	130	125	125	134	140
Wage cost per unit of output	110	123	124	122	128	134
Materials cost per unit of output	129	132	125	126	135	142
Sweden						
Price	137	137	129	137	142	...
Direct cost per unit of output	133	144	134	142	147	...
Wage cost per unit of output	118	139	137	144	149	...
Materials cost per unit of output	138	146	133	141	146	...
United Kingdom						
Price	127	...	...	130	136	143
Direct cost per unit of output	128	...	...	129	136	144
Wage cost per unit of output	115	...	...	128	134	144
Materials cost per unit of output	131	...	...	129	136	144
United States						
Price	109	109	112	113	114	117
Direct cost per unit of output	112	110	112	112	112	114
Wage cost per unit of output	110	114	118	115	116	119
Materials cost per unit of output	113	109	110	112	112	114

Source: United Nations Bureau of Economic Affairs.

[a] Indices of price and cost components in manufacturing obtained by dividing appropriate value indices, based on data derived from national industrial censuses, by indices of the volume of production. Cost of materials includes fuel and electricity. Except for the Netherlands, wage cost is defined to exclude salaries. In the case of Norway, data cover manufacturing and mining, the latter sector comprising 2 per cent of the total gross value of production of both sectors in 1955.

generally show a widening of margins during the recent boom.

The approximate proportionality of changes in prices and direct costs does not imply that the former are determined by the latter. This fact in itself is just as consistent with a situation in which wage movements are highly sensitive to profit movements as with a situation in which gross margins, including profits, respond passively to changes in the combined cost of wages and materials. The discussion below of the determinants of direct costs cannot therefore be interpreted as implying any particular view as to the relative responsibility of the various groups of income receivers for the cost-price spiral of recent years.

Various factors have tended to raise direct costs during the period under review. From 1950 to 1951, owing to the Korean commodity price boom, materials costs rose more than prices, and more also than wage costs. From 1951 to 1954 materials costs generally declined. Wage costs at first registered a substantial further advance in 1952; in several countries this involved a process of catching up, partly or wholly, with prices. There followed a period of two or three years in which

wage costs were in general approximately stable.[24] Thus prices also were fairly stable or even falling from 1951 to 1954. Wage costs resumed their advance in 1955 in Norway, Sweden and the United Kingdom, and in 1956 in Canada, the Federal Republic of Germany and, to a lesser extent, in the United States. This advance was accompanied by an upturn in materials costs beginning in 1954. Prices continued to follow the broad over-all movement in direct costs.

Such data as are available for 1957 indicate that the rise in wage costs generally continued, and in Canada and the United States it may have accelerated. Prices of primary products, however, generally turned down in the course of the year, and in a number of countries—Belgium, Denmark, Italy, the Netherlands and Norway—prices of manufactures followed, although the decline was smaller than the drop in raw material prices. Prices of manufactures levelled off during the year in the Federal Republic of Germany, Sweden and the United Kingdom, but continued to increase throughout the year in the United States.

Determinants of direct costs

On the whole the behaviour of materials costs reflects demand and supply conditions in a fairly simple way. For agricultural materials with inelastic supply, the level of demand will determine the price, although for individual countries representing a small part of world demand, domestic demand may have little or no effect upon prices of goods entering into foreign trade. For materials derived from sectors of the economy where the major direct cost is labour, changes in prices will depend upon changes in wage costs, unless supply is inelastic here also, owing to insufficient capacity. However, certain of the minerals with a relatively high value per ton appear to behave more like agricultural products than like manufactures. As was pointed out in the discussion of sectoral excess demand above, materials costs in all of the metal and metal-using industries in western Europe rose significantly during the course of the recent boom. In North America, where capacity in these industries was less fully utilized over most of the period, the rise in materials costs was less important.

It cannot be said that the explanation of wage cost behaviour is as simple as that of materials costs. The most that can be done is to indicate the broad tendencies that seem to emerge from the data available, without attempting to bring all the institutional and other complexities of wage determination into the framework of this brief exposition.

[24] Although table 6 shows no data for the United Kingdom for 1952 and 1953, wage costs per unit of output in manufacturing were unchanged from 1952 to 1954 according to data contained in *Economic Survey, 1958* Cmnd 394 (London), page 18. The sharp rise in wage costs in the Netherlands in 1954-1955 resulted from wage movements compensating for the previous policy of wage restraint.

The behaviour of wage costs per unit of output must, of course, be the resultant of interactions between two types of movements—those in average earnings per man-hour and those in average output per man-hour. The greater the rise in hourly rates of production, the higher the hourly earnings that can be paid without any increase in unit wage costs, and vice versa. Stability in wage costs thus requires one simple condition: that changes in average hourly earnings move in proportion to changes in average output per man-hour. Such a condition does not imply that hourly earnings must move proportionally to productivity in every industry; all that is required is that, on the average, increases in earnings should not exceed increases in productivity. As is shown below, however, earnings tend to move more or less in the same proportion in all industries, while productivity usually rises very much more in the rapidly expanding industries than in the rest of the economy. Consequently, the pace set for the economy as a whole by wage increases in the dynamic sectors may well be in excess of the average rate of increase in over-all productivity. Even if earnings in the dynamic industries do not rise to the full extent of the productivity advances in those particular industries, they may still set a target rate of wage increases for other industries which is well in excess of the productivity growth achieved.

Experience in recent years indicates that rates of increase in hourly earnings have varied far less between

Table 7. Inter-industry Variations in Hourly Earnings and Productivity in Manufacturing, 1950–1956

(Percentage)

Country[a]	Coefficient of variation[b]		Average annual percentage of unemployment
	Average hourly earnings	Output per man-hour	
Italy[c]	22	76	9.5
Belgium	21	...	10.1
Canada	19	118	3.5
Denmark[d]	19	89	9.8
United States	18	95	4.1
Netherlands[e]	13	99	2.1
Federal Republic of Germany	12	38	7.3
Sweden[f]	11	62	2.4
United Kingdom	10	81	1.5
France[e]	9	88	...
Norway[e]	9	86	1.2

Source: United Nations Bureau of Economic Affairs, based on official national statistics. Owing to differences in definition, unemployment percentages are not in all cases entirely comparable between countries.

[a] Countries ranked in descending order of the relative dispersion of percentage changes in earnings.

[b] Coefficient of variation is the standard deviation expressed as a percentage of the mean change. It measures the extent to which percentage changes in hourly earnings and output per man-hour in various industries are clustered about the mean percentage change for all manufacturing industries.

[c] 1951–1955. [e] 1950–1955.

[d] 1951–1956. [f] 1952–1955.

industries than rates of increase in output per man-hour, as shown in table 7.[25] Not all countries exhibit the same degree of inter-industry uniformity, or cohesiveness, in wage movements. As table 7 shows, there seems to have been some tendency for the uniformity to be greatest where the labour supply has been tightest, as in the Netherlands, Norway, Sweden and the United Kingdom, and least where there has been persistent unemployment, as in Belgium, Denmark and Italy.[26]

Output per man-hour has generally grown fastest under the stimulation of rapidly expanding output. In part, differences between industries in rates of growth of output per man-hour depend upon the pace of tech-

[25] This is not to suggest that changes in hourly earnings have been completely insensitive to changes in demand. In the United Kingdom, for example, during the upswing in economic activity from 1953 to 1955 and again over the period 1955-1957 when demand slackened, differential inter-industry changes in earnings were significantly associated with differential inter-industry changes in the demand-supply position for labour as measured by the changing ratio of unfilled vacancies to applicants for work. At the same time it should be noted that the range of changes in earnings was much smaller than that of changes in the ratio of unfilled vacancies to applicants for work. In Sweden, inter-industry changes in earnings over the period 1947-1954 have been found to be related to the "state of the labour market", that is, the demand for labour in relation to the supply (*see* Bent Hansen and Gösta Rehn, "On Wage Drift—A Problem of Money-Wage Dynamics", in *Twenty-Five Economic Essays in Honour of Erik Lindahl* (Stockholm, 1956)).

[26] It is impossible to evaluate quantitatively the influence of institutional arrangements in the labour market upon the relative cohesiveness of the wage structure, but it would appear that such considerations as the system of trade union organization and the size of its membership, the industrial area of collective bargaining, the policies followed in respect of wage demands and the extent to which government participates in wage determination are all significant. The national collective bargaining system in Sweden and the role of government in wage determination in France and the Netherlands may have contributed to the uniformity of wage changes in these three countries. These institutional factors impart a degree of cohesiveness to inter-industry wage variation that has no counterpart in the inter-industry variation of output per man-hour.

Table 8. Determinants of Wage Cost in Manufacturing, by Country[a]

Country and item	Average annual percentage change, 1950–1956 [b]				Average annual percentage change, 1954–1956 [b]			
	Output	Output per man-hour	Average hourly earnings	Wage cost per unit of output	Output	Output per man-hour	Average hourly earnings	Wage cost per unit of output
Belgium								
All manufacturing	6.0	4.4 [c]	4.4 [d]	—	9.5	6.4 [c]	4.4 [d]	−1.8
Canada								
Average of highest quartile	10.1	6.8	8.1	0.9	14.5	7.1	4.2	−2.5
All manufacturing	4.2	2.4	7.7	4.7	7.0	1.9	3.8	1.8
Denmark								
Average of highest quartile	7.0	3.5	4.5	0.8	11.5	6.3	3.8	−2.2
All manufacturing	2.2	1.5	4.7	3.0	5.0	3.1	4.0	0.9
Federal Republic of Germany								
Average of highest quartile	28.4	7.0	8.6	1.1	18.6	6.3	8.4	1.8
All manufacturing	16.5	6.7	8.9	1.5	13.0	5.4	7.9	2.2
France								
All manufacturing	7.3	7.0	15.0	5.6	9.5	9.3	11.9	2.2
Italy								
All manufacturing	10.5	8.9	6.4	−1.6	8.0	7.1	6.6	−0.4
Netherlands								
Average of highest quartile	11.3	4.8	6.4	1.3	14.3	7.0	10.2	2.8
All manufacturing	7.0	2.6	6.8	3.8	9.5	4.1	9.6	5.0
Norway								
Average of highest quartile	9.5	5.1	9.3	3.4	11.9	7.5	5.6	−1.6
All manufacturing	5.6	3.0	9.5	5.7	6.5	3.8	5.5	1.6
Sweden								
Average of highest quartile	7.8	6.4	15.6	7.0	11.6	7.2	7.2	—
All manufacturing	2.8	2.8	14.0	9.8	5.5	2.0	6.4	4.4
United Kingdom								
Average of highest quartile	5.6	1.7	9.5	7.2	4.6	3.0	9.2	5.8
All manufacturing	3.5	1.2	9.1	7.4	3.0	1.9	8.4	6.3
United States								
Average of highest quartile	8.7	3.0	6.0	2.6	11.0	5.0	5.1	0.1
All manufacturing	4.7	2.3	5.8	3.1	7.0	3.1	4.7	1.5

Source: United Nations Bureau of Economic Affairs.

[a] Wage cost per unit of output for Belgium, France and Italy derived from data for average hourly earnings and output per man-hour. In all other countries, wage cost data are based on industrial censuses as indicated in table 6.

[b] For Denmark: 1951–1955 and 1953–1955; for Netherlands, Norway and Sweden: 1950–1955 and 1953–1956.

[c] Output per man.

[d] Average daily earnings.

nological change in each of them, and hence upon the rate of investment in new plant and equipment.[27] In addition, however, output per man-hour will grow even without technical advances whenever rising demand makes it possible to increase the degree of utilization of capacity. The extent of the differences in rates of increase in output per man-hour between the most rapidly expanding industries and the average for all manufacturing is shown in table 8. In all countries, the 25 per cent (or upper quartile) of industries recording the greatest increases in output also experienced somewhat larger increases in output per man-hour than the average, both over the whole period from 1950 to 1956 and in the course of the expansion from 1954 to 1956. The countries range from Canada, where the average rate of growth in productivity was less than a third of that in the expanding industries, to the Federal Republic of Germany, where it was only about 15 per cent less.[28] For the most part, where there were large differences in rates of expansion of output among industries, there were also large differences in productivity growth.

Since the inter-industry dispersion in rates of growth in output per man-hour is in most countries much greater than that in earnings, it is to differences in productivity growth that one must look in the first instance for an explanation of inter-industry differences in the behaviour of unit wage costs. As may be seen in table 8, wage costs have tended to increase least in the rapidly expanding industries—which in most countries include metals and engineering and mineral processing —because productivity increases have been greatest there, and most in the relatively stagnant industries—such as textiles and food processing—where productivity increases have been smallest.

In the absence of a coherent national wage policy endorsed by all participants, workers in the most rapidly developing industries are likely to try to secure for themselves as much of the benefits of productivity growth in these industries as they can, and employers are likely to be prepared to grant such benefits. Any tendency for workers in such industries to gain increases in hourly earnings in excess of the average productivity advance for the economy as a whole would imply an inflation of wage costs, because earnings in all other industries would follow the lead set by the dynamic industries. Thus, even though unit wage costs declined in the most rapidly expanding industries, the average for all industries taken together might still rise because of the smaller productivity gains in the less rapidly expanding industries.

Furthermore, even in the expanding industries increases in earnings have frequently exceeded increases in productivity, so that unit wage costs have risen. There has been a tendency for increases in unit wage costs in the expanding industries to be larger during periods when demand has slackened. An examination of the relationship between the two time-periods shown in table 8 provides evidence of this; for all of the countries shown, except the Netherlands and the United Kingdom, average annual increases in wage cost were greater in the period in which the average annual increase in output was smaller.[29] The rate of increase in hourly earnings appears to have been less sensitive to changes in output than has the rate of increase in output per man-hour. Except in the United Kingdom, the rate of increase in output per man-hour was greater in each country in the period in which the rate of increase in output was greater. Hourly earnings, on the other hand, did not generally increase faster when output increased faster; only in the Netherlands did this happen, and here the time pattern of wage increases reflects primarily the timing of the removal of wage controls. Thus, contrary to what has often been assumed, wage costs have tended during the period under review to increase less the greater the increase in output, and vice versa.

This result cannot, of course, be interpreted as implying that for any given country or industry at any given time wage cost will increase less when demand rises by, say, 50 per cent than it will when demand increases by only 10 per cent, unless there is sufficient idle capacity to permit output also to rise by 50 per cent. If pressures develop in the labour market, the rate of increase in earnings will eventually be affected, even if not very sensitively. Once increases in demand have taken up the slack in the labour and product markets, further advances in productivity will be limited by the pace of technical progress and the rate of additions to capacity. Under these conditions, hourly earnings and unit wage costs may rise significantly in response to further increases in demand. Thus, a rise in demand may lead to a reduction in unit wage costs when an industry, or the economy as a whole, is operating below capacity, and to an increase when all spare resources have been absorbed. Nevertheless, the relationship indicated above does serve to focus attention upon the prime importance of labour productivity in the determination of wage costs, and upon the fact that reductions in demand may slow down the rate of increase in hourly earnings much less than they depress the rate of progress in output per man-hour.

[27] In theory new investment may merely add to capacity without adding to productivity, but in practice new installations usually incorporate at least some improvement over old ones. Rates of new investment tend to be highest where rapidly increasing output and increasing pressure upon existing resources provide the necessary incentive.

[28] In the Federal Republic of Germany productivity increased rapidly from 1950 to 1956 even where output grew most slowly—although this is perhaps attributable to the extremely low level of utilization of capacity in all industries in 1950; the relationship for the latter part of the period is not out of line with the experience of other countries.

[29] An examination of year-to-year changes in output and wage costs in individual manufacturing industries confirms the existence of such an inverse relationship over the whole period under review.

The behaviour of product prices, both in particular industries and for the manufacturing sector as a whole, follows from the behaviour of wage costs, materials costs, and gross margins. Table 9 shows how changes in the constituents of product prices have been related for various industry groups. The table relates to the period 1950-1956 as a whole, but for most industries the picture is the same for shorter periods.

Table 9. Relative Changes in Wage Cost, Materials Cost and Gross Margins in Manufacturing Industries, 1950–1956[a]

Industry	*Number of industries covered*	*Wage cost*	*Materials' cost*	*Margin*
Leather and leather products	9	+	−	+
Tobacco products	5	+	−	=
Food processing	8	+	=	−
Textiles and clothing	14	+	=	−
Paper and wood products	18	=	=	=
Chemicals and rubber	10	=	=	=
Stone, clay and glass	7	=	=	=
Metals and engineering	22	−	+	−
Petroleum and coal products	3	−	=	+
Printing	4	−	+	=

Source: United Nations Bureau of Economic Affairs.

[a] A plus sign indicates that in a majority of the industries within the group, there was a rise in the share of the specified component in the value of product; a minus sign indicates a decrease in the component share, and an equal sign, no change. The table is based upon frequency distributions of the behaviour of one hundred individual industries in eight countries. The basic data were derived from industrial censuses of the countries concerned, for some of which the relevant period is 1950–1955

In the rapidly expanding industries, such as metals and engineering, wage cost rose less than the average, because of the greater increase in productivity in these industries. Materials cost in these industries, however, rose more than the average, and more than wage cost, partly because of inelasticities of supply, and partly because of increasing costs of production in materials-producing industries as output advanced. The increase in product prices in these industries fell between the increase in wage cost and the increase in materials cost; where the increase in materials cost was greatest, margins decreased somewhat, but the change in the share of gross margins was smaller than that in either wage cost or materials cost. In the industries where demand grew least rapidly, such as food processing and textiles, on the other hand, wage cost rose more than the average because of the slower growth of productivity. Where these industries use agricultural materials, costs of materials generally fell after the Korean boom, owing to slackening demand. The change in product price lay again between that in wage cost and materials cost. The behaviour of margins varied from industry to industry in this group; on balance, the share of margins fell during the Korean boom and rose thereafter, so that there was little change over the period as a whole. Finally, in the industries using non-agricultural materials that were not in short supply, such as chemicals, the change in materials cost itself primarily reflected wage cost, and all three constituents of price moved together.

There appears, in fact, to be something akin to a compensatory relationship between wage costs and materials costs. When output grows rapidly, wage costs are likely to be held down by correspondingly rapid advances in productivity; on the other hand, there is a greater danger that raw material bottlenecks will be encountered and hence that materials cost will rise. If, alternatively, output grows more slowly, supplies of raw materials are likely to be adequate, but wage cost increases may well be greater because of the depressing effect of slow growth on productivity.

Dynamics of price inflation

It emerges from the foregoing discussion that prices in the manufacturing sector have generally moved about in proportion to direct costs during the period under review. Several factors have tended to raise direct costs at various times during the period. The cost of materials in inelastic supply has risen in response to higher demand. During the Korean commodity price boom it was the industries using agricultural materials that were most affected by higher costs of materials, but during the recent boom agricultural materials were in adequate supply, while materials for the engineering industries rose most in price.

Wage costs increased substantially in certain countries, but not in all, at the beginning and end of the period studied. They were stable in most countries during the middle years. The combined effect of the changes in hourly earnings and in productivity discussed above upon differential wage cost changes among the industrial countries is reflected in the averages for all manufacturing shown in table 8.

Considering the period from 1950 to 1956 as a whole, increases in wage cost were smallest in countries where rapidly rising demand was combined with substantial excess capacity at the start—as in the Federal Republic of Germany, Italy, and in the latter part of the period, Belgium; in these countries it was possible for output to grow rapidly, and with it productivity. Indeed, wage cost in manufacturing in Italy appears to have fallen, and in Belgium it remained unchanged, over the period from 1950 to 1956. Where, however, there was little spare capacity, so that the scope for output and productivity increases was to a greater extent limited by the pace of technical progress, as in Sweden and the United Kingdom, productivity did not keep pace with earnings, on the average; even if productivity moved in line with earnings in the dynamic industries, it was likely, because of the cohesiveness of the wage structure, to fall behind in other industries where growth was slower. In countries where substantial unemployment was asso-

ciated with slow growth of output, or where tight labour markets were associated with rapidly expanding output, the increase in wage cost falls in the middle of the ranking.

It must be borne in mind that while, within each country, increases in earnings in individual industries tend to be bunched closely about the mean rate of increase for all industries, there are substantial differences between countries in the mean rate of increase of earnings. Consequently, differences among countries in the behaviour of earnings appear to exert a somewhat greater influence upon differential wage cost behaviour than is evident within each country. Changes in hourly earnings were affected to some extent by the pressure of demand upon supply in the labour and product markets; it sufficed, however, if such pressures developed in one or two sectors of the economy, since the rigidity of the inter-industry wage structure served to ensure that the whole system of wages would move in line with the tempo set by the wage leaders. There were also many instances in which wages responded to autonomous changes in the cost of living. This was particularly important in 1951, when money wages rose to offset the effect of rising prices of materials on the cost of living, while real wages generally were little changed. But similar developments were observable during the recent boom in certain countries as a result of the abandonment of controls persisting from war-time, or of government policy regarding indirect taxes and subsidies.

The process of price determination observed in the manufacturing sector applies equally, with appropriate modifications, in other parts of the economy, although it is more difficult to document this empirically. In general, the cohesiveness of wage structures found within the manufacturing sector extends beyond that sector to other areas of the economy. Thus, there is usually a fairly close relationship between increases in earnings in manufacturing and in non-manufacturing industries. On the other hand, the scope for productivity increases has probably been smaller in other sectors of the economy than in manufacturing, and hence the upward pressure of wage costs during periods of rising demand may have been greater. This has been especially evident in some of the service industries and in construction.

Table 10. Components of Price Change, by Country, 1953–1956
(1953 = 100)

Country	Private consumption						Fixed capital formation			Public consumption	Gross national product
	Total	Food	Clothing	Durables	Rent	Other	Total	Producer durables	Construction		
Belgium	103	102	97	96	115	104	103	103	104	110	106
Canada	103	101	99	95	114	103	109	108	108	113	106
Denmark	112	116	110	111	115	111	106	105	108	113	112
Federal Republic of Germany	104	...	...	...	...	...	107	102	112	112	106
France	107	108	101	100	130	108	105	101	109	112	107
Italy	108	111	101	93	149	105	104	103	106	115	108
Netherlands	106	109	95	101	126	106	110	103	118	120	110
Norway	107	110	100	104	120	108	108	106	111	119	114
Sweden	109	113	100	100	114	110	107	107	108	111	109
United Kingdom	110	116	106	106	111	108	110	109	110	115	111
United States	103	99	101	101	106	106	107	109	105	110	105

Source: United Nations Bureau of Economic Affairs; based on Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 1, 1958 (Paris).

Relative changes in the prices of finished output have generally followed a pattern consistent with the preceding analysis.[30] It may be seen from table 10 that among the smallest increases in final prices from 1953 to 1956 were those recorded in consumer and producer durables, where rapidly increasing productivity offset the effect both of rising hourly earnings and of increasing materials costs resulting either from inelastic supplies or from the pressure of wages in materials-producing industries. Price increases were also moderate in clothing where, although wage cost increases were greater, materials cost rose less than in the durable goods industries or not at all. Available evidence suggests that prices of other non-durable consumer goods dependent upon agricultural raw materials also rose less than the average.

In construction and the service industries, on the other hand, price increases were in general relatively greater than for manufactures such as the above. Productivity advances in construction seem to have been less than in manufacturing while earnings rose at least as much, so that wage costs increased relatively more; at

[30] In interpreting the changes shown in table 10, it must be borne in mind that hitherto what has been considered is average price developments at all stages of manufacturing—including the stages producing intermediate goods—rather than prices of finished goods and services. The latter, since they reflect only the very last stage of the productive process, embody a relatively larger labour content and gross margin, and a relatively smaller input of primary materials.

the same time the costs of construction materials rose considerably owing to expansion of demand. The "other private consumption" category shown in table 10 includes some consumer non-durables as well as services, but the increase in price was nevertheless somewhat greater in most countries than in the manufactured goods components; where it is possible to isolate services, the data show significantly larger increases in prices, as was to be expected.[31]

Government policy contributed to the considerable advances in rents, and, in some countries, in food prices. As was pointed out above, rents went up in most countries as the remaining war-time controls were gradually removed; and food prices increased markedly in some countries owing partly to government measures affecting farm prices and partly to higher costs of food processing—where output and productivity rose less than in other sectors of manufacturing.

International Aspects of Inflation[32]

International transactions provide a safety valve for the economy of each country, whereby any rise in internal inflationary pressures tends to be mitigated through a rise in imports relative to exports, while declines in internal demand are offset, at least in part, by higher net exports. This process provides the essential mechanism whereby inflationary or deflationary pressures are communicated from one country to another.

In theory, any level of demand, however great, could be satisfied without danger of inflation provided a sufficiently large volume of goods and services could be imported. In practice, however, conditions of inelastic supply or limitations on the ability of a country to finance an import balance beyond a certain point impose a limit on the extent to which the external sector can serve as an outlet for rising demand pressures. In the course of the foregoing discussion the question whether particular countries had been suffering from excess aggregate demand was analysed after taking the role of the external sector as an equilibrating factor fully into account. It is important to note, however, that a country—or group of countries—may experience a deterioration in the balance of payments when its demand increases, even without any excess pressure of total demand against productive capacity developing, simply because demand in some other country or group of countries is not rising as rapidly.

What is important in the present discussion, therefore, is to examine the course of internal demand in each country, rather than the course of total demand, including the export sector, as was done previously. The internal pressure of demand is reflected in the third line for each of the countries listed in table 3 under the heading "Internal demand for saving", while the export balance provides an indication of the extent to which the export sector modified changes in internal demand alone.

An examination of table 3 demonstrates the existence of a compensatory relationship between domestic demand pressures and the balance of payments on current account. In all the countries listed there seems, in general, to have been a strong tendency throughout the post-war period for relative increases in the combined pressure on resources arising from domestic investment and the budget deficit to be accompanied by declines in the export balance, and conversely for an easing of domestic pressures to be associated with greater buoyancy in the foreign trade sector of the economy.

Fluctuations in internal demand and the export balance are most sensitively related, taking both magnitude and direction of change together, in the Netherlands, Norway, Sweden and the United Kingdom; on the other hand, in such countries as Belgium, the Federal Republic of Germany, France and the United States, the relationship is a less sensitive one. The former group of countries includes those which have generally experienced the highest rates of utilization of available labour and equipment during the post-war period. This has meant that their elasticity of supply has been on the whole significantly lower than in the second group of countries, where the margin of unused or under-utilized resources has usually been much greater. Increases in total demand have therefore frequently confronted the first group with the need for a choice between the various claims upon their resources and for relatively sharp adjustments in one or another of the components of demand so as to avoid undue pressures. For the second group, on the other hand, the choice has usually been less clear-cut because of the possibility of drawing upon their reserves of labour and capacity, and thereby of meeting the higher demands of one sector of the economy without necessarily encroaching upon the supplies going to any other sector.

Nevertheless, even in the countries in the second group, there is evidence of interaction between domestic demand pressures and the export balance, largely, no doubt, because short-term elasticities of supply may be significantly lower than long-term elasticities even where abundant resources are available; and temporary bottlenecks in specific items or types of skilled workers may arise despite the absence of general pressure on labour or capacity. The relationship between internal

[31] The rise in the implicit "price" of public consumption shown in table 10 simply indicates the average increase in wage rates of government employees, in accordance with convention.

[32] For a fuller discussion of this subject, see United Nations, *World Economic Survey, 1956* (sales number: 1957.II.C.1), chapter 2.

demand and external balance is weakest of all in the United States. This is only to be expected in view of the critical role of the United States Government's economic aid and overseas military expenditure policies and of the exchange and trade control policies of other countries in determining the year-to-year changes in the balance of goods and services.

The effects of demand pressures may also be propagated internationally to the extent that they generate increases in prices. Reference has already been made to the profound effect of the Korean commodity price boom in promoting cost-price spirals in the industrial countries as a result of rapidly soaring raw material import prices. Similar developments in the recent boom were confined to the metal-using industries. By the same token industrial countries which have substantially raised their export prices have contributed to cost inflation in their trading partners. As can be seen in table 11, increases in the export prices of some of the industrial countries were quite considerable during the recent boom.

Changes in prices may also affect the external balance of a country, and hence the relationship between total demand and total supply. For example, a rise in the prices of a given country at a time when world prices were stable would tend to reduce the volume of world demand for that country's exports and to increase the volume of that country's demand for imports. The effect on the current value of the external balance would depend on the relevant elasticities. If the proportional decline in the volume of world demand for the country's exports turned out to be less than the proportional rise

Table 11. Indices of Export and Import Prices of Industrial Countries
(1953=100)

Country and item	1950	1951	1952	1954	1955	1956	1957
Belgium							
Exports	89	120	119	94	97	103	106
Imports	87	109	106	96	96	99	102
Canada							
Exports	92	104	103	97	99	103	103
Imports	101	115	101	100	101	103	107
Denmark							
Exports	89	99	105	99	100	104	102
Imports	89	113	111	97	98	102	103
Federal Republic of Germany							
Exports	78	98	103	98	98	101	103
Imports	98	123	113	98	100	102	103
France							
Exports	83	97	103	94	95	99	106
Imports	87	114	112	99	98	102	111
Italy							
Exports	94	112	105	99	98	104	105
Imports	87	114	110	98	100	105	110
Japan							
Exports	82	122	108	96	91	94	97
Imports	90	124	114	96	94	97	103
Netherlands							
Exports	91	109	109	98	100	102	106
Imports	89	112	111	98	99	102	108
Norway							
Exports	83	115	115	99	107	115	119
Imports	85	102	105	98	100	102	109
Sweden							
Exports	75	117	115	98	102	103	105
Imports	82	104	109	99	99	103	106
United Kingdom							
Exports	84	99	104	99	101	105	110
Imports	84	112	110	99	102	104	106
United States							
Exports	88	101	101	99	100	103	107
Imports	88	111	105	103	102	105	105

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

in export prices, the value of exports would increase—possibly enough to offset or more than offset the increase in the value of imports. In this case the balance of trade might remain unchanged or even improve as a result of the relative rise in prices. On the other hand, if the responsiveness of volume changes were proportionately greater than the price changes giving rise to them, the balance of trade would deteriorate. While a substantial literature has developed since the war devoted to attempts to measure the responsiveness of volume changes to price changes in world trade, the statistical obstacles have proved very great, and views continue to differ widely regarding elasticities in international trade. This is not an area, therefore, in which dogmatic conclusions are possible.

The spectrum of export price increases in industrial countries since 1950 has been relatively wide — the maximum spread between the extremes being of the order of 30 per cent, as shown in table 11. This has not prevented the countries recording the largest price increases from going quite far in the liberalization of their external transactions. Available export data are consistent with the proposition that those countries whose export prices have risen least have been able to achieve the largest increases in the volume as well as in the value of exports. But this result is highly uncertain and subject to many qualifications, owing to statistical shortcomings in the data; and such information as is available on absolute prices suggests that some of the divergencies in price movements between countries since 1950 may have tended to produce a greater equalization of absolute prices rather than the opposite.[33]

The interrelationships between countries have not been so strong or intimate in the post-war period as to make it altogether impossible for individual industrial countries to pursue economic policies involving somewhat different degrees of utilization of resources from those considered appropriate by their neighbours. It is only necessary to compare the very low average ratios of unemployment prevailing in certain of the countries in northwestern Europe in recent years with those encountered in other countries to obtain an indication of this fact (see table 7). Nevertheless, the limits to such freedom of action cannot be altogether avoided, and it is no accident that the former countries are among those which have experienced the most frequent recurrence of balance of payments difficulties. Moreover, the more these countries have sought to eliminate their trade barriers, in harmony with other countries, the more they have, in effect, reduced their defences against inflationary or deflationary pressures emanating from abroad.

Liberalization of international transactions consequently depends upon the assumption that all countries will move approximately in line as regards the level and rate of change of business activity. Otherwise there cannot fail to be persistent disequilibrium between countries. It cannot be taken for granted that any and every balance of payments deficit is *prima facie* evidence of inflation in the country concerned. It is just as likely to be evidence of deflationary pressures in other countries. The greatest international disequilibrium that had ever occurred prior to the Second World War was that which took place during the depression of the nineteen thirties, when no country was in a state of inflation but when balance of payments difficulties were caused by differing degrees of deflation.

The disequilibrium in intra-European payments during the recent boom was undoubtedly due in part to the internal pressures which developed in such countries as France, the Netherlands and the United Kingdom. But the opposite side of the coin was the course of internal demand in the surplus countries, especially the Federal Republic of Germany. As may be seen from table 3, the pressure of domestic demand for savings in the Federal Republic in 1955-1956 was relatively lower than in 1950, when recovery had barely begun and real output was 40 per cent less; this development was due primarily to a very large relative increase in the budget surplus.

Government Anti-Inflationary Policies

POST-WAR SHIFTS IN EMPHASIS

The emphasis of policies pursued by governments to curb inflation has undergone radical change in the course of the post-war period. In the early post-war years many governments relied principally on efforts to tax away excess spending power, and some of them

[33] For example, the following table shows the dollar value in the United States of the investment goods that could be bought in the following countries (which are exporters of these goods), if one United States dollar were changed into these countries' currencies at the official exchange rate:

	In terms of United States quantity weights	*In terms of European quantity weights*
Belgium		
1950	1.18	1.51
1955	1.21	1.29
Federal Republic of Germany		
1950	1.22	1.61
1955	1.14	1.43
France		
1950	1.08	1.27
1955	0.87	0.98
Italy		
1950	1.05	1.36
1955	1.07	1.45
United Kingdom		
1950	1.26	1.41
1955	1.15	1.31

Source: Organisation for European Economic Co-operation, *Comparative National Products and Price Levels*, by Milton Gilbert and associates (Paris, 1958).

extended war-time controls so as to hold inflation in check. All industrial countries sooner or later relinquished most of their direct controls over the economy, but in addition, in more recent years, governments have preferred to use monetary rather than fiscal controls as the major instruments of anti-inflationary policy.

Fiscal and monetary policies are not alternatives in the sense that they operate upon the level of demand in the same way. Fiscal policy influences the demand for all goods and services by regulating the spending power of individuals and companies through the mutual adjustment of public revenue and expenditure. Monetary policy, on the other hand, seeks to influence the level of business investment in fixed capital or inventories by changing the cost of borrowing or varying the total volume of credit available. While fiscal policy may directly affect the total volume of consumption, the direct impact of monetary policy on the demand for consumer goods is limited to those areas in which consumer credit is important—principally housing[34] and consumer durables. For the rest, monetary policy aims to influence consumption only indirectly, that is, through its effect upon the incomes generated by business investment expenditures, or possibly upon the willingness to save at a given level of income.

The emphasis placed on direct and fiscal controls in most countries immediately after the war does not, of course, imply that monetary policy was altogether inactive. But it proved impossible in most countries for the banking system to aid in curbing private expenditure under conditions in which such spending was being sustained by abundant liquid assets available from war-time accumulation. The "cheap money" policies of the time reflected the view that, in the interests of as rapid an economic recovery as possible, investment for reconstruction and reconversion should be facilitated by low borrowing costs. There was also a desire to limit the burden on the national exchequer of servicing the public debt. It should be noted that in countries where a significant proportion of the public debt was in foreign hands, particularly the United Kingdom, the maintenance of low interest rates was seen as a means of holding down at least one of the sources of pressure on the balance of payments.

Of greatest importance, perhaps, were considerations based upon the very nature of fiscal and credit policies as indicated above. While the urgent needs of reconstruction implied that investment should receive priority over consumption, it seemed that credit policy was not well adapted to secure the desired allocation of resources between these two purposes. In fact, in view of the heavy pressure of pent-up demand for consumer goods, there was an obvious danger that restrictive credit policy, if it succeeded at all, could do so only by depressing investment, thereby giving consumption priority over investment rather than the reverse.

For all these reasons the cornerstone of government anti-inflationary policy in North America and several countries of western Europe in the early post-war years was the setting of taxation at a level higher than was necessary to finance current outlays of the government. In some countries additional direct measures were taken to control investment and consumption. At the same time structural disequilibrium in international trade and payments, combined with inflationary pressures which were unevenly distributed among countries, prompted many governments, especially those in which the pressure of domestic demand was greatest, to maintain tight controls upon their external transactions.

The outbreak of hostilities in Korea found governments at various stages in the process of decontrol. In North America and some of the western European countries, most of the domestic war-time controls had been abandoned; and while countries in western Europe still maintained restrictions on their trade and payments for balance of payments reasons, these restrictions had in general been substantially eased. In north-western Europe, however, there were several countries in which controls even on domestic transactions had not yet disappeared and in one or two cases partial rationing was still in force.

The first response of governments to the inflationary forces released by the events in Korea was generally in line with their earlier post-war policies. Thus, steps were taken to limit consumption through higher taxation. Increases in taxes on business, as well as allocation by governments of certain industrial raw materials, helped to hold down private investment in sectors outside the scope of defence activities. In addition to such measures, the United States Government reintroduced general price and wage controls early in 1951.

These policies were reinforced by limitation of bank advances to industry, reduction of consumer credit facilities and increases in interest rates. Indeed, for many of the industrial countries which had hitherto placed relatively little stress upon credit policy, the year 1951 marks a significant change in official attitudes. This may be seen in the gradually increasing independence shown by central banks, and by the banking system generally, of national governments—even where central banks were nationalized—and in the much greater role assigned to banking policy in the management of the economy. At first these changes were scarcely perceptible and it might be difficult, in many cases, to point to concrete evidence of the shift. One development is, however, beyond dispute—namely that even when inflationary pressures subsided in 1952 and 1953, interest rates remained higher than they would have been under the previous constellation of policies.

At the same time, governments did not hesitate to

[34] While housing is usually classified as investment, the demand for housing stems mainly from consumers.

reduce taxes whenever they felt that the general situation and the state of the national finances warranted such action. Once the Korean conflict came to an end, government expenditures tended to level off or decline, and pressure for the lowering of tax burdens mounted. Thus it came about that the balance of economic policy since 1951 has, in most countries, been struck at a higher level of interest rates—and a more severe degree of credit restriction—combined with a lower level of tax rates than would have prevailed under corresponding conditions before 1951.

By the time the recent boom was gathering momentum, the revival of monetary policy was complete and the banking system, headed by the various central banks, was playing a prominent role; there was no longer any doubt that the centre of gravity of economic policy had shifted appreciably. In several instances the nature of the shift was dramatized when central banks adopted policies which went even further in the direction of monetary restraint than their national treasuries desired.[35] Nevertheless in general the policy of monetary stringency was widely adopted in harmony with the policies of governments, which looked upon credit restriction as providing them with a generally acceptable alternative to higher tax burdens. In fact, in a few cases, taxes were even reduced at the same time as credit policy was being tightened.

Where taxes were increased, it was usually indirect taxes, or in some instances corporate taxes; in no case were personal tax rates raised. It is debatable whether the deflationary effect on demand of higher indirect taxes or of lower subsidies compensated fully for the tendency to accelerate the wage-price spiral, bearing in mind particularly the earlier finding that total demand was not generally excessive in the recent period and that the source of the trouble was rather to be found on the side of costs.

The raising of interest rates since 1950 and the tightening of credit during the recent boom have not caused any decline in fixed investment relative to consumption; an examination of table 12 suggests that, if anything, the tendency has been the reverse of this throughout the period since 1950.[36] This may be due in part to the rise in the share of national product allocated to defence, since the capital outlays required to support a given level of expenditure on military hardware are probably larger than those needed, on the average, for a corresponding value of output of civilian goods and services. However, in many countries investment rose relative to consumption from 1954 to 1957, although military expenditures were no longer advancing after 1954, and this was the period of strongest government measures affecting investment. The manner in which these measures operated will be explored further below.

ROLE OF MONETARY POLICY

Measures employed

In the course of three years, from 1955 to 1957, all the industrial countries, with the single exception of Italy, increased their discount rates, as shown in chart 2. Altogether over forty such increases were effected, which brought interest rates in a number of countries to new highs unsurpassed in decades. In addition, in the few countries where the money market was well developed, sale of government securities in the open market helped to compress bank reserves and reduce market liquidity.

The monetary authorities did not, however, limit themselves to the orthodox weapons of control. An in-

[35] The raising of the discount rate by the Federal Reserve System in the United States early in 1956 and by the Sveriges Riksbank in Sweden in 1957 was known to be in conflict with Treasury views in the two countries; and in October 1957 the National Bank of Belgium prevailed upon the Government to bring its overdraft with the Bank gradually down to the agreed level, which had been exceeded.

[36] Data on fixed investment in table 12 exclude residential construction, which, as indicated below, appears to have been significantly affected by special restrictions affecting housing, and to some extent also by general credit policy. However, the trends shown in table 12 are not much affected by inclusion of residential construction in fixed investment.

Table 12. Ratio of Consumption to Investment,[a] by Country

Country	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Belgium[b]	4.4	4.7	5.0	4.6	4.5	4.2	4.1
Canada[b]	3.2	3.1	3.0	2.9	3.1	3.0	2.8
Denmark	5.0	4.9	4.7	4.6	4.6	4.8	4.7
Federal Republic of Germany[b]	2.8	3.0	3.1	3.0	2.9	2.6	2.7
France[c]	4.4	4.7	5.1	5.4	5.3	5.2	5.1
Italy	5.0	4.8	4.7	4.8	4.6	4.5	4.4
Netherlands	3.8	3.8	3.7	3.6	3.2	3.0	3.0
Norway	...	...	2.8	2.6	2.7	2.7	2.8
Sweden	4.6	4.5	4.6	4.2	4.0	4.2	4.3
United Kingdom	6.8	6.9	7.2	7.1	6.6	6.1	5.7
United States	5.7	5.4	5.6	5.6	5.7	5.7	5.4

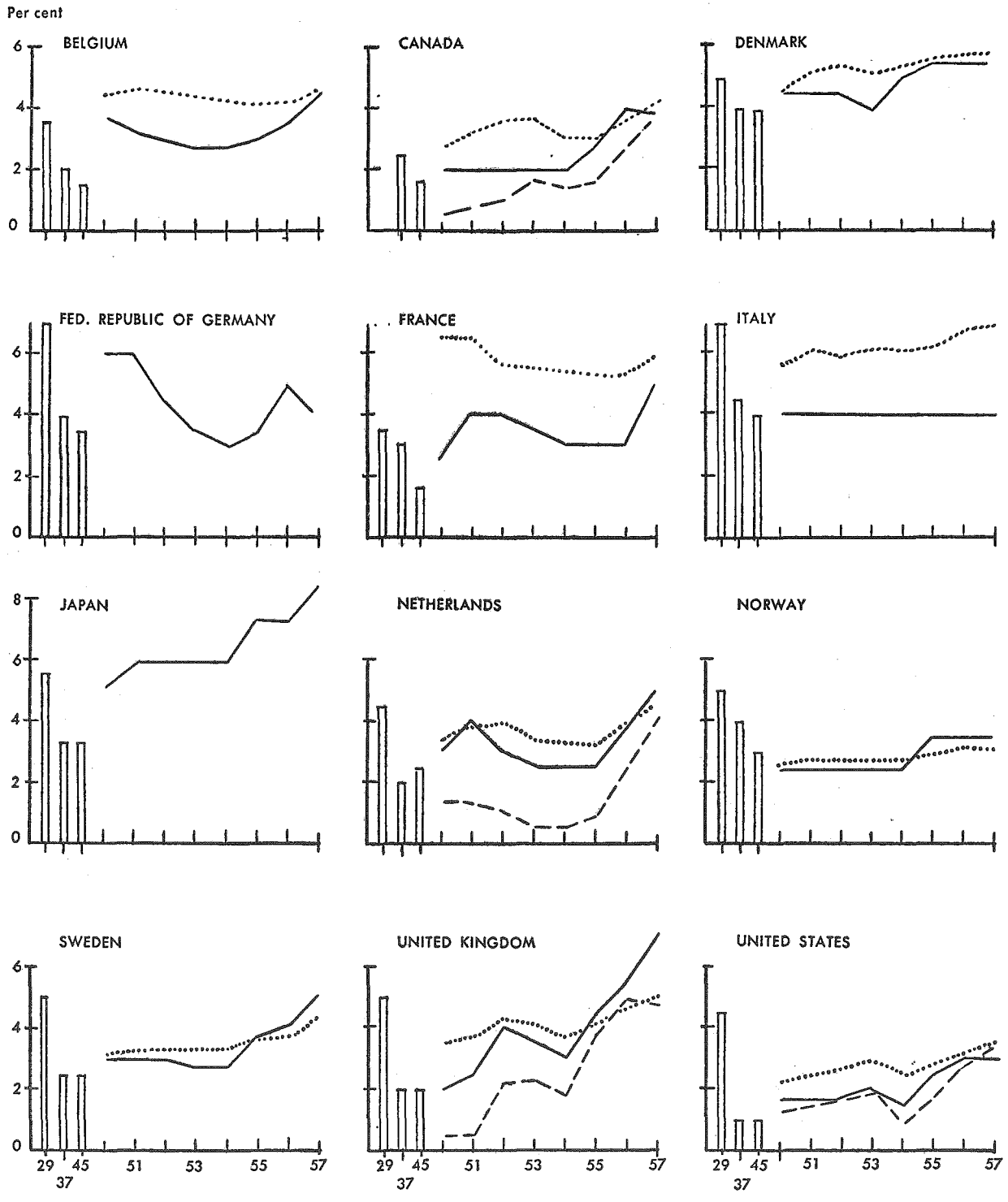
Source: Statistical Office of the United Nations.

[a] In constant prices. Investment comprises total fixed investment less residential construction, except where indicated.

[b] Ratio of consumption to total fixed investment.

[c] Data for 1950 to 1954 in 1952 prices; for 1955 and 1956 in 1954 prices.

Chart 2. Changes in Interest Rates, 1929-1957



Source: International Monetary Fund, *International Financial Statistics;* League of Nations, *Statistical Yearbook.*

NOTE: Discount rates for 1945 and prior years (shown in bars) and for 1950-1957 (solid line) are end-of-year figures; other rates are annual averages.

ventory of the multifarious measures adopted in recent years would, indeed, appear quite alien to the central banks of pre-war days. Even the instrument of variable cash reserve or cash ratio requirements, long familiar in the United States, was a post-war development in a number of other industrial countries. Unlike the United States, however, most of these countries also provided for varying liquidity ratios, which take into account bank holdings of near substitutes for cash, notably short-term government securities.[37] Furthermore, the traditional discount rate mechanism was frequently reinforced by unofficially discouraging rediscounting, by applying penalty rates of interest to excess borrowing, or even by imposing absolute ceilings on rediscounting by individual banks.

A more potent measure — representing a clear departure from orthodox procedures — was the outright limitation of bank loans, as introduced at certain times in the Scandinavian countries and the United Kingdom. In such cases the volume of bank credit became quite independent of the bank's own ability or willingness to lend; reserve ratios had, therefore, little significance during the periods concerned.

Finally, various selective controls were also used in a number of countries, notably on mortgage financing and consumer credit for passenger cars or durable household equipment.[38] In the United Kingdom the Capital Issues Committee scrutinized large bank loans in 1957 in addition to discharging its usual function of regulating access to the capital market.

In view of the variety and complexity of the measures employed, it could not be expected that their impact on economic activity would be uniform in the various countries. Broadly speaking, however, the effect of the measures may be traced through their influence on the cost and availability of credit and on business expectations.

Impact of higher interest rates

While the cost of credit did not always move in unison with the discount rate, available evidence points to a fairly close relation between short-term rates and the official rate during the recent boom. The sizable spread between the Treasury bill rate and the discount rate in earlier years in Canada, the Netherlands, the United Kingdom and the United States has been narrowed considerably during the recent period of hard money, owing to the pressures brought to bear upon the money market by open market operations and other means. Only in extreme cases, such as the raising of the bank rate to 7 per cent in the United Kingdom in September 1957, did the market rate lag considerably behind the official rate. The short-term loan rates, moreover, which had tended to be sluggish during previous phases of low interest rates, have in more recent years moved in harmony with the discount rates. In the Federal Republic of Germany and the United Kingdom, movements in the loan rates usually followed closely those in the discount rates, so that the spread between these rates was kept within narrow limits. Although in the United States the rise in commercial bank rates on short-term business loans appeared to lag behind money market rates, effective rates were actually much higher. The raising of standards of credit-worthiness, the imposition of minimum deposits, discounts or extra charges and recourse to higher-cost sources of credit outside the regular channels all tended to raise the actual cost of credit to the borrower both in the United States and elsewhere much more than is suggested by the published rates.

Long-term rates did not move as steeply as the short-term rates, reflecting the expectation that short-term rates were bound to be reduced in due course. In fact, in a number of countries, such as Canada, the United Kingdom and the United States, the normal rate structure became inverted so that the long-term rates failed to reach the level attained by the short-term rates. Chart 3 illustrates the general upward movement of interest rates of different maturities as well as the significant changes which took place in the rate structure.

The effectiveness of a rise in the cost of credit in restraining demand naturally depends on the sensitivity of the various components of demand to interest charges. Inventory building was relatively moderate during the recent boom, owing mainly to the absence of any general expectation of rising commodity prices. This in turn reflected not only the absence of the type of circumstances which encouraged speculation in commodities in 1950-1951, but also the fact that the rate of growth of total output, and especially of industrial output, was much smaller during the North American recovery from the 1954 recession than from the 1949 recession. It seems hardly likely that changes in interest rates can have been of more than secondary importance in this connexion.[39]

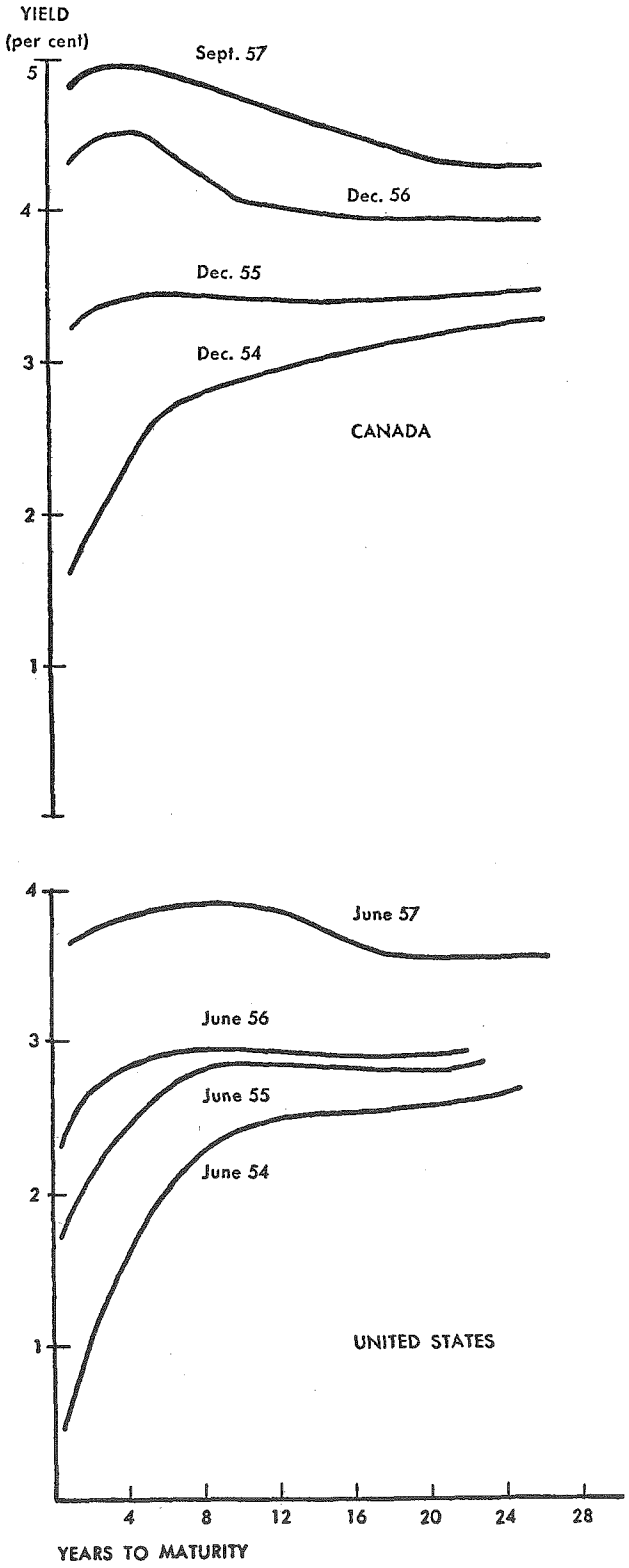
Nor does it seem that interest rates exerted any considerable influence on fixed investment. In so far as a

[37] The establishment of liquidity reserve requirements was prompted largely by sizable bank holdings of short-term government securities as a result of war-time government deficits. These securities constituted a powerful potential source of credit expansion. In some countries, however, these liquidity requirements also facilitated cheap financing of further government deficits by bank credit.

[38] In several countries increases in indirect taxes on these items were introduced to supplement the effect of the selective credit restrictions.

[39] There is, moreover, no evidence that traders were more sensitive to interest rates in fixing the size of their inventories than manufacturers. In any case wholesalers account for only 14 per cent of non-farm inventories in the United States; their share in the United Kingdom is also small. Nor do limitations on the supply of credit seem to have acted as the main restraining influence on inventories in 1954-1957. It will be noted that rates of inventory accumulation were modest in practically all countries, although the degree of credit restriction varied greatly from country to country. Moreover, an examination of the data country by country does not suggest that inventory accumulation responded at all sensitively in the course of the boom to changes in the cost or availability of credit, except possibly in Japan.

Chart 3. Canada and United States: Changes in the Structure of Interest Rates on Government Obligations of Varying Maturities



Source: Bureau of Economic Affairs; based on national sources.

high proportion of total fixed investment was determined by governments and public corporations on the basis of general public policy, the area of possible influence by interest rate considerations was to that extent limited. Even with respect to private fixed investment, as business optimism increased, companies were prepared to raise the level of investment outlays corresponding to any given rate of interest. What happened, therefore, was that a moderate rise in long-term interest rates was accompanied by an advance in fixed investment. Fixed investment might, of course, have been larger if the rate of interest had not been raised. It should be noted, however, that interest charges constitute a relatively small proportion of the total cost of investment, owing particularly to the preponderant importance which business attaches to future uncertainties, so that most investment outlays are expected to yield their economic return in a relatively short time. Moreover, the high rates of corporate income taxes prevalent in industrial countries mean that only part of the increase in interest cost is borne by enterprise.

Whatever deterrent effect high interest rates might have had is likely to have been more than offset by expectations of higher prices[40] or by fears of supply difficulties. Even privately owned utility companies did not demonstrate much sensitivity to interest rate changes, despite the fact that the interest element in their total costs is relatively high. In Canada and the United States it was the public utilities which raised their fixed investment most rapidly during the recent period of monetary restraint.[41] The long lead time required for investment decisions in such industries renders revisions of investment plans in response to temporary changes in interest rates highly impracticable. Moreover, public utility regulations implying cost-plus pricing meant that there would be no difficulty in recovering any additional costs due to higher interest rates.

There was a marked decline in residential construction in relation to total fixed investment in several countries during the recent boom, as shown in table 13. There is little doubt that active government policies in this field, taken as a whole, contributed materially to this decline. Even here, however, the role played by the interest rate was overshadowed by other considerations. In the United States, it was the limitation on the maximum rate of interest of government-insured mortgages and not the high level of the mortgage interest rate that appeared to be the main obstacle to mortgage

[40] In answer to a question that was asked of manufacturers in the 1956 annual survey of business investment, approximately one-third thought prices of capital outlays would be higher than they were at the beginning of 1956 and almost no one expected lower prices. *See* United States Department of Commerce, *Survey of Current Business* (Washington, D. C.), January 1957.

[41] Investment by public utilities also expanded faster than total fixed investment in certain other countries, but here it was often influenced by government programmes largely sheltered from cost considerations.

Table 13. Ratio of Residential Construction to Gross Domestic Fixed Capital Formation[a]

(Percentage)

Country	1950	1951	1952	1953	1954	1955	1956
Belgium	25.5	22.5	21.1	23.7	25.4	22.2	19.7
Canada	22.6	18.6	16.6	19.5	21.7	24.4	20.5
Denmark	16.7	16.0	15.7	16.6	17.5	15.8	15.2
Federal Republic of Germany	...	...	24.1	27.2	27.6	25.4	24.9
France	15.9	19.1	22.9	24.1	25.0	25.4	24.4
Italy	16.4	16.9	20.0	20.7	23.6	26.0	26.4
Japan	...	6.2	7.7	8.0	8.8	8.8	8.3
Netherlands	17.3	16.6	17.0	17.5	16.1	14.1	15.9
Norway	18.3	19.9	21.5	20.5	18.7	18.3	16.0
Sweden	24.7	23.4	22.4	23.2	24.3	24.6	25.2
United Kingdom	19.7	20.3	23.8	27.1	26.2	22.8	21.3
United States	27.2	22.9	22.9	22.6	24.4	26.5	22.5

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin* (Paris); reply of the Government of Japan to the United Nations questionnaire of 1957 on national accounts.

[a] Based on data in current market prices.

financing.[42] In most other countries, where the direct role of public authorities in the financing of housing is important, the mortgage rate was often pegged, but the volume of housing construction was directly influenced by the supply of credit made available for this sector, the amount of subsidies granted, the number of building permits issued, and the construction activities of the authorities themselves.[43]

Interest rates on consumer credit did not change very much, on the whole. Effective rates were usually at a considerably higher level than other loan rates so that consumer credit remained relatively attractive to lenders during periods of tight money, without any substantial rise in charges.[44]

Availability of credit

Aside from influencing the cost of credit, monetary policy seeks to impose restraints on economic activity through the availability of credit. It is true that the rise in the cost of credit often serves to indicate market pressure on existing availability of credit. Moreover, where pressure has been exerted on the availability of bank credit through sales of government securities in the open market, the yields of the securities have been affected. The restraining influence of open market operations has thus stemmed not only from the direct reduction of bank reserves but also from the decreased liquidity of the banks resulting from the depreciated asset values of their holdings of government securities. Available evidence does not, however, lend support to the view that an increase in yields of government obligations tended to make bank lending to the private sector less attractive on account of the rigidity of loan rates of interest or the reluctance of banks to realize a capital loss on government securities. Private lending turned out to be sufficiently profitable to justify heavy liquidation of government securities in such countries as Canada, the United Kingdom and the United States.[45]

Where limitations on the availability of credit were introduced by means other than open market operations, the distinction from interest rate influences was more apparent. A clear illustration is the case of Norway, where the Central Bank saw no need to raise the discount rate in view of the imposition of an absolute restriction on bank credit. Some of the selective controls affecting consumer or mortgage credit provide additional examples of the independent role of the availability of credit, as distinct from its cost.

An indication of the tightness of credit may be obtained by examining changes in the cash or liquid reserves of the banks. Chart 4 shows that a sustained decline in liquidity took place in the Netherlands, Norway, Sweden and the United States. Where minimum

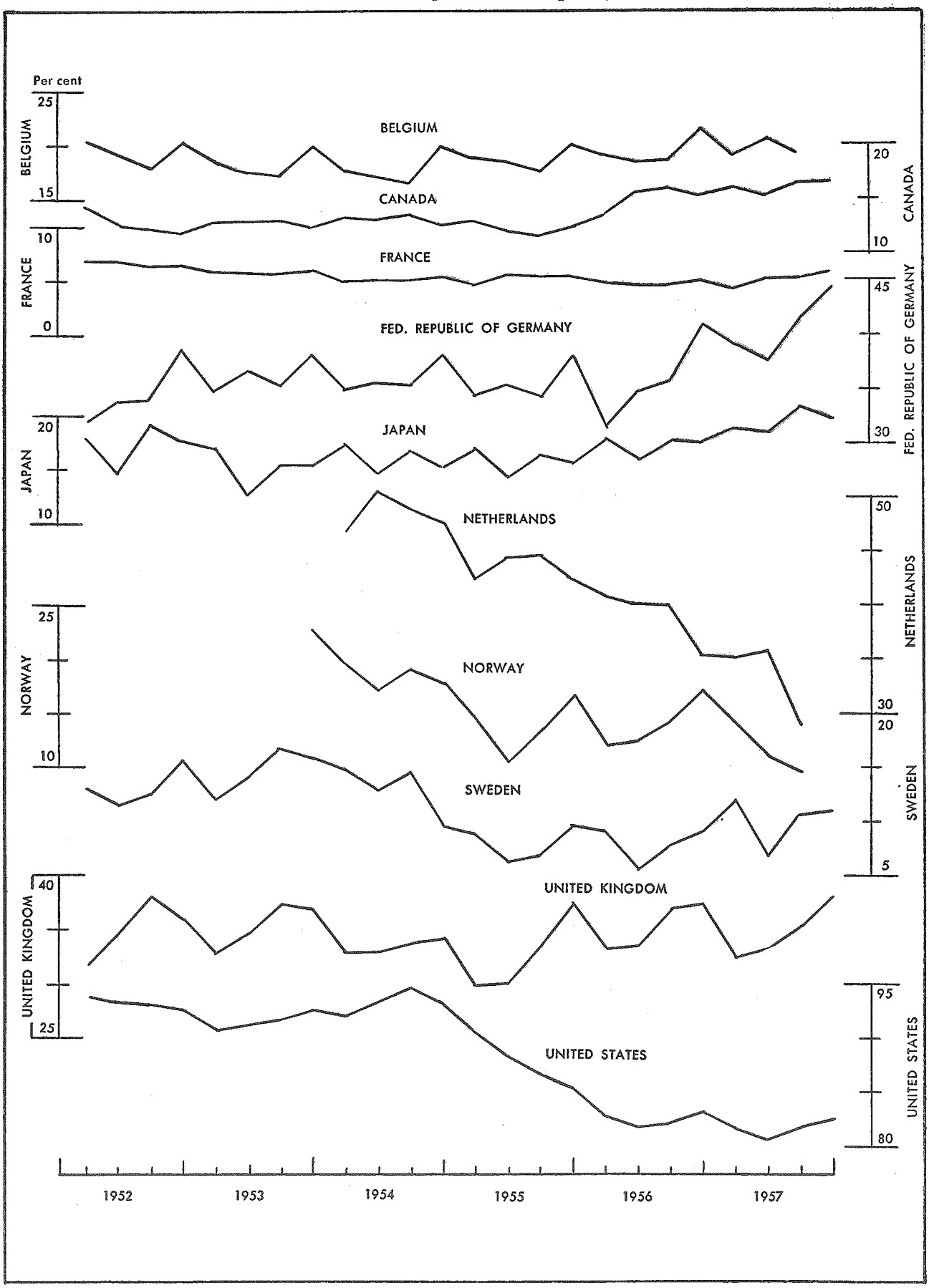
[42] This is indicated by the precipitate relative decline in government underwritten mortgages as compared with conventional mortgages.

[43] In the United Kingdom, where public housing was reduced continuously from 1953 to 1957, the growth of private house-building appears to have been slowed by a shortage of mortgage funds. This, however, was due to the unwillingness of building societies to raise deposit rates to attract savings; mortgage rates were in fact kept at a relatively low level.

[44] Changes in interest rates have affected international as well as domestic transactions, especially through their influence upon movements of short-term capital in search of high yields and more generally, upon the state of confidence in particular currencies. In most cases it is difficult to separate the effect of interest rate differentials from those of other factors. Thus, the raising of the bank rate to 7 per cent in the United Kingdom in September 1957, which was followed by a cessation of speculative capital outflow, was only one of a whole series of measures, which included declarations by the Governments of the Federal Republic of Germany and of the United Kingdom of their intention to maintain current exchange parities.

[45] In the United Kingdom, however, the attractiveness of yields of Treasury bills in relation to those of bank deposits, and the consequent shifts of assets by alert depositors, did create significant pressure on the liquidity of banks and their ability to lend early in 1955. Later the imposition of absolute limits on bank credit resulted in excess bank liquidity.

Chart 4. Changes in Bank Liquidity



Source: Bureau of Economic affairs; based on national sources. Bank liquidity refers to the ratio of liquid assets to deposits. Owing to differences in definition, no inter-country comparison should be made of the absolute ratios.

Table 14. Changes in Bank Advances, by Country

(Percentage change from previous year; end-of-year figures)

Country	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*
Belgium	13	21	9	−3	11	17	5	1[a]
Canada	20	8	11	17	—	19	10	1
Denmark	9	8	5	8	7	2	6	6
Federal Republic of Germany	42	18	17	12	15	16	5	4
France	20	6	18	15	17	15	8	16
Italy	17	18	26	21	15	16	16	12[a]
Japan	46	53	40	26	9	10	27	24
Netherlands	13	19	2	24	24	21	14	−1
Norway	21	19	8	4	8	3	−1	6
Sweden	14	10	−3	1	12	−5	1	2
United Kingdom	8	17	−9	−2	11	−2	3	−2
United States	21	11	11	5	5	16	9	4

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, and national sources.
[a] Third quarter.

liquidity ratios were imposed or suggested by the authorities, bank liquidity either failed to decline, as in Belgium, or recovered after an initial drop, as in Canada and the United Kingdom.

On the other hand, where bank liquidity declined, this reflected in part the strong willingness of banks to lend, partly induced by prevailing high returns on loans. It should also be noted that, to the extent that banks were committed by existing unused lines of credit or overdraft facilities, possibilities for curtailing the volume of lending were correspondingly limited. Consequently, the pressure on bank reserves or liquidity did not, or perhaps was not intended to, result in an immediate decline in bank credit, although a slowing down in the rate of increase over time was inevitable. Table 14 shows that in a majority of countries substantial bank advances were extended even after the initial measures of restriction were introduced, but that the rate of increase in advances invariably declined. The continued credit expansion was made possible either because banks had previously been very liquid, or because large shifts in the portfolio in favour of loans were made, or because of recourse to the facilities of the central bank. All these had their practical limits, which were reinforced by such measures as the imposition of liquidity requirements or of discount ceilings; and in countries adopting outright limitations on bank credit, the expansion of loans was quickly arrested or even reversed.

The extent to which a restraint on bank credit affects economic activity evidently depends on the relative importance of such credit in business finance. There is some evidence that other financial intermediaries have been growing more rapidly than the commercial banks, and that self-financing has become more prevalent. This would imply that policies impinging mainly on the commercial banking system, without direct influence on the capital market, insurance companies and internal company finance, have correspondingly lost some of their effectiveness.

Available data indicate that the ratio of bank loans to total business sources of finance has declined recently in the Federal Republic of Germany, the Scandinavian countries, the United Kingdom and the United States.[46] In several countries there was an increase in the relative importance of the capital market. Thus sharp advances in the equity market apparently aided equity financing in the Federal Republic of Germany. In the United States, bond financing remained predominant, the new issues being largely absorbed by insurance companies, which provided more funds for the corporate sector in 1956 than did banks.[47]

Internal company resources in the form of undistributed profits and depreciation charges together with external funds from the capital market were not in general sufficient to finance the expansion; it was necessary for corporations to dip into their own liquid funds, especially government bonds. This was possible because the liquidity of the corporations was relatively high at the start of the expansion, though it was greatly reduced as the expansion proceeded. In the United States, corporate liquidity declined by the middle of 1957 to the lowest level in the post-war period, reaching a level about comparable with that of the pre-war years. A similar tendency appears to have prevailed also in the United Kingdom and in years of major expansion in Belgium, Japan and the Netherlands. Significant as these declines were, it is doubtful whether, even by the

[46] In the Federal Republic of Germany the contribution of banks to the finance of enterprises declined in 1956 to less than one-third of the total, and in the United States to only 10 per cent (see Deutsche Bundesbank, *Monthly Report* (Frankfurt), November 1957 and Board of Governors, Federal Reserve System, *Federal Reserve Bulletin* (Washington, D. C.), October 1957). Japan is probably the only country where bank lending supplied as much as half of total business finance during the recent expansion.

[47] Board of Governors, Federal Reserve System, *Federal Reserve Bulletin*, October 1957. The reliance on bond financing in the United States, despite a relative decline in yields of equities beginning in 1955, reflected the asymmetry of treatment with respect to corporate taxation between interest cost and equity yields.

end of the boom, the state of corporation liquidity was the principal obstacle to further expansion. At the end of 1956, corporate liquid assets in the United States were still almost twice as high as outstanding corporate indebtedness to the banks, and in the United Kingdom four times as high. Moreover, pressure on liquidity had not reached the point at which corporations were deterred from increasing the rate of disbursement of dividends.

Use of selective credit controls

Various types of selective control over the cost and availability of credit have already been mentioned. Their purpose was either to prevent restrictions from affecting those economic sectors considered especially important, such as the export industries or national defence, or to pinpoint those sectors, such as consumer durables or residential building, in which demand was thought to be postponable and which were therefore called upon to play a compensating or anti-cyclical role. There seems to be little doubt that such selective measures, when pursued vigorously, have brought about quicker and more sharply focused results than general credit restraints, though to some extent—as long as there was fluidity in the credit system—the privileged industries could always redistribute part of their benefits to the non-privileged industries.

The extraordinary growth of consumer credit in the post-war years has opened up a new avenue for selective credit control, especially since the sizable year-to-year fluctuations in credit have apparently exerted a destabilizing influence on the economy. Restrictions on consumer credit, either through the limitation of credit available to finance companies or through the terms of consumer loans, were introduced in most western European countries and Canada during the recent boom. These restrictions, coupled with increases in indirect taxes in some cases, achieved prompt results, especially in the field of consumer durables. The sharpest impact was registered in the United Kingdom in 1956, when restrictions on hire-purchase credit together with higher purchase taxes led to a drop in sales of consumer durables.

Even in this area, however, important limitations have become more and more evident. Bank control over the resources of sales finance companies was obviously limited by the access of these companies to the capital market, as in the case of Canada; where such access was also controlled, finance companies could still obtain public deposits and other liquid assets by offering attractive yields or by exchanging assets with highly liquid companies, as in the case of the United Kingdom. There was also some question whether restraint on consumer purchases even of durables would release the right kind of resources. Apparently the drop in demand for passenger cars in the United Kingdom in 1956 was not followed by a shift of resources to the investment goods industries, and subsequently the restrictions on consumer credit were relaxed. It is also noteworthy that the demand for consumer durables slackened considerably in the United States, as elsewhere, in 1956-1957, even though selective controls on consumer credit were not reimposed in that country. The United States decision not to interfere with consumer credit probably reflected the fact just mentioned.

These considerations point to a significant difference between the effect of general credit controls and of selective credit controls; while the full impact of the former tends to be considerably delayed, that of the latter is much more immediate, but likely to weaken as time goes on, owing to the many ways of circumventing the controls. So long as selective controls are used only for short-term anti-cyclical purposes, they are likely to achieve significant results. If they were used over a lengthy period, however, the control measures would have to become more and more comprehensive and complicated if all loopholes were to be eliminated. This raises the further question as to whether in the longer run such controls might not also be a serious deterrent to growth of the durable consumer goods industries, where very favourable opportunities exist for achieving high productivity and for propagating technological development to the rest of the economy.

Perhaps the most widespread form of selective credit control employed was in the field of residential building. Controls on the availability or on the terms of residential finance were supplemented in some cases by reductions in government subsidies to housing, as well as by tight limitation of building permits—bordering on direct physical controls. These measures were the primary cause of the relative decline in residential construction noted earlier.

The over-all effects of credit policy

The over-all effect of monetary policy on economic activity can best be summarized by comparing changes in the money supply and in the current value of gross national product during recent years. It may be seen from table 15 that in practically all countries which introduced tight money policies, the gross national product increased relatively more than the supply of money. In other words, the effect of restrictions in money supply on economic activity was offset, at least in part, by economies in the use of money—which may be viewed either as a reduction in liquidity (the ratio of money supply to the gross national product) or as an increase in the velocity of circulation of money. Moreover, despite an almost continuous decline in liquidity during the post-war period in a majority of countries, a limit to the decline was apparently not reached even during the recent period of hard money.[48]

[48] Inasmuch as close substitutes for money were not subject to the same control by the monetary authorities as money itself, they were not included in the calculation of liquidity. If they had been, the decline in liquidity would be somewhat less steep, owing to the faster rate of growth of substitutes for money in the post-war period, but the conclusions reached in the text would be unaltered.

Table 15. Changes in Gross National Product and Money Supply,[a] by Country

(Percentage change from previous year)

Country and item	1950	1951	1952	1953	1954	1955	1956	1957
Belgium								
Gross national product	2.8	14.6	4.7	0.5	3.4	6.0	6.3	...
Money supply	1.9	3.8	6.9	2.5	2.5	4.0	4.1	...
Canada								
Gross national product	8.9	17.9	11.7	4.6	−0.1	9.5	10.6	3.6
Money supply	9.1	2.5	3.6	4.3	1.2	9.3	1.9	−2.3
Denmark								
Gross national product	15.0	8.0	5.6	7.9	4.7	3.2	6.1	5.6
Money supply	0.9	−1.1	5.9	4.9	2.0	−2.1	3.0	3.3
Federal Republic of Germany								
Gross national product	...	23.0	12.2	7.1	7.1	14.1	9.6	7.5
Money supply	...	15.2	15.0	10.9	12.7	10.8	9.0	11.4
France								
Gross national product	14.1	23.3	19.2	2.8	6.2	8.9	8.3	9.7
Money supply	19.5	18.5	15.2	11.4	10.8	13.7	13.5	8.1
Italy								
Gross national product	10.6	16.1	6.0	9.4	6.8	9.5	7.2	6.9
Money supply	...	...	18.3	11.3	4.5	10.3	8.9	6.6
Japan								
Gross national product	...	...	15.2	16.3	7.4	7.6	12.9	9.4
Money supply	16.5	31.0	22.4	18.6	4.3	7.2	20.7	11.4
Netherlands								
Gross national product	10.9	11.1	5.5	5.8	9.9	9.8	6.8	7.3
Money supply	−1.2	−3.4	10.3	7.3	7.7	7.4	1.7	2.5[b]
Norway								
Gross national product	10.8	25.1	10.9	0.3	7.0	6.8	9.8	8.4
Money supply	...	...	12.0	3.8	4.9	−0.2	0.9	2.1[b]
Sweden								
Gross national product	6.9	23.0	9.8	2.2	5.4	8.1	7.1	6.0
Money supply	5.1	12.3	11.5	5.4	3.8	1.1	2.3	4.9
United Kingdom								
Gross national product	5.7	10.5	8.4	6.8	6.1	6.5	7.8	5.6
Money supply	0.8	2.8	−1.0	2.1	4.0	1.1	−0.4	0.7
United States								
Gross national product	10.8	15.3	5.4	5.1	−0.5	8.4	5.8	4.8
Money supply	2.8	5.0	5.1	2.4	1.3	3.8	1.1	0.4

Source. United Nations Bureau of Economic Affaires.

[a] Gross national product at current prices. Money supply represents the annual average of monthly data, except for Denmark, where it represents the quarterly average.

[b] Nine months.

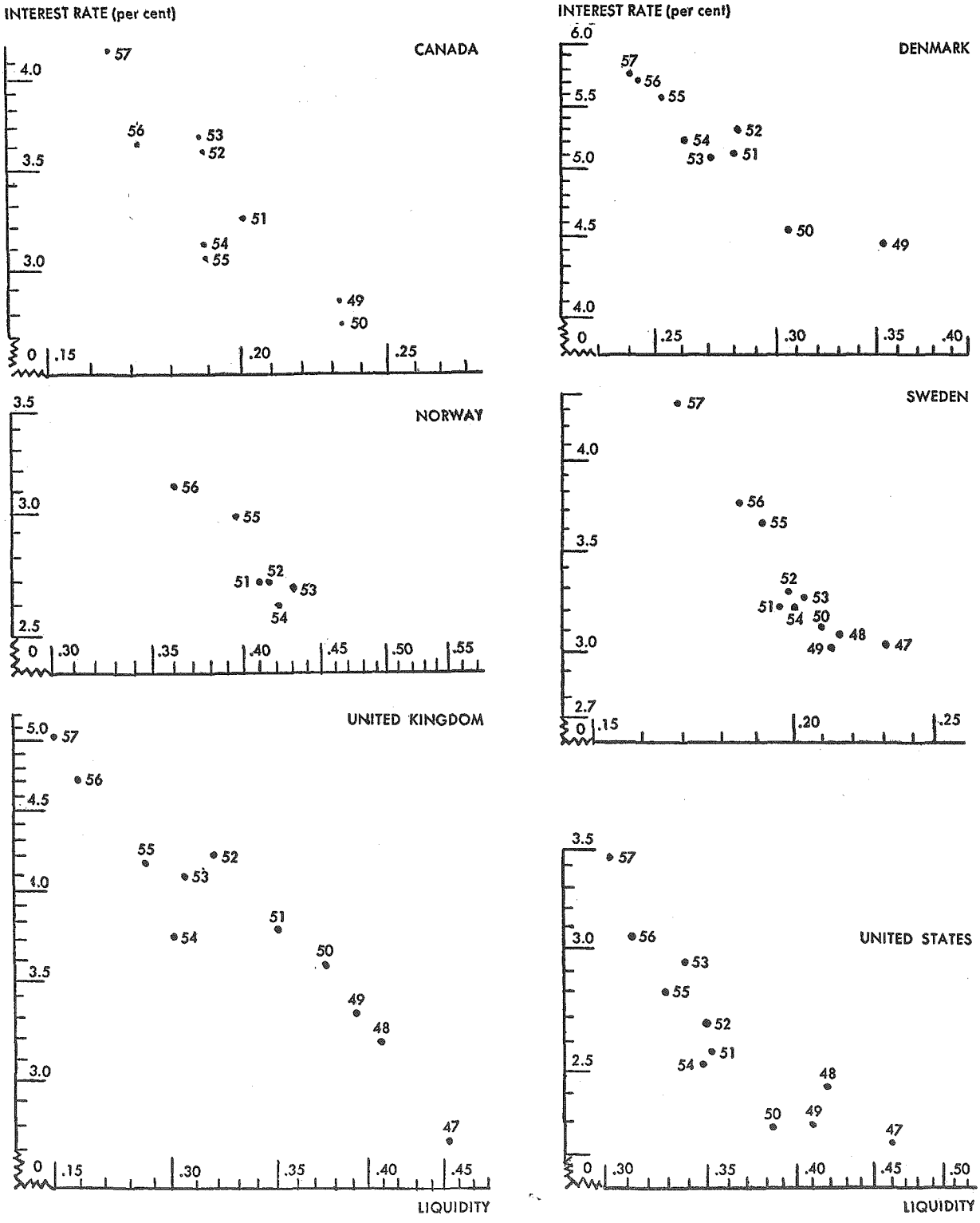
In a number of countries, notably Canada, the Scandinavian countries, the United Kingdom and the United States, the decline in liquidity in recent years has been closely associated with a rise in interest rates, as shown in chart 5.[49] The implication of this for monetary policy is that rising interest rates, accompanying restraints upon the supply of money, also induce a more economical use of money. Consequently, whatever effect a hard money policy may have on aggregate demand is at least partly offset by the tendency of the economy to make do with a lower level of liquidity.

[49] The interest rate is represented by the yield on long-term government bonds, because such data are available for most countries. The observations in the text hold true for those countries where Treasury bill rates can be substituted for long-term bond yields, although the shape of the curves is affected by pegged Treasury bill rates in several countries during the early post-war years, and by the lesser advance in long-term rates than in short-term rates during the recent boom.

From the foregoing discussion it can be seen that the economic system was sufficiently flexible during the period reviewed to permit expansion to continue, at least for a considerable time, despite various substantial monetary constraints. It is hardly necessary to go on to consider the question whether restrictive credit policies could by themselves ultimately slow down a boom that was not tending to lose momentum for inherent reasons. There seems little doubt that such restrictive measures, if applied stringently enough and over sufficiently long a period, could arrest an upsurge in business activity in due course, if only because of their depressing effect on business expectations. Where banking liquidity remained high, cash or liquid reserve requirements could be increased. Where credit expansion could not be curtailed by conventional methods, absolute limits could be imposed. And if credit policy were frustrated by the

Chart 5. Relationship between Interest Rate[a] and Liquidity,[b] Selected Countries

(Double logarithmic scale)



Source: Bureau of Economic Affairs, based on national sources.

[a] Long-term government bond yields.

[b] Ratio of money supply to gross national product.

activities of financial institutions outside the banking system, they too could be brought under control, and pressures could be intensified by use of selective measures. The actual combination of policies adopted would depend on the degree of effectiveness desired and on the alternatives preferred in a given social setting.

The real question, however, is whether monetary policy provides a sensitive instrument of control in the short run. In so far as the monetary authorities rely simply on the orthodox weapons hallowed by tradition, the consequential restraints upon business activity may be so slight as to be barely perceptible, unless these weapons are pushed very far. On the other hand, to the extent that the authorities move away from conventional and general monetary weapons, monetary policy begins to lose much of its appeal from the standpoint of simplicity and of the absence of any need for continuous direct government intervention or discrimination.[50]

Furthermore, inasmuch as monetary policy may be expected to exert its influence on price stability largely through the medium of whatever restraints it effectively imposes on aggregate demand, its appropriateness in dealing with a cost-price spiral must be open to serious question. For if, as has been seen, such a cost-price spiral takes place not only in periods of rapid economic expansion but also in periods of more moderate rates of growth, the question arises as to whether a tight money policy is to be accepted as a more or less permanent feature of the economic landscape. Similarly, reliance on monetary policy to achieve balance of payments goals, especially where it is desired to accumulate foreign exchange reserves over a period of years, would likewise increase the chances of prolonged restraint on credit. In this way, the flexibility regarded as characteristic of monetary policy might be lost, and the dangers of a long-term downward shift in productive investment accentuated.

The foregoing discussion has dealt with the influence of monetary policies upon business activity exerted through their direct effect upon the cost and availability of credit. It has not attempted to evaluate explicitly the impact of such policies upon business expectations. The importance of this aspect of the policies would probably depend upon the general economic situation, the character of the measures adopted and the manner in which the measures were presented to the public. In the nature of the case there is no method of measuring, with any degree of precision, the subtle changes in business confidence which may take place over an extended period of time. By the same token, however, the more the authorities rely on the psychological factor, the less certain are they likely to be as to the precise consequences to be expected of any given action. Above all, the difficulty of correct timing comes very much to the fore. Shifts in expectations may begin to emerge in the form of observable changes in activity—particularly in fixed investment requiring substantial advance planning — only when the point is long past at which a recasting of monetary policies would have been desirable. Under such conditions, the withdrawal of restraints may take place much too late to avoid a downturn in economic activity of much greater dimensions than had been anticipated or intended, and possibly greater than could be overcome by the reversal of monetary policies alone.

THE CHARACTER OF RECENT FISCAL POLICY

Available evidence points to some reluctance on the part of governments to use fiscal policy to curb demand during the recent period of price inflation. On the whole, government restraints on demand through the budget seem to have been relatively mild.

Government current and capital expenditure on goods and services were both generally stable or declining as a proportion of gross national product from 1953 to 1955, the main exception being Japan, as shown in table 16. However, the trend in government current expenditure was due more to the end of the Korean conflict and the consequent tendency for defence expenditures to level off or decline than to any deliberate attempt at disinflation. There was less uniformity in the trend of government transfer, interest and subsidy payments, though in most cases these were also tending to decline as a proportion of national output.[51]

Thus in most countries total government expenditure either declined or changed very little from 1953 to 1955 as a proportion of gross national product. Only in Belgium and Canada in 1954 and Sweden in 1955 was there an increase in total government expenditure equivalent to more than one per cent of national output. The number of countries in which government expenditures

[50] Bank authorities themselves have stressed the limitations of monetary policy. In a speech before the Bond Club of New York, 16 October 1957, the president of the Federal Reserve Bank of New York, Mr. A. Hayes, voiced concern that "perhaps too much of the responsibility for combating inflation has been placed on monetary policy". Mr. C. N. Shepardson, a member of the Board of Governors of the Federal Reserve System, pointed out that "If there is not enough demand for cotton and too much demand for steel, there is little that monetary policy can do about it directly". In a speech before the Dutch Association for Political Economy, November 1957, Dr. M. W. Holtrop, President of the Netherlands Bank, expressed the view that, while the central bank had means at its disposal to put a brake on inflationary developments and in the end to curb them entirely, the bank hardly had such means available as would enable it to compensate inflationary impulses cropping up in one place by contrary activities in another. Lord Rowallan, Governor of the National Bank of Scotland, remarked at the annual general meeting in December 1957 that "Credit squeezes and manipulation of bank rate, necessary though these may be, will never of themselves solve our problems: taken in isolation, they savour of an attempt to make the tail wag the dog."

[51] Notable exceptions were provided by the rise in transfer payments in Canada and the United States during the 1954 recession owing to increased unemployment compensation. In Belgium increased rates of pay to the unemployed accounted for a sharp rise in transfers in 1954, and in Sweden transfers, interest and subsidies all increased in relation to output from 1953 to 1956, though subsidies to housing were reduced early in 1957.

Table 16. Government Appropriation of National Income
(In percentage of gross national product)

Country and item	1950	1951	1952	1953	1954	1955	1956
Belgium							
Total tax receipts	16.4	17.5	17.2	16.4	16.5	16.4	16.7
Government property income	0.2	0.1	0.2	0.5	0.4	0.3	0.2
Less transfer, subsidy and interest payments	−6.7	−6.0	−6.3	−5.8	−7.1	−6.2	−5.7
Net appropriation of income	9.9	11.6	11.1	11.1	9.8	10.4	11.2
Less government consumption	−9.9	−10.7	−12.3	−13.0	−12.9	−11.4	−11.4
Balance on current account	—	0.9	−1.2	−2.0	−3.0	−0.9	−0.2
Canada							
Total tax receipts	22.3	25.4	24.6	24.4	24.2	23.7	24.2
Government property income	2.0	1.9	1.9	1.9	2.1	2.0	2.0
Less transfer, subsidy and interest payments	−8.5	−7.5	−8.0	−8.3	−9.2	−8.6	−8.2
Net appropriation of income	15.8	19.7	18.5	18.0	17.1	17.1	18.0
Less government consumption	−10.0	−12.5	−14.5	−14.8	−14.7	−14.0	−13.7
Balance on current account	5.8	7.2	4.0	3.2	2.4	3.0	4.3
Less government investment[a]	−3.2	−3.1	−3.6	−3.1	−3.4	−3.6	−3.8
Total balance	2.6	4.1	0.4	0.1	−1.0	−0.5	0.5
Federal Republic of Germany							
Total tax receipts	30.2	31.1	33.0	33.9	33.5	32.6	33.0
Government property income	1.4	1.5	1.8	1.8	2.0	2.2	2.2
Less transfer, subsidy and interest payments	−12.4	−11.5	−12.1	−12.0	−11.8	−11.7	−12.2
Net appropriation of income	19.3	21.1	22.7	23.8	23.7	23.2	22.9
Less government consumption	−15.4	−15.4	−16.2	−15.4	−15.1	−14.1	−13.8
Balance on current account	3.9	5.7	6.5	8.3	8.6	9.0	9.1
France							
Total tax receipts	28.9	29.6	29.8	31.6	31.3	30.5	31.4
Government property income	0.3	0.5	0.4	0.5	0.6	0.7	0.6
Less transfer, subsidy and interest payments	−11.9	−12.8	−13.1	−14.0	−14.6	−15.2	−15.8
Net appropriation of income	17.4	17.3	17.2	18.1	17.4	16.0	16.3
Less government consumption	−13.9	−14.5	−15.9	−16.2	−15.2	−14.0	−15.0
Balance on current account	3.4	2.8	1.3	1.8	2.3	2.0	1.3
Less government investment[a]	−5.6	−4.4	−4.4	−4.6	−5.0	−4.8	−4.7
Total balance	−2.2	−1.6	−3.2	−2.8	−2.7	−2.8	−3.4
Japan							
Total tax receipts	22.2	21.7	22.2	21.2	21.2	20.3	19.8
Government property income	0.6	0.8	0.7	0.9	0.7	0.8	0.7
Less transfer, subsidy and interest payments	−3.8	−2.7	−3.9	−4.6	−5.4	−5.2	−4.8
Net appropriation of income	19.0	−9.2	19.1	17.5	16.6	15.9	15.7
Less government consumption	−11.1	−9.2	−10.9	−10.0	−11.3	−11.5	−11.3
Balance on current account	7.9	10.6	8.1	7.5	5.3	4.4	4.4
Less government investment[a]	−4.0	−6.3	−7.0	−8.0	−7.0	−7.8	−6.6
Total balance	3.9	4.3	1.1	−0.4	−1.6	−3.4	−2.2
Netherlands							
Total tax receipts	31.0	32.4	34.0	32.0	30.6	29.5	31.9
Government property income	1.7	1.7	1.8	1.8	1.8	1.7	1.8
Less transfer, subsidy and interest payments	−11.3	−10.6	−10.0	−10.0	−10.4	−10.4	−10.5
Net appropriation of income	21.4	23.5	25.7	23.8	22.1	20.8	23.2
Less government consumption	−13.5	−13.7	−14.0	−14.4	−14.5	−14.8	−14.9
Balance on current account	7.9	9.8	11.7	9.4	7.6	6.0	8.3
Less government investment[a]	−1.7	−1.6	−1.7	−2.8	−2.7	−2.3	−2.8
Total balance	6.2	8.2	10.0	6.6	4.9	3.7	5.6
Norway							
Total tax receipts	27.7	26.9	28.6	29.5	28.7	28.8	28.4
Government property income	1.0	0.6	0.7	0.8	0.7	0.8	0.7
Less transfer, subsidy and interest payments	−10.7	−9.1	−10.0	−10.3	−10.3	−10.6	−10.4
Net appropriation of income	18.1	18.4	19.2	20.0	19.1	19.0	18.8
Less government consumption	−11.4	−10.9	−11.4	−12.9	−12.8	−11.9	−12.0
Balance on current account	6.7	7.5	7.9	7.1	6.4	7.1	6.8
Less government investment[a]	...	...	−2.8	−3.7	−3.8	−3.7	−3.4
Total balance	...	...	5.0	3.4	2.6	3.4	3.4
Sweden							
Total tax receipts	22.6	23.6	26.4	26.7	27.2	28.7	29.7
Government property income	2.2	1.9	1.8	2.1	2.2	2.4	2.4
Less transfer, subsidy and interest payments	−8.3	−6.9	−7.2	−7.0	−7.3	−8.2	−8.7
Net appropriation of income	16.4	18.6	21.1	21.8	22.1	22.9	23.4
Less government consumption	−13.9	−14.0	−15.6	−16.6	−16.6	−16.9	−17.1
Balance on current account	2.5	4.6	5.5	5.2	5.4	6.0	6.3
Less government investment[a]	−2.1	−2.3	−2.8	−3.1	−3.2	−3.2	−3.2
Total balance	0.4	2.3	2.7	2.1	2.2	2.7	3.1

Table 16. Government Appropriation of National Income (*continued*)

(In percentage of gross national product)

Country and item	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
United Kingdom							
Total tax receipts	32.6	31.9	31.2	29.6	28.8	29.0	28.3
Government property income	—	—	0.4	0.6	0.8	0.8	1.1
Less transfer, subsidy and interest payments	−13.4	−12.6	−12.4	−12.0	−11.8	−11.5	−11.3
Net appropriation of income	19.2	19.3	19.2	18.3	17.8	18.3	18.0
Less government consumption	−15.9	−17.2	−19.1	−18.8	−18.0	−17.2	−17.4
Balance on current account	3.2	2.1	0.1	−0.5	−0.1	1.1	0.6
Less government investment[a]	−0.9	−3.2	−3.5	−3.5	−2.0	−1.6	−2.1
Total balance	2.3	−1.1	−3.4	−4.0	−2.1	−0.5	−1.5
United States							
Total tax receipts	24.2	25.9	26.1	26.0	24.8	25.7	26.2
Less transfer, subsidy and interest payments	−6.6	−4.9	−4.6	−4.5	−5.3	−5.2	−5.6
Net appropriation of income	17.6	21.0	21.5	21.5	19.6	20.5	20.6
Less government consumption	−12.3	−16.9	−20.2	−20.4	−18.8	−17.5	−17.5
Balance on current account	5.3	4.0	1.3	1.1	0.8	2.9	3.1
Less government investment[a]	−2.0	−2.1	−2.1	−2.1	−2.3	−2.2	−2.3
Total balance	3.3	2.0	−0.8	−1.0	−1.5	0.7	0.8

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

[a] For Canada, France and Norway, government investment includes all net capital formation in government enterprises and general government together with capital grants to finance domestic capital formation in the private sectors. For Japan, the Netherlands and the United Kingdom, government investment includes only net capital formation (of general government, government enterprises and public corporations in Japan, of general government in the Netherlands, and of general government and government enterprises in the United Kingdom). For Sweden, government investment includes gross capital formation by general government, government property income being gross of depreciation. For the United States, government property income represents a deduction from transfer, subsidy and interest payments, and is gross of depreciation and net interest paid; government investment, consisting solely of construction, is gross of depreciation. All investment by general government and government enterprises other than construction is, in the case of the United States, included with government consumption.

rose in 1956 was larger than in the two preceding years but even so the changes continued to be small in relation to total output except in France.

Most governments took advantage of the relative stability of government expenditures to ease taxes. Under conditions in which government expenditures are stable as a proportion of total output while money incomes are growing, there is a persistent tendency for the budget surplus to rise. This is because, under progressive tax systems, personal taxes advance more than in proportion to personal money incomes.[52] Owing to reductions in tax rates or increases in exemptions, in all countries listed in table 16 except Sweden, the ratio of tax receipts to gross national product was stable or declined from 1953 to 1955.[53]

In 1956, on the other hand, most countries report an increase in the ratio of tax receipts to national output, and this probably continued in 1957.[54] In some countries, this reflected a change in tax policy which began as early as 1954 in a few cases, becoming more widespread in 1955 and 1956. In a number of countries indirect tax rates were increased and depreciation allowances were reduced, while Norway and Sweden introduced taxes on investment. Several countries also raised profits taxes.

The unwillingness of governments to use an aggressive tax policy to curtail demand is strikingly illustrated by the fact that, in general, only those governments faced with balance of payments difficulties resorted to active use of this weapon. In Canada, the Federal Republic of Germany, Italy and the United States, none of which encountered serious balance of

[52] Hypothetical estimates have been prepared for three countries to show the effect upon the income tax yield of a given increase in personal incomes. The estimates were based upon the distribution of personal taxes, and of incomes by size, prevailing in Canada in 1951, in Norway in 1955/56 and in the United Kingdom in 1955. In all three cases it was found that a hypothetical increase of 5 per cent in personal incomes at all levels would, under the conditions prevailing in those countries in the years indicated, have generated an increase of approximately 10 per cent in personal income tax yields.

[53] In Sweden both direct and indirect taxes had been somewhat reduced in 1953/54, but not sufficiently to lower the ratio of yields to incomes even in 1954. By the end of 1954 fiscal policy had once again become restrictive; no further reductions in direct taxes were made, and indirect taxes were raised in the course of 1955. The rise in tax receipts from 1954 to 1955 in the United States was due to the recovery from the recession, tax rates having been reduced during 1954.

[54] The relative decline in the yield of taxes in the United Kingdom in 1956 was due at least in part to the tax reductions provided in the budget of April 1955. Subsequently, in October 1955, rates of indirect and profits taxes were raised, and the latter were further increased in April 1956. Thus while profits taxes paid declined in relation to output from 1955 to 1956, profits taxes accrued increased considerably. In Norway the slight relative decline in tax yield was due to the fact that private consumption and investment rose less than in proportion to output in 1956, the main stimulus to the economy coming from exports; consequently indirect tax revenue rose less than in proportion to output. In Japan the yield of direct taxes in 1956 continued to be affected by the raising of exemptions and reductions in rates introduced in the previous year, while the slower rise in consumption than in total production caused, as in Norway, a relative decline in revenue from indirect taxes.

payments pressure up to the end of 1957, no increases in taxes were imposed.[55] In the Federal Republic of Germany, in fact, personal taxes were reduced in the budget for 1956/57. However, no reductions in tax rates occurred in Canada and the United States in 1956 or 1957 and where automatic tax reductions had been scheduled, these were postponed. Only in Belgium were taxes increased in 1955 simply on account of the domestic situation and without any pressures on the balance of payments at that time.

Where, however, countries were beset by actual or potential balance of payments difficulties, as for example in Denmark, Norway and Sweden in 1954, the United Kingdom in 1955[56] and Belgium, France and the Netherlands in 1957, governments did feel compelled to employ fiscal as well as monetary restraints. In previous years many of these countries had frequently fallen back upon import and exchange controls when confronted with severe pressures on their foreign exchange positions. While France continued to employ direct controls on external transactions, the other countries mentioned had progressively relaxed their controls —and abolished the corresponding administrative machinery — to the point at which they could no longer provide a significant barrier to losses of foreign exchange. At the same time they wished to maintain their exchange rates at existing levels—a point on which particularly strong emphasis was placed by the United Kingdom Government, because of the widespread use of sterling as an international means of payment. In these circumstances it was felt that the whole burden of defending the external balance could not be placed solely on monetary policy which, even if it proved effective in the long term, might not yield results sufficiently quickly to prevent a critical run on the foreign exchange reserves.

In spite of this, there was one form of taxation on which no government ventured. As mentioned previously, in no case were tax rates on personal income raised.[57] This suggests either that governments felt that public opinion would not tolerate a rise in personal tax rates, or that they recognized the inappropriateness of such a measure under conditions in which effective demand was inadequate to keep the industries producing consumer goods fully employed. In so far as the latter explanation holds true, however, it affects any policy designed to reduce total demand.

[55] Tax receipts nevertheless rose in relation to output in Canada, the Federal Republic of Germany and the United States, as in other countries, in 1956, because of the operation of progressive tax systems.

[56] Although the United Kingdom again encountered balance of payments pressures in 1957, no increases in taxes were imposed as a result, presumably because the external current account was still in surplus.

[57] The nearest approach to this was the introduction by Denmark in mid-1957 of compulsory savings at progressive rates on personal incomes exceeding 14,000 Danish kroner in taxable income, as one of the measures to deal with a renewed deterioration in the balance of payments.

The total result of the revenue and expenditure policies of governments was that, in general, a mildly expansionist influence upon the economy was exerted from 1953 to 1954, following the end of the Korean boom, and an equally mild anti-inflationary influence was felt from 1954 to 1957. The only countries in which government operations were tending to accelerate rather than retard activity over the period from 1954 to 1957 as a whole were France and Japan, though there were years in which the policies of other governments departed temporarily from the general pattern.

There were relatively few cases in which the rise in the budget surplus, or reduction in budget deficit — whether on current account only or on current and capital accounts together—was equivalent to more than one per cent of the gross national product in any one year. One exception was the United States in 1955, where the effect on tax receipts of recovery from the recession together with a slower rise in expenditures by the government than by the private sector meant that the budget exerted a fairly substantial restraining influence on expansion in that year. Belgium was also tending to curtail total demand fairly strongly in 1955 through cuts in government expenditure, and the Netherlands sought the same objective in 1956 through higher taxation. Otherwise fiscal restraints on the economy were much weaker, and certainly less active than they had been in the early post-war years.

DIRECT WAGE AND PRICE RESTRAINT

The tendency for money incomes to rise faster than real output per head during the recent phase of inflation has highlighted the basic dilemma confronting the industrial countries in seeking price stability under present conditions. On the one hand, the logic of a free market requires that each economic unit be at liberty to make the best bargain that it can, whether in the market for goods and services, or in the market for labour. On the other hand, the exercise of this freedom in recent years has frequently resulted in factor incomes rising more rapidly than productivity. In such circumstances there is no reason to expect any one group to moderate its demands for higher incomes in the absence of assurances that other groups will behave likewise. It is doubtful whether the appeals for wage restraint which were made in a number of countries during the recent boom could have had much influence on the course of the inflation.

In some cases, governments went a step beyond moral suasion. In the United Kingdom, for example, the Government not only resisted a rise in the wages of its own employees in 1957 but also showed strong resistance to wage demands in public enterprises. A growing number of wage disputes were therefore submitted to arbitration. It is almost inevitable, however, that there should be some doubt as to how far arbitration machinery should be concerned with stabilization as dis-

tinct from mediation. Moreover, even if the arbitrators, over whose decisions the government has no control, should be concerned with stabilization, it would appear to be difficult to find suitable criteria for this purpose on a piecemeal basis. Attempt to use such machinery for wage stabilization on a broad scale in other countries in the past have also encountered major obstacles.

Attempts at a national wage policy have been made in the Netherlands [58] and, to a lesser extent, in Sweden and other Scandinavian countries. In these countries, bargaining has been conducted on a nation-wide level and the governments have intervened in the wage settlement to a greater or lesser extent. On several occasions the wage settlement was apparently much lower than it might otherwise have been. In 1950, in fact, no negotiated increase took place in Sweden, while an absolute cut in real wages was taken in the Netherlands in 1951. Nevertheless, it is not entirely accidental that in Sweden actual earnings increased at a much faster rate than negotiated earnings—the so-called wage-drift—largely because entrepreneurs were willing to pay premium wages. Although the phenomenon of wage-drift has not been marked in the Netherlands, owing to stricter supervision of wage rates within the framework of detailed job classifications and penalty provisions for overpayments, a period of wage restraint (in the early nineteen fifties) was followed by sharp increases, as in Sweden. Consequently, the average rate of increase in earnings in these countries in the post-war period has not been lower than in other industrial countries (see table 8); what the government gained mainly was the ability to influence the shape rather than the average slope of the rising curve of wages over time. This is not without important advantages, however, in averting temporary difficulties, and in avoiding an acceleration of the wage-price spiral at particular times.

In evaluating the experience of a national policy of wage restraint in the Netherlands, it should not be assumed that the Government ever had the power to fix wage rates. The mechanism of wage negotiation was essentially tripartite—the Government did set national targets, but the ultimate solution depended on acceptance by labour as well as by business. It was significant that, in an attempt to minimize discontent and promote the mobility of labour, the established principle of a national wages policy underwent an important change when separate bargaining within each industry was allowed in the March 1956 settlement. This change appeared to have far-reaching implications because once the wage level was made subject to the ability to pay and the bargaining strength of particular industries, it was likely to be more difficult to uphold the principle of equal pay for equal work so meticulously implemented by refined job classifications, and to determine the average wage rate in advance. There is also some doubt as to how far the target level of wages in any particular year really depended on domestic price objectives and how far on balance of payments considerations. Thus, an exceptionally favourable balance of payments position seems to have provided a sufficient justification for generous wage increases, despite the repercussions on prices.

Appeals for wage restraint were almost always accompanied by appeals for profit and price restraint. It is doubtful whether moral suasion met with any greater degree of success in this field than in respect of wages. In some cases, the government made use of its investigating power, especially in connexion with anti-monopoly legislation, to probe into the reasons for higher prices. These investigations were generally inconclusive with respect to price policy, but the inconvenience involved and possible adverse publicity created by the often extended proceedings may have had some deterrent effect on prices. In Denmark and Norway, measures for the direct control of monopolistic prices were instituted or strengthened.

In certain countries proposals for profit sharing have been made as an inducement to moderation in wage demands. Where profit sharing requires subscription by employees to the equity capital of a company, the profit accruing to the employees is likely to be limited, although there are cases where employees have actually gained control of their companies over a period of years. Alternatively, a variable or fixed proportion of profits may be distributed to the employees, independently of any capital subscription. The workers have not usually looked upon these proposals favourably since in so far as the companies are able to pay, wage earners prefer definite wage advances to the uncertain outcome of profits.[59] Another plan for "collective profit sharing" seeks a national redistribution of profits rather than profit sharing on an industry basis.[60] There is little experience on which to judge what practical significance such plans might have in influencing the development of cost-price spirals.

Although direct controls over profits and prices introduced during the war and in the immediate post-war period were subsequently discontinued in most industrial countries,[61] they re-emerged in 1956-1957 in the Netherlands when wage restraint was again made a cornerstone of government policy. However, the price controls were not applied stringently, and increases in prices took place as a result of the introduction of higher indirect taxes—as well as of the realignment of rents with other prices—evidently without any fear by

[58] *Cf.* International Labour Office, "National Wage Policy: the Experience of the Netherlands", by Bert Zoeteweij, *International Labour Review* (Geneva), February 1955.

[59] In January 1958, a profit-sharing plan was put forward by the United Automobile Workers of America, but the industry has declared the proposal unacceptable.

[60] Advocated by the Secretary of the Netherlands Federation of Trade Unions (International Labour Office, *International Labour Review* (Geneva), June 1953).

[61] However, certain features of the profits tax introduced in times of wage restraint persisted in some countries.

the Government that this might start a serious wage-price spiral.[62]

In countries where there is a strong link between wages and price indices, attempts to peg prices have frequently been made. Revival of subsidies previously abolished in Norway, and introduction of a requirement for governmental approval of increases in certain prices in Belgium, are clear examples of recent attempts at pegging price indices. Obviously such measures are likely to be successful only when accompanied by more fundamental measures of restraint. The most conspicuous case of a breakdown in price pegging and control, after an initial period of apparent success, when the necessary accompanying restrictive measures were largely absent, is provided by France. By the middle of 1957, it became clear that the fiscal system was overburdened with subsidies and the balance of payments position had reached a danger point. The remedial measures adopted, involving reduction of subsidies and increases in indirect taxes, together with a *de facto* devaluation, clearly implied retreat from price stability. Successive waves of substantial price increases had to be allowed in the face of rising domestic costs, despite decrees initially freezing prices and requiring a partial absorption of higher costs by the producers.

Conclusion

Price increases in industrial countries in recent years cannot in general be attributed to an excess of aggregate demand. Even during the period of greatest pressure of demand, most sectors of the economy other than those producing durable goods had surplus capacity, and could have increased output significantly in response to higher demand.

It is true that unemployment was generally low during the period of greatest demand. But the demand for labour was not so strong as to prevent the service industries from continuing to increase their share of total employment. Moreover, the labour bottleneck was generally much less serious than it appeared from unemployment data because employers frequently preferred to hold on to their workers in the expectation of better economic conditions in the future rather than run the risk, by dismissing them, of subsequent difficulty in recruitment. Thus the slackness in demand for labour outside the durable goods industries was for some time expressed more in a fall in the rate of increase of productivity than in a growth of unemployment. In many countries, moreover, no significant shortage of labour occurred even at the peak of the boom.

Undoubtedly there was, in certain countries, considerable pressure of demand upon supplies of durable goods for investment and consumption. What happened, in effect, was that the pattern of demand for consumption and investment was substantially different from the pattern of supply of consumer goods and investment goods made possible at full employment by the existing distribution of productive resources. In other words, the community was demanding more durable goods than could be supplied, and could have supplied more by way of other goods than was being demanded.

Average prices generally moved approximately in line with the total of wage and materials costs. Examination of the period from 1950 to 1956 shows that wage costs in manufacturing were relatively stable from 1952 to 1954, and that they were not the most important initiating factor in the price inflation which began during the Korean conflict and which was due in the first instance to soaring costs of materials. The role of wage costs was probably much more important during the price inflation of 1955-1957, though even here part of the rise in wage costs represented a response to other factors, particularly autonomous increases in the cost of living brought about by such developments as governmentally administered changes in food prices, decontrol of rents, and the raising of indirect taxes or reduction of subsidies.

While, therefore, increases in wage costs are statistically the most important element in the price inflation over the whole period from 1950 to 1956, this fact cannot be interpreted to mean that the price inflation was always wage-initiated. On the contrary, it is only during a relatively brief part of the period, at the end, that increases in wage costs may have been the major causal element in price increases.

What is true, on the other hand, is that in modern times, especially in a full employment situation, the cost-price structure is generally in a position of unstable equilibrium, in the sense that it takes only a relatively small disturbance to move the whole system upwards. The most important element contributing to this situation is the cohesiveness of the wage structure, and the fact that variations from one industry to another in earnings are much smaller than those in productivity. Wages will not necessarily advance more rapidly than productivity if all other conditions are stable. But once anything happens to force up prices in a particular sector of the economy—such as a rise in the pressure of

[62] In 1957 the trade unions in the Netherlands agreed not to press for wage increases to compensate for increases in prices that might be brought about by reductions in certain subsidies and increases in indirect taxes. In Denmark, the escalator clause on wages did not apply when the rise in prices was a result of higher indirect taxes. Similarly, the clause providing for reopening of negotiations when prices exceed a certain limit, set forth in the two-year wage settlement in Sweden in 1957, would not apply if the price increase were brought about by fiscal measures.

demand in the labour or product market in that sector—the whole economy is likely to follow suit. For if the rise in prices in the initiating sector is due to higher labour earnings, the rigidity of relationships among industries will mean that earnings in other sectors will follow suit, irrespective of whether productivity has also risen to that extent. And where the original price increase is due to higher materials costs, this too may set the system in motion through the effect on the cost of living and hence upon wage demands in general.

Moreover, so long as full employment is maintained, it cannot be expected that prices will ever fall appreciably, unless there is reason to expect a secular downward trend in materials costs due to a more rapid expansion in the output of materials relative to manufacturing than has prevailed during the past twenty years, as a whole. There is no means of projecting past experience regarding commodity terms of trade into the future. What is clear, however, is that wage costs are not likely to decline very much so long as full employment is maintained. Consequently, each phase of wage-cost inflation starts out near the point at which the previous comparable phase left off. Any decline in wage costs in the interim is not likely to compensate fully for the increase in the upward phase if only because declines are not likely to spiral, whereas increases are. These, then, are the factors which give modern price inflation its distinctive characteristics, and which raise new problems for government policy.

Differences between countries in the pull of home demand have caused substantial swings in balances of payments. Where domestic demand rose most, balance of payments difficulties usually followed. It is not clear what part was played in this process by relative changes in domestic costs through their effect on export prices, but it seems doubtful whether this was a major factor during the period under review. Some of the balance of payments problems encountered were the result of the inadequacy of foreign exchange reserves for absorbing short-term speculative capital movements. This, however, was superimposed upon a deeper disequilibrium resulting from failure of countries to keep in step in the growth of internal demand.

The policies adopted to counter inflation were centred mainly on action by the monetary authorities to raise the cost and limit the quantity of credit. Only where balance of payments difficulties were experienced were taxes raised, and even here the increases were confined to indirect taxes, which tended to accelerate the price inflation, and corporate taxes, so as to reinforce the effects of the credit squeeze on investment. No government was prepared to curb demand by raising personal income taxes. Most governments did, however, slow down the rise in expenditures, or reduce special categories of expenditure, and this, together with the effects of progressive taxation in a period of rising incomes, gave a mildly anti-inflationary character to fiscal policy. Few countries engaged in any frontal attack on prices and wages.

The effect on economic activity of using interest rates and general restrictions on the availability of credit seems to have been limited by several factors. Higher interest rates did not prevent investment from rising and even accelerating, where business expectations were optimistic. The share of the banking system in the flow of funds to business enterprises was, in general, sufficiently small so that curtailment of bank credit could be offset by use of accumulated liquid reserves, by flotations on the capital market, or by resort to facilities of financial institutions other than banks. Even after a substantial period of credit restraint, there was no indication of any serious concern on the part of corporations that further industrial expansion might have to be limited because of inability to secure the necessary finance. It is, of course, possible that general credit policies may exert their influence primarily through their effect on business expectations, rather than through the cost or availability of credit. However, circumstances may be favourable for eliciting the desired response in one situation and not in another. Since in this and other ways psychological factors are notoriously hard to predict and to control, it was not unnatural that the policies pursued were uncertain in their impact.

Greater immediate results seem to have been secured by the use of selective credit controls to discourage housing and the purchase of consumer durables. There is some doubt as to how far the consequent relative decline in these sectors released resources which could be used elsewhere in the economy. In some countries, however, simultaneous fiscal and monetary restraints on the consumption of durable goods did contribute to an improvement in balances of payments.

It seems fairly clear that, except in one or two of the Scandinavian countries, the policies were not designed to adapt the pattern of demand to the pattern of output possible with existing resources. Since the aim was to limit total demand and not simply the demand for investment, industries operating with surplus capacity were bound to experience a drop in demand along with industries where capacity was currently inadequate. In most countries no attempt was made to devise a combination of fiscal and monetary policies which would restrain excessive demand for goods in short supply while increasing demand for other goods.

Much less success seems to have been achieved in controlling the rise in prices than in curbing the level of demand, in the course of the period reviewed.[63] The cost-price spiral acquired a momentum of its own

[63] The Norwegian Government, Central Bureau of Statistics, in *Okonomisk Utsyn Over Aret 1957* (Economic Survey for 1957) (Oslo, 1958), states that "It seems quite clear that the better balance between supply and demand attained during the last few years has been practically without effect on the development of wages. This is an experience Norway shares with a good many other countries".

and did not appear responsive, at any rate in the short term, to a slackening in demand. The data suggest, in fact, that in so far as the slackening of demand may have slowed down the growth in productivity more than the granting of wage increases, the restrictive policies may even have had some perverse effect on cost inflation.

Inasmuch as the balance of payments difficulties of a number of industrial countries occurred at different points of time, the relatively greater restraint in domestic demand introduced in these countries was sufficient to arrest further deterioration in their external positions. There is, however, little evidence that individual governments took the situation of other countries into account in determining their own economic policies. The opposite movements in bank rate in the Federal Republic of Germany and the United Kingdom, in September 1957, seem to have been virtually the only instance of concerted action, and even this cannot be regarded as having a very powerful effect on disequilibrium within Europe. In this sense the world economy seems to operate with even less efficiency than under the nineteenth-century gold standard. In those days, governments which "played the game according to the rules" were expected to allow the internal supply of money to rise in response to an increase in the export balance, financed by an inflow of gold, and to fall in the opposite case when gold flowed out. There is room for argument as to whether changes in the supply of money were in fact the most important equilibrating forces in the nineteenth century. But it is in any event clear what the intention of the system was—namely that surplus and deficit countries should participate equally in the mutual adjustment of their balances of payments.

In modern times the domestic economy is to a considerable extent insulated against foreign disturbances and none of the creditor countries in the recent past has taken an increase in the export balance as a signal for raising the level of internal demand; indeed, the largest European creditor sought to offset the effect on domestic demand of its large unintended export balances. Thus the burden of correcting international disequilibria has not been shared between surplus and deficit countries; rather, the degree of deflation required in the deficit countries has been increased by the limits placed on demand in the surplus countries. This has inevitably introduced a significant deflationary bias into the process of international balance of payments adjustment.

The most important issue raised by recent experience in the industrial countries, however, relates to the implications of restrictive policies for long-term growth. Since price increases during the recent boom were not due to an over-all excess of demand, it could not be expected that they would be particularly sensitive to measures designed to restrain the growth of demand. Thus prices continued to rise when the rate of business expansion slowed down and even, in some cases, when production began to fall. Under such conditions, which are typical of modern times, attempts to secure price stability through curtailment of demand may not be able to stop short of bringing any advance in economic activity to a standstill if the objective is pursued vigorously. At the very least, such policies may necessitate a rate of growth much slower than that to which the post-war world has become accustomed. Moreover, in so far as sectoral excess demand has to be eliminated without any attempt to match the pattern of resources with the pattern of demand, the degree of utilization of labour and capacity in the economy as a whole may also have to be substantially lower than in the recent past. Even if such policies can be implemented successfully without the danger of sliding into a serious downturn in economic activity—which is far from certain—they raise the gravest questions for governments regarding the various economic goals which they wish to pursue, and the balance that they wish to strike between these goals.

Chapter 2

INFLATION IN PRIMARY PRODUCING COUNTRIES

The Nature of Inflation in Primary Producing Countries

Inflation in the primary producing countries during the post-war years has generally proved to be a more severe and intractable problem than in the industrial countries. Prices have in most cases advanced almost without interruption. Though the pace was somewhat slower in the immediate postwar years than during the Second World War, the widespread devaluation of currencies in 1949 and the outbreak of Korean hostilities in 1950 led to a renewed acceleration of price inflation. Following collapse of the Korean boom in mid-1951, domestic prices levelled off or even fell in some instances, but only for a short period. After 1954, an upward movement in prices once again became general among primary producing countries. Up to the present, this recent advance has shown few signs of abatement, although it has been more moderate than in the earlier post-war years, as may be seen from the indices of the cost of living in table 17.

Table 17. Movements of Cost of Living Indices in Forty Primary Producing Countries:[a] Average Annual Rate of Increase[b]

	Number of countries			
Annual rate of increase	*Pre-war to 1946*	*1946 to 1948*	*1950 to 1953*	*1954 to 1957*
26 per cent and above	13	7	6	2
21 to 25 per cent	5	—	1	4
16 to 20 per cent	4	6	1	—
11 to 15 per cent	4	4	5	1
6 to 10 per cent	9	12	12	9
1 to 5 per cent	5	5	10	18
0 or decrease	—	6	5	6
TOTAL	40	40	40	40

Source: Statistical Office of the United Nations, *Statistical Yearbook* and *Monthly Bulletin of Statistics*.

[a] Argentina, Australia, Belgian Congo, Bolivia, Brazil, Burma, Ceylon, Chile, Colombia, Costa Rica, Cuba, Cyprus, Egypt, El Salvador, French Equatorial Africa, Honduras, India, Indonesia, Iran, Iraq, Israel, Jamaica, Lebanon, Mexico, Morocco, New Zealand, Pakistan, Paraguay, Peru, Philippines, Northern Rhodesia, Southern Rhodesia, Sudan, Thailand, Tunisia, Turkey, Union of South Africa, Uruguay, Venezuela and Viet-Nam.

[b] Arithmetic average.

Cost of living indices do not, of course, provide a strictly accurate and comparable measure of inflation. Since they usually relate to the cost of living for wage earners in a major city and cover only a limited range of commodities, they may reflect local market conditions rather than the inflationary experience of the country as a whole. In countries where governments exercise control over prices, the indices may also be misleading because they are often based upon official prices, which, owing to difficulties encountered in enforcement of controls, may not truly represent prices paid in actual markets. Nevertheless, the cost of living indices do provide an approximate measure of the varying degrees of inflation which different countries have experienced over a number of years. When inflation has persisted for some time, the distortions in the indices lose much of their importance; the effects of inflation cease to be confined to particular localities or markets but spread instead throughout the economy, and even officially controlled prices have to be revised upwards.[1]

As a measure of inflation, these indices reveal a much greater diversity of experience among the primary producing countries than is to be found among industrial countries (table 18). At one extreme, countries such as Ceylon, Cuba, Egypt, the Philippines and Venezuela have exhibited a degree of stability in their domestic price levels between 1950 and 1957 that has not been paralleled by any industrial country. At the other extreme, the price levels of such countries as Bolivia,

[1] An alternative measure, the wholesale price index, is available only for a limited number of primary producing countries. For most of these countries, a comparison of the wholesale price and cost of living indices does not reveal significant differences in the magnitude of increase between 1950 and 1957.

Table 18. Rate of Increase in Cost of Living Indices, 1950–1957, and Rates in 1954-1957 compared with 1950–1953

Rate of increase[a] in cost of living index, 1950–1957	*Rate in 1954–1957 compared with 1950–1953*		
	Falling	*Constant*	*Rising*
High	Paraguay Argentina Indonesia Israel Viet-Nam Uruguay		Bolivia Chile Brazil
High to moderate	Thailand Australia Peru French Equatorial Africa Tunisia Morocco New Zealand Sudan	Iran Cyprus	Mexico Turkey Colombia
Moderate to low	El Salvador Union of South Africa Northern Rhodesia Ghana Jamaica Southern Rhodesia Pakistan Belgian Congo Honduras Guatemala		Burma Costa Rica Lebanon India Iraq
Stable	Ceylon Venezuela Cuba		Philippines Egypt

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics.* In descending order of 1957 index.

[a] High rates of increase in cost of living indices have been defined as rates of increase exceeding 10 per cent per annum; high to moderate rates, between 9.9 and 5 per cent per annum; moderate to low rates, between 4.9 and one per cent per annum; stable indices are those which have increased less than one per cent per annum.

Chile and Paraguay have increased tenfold or more. While the chronic inflation besetting these countries has also been evident, but to a lesser degree, in such other countries as Argentina, Brazil and Indonesia, in most countries the advance in prices since 1950 has been more moderate. It has, however, ranged up to 10 per cent per annum and has thus frequently exceeded the rate of increase generally experienced in the industrial countries.

These differences in the pace of advance in prices have also been associated with considerable variation in the rates of increase within the period. In only a few countries has the advance been at the same rate in the period since 1954 as in the earlier years from 1950 to 1953. Most countries have experienced a somewhat slower advance in prices during the more recent period. In several instances, this represented a continuous reduction in inflationary pressure throughout the years since 1950; in Paraguay, for example, the pace of advance in prices fell from an average rate of about 75 per cent per annum in 1950-1953 to about 20 per cent in 1954-1957, and in Israel, a decline from 30 to 7 per cent occurred between the same two periods. Generally, however, the change in tempo from one period to the other did not signify a continuous decline in the rate of advance in prices since 1950; rather, it reflected the resumption of price inflation at a lower rate after a short interval of relative stability in 1953 or 1954. In a few countries, the rate of advance in prices during recent years has exceeded that of earlier years. This has occurred both in countries where prices advanced quite sharply during the earlier period and in countries where prices had been relatively stable. In Bolivia and Chile, for example, the steep rise in prices in 1950-1953 was greatly accelerated in 1954-1956.[2] On the other hand, prices also moved upward after 1954 in countries such as Burma and India, where the price level had been relatively stable or had even declined in the earlier period.

The forces underlying the advances in prices in the primary producing countries do not differ, in essence, from those which generate inflation in the industrial countries and which have been discussed in the previous chapter. It may be said, however, that, in the primary producing countries generally, one of the most pervasive sources of inflation has been the effort to accelerate

[2] During the course of 1957, however, prices tended to become more stable in both countries.

the pace of economic growth. Governments have frequently resorted to deficit spending in order to add to the capital facilities necessary for development, and, in periods of buoyant demand, upsurges in private investment expenditure have likewise added to the rate of capital formation. Increases in total expenditure from these domestic sources, however, have often been augmented by increases originating in changing external circumstances. When activity in the industrial countries has expanded, export earnings of primary producing countries have commonly risen; and, though these increased earnings have been partially saved or have eventually been absorbed by a larger volume of imports, their initial effect has often been to swell the flow of domestic expenditure.

Increases in expenditure generated by budget deficits, private investment or the export balance provide additions to private incomes that have a special significance in the inflationary process. For, as these additions to private incomes are not derived from the production of consumer goods and services, the expenditure which they generate heightens demand for consumer goods and services in relation to available supplies. Accordingly, if no excess productive capacity is available, prices tend to rise under the pressure of increasing demand. The rise in prices, however, tends to change the distribution of income in favour of groups with relatively higher rates of saving out of income. When private savings have increased to the point where they match the increase in demand for private savings generated by the budget deficit, private investment or the export balance, a new equilibrium is reached; at this point the demand for, and supply of, consumer goods and services are again in balance.

Increases in demand for private savings, however, have not been the only source of inflation in primary producing countries. At times, an excess of aggregate demand over aggregate supply has emerged, not from a rise in the demand for private savings, but from a decline in the community's willingness to save. When, for example, there has been some relaxation of direct, physical controls on consumption, the community has sometimes responded by increasing its expenditure relative to current income.

Advances in prices and costs have often taken place even in the absence of excess aggregate demand. Important though such demand has been as a cause of inflation in primary producing countries, it has rarely been present as continuously as excess demand within particular sectors. As real income has risen, the changing level and composition of demand have called for a continuing readaptation in the structure of production. By comparison with the industrially advanced countries, however, greater difficulties have been encountered in the transformation of the productive structure and, consequently, prices in particular sectors have often been very sensitive to advances in income and expenditure. Such disproportions between demand and output have been variously occasioned by circumstances that are characteristic of the economies of under-developed countries. An instance is the lack of adequate credit facilities, which tends to restrict the flow of capital into many sectors of the economy. Again, the development of new industries may be impeded by insufficient and unreliable supplies of energy or by shortages of skilled labour. Or, supply and demand throughout the economy may be imperfectly related by reason of inadequate transport facilities.

It is not to be supposed, however, that the difficulties giving rise to maladjustments between the composition of production and of demand have necessarily resulted in low rates of increase in aggregate output. A number of under-developed countries have experienced relatively high rates of growth in recent years. These rates, however, have sometimes reflected the rapid development of particular sectors of production rather than balanced growth throughout the economy. In some countries, where growth has stemmed primarily from expansion of the export sector, the capacity to import has been enlarged, so that flexibility in domestic supplies has been achieved through increased imports. In most instances, however, economic growth has not been heavily weighted in favour of exports; in such cases changes in the level and composition of demand associated with rising real incomes pose the need for corresponding changes in the structure of domestic production if advances in prices are to be avoided.

Numerous countries have, in fact, experienced some imbalance in the rates of increase in output of the various sectors of their economies. Agricultural production, in particular, has frequently lagged markedly behind the growth in output of other sectors during recent years, and if the comparison is continued back to the years before 1950, this lag is seen to have been even more pronounced in some countries (see table 19). The relatively slow rate of growth, or the stagnation, of the agricultural sector has commonly underlain the deficiencies in food supplies that have been a frequent source of inflationary pressure in under-developed countries. The pressure of demand against insufficient supplies of foodstuffs has, moreover, often been heightened by the rapid growth of urban populations; even where the output of foodstuffs has been increased, urban supplies have not necessarily kept pace with the high rates of increase in urban population, since producers have often increased their own consumption, and distribution facilities have frequently been inadequate.

Neither excess aggregate demand nor excess sectoral demand, however, wholly explains the magnitude of the price inflation experienced by the various primary producing countries. The primary inflationary impulses generated by excess demand have also initiated secondary cumulative advances in prices and costs. The magnitude of these advances has varied with the

Table 19. Growth Rates and Share of Gross Domestic Product, by Sector, Selected Countries
(Percentage)

Country	Average annual rate of growth				Share in total production[a]			
	Agriculture	Industry[b]	Transport, communications and trade	Services	Agriculture	Industry[b]	Transport, communications and trade	Services
Pre-1950 period[c]								
Argentina	0.1	7.4	6.0		24.5	26.9	48.6	
Brazil	2.3	10.6	5.8	5.8	36.6	15.6	20.8	27.0
Chile	2.3	5.6	4.6	6.2	18.1	25.3	24.3	32.3
Colombia	2.1	8.9	16.3[d]	4.4[e]	48.9	22.7	3.4	25.3
Mexico	11.5	5.8	7.0	8.6	18.1	27.4	39.4	15.1
India	1.1	—	1.9	1.9	49.1	17.1	18.5	15.5
Turkey	1.0	3.2	2.6	4.0	55.4	14.2	15.1	15.3
Post-1950 period[f]								
Argentina	3.3	1.4	2.2		15.5	31.7	52.6	
Bolivia	−1.9	2.7	6.3	−1.1	31.8	39.1	14.7	14.3
Brazil	2.7	8.6	5.8		29.0	21.4	21.6	28.1
Chile	1.6	1.4	2.2		14.9	26.2	23.7	34.9
Colombia	2.6	7.3	8.9		39.6	29.6	6.3	24.5
Ecuador	6.9	10.6	12.9	7.6	38.9	21.5	15.0	24.8
Honduras	−0.6	7.5	5.3	3.2	52.4	14.6	16.9	16.1
Mexico	4.9	6.8	7.3	6.0	20.6	25.4	38.4	15.6
Burma	6.4		8.7		46.4		53.6	
India	2.9	3.6	3.7	4.7	49.0	16.7	18.8	15.7
Pakistan	2.0	13.9	3.1	2.9	60.8	7.3	12.2	19.6
Turkey	5.9	8.3	10.0	10.4	48.9	16.2	16.3	18.5

Source: United Nations Bureau of Economic Affairs, based on data published in official sources.

[a] Beginning of period.

[b] Including mining and construction.

[c] The period covered in each country depends on availability of data. It refers to 1935–1938 to 1950 in Argentina; 1939 to 1950 in Brazil; 1940 to 1950 in Chile; 1938–1940 to 1950 in Colombia; 1945 to 1950 in Mexico; 1948 to 1950 in India; and 1938 to 1950 in Turkey.

[d] Transport only.

[e] Including commerce.

[f] Generally 1950 to 1956; however, in Bolivia, Honduras, India and Turkey, it refers to 1950–1955, and in Ecuador, 1950–1954.

economic structure and institutions of the under-developed countries.

A major inflationary mechanism activated by the primary inflationary impulses has been the wage-price spiral. By raising prices and redistributing incomes in favour of groups with relatively higher rates of saving, excess aggregate demand has encroached upon the real income of wage earners. The labour unrest created by such a situation has commonly given rise to demands for increased money wages, and these increases have then been the occasion for renewed increases in prices. Excess aggregate demand, however, has not even been a necessary condition for the activation of wage-price spirals. Advances in wage costs have also taken place because of the presence of excess sectoral demand. In view of the importance of food in the consumption of wage earners and of the widespread inflexibility in the supply of food, real wages in the under-developed countries have been very susceptible to reductions occasioned by rising food prices. Moreover, at times an advance in money wages has been the outcome, not of domestic supply and demand conditions, but of a rise in foreign prices of imported commodities or of a change in governmental policy affecting domestic prices. Thus, rising foreign prices of imported commodities have not only had direct effects upon the level of domestic prices and costs but have sometimes been sufficient to activate a wage-price spiral; and similarly, changes in governmental policy regarding price controls, exchange rates, indirect taxes and subsidies have had both direct and indirect effects upon the level of domestic prices and costs.

Apart from the wage-price spiral, the final effect upon prices produced by excess demand has been magnified by the operation of another mechanism. This has its origin in the means whereby increases in expenditure in the primary producing countries have been financed. Increases in private investment, in budget deficits or in wage bills have been mainly financed by borrowing from the banking system. This has usually involved a rising supply of money, which has increased the liquidity of the community. In the absence of organized capital markets and in the face of the ever present danger of inflation, however, there is little incentive to hold increases in the money supply in idle balances and these increases have therefore tended, in time, to augment the flow of total money expenditure.

The inflationary experience of the primary producing countries has thus been shaped by a multiplicity of

circumstances that have varied, not only from country to country, but also for the same country over time. Though changing external circumstances have often generated demand pressure or advances in costs, inflation, as will be seen below, has been largely of domestic origin in recent years.

The Role of Demand Pressures

EXCESS AGGREGATE DEMAND

An excess of aggregate demand, relative to supplies, has been a potent force in the inflationary experience of many primary producing countries. This is in marked contrast to the situation in industrial countries examined in chapter 1. The origins of excess demand have been diverse. The vigorous drive to attain higher income levels has been a major factor: private and public investment have expanded rapidly in many countries. Governments have also sought to provide needed social welfare and other services. In addition, the rapid expansion of economic activity in industrial countries has made possible higher levels of exports in many primary producing countries, and thereby added to their demand for savings. Where the demand for savings rose, and this was not matched by an increase in the supply of savings at prevailing prices, the result was inflationary pressure on the supply of consumption goods and services.[3]

The emergence of excess aggregate demand may also have been due, in some instances, to a decline in the desire to save in relation to the demand for savings. In addition, there were probably instances where inflationary pressure reflected the liquidation of demand that had been pent up in an earlier period. The extent to which excess aggregate demand may have exerted pressure in these ways cannot readily be determined owing to lack of adequate supporting data in most primary producing countries.

From 1953 onward the pattern of changes in external or internal demand varied not only from year to year but from country to country. In 1951 and 1952, however, there appeared to be similar causal influences at work in a large number of countries (see table 20). In 1951 the demand for savings expanded in far fewer cases than in most other years when inflation occurred. The principal explanation is to be found in the sharp, and at the same time, widespread foreign trade changes associated with the Korean boom. The balance of exports over imports of most countries deteriorated in 1951. This occurred despite the fact that the boom in commodities brought primary producing countries an increase in export receipts, and resulted in an improvement in the terms of trade of a significant majority of countries. The most general single factor in the decline of the foreign balance is to be found in the substantial expansion of the volume of imports. While this was in some cases partly induced by increases in real income, an important consideration was the widespread desire, in the face of the uncertainties associated with international developments, to build up inventories. Without exception, the volume of imports rose in each of the countries for which data are available, the increases ranging to over 20 per cent in a number of countries. At the same time, the generally large increases in both

[3] An unchanged supply of savings or its sluggish growth has at times been the consequence of income rising too slowly to generate a sufficient margin between income and consumption expenditure. In addition, since per capita incomes are very low in many primary producing countries, even a considerable income growth often yields little excess over consumption requirements.

Table 20. Demand for Gross Private Saving, by Country

(Percentage of gross private income after tax)

Country and item	1950	1951	1952	1953	1954	1955	1956
Argentina							
Gross private fixed investment	18.2	17.4	15.9	12.8	13.0	15.6	...
Change in private inventory	−1.3	2.4	2.7	−1.9	1.7	1.6	...
Gross private investment	16.9	19.8	18.6	10.9	14.7	17.2	...
Budget deficit, or surplus (−)	2.0	1.6	1.4	2.0	4.6	4.0	...
Internal demand for saving	18.9	21.4	20.0	12.9	19.3	21.2	...
Export balance	0.7	−3.9	−4.2	2.0	0.7	0.1	...
Total demand for gross private saving	19.6	17.5	15.8	14.9	20.0	21.3	...
Australia[a]							
Gross private fixed investment	19.0	23.8	18.8	19.7	21.2	21.0	19.7
Change in private inventory	7.5	12.3	−4.0	2.2	4.4	3.1	−1.0
Gross private investment	26.5	36.1	14.8	21.9	25.6	24.1	18.7
Budget deficit, or surplus (−)	2.6	4.0	4.9	2.8	3.5	4.2	2.2
Internal demand for saving	29.1	40.1	19.7	24.7	29.1	28.3	20.9
Export balance	3.3	−18.9	5.8	−0.2	−6.1	−5.2	1.9
Total demand for gross private saving	32.4	21.2	25.5	24.4	22.9	23.1	22.8

Table 20. Demand for Gross Private Saving, by Country (*continued*)

(Percentage of gross private income after tax)

Country and item	1950	1951	1952	1953	1954	1955	1956
Burma[b]							
Gross private fixed investment	8.8	9.3	11.0	10.0	10.8	9.2	10.8
Change in private inventory	1.9	—	1.8	—	0.2	1.8	−0.1
Gross private investment	10.7	9.3	12.8	10.0	11.0	11.0	10.7
Budget deficit, or surplus (−)	−2.3	0.4	2.0	7.6	10.9	5.7	10.3
Internal demand for saving	8.4	9.7	14.8	17.6	21.9	16.7	21.0
Export balance	5.7	6.9	6.3	7.4	−2.6	0.8	2.9
Total demand for gross private saving	14.2	16.6	21.2	25.1	19.3	17.5	23.9
Ceylon							
Gross private investment	5.3	8.1	7.6	6.2	5.0	6.0	6.2
Budget deficit, or surplus (−)	2.1	0.8	6.6	4.3	−1.9	−2.6	0.3
Internal demand for saving	7.4	8.9	14.2	10.5	3.1	3.4	6.5
Export balance	3.0	2.2	−9.3	−6.1	6.8	5.5	3.7
Total demand for gross private saving	10.4	11.1	4.9	4.5	9.9	8.9	10.3
Chile							
Gross private investment	7.6	7.0	5.2	8.4	2.2	...	...
Budget deficit, or surplus (−)	3.0	1.3	2.0	5.0	3.4	...	...
Internal demand for saving	10.6	8.3	7.2	13.4	5.6	...	...
Export balance	−0.5	−1.7	0.5	−0.7	−1.0	...	...
Total demand for gross private saving	10.1	6.6	7.6	12.7	4.7	...	...
Colombia							
Gross private fixed investment	9.4	11.3	11.7	14.4	14.4	13.2	...
Change in private inventory	1.8	3.0	0.7	0.3	0.3	0.7	...
Gross private investment	11.2	14.3	12.4	14.7	14.7	13.9	...
Budget deficit, or surplus (−)	2.4	2.0	2.8	3.8	3.9	8.8	...
Internal demand for saving	13.6	16.3	15.2	18.5	18.6	22.7	...
Export balance	−0.1	−0.8	0.1	−0.3	−1.6	−3.4	...
Total demand for gross private saving	13.5	15.6	15.3	18.2	17.0	19.3	...
Ecuador							
Gross private fixed investment	7.0	9.4	7.3	8.5	10.9	9.4	...
Change in private inventory	2.8	2.3	1.3	3.4	2.9	2.9	...
Gross private investment	9.8	11.7	8.6	11.9	13.8	12.3	...
Budget deficit, or surplus (−)	2.2	1.4	1.6	2.5	1.4	1.8	...
Internal demand for saving	12.0	13.1	10.2	14.4	15.2	14.1	...
Export balance	4.5	−1.8	2.4	−1.4	−1.9	−2.4	...
Total demand for gross private saving	16.4	11.3	12.6	13.1	13.2	11.7	...
Ghana							
Gross private fixed investment	5.7	5.3	5.7	6.9	5.4	6.6	...
Change in private inventory	3.6	0.7	0.4	−1.7	0.8	2.3	...
Gross private investment	9.3	6.0	6.1	5.2	6.2	8.9	...
Budget deficit, or surplus (−)	−2.5	−3.0	−0.1	−0.3	−10.0	−0.8	...
Internal demand for saving	6.8	3.0	6.0	4.9	−3.8	8.1	...
Export balance	11.3	10.9	4.3	2.0	18.0	2.0	...
Total demand for gross private saving	18.1	13.9	10.3	6.9	14.2	10.1	...
Honduras							
Gross private investment	13.2	15.9	18.0	15.0	11.3	13.0	...
Budget deficit, or surplus (−)	−1.5	−1.0	0.1	0.8	3.0	—	...
Internal demand for saving	11.7	14.9	18.1	15.8	14.3	13.0	...
Export balance	0.2	−0.8	−4.0	−1.8	0.4	−2.2	...
Total demand for gross private saving	11.8	14.0	14.0	14.0	14.7	10.8	...
India[c]							
Gross private investment	7.5	8.1	8.1	7.6	...	...	...
Budget deficit, or surplus (−)	1.3	0.7	1.9	2.4	...	...	...
Internal demand for saving	8.8	8.8	10.0	10.0	...	...	...
Export balance	—	−2.1	—	−0.1	...	...	...
Total demand for gross private saving	8.8	6.7	10.0	9.9	...	...	...
Israel							
Gross private investment[d]	22.4	24.4	25.7	21.1	20.0	...	...
Budget deficit, or surplus (−)	16.2	12.3	11.3	12.6	9.6	...	...
Internal demand for saving	38.6	36.7	37.0	33.7	29.6	...	...
Export balance	−24.5	−21.6	−28.8	−27.2	−24.1	...	...
Total demand for gross private saving	14.0	15.1	8.2	6.5	5.5	...	...

Table 20. Demand for Gross Private Saving, by Country (*continued*)

(Percentage of gross private income after tax)

Country and item	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Mexico							
Gross private fixed investment	...	...	9.2	9.2	9.2	10.2	...
Change in private inventory	...	...	0.0	−0.4	4.9	3.3	...
Gross private investment	...	...	9.2	8.8	14.1	13.5	...
Budget deficit, or surplus (−)	...	...	0.2	0.7	0.1	−0.2[e]	...
Internal demand for saving	...	...	9.4	9.5	14.2	13.3	...
Export balance	...	...	−0.4	−1.5	−0.5	0.3	...
Total demand for gross private saving	...	...	9.0	7.9	13.8	13.6	...
New Zealand[f]							
Gross private fixed investment	12.5	15.5	15.8	15.0	17.2	18.1	...
Change in private inventory	8.3	6.3	2.1	−3.0	3.8	2.4	...
Gross private investment	20.8	21.8	17.9	12.0	21.0	20.5	...
Budget deficit, or surplus (−)	2.7	0.5	5.7	5.6	1.9	3.1	...
Internal demand for saving	23.5	22.3	23.6	17.6	22.9	23.6	...
Export balance	5.1	−5.1	−0.8	4.0	−5.2	−3.8	...
Total demand for gross private saving	28.5	17.2	22.8	21.6	17.8	19.7	...
Peru							
Gross private investment	20.4	26.4	24.8	23.0	22.6	24.0	...
Budget deficit, or surplus (−)	−0.1	−0.6	1.1	0.4	0.4	0.2	...
Internal demand for saving	20.3	25.8	25.9	23.4	23.0	24.2	...
Export balance	−0.4	−3.1	−3.9	−5.5	−1.0	−2.9	...
Total demand for gross private saving	20.0	22.7	21.9	17.9	22.0	21.2	...
Philippines							
Gross private fixed investment	4.8	4.9	4.8	5.4	5.4	5.7	6.4
Change in total inventory[g]	1.4	1.0	1.0	1.4	2.1	2.1	1.5
Gross private investment	6.2	5.9	5.8	6.8	7.5	7.8	7.9
Budget deficit, or surplus (−)	3.2	0.9	0.5	1.2	0.7	0.9	1.3
Internal demand for saving	9.4	6.8	6.3	8.0	8.2	8.7	9.2
Export balance	0.8	−1.5	−1.7	−1.4	−2.2	−4.1	−1.6
Total demand for gross private saving	10.2	5.3	4.6	6.5	6.0	4.7	7.5
Rhodesia and Nyasaland[h]							
Gross investment	53.2	65.6	58.2	43.7	38.5	41.6	...
Budget deficit, or surplus (−)	−5.4	−6.5	−11.8	−10.1	−8.4	−9.7	...
Internal demand for saving	47.8	59.1	46.4	33.6	30.1	31.9	...
Export balance	−26.3	−36.6	−27.5	−14.1	−6.3	−5.3	...
Total demand for gross private saving	21.5	22.5	19.0	19.4	23.8	26.5	...
Turkey[i]							
Gross investment	11.3	15.6	17.9	17.0	16.4	16.5	...
Budget deficit, or surplus (−)	2.2	2.7	0.6	−0.6	−0.8	0.1	...
Internal demand for saving	13.5	18.3	18.5	16.4	15.6	16.6	...
Export balance	−0.8	−2.1	−4.0	−2.9	−3.3	−3.0	...
Total demand for gross private saving	12.7	16.2	14.5	13.5	12.3	13.6	...
Union of South Africa							
Gross private fixed investment	15.6	18.3	21.0	19.2	19.7	18.7	16.3
Change in private inventory	−2.5	8.1	−5.7	−2.5	1.7	3.3	1.7
Gross private investment	13.1	26.4	15.3	16.7	21.4	22.0	18.0
Budget deficit, or surplus (−)	5.8	6.5	8.7	8.9	7.1	5.8	6.9
Internal demand for saving	18.9	32.9	24.0	25.6	28.5	27.8	24.9
Export balance	−0.9	−10.5	−6.2	−5.2	−3.0	−3.2	−0.9
Total demand for gross private saving	18.0	22.4	17.8	20.4	25.6	24.5	24.0

Source: Statistical Office of the United Nations, Bureau of Economic Affairs and national sources. Components of demand for gross private saving may not add up to total because of rounding.

Gross private income after tax is defined as gross national expenditure less current government revenue plus current government transfer and interest payments. It is identically equal to the sum of gross private fixed investment and changes in private inventory, the budget deficit (government deficit on current account plus public fixed capital and inventory formation), the export balance and private consumption (import and budget surpluses being treated as negative items).

[a] Fiscal year beginning 1 July.

[b] Fiscal year ending 30 September.

[c] Fiscal year beginning 1 April. All figures are percentages of net private income.

[d] Including investment of public enterprises.

[e] Federal deficit only.

[f] Fiscal year beginning 1 April.

[g] This component and also gross private investment include changes in private and public inventory.

[h] Gross investment includes private and public sectors. Budget deficit or surplus excludes public investment.

[i] Gross investment includes private and public sector. Budget deficit or surplus excludes public investment. Changes in total inventory (which includes public sector) are available only for 1950–1953; they are 0.6, 4.5, 4.4, 3.0, respectively. Internal and total demand for saving include changes in total inventory only for 1950–1953.

exports and imports permitted substantial increases in government revenues. Since the indirect taxes which constitute the bulk of tax receipts in most primary producing countries depend in large measure on foreign trade activity, government incomes expanded substantially and deficits commonly declined. In some instances, moreover, as in Ceylon, Indonesia, Malaya and Thailand, export duties were raised in order to cut down the profits of exporters. Reductions of public investment expenditure, while a less significant factor than the rise in indirect taxes, were also a contributing element in numerous cases and helped to offset the increases in private investment associated with the generally higher levels of export profits.

In 1952 likewise, similar foreign trade experiences in numerous countries contributed to widespread declines in the demand for savings. In many cases private investment either declined materially or absorbed an unchanged share of private income in 1952. In some instances this was attributable to the declining export receipts and profits associated with sharply falling prices of many commodities. In addition, balance of payments difficulties had emerged in a number of countries in 1951 and early 1952, and had led to the imposition of direct restraints on imports and to restrictive credit and fiscal measures aimed at reducing pressure on the foreign balance. The consequence of these policies was a reduction in investment, which was due in large measure to a decline in inventory accumulation; the drop in the latter was also partly a reaction to the over-expansion of inventory accumulation in the previous year.

While these external factors brought about a high degree of uniformity in experience in 1951, and a lessened, but still considerable similarity in 1952, the period as a whole was characterized by considerable diversity of national experience.

The fiscal activities of governments constituted a major determinant of the demand for savings and, thereby, of price movements. While government expenditure and revenue often changed in response to essentially short-term influences, in particular to fluctuations in tax yields from changing levels of foreign trade, the presence of fairly general trend factors is suggested by certain broad similarities in the behaviour of the budget deficit. For the most part governments of primary producing countries did not succeed in raising their revenues sufficiently to cover their expenditures. While the direct effect of increases in the deficit upon the demand for savings was at times considerable, the impact of deficits upon the level of prices went beyond this. The increase in money supply associated with deficits, financed by bank borrowing, increased the liquidity of the community and this increase in liquidity generated secondary increases in the money flow of expenditure on goods and services.

As shown in table 20, while the relative size of deficits differed considerably from country to country, there was little variation in the frequency with which deficits were experienced; most governments showed deficits repeatedly and some in every year without exception. The persistent tendency towards deficits reflected the broadened role of governments in accelerating the rate of economic growth, providing social services, altering the distribution of income and wealth, and, in general, determining the allocation of resources.

Both current and investment expenditure of governments frequently exhibited rising trends. The increase in public capital formation was especially marked in Burma, Colombia, Ecuador, Ghana, India and Turkey, as the result of government efforts to speed up the rate of economic growth. In India, for example, with the intensification of investment activities under the second five-year plan, the deficit rose rapidly in 1956 and 1957 and became the most important single inflationary factor.

Private investment was stimulated by growing requirements for working stocks, for residential and industrial facilities, transportation equipment and other capital goods. Increases in the level of investment in many Latin American countries were favoured by rising export receipts, rapid growth in income and the growing consumer market which was in part the consequence of rapid urbanization. The same influences stimulated higher investment levels in Australia and New Zealand; in these countries, another factor of considerable importance was the large influx of European immigrants and their requirements for housing and other facilities.

To a considerable degree, the extent to which private investment expanded was determined by the direction of government policy. Governments sought to promote investment in order to stimulate economic activity and accelerate economic development. In the Asian countries, for example, both the level and direction of private investment have been influenced considerably by active efforts of governments to accelerate capital formation. Moreover, in many countries, central banks appear to have pursued a generally liberal credit policy in order to facilitate investment. Although it is true that, in varying degrees, both domestic savings and foreign capital facilitated investment, bank credit was widely used in long-term financing of private investment activities.

It is not surprising, in view of its importance in determining income, expenditure, and supply availabilities in the primary producing countries, that the balance of payments was also a significant factor underlying the intermittent swelling and subsiding of private investment. In 1951, for example, a year of rapidly rising export incomes in primary producing countries, increases in the ratio of investment to income were more common than at any other time during the period.

Inventory investment likewise responded to both internal and external influences. Occasionally, a rise in

inventories resulted from exceptionally high production or a weakening in demand. In other cases, it reflected speculative influences, as fairly generally in 1951, or an improvement in investment prospects, as in the case of Mexico in 1954. Inventory investment was frequently affected by a country's balance of payments position. The link between import controls and inventory change has been a strong one in a number of countries. A notable example was provided by the experience of the Union of South Africa, where the sharply rising ratio of inventory investment to income in 1951 was facilitated by relaxation of import controls. With the tightening of import controls in 1953, imports, especially of textiles, declined markedly, and a large depletion of inventories took place. This pattern was again repeated in 1954 and 1955.

In addition to these indirect influences, changes in the external balance have also directly determined changes in the demand for savings. On the whole, increases in the external balance contributed to inflationary pressure through intermittent, rather than sustained, advances. There were, however, a few countries such as Rhodesia and Nyasaland, in which the external balance as a proportion of gross private income rose in most years, as well as a few such as Argentina and Chile, in which it generally declined.

In a world setting of rising levels of consumption and industrial production, trade in foodstuffs and industrial raw materials generally expanded. Of course, demand grew at various rates for different commodities, and this was an important factor underlying the export experience of individual countries within this generally favourable environment. Between 1950 and 1955, for example, while the volume of world fuel exports expanded by about 80 per cent, increases of less than 10 per cent took place in such groups as agricultural raw materials, beverages, and food, oils and tobacco.[4] There were also considerable variations in prices of primary products. Thus, during the recent boom in industrial countries the rise in the prices of primary products was concentrated mainly in minerals, while prices of agricultural raw materials rose only slightly, and prices of foodstuffs, after a sharp and temporary increase in 1954 occasioned by shortages of beverages, remained weak.

Export earnings in domestic currency were also affected by exchange rate policy. In a number of countries, upward adjustments of the exchange rate were granted to exporters during the period. In Colombia, for example, although the rate applied to coffee exports continued to be a penalty rate, a number of upward adjustments were made after 1951, so that the substantial increases in export earnings which occurred in those years resulted in more than proportionate increases in exporters' income. In Brazil, devaluation of both the export and import rates followed the introduction of multiple rates in 1953; however, since the import rate was devalued to a greater extent, the net effect on the economy was deflationary.

Changes in levels of domestic income and economic activity were an important underlying determinant of the demand for imports. Rising demand for consumer goods, expansion of capital facilities and increased requirements for industrial raw materials on the part of domestic industry provided stimuli to higher levels of imports. Similarly, falling income levels and the completion or downward revision of investment programmes were among the factors occasionally depressing imports.

The extent to which import demand of individual countries was in fact realized depended mainly upon their capacity to import. Among the countries studied, there were sharply differing changes in capacity to import, as measured by the import value of foreign exchange receipts. Some showed marked increases in their ability to finance imports out of export earnings, but for many, developments were not very favourable during the nineteen fifties. Iraq, Israel, New Zealand, Mexico, Peru, Philippines, Union of South Africa, and Venezuela experienced rather steady and substantial increases, which from 1950 to 1956 totalled from 20 to some 200 per cent, and which in every case resulted more from increases in the volume of exports than from favourable shifts in the terms of trade. A few other countries showed small over-all increases in the capacity to import during the period, but over one-third experienced a decline after 1950. While the volume of exports fell in several of the countries in this latter group, in every case the major part of the decline was due to unfavourable movements in the terms of trade. In this connexion it should be borne in mind, however, that 1950 reflected to a considerable degree the raw materials price boom of the Korean conflict, so that for many countries the terms of trade were very favourable in the year which is here used as a base. The over-all decline was particularly severe in Argentina, Egypt, and Pakistan, amounting to 30 per cent or more in each case; and while import capacity remained approximately steady in Egypt since 1952, in both Argentina and Pakistan the decline continued through 1956.

EXCESS SECTORAL DEMAND

Frequently, it has been an excess of demand for specific commodities, rather than aggregate excess demand, which has been the primary cause of inflation. The insufficient adaptation of supply of certain commodities to the corresponding growth in demand has had, at times, wide inflationary repercussions throughout the economy.

Of the various consumer goods, it is the supply of foodstuffs which has proven to be most inflexible in the primary producing countries; and this inflexibility has

[4] See *World Economic Survey, 1956* (sales number: 1957.II.C.1), page 103.

acquired special significance in their inflationary experience. Where income levels are low, an important part of any increase in personal incomes is spent on food; and if supplies are inadequate, prices rise more or less sharply. Higher food prices, since they substantially affect the cost of living, lead to wage demands, and in this way, a wage-cost spiral may start. It has, in fact, been a common characteristic of the post-war inflationary experience of these countries that food prices have been a dominant element in the advance of their cost of living indices. While this imbalance in output has commonly manifested itself in countries undergoing rapid growth, such countries as Argentina, Bolivia and Chile provide evidence that it has sometimes also existed along with a relatively stagnant total output.

The extent to which food supplies have lagged behind demand is suggested by the fact that in almost all primary producing countries food prices rose relative to other components in the period between the pre-war years and 1950-1951 (see table 21). Between 1950-1951 and 1955-1956, moreover, a further rise in the ratio of food prices to other prices occurred in a majority of countries; most of the countries which experienced a relatively high degree of inflation were in this group.[5]

Among the factors influencing the demand for food has been the increasing urbanization of many primary producing countries in recent years. The growth of urban communities and, at the same time, a relative decline in agricultural labour force, have proceeded with great rapidity in Latin America, in Australia, New Zealand and the Union of South Africa, and in Egypt and Turkey; in the Asian countries, however, the proportions of rural and urban populations have in general changed less rapidly.

In Latin America as a whole, the growth of the urban populace between 1950 and 1955 accounted for some 60 per cent of the increase in total population, and for the same period the rate of growth of urban communities was double that of the rural population.[6] In Egypt, the urban populace has grown steadily in relative importance for many years, and is now about one-third of the total. In Turkey, the movement to urban areas appears not to have begun until after 1950, but since then, slightly over half the total population increase has been accounted for by urban growth, even though the urban populace was only 25 per cent of the total in 1950.

[5] Changes in the relationship of food prices to other prices are, of course, only an imperfect indication of the presence or absence of a bottleneck in food supplies. Increases in the food price ratio, for example, have sometimes reflected a removal of price controls on foodstuffs or a withdrawal of subsidies; some part of the advance in food prices in Australia and New Zealand may be ascribable to this reason. On the other hand, where food prices have risen less than the cost of living as a whole, governmental measures to stabilize food prices have, in one or two instances, partly accounted for the lag; in Israel, for example, the importation of foodstuffs at a favourable exchange rate moderated the advance in food prices.

[6] Economic Commission for Latin America, *Economic Bulletin for Latin America*, vol. II, No. 1.

Table 21. Indices of Food Prices in Relation to Cost of Living Index, Pre-war, 1950–1951 and 1955–1956: Selected Countries[a]

Country	*1955–1956 (1950–1951 = 100)*	*1950–1951 (pre-war = 100)*	*1955–1956 (pre-war = 100)*
Bolivia	126	122	153
Brazil	116	101	117
Australia	113	105	119
Uruguay	112	102	115
Union of South Africa	108	108	117
Chile	108	97	105
New Zealand	108	108	116
Peru	107	115	123
Iraq	104	108	113
Israel	104	111	115
Egypt	104	113	117
Honduras	103	125	128
Lebanon	103	119	122
Mexico	102	95	97
Costa Rica	101	95	96
Ceylon	100	111	111
Philippines	100	100	100
Colombia	99	109	108
India	98	102	100
Iran	98	99	97
Thailand	98	150	147
Argentina	98	107	105
Burma	97	120	116
Turkey	96	124	119

Source: Statistical Office of the United Nations, *Statistical Yearbook* and *Monthly Bulletin of Statistics*. In descending order, based on the relative food price change between 1950–1951 and 1955–1956.

[a] Pre-war refers to the average of 1937–1938, or to the years nearest to 1937–1938 for which data are available.

Australia, New Zealand, and the Union of South Africa appear to have reached the stage where even in absolute terms the total in agriculture is declining. In Australia (to 1954) and New Zealand (to 1956) labour force data show a decline since the nineteen thirties in the agricultural labour force,[7] and while such figures are not available for the Union of South Africa, census data indicate that the entire population increase from 1946 to 1951 was accounted for by an increase in the urban populace.

The significance of these shifting structural settings from the point of view of inflation is that they imply shifting demand patterns. With substantial urbanization in progress there may be a sharp increase in the demand for marketed food, and, unless urban supplies increase, considerable advances in the price of foodstuffs may ensue.

As for food availability, the picture seems clear: over the past two decades per capita food supplies have deteriorated or shown only slight improvement in many countries; only a few have enjoyed a substantial

[7] Although most of the decline in Australia had taken place by 1947, it continued, though more gradually, through 1954.

increase (see table 22). It is true that since 1950 per capita availabilities of food have risen in the majority of countries, and quite substantially in some.[8] In no country during the period between 1950 and 1956 was there a steady or substantial decline, and in half the countries for which data are available per capita availabilities rose from 5 to 10 per cent. In most countries, this improvement in per capita food supplies was mainly the result of expansion of domestic production.

Table 22. Per Capita Food Availabilities, Selected Countries

(1934–1938 = 100)

Country	*1950–1951*	*1955–1956*
Thailand	112	127
Union of South Africa	118	124
Colombia	130	123
Peru	114	118
Philippines	109	115
Mexico	108	114
Turkey	102	114
Argentina	101	111
Brazil	99	109
Egypt	100	108
Chile	103	107
Indonesia	93	101
India	84	95
Pakistan	93	92
Burma	91	88
Ceylon	82	88
Cuba	90	88
Malaya	83	84

Source: United Nations Bureau of Economic Affairs. In descending order, based on the 1955–1956 index. Food availabilities were estimated on the basis of the index of food production of the Food and Agriculture Organization of the United Nations, adjusted to take account of exports and imports of important food items. In making these adjustments, the FAO weights used to construct the production index were utilized (Food and Agriculture Organization of the United Nations, "Progress Report", Rome, November 1950). For Burma, Ceylon, Cuba, Egypt, India, Indonesia, Malaya, Mexico, Pakistan, Philippines, Thailand and Turkey, figures refer to crop years 1950/51 and 1956/57.

However, when a comparison is made with the period from pre-war to 1950-1951, it is clear that of those countries for which estimates can be made, substantial increases were achieved in only six cases. Nearly half experienced significant declines in per capita availabilities and in several instances these ranged from 10 to 20 per cent. The result is that throughout the post-war period per capita food supplies in many countries have been below those which prevailed during 1934-1938. In 1955-1956, these supplies remained below pre-war levels in six of the eighteen countries shown. It is primarily the Latin American countries where increases have been achieved, while the Asian countries for the most part have experienced a general decline in food supplies.

Further, in view of the rapid urbanization in process in many of these countries, it is not even sufficient to achieve an over-all increase in supplies; marketing patterns must be altered so that a larger part of the total is transferred to the urban communities. In countries where, to varying degrees, agriculture is organized on the basis of self-sufficiency rather than oriented in relation to the market, this is apt to be difficult to achieve. The significance of this point is illustrated by the experience of the Latin American countries. Although per capita availabilities have generally increased, the urbanization process has also been rapid; as a consequence some of the largest increases in relative food prices have occurred in this region.

Significant though increases in food prices are in themselves, their inflationary effects extend beyond their direct impact upon the cost of living. As is brought out below, food shortages in many instances have constituted an important link in the mechanism of wage-cost inflation.

Factors in the Price Spiral

COST PRESSURES

Excess aggregate or sectoral demand, though of major importance, does not wholly explain the different degrees of price inflation which the individual primary producing countries have undergone. The differences amongst these countries in the structure of their economies and in their institutions have also, in affecting the role of costs, considerably modified their inflationary experience. The part played by import costs, wage costs and indirect taxes net of subsidies in shaping the course of prices, though often related closely to the developments in demand, has also been determined by the distinctive structural and institutional differences existing amongst countries.

Import costs and indirect taxes

One structural difference that has clearly affected the role of costs in the inflationary experience of these countries has been the proportion that imported commodities bear to total domestic supplies of goods and services. As is well known, this proportion varies widely amongst the primary producing countries. In India and Pakistan, for example, imports have constituted about 5 per cent of total real product in recent years, whereas in Ceylon and the Union of South Africa they have

[8] There have been large year-to-year fluctuations in some cases, but too much weight cannot be given these shifts. It has not been possible to incorporate stock changes into the estimates, so that fluctuations in consumption may well have been less than year-to-year figures would show.

amounted to about 25 per cent or more.[9] Obviously, the domestic level of prices is likely to be more sensitive to an advance in the price of imported commodities in the latter countries than in the former. In the Union of South Africa, for example, the marked advance in import prices during the Korean boom period was associated with a substantial increase in the cost of living (see table 23). In India, on the other hand, though import prices also rose strongly, domestic prices remained stable. Of course, the effect of an advance in import costs upon the domestic price level may be obscured by the simultaneous effect of other factors. In Ceylon, for example, despite the large proportion of imported commodities to total domestic supplies, the advance in import prices during the Korean boom period was not associated with any marked rise in domestic prices, since foodstuffs were heavily subsidised.[10]

In most countries, rising import costs were of considerable importance during the period from 1950 to 1952 when a marked advance in the export prices of industrial countries occurred (see table 23). In the years since 1953, import prices of a number of countries have been stable, or have even declined, and such increases in their domestic costs as have taken place have been due to other causes. It will be noted, however, that in some Latin American countries, as well as in Indonesia and Turkey, import prices have continued to rise appreciably. This has reflected not so much rising foreign prices of imports as the effect of exchange depreciation upon the local price of imports. Depreciation of the exchange rate in some countries as against its stability elsewhere, has greatly magnified the diversity of increases in import costs which the various countries have experienced. In countries where the exchange rate has been devalued, the depreciation has not, of course, been an independent cause of the advance in import costs but has reflected the adjustment of the exchange rate to a previous rise in the domestic level of prices. It would be erroneous, then, to ascribe underlying causal significance in the inflation of domestic prices to a rise in import costs that has, in itself, been indirectly a consequence of this inflation. It is none the less clear that, in any analysis of the events in particular years which have contributed to the advance in domestic prices, account must be taken of changes in the exchange rate; government policy, in determining whether the exchange rate is to be held stable or devalued, may considerably modify the relationship between import costs and domestic prices from year to year.

Another aspect of government policy affecting the movement of prices in primary producing countries has

Table 23. Change in Cost of Living, Wages,[a] Import Prices and Indirect Taxes Less Subsidies,[b] Selected Countries

(Percentage)

Country	Annual average 1950–1952				Annual average 1953–1956[c]			
	Cost of living	*Wage earnings*	*Import prices*	*Rate of net indirect taxes*	*Cost of living*	*Wage earnings*	*Import prices*	*Rate of net indirect taxes*
Argentina	44	28	55	40	9	15	6	9
Brazil	16	14	18	...	24	46	57	...
Chile	26	21	32	29	72	28	54	80
Colombia	3	−1	17	14	9	9	—	26
Mexico	15	8	10	16	11	13	21	−6
Ceylon	2	7	14	14	—	...	—	15
Egypt	4	10	18	−1	−4	9	−4	−13
India	1	8	12	−4	−5	3	−3	9
Israel	35	46	...	...	9	21	39	...
Philippines	1	...	6	−32	—	1	−1	−3
Turkey	2	4	11	−11	10	11	4	10
Australia	21	21	11	23	3	7	1	4
New Zealand	10	8	14	4	4	4	1	6
Union of South Africa	9	9[d]	17	−3	3	...	1	8

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics* and *Statistics of National Income and Expenditure*, Series 4, No. 10; International Labour Office, *Yearbook of Labour Statistics, 1957* (Geneva).

[a] Earnings in manufacturing except for Brazil, Ceylon, Colombia, Egypt, Turkey and the Union of South Africa, where general wage level data are used.

[b] This refers to indirect taxes less subsidies per unit of real national product.

[c] For Argentina, India, Mexico, Turkey and Union of South Africa, data refer to annual average changes from 1953 to 1955; for Chile, Colombia and Egypt, to the change from 1953 to 1954 only.

[d] Wage rates.

[9] For a detailed review of the share of imports, see United Nations, *World Economic Survey, 1956* (sales number: 1957.II.C.1), pages 117 to 122.

[10] A further complication that arises in comparing import costs with the cost of living is that, since a large proportion of the imports of primary producing countries consists of capital equipment, an advance in import costs occasioned by prices of capital equipment may not be directly reflected in the cost of living index.

been change in the rate of indirect taxation and in subsidies. In a few countries, net indirect taxes per unit of output have risen at about the same rate as domestic prices in the years since 1950 (see table 23). In Argentina, for example, the rate of indirect taxes net of subsidies advanced in line with prices both from 1950 to 1952 and from 1953 to 1956. In most countries, however, the changes in net indirect taxes have either contributed to raise the level of domestic prices or, through increased subsidies, have tended to moderate the advance in domestic prices. In a number of countries, during the period from 1950 to 1952, increases in subsidies relative to indirect taxes tended to restrain the advance in domestic prices. In Ceylon, for example, large food subsidies were important in countering the influence of the rise in import costs, noted earlier, upon domestic prices. In most countries, since 1953, the rate of net indirect taxes, however, has more often contributed to raise domestic prices.

Wage costs

In a manner similar to import costs, the role which wage costs[11] have played in modifying the inflationary experience of individual primary producing countries has, in part, depended simply upon the proportion which they bear to total costs per unit of total output. Obviously, in a predominantly agricultural economy, where farm incomes constitute the major component in the price of each unit of total output, a rise in wage costs will have less effect upon the average level of prices than in a country where labour income is the principal component. In Peru, for example, where labour income is about 38 per cent of national income, a given increase in wage costs will, in itself, have less effect upon final price per unit of total output than in Australia, where labour income in recent years has been more than 60 per cent (see table 24). And, were data on labour's share of national income available for all countries, even more striking contrasts would undoubtedly emerge. But, in addition to this simple structural consideration, the proportion of wage costs also acquires importance from the fact that, unlike other costs, wage costs tend to be inflexible in the downward direction. While wages may lag behind an increase in prices and other costs, induced, say, by the emergence of excess demand, they will, once having been adjusted upward, tend to remain at their higher level. They thus stand in contrast to other factor incomes, such as profits, which tend to contract when demand subsides. It is, in fact, largely through wage costs that temporary increases in prices and other costs tend to become permanently embedded in the domestic price and cost structure.

[11] In this discussion, explicit account is not generally taken of the effect of changes in productivity per man hour upon wage costs, since such data are not usually available. However, in most of the countries mentioned, the increases in wages have been of such a magnitude as to be the predominating determinant of changes in wage costs.

Table 24. Share of Labour in National Income, Selected Countries
(Percentage)

Country	*1950*	*1955*
Argentina	61	58
Brazil[a]	43	42
Chile	45	46[b]
Colombia	50	46
Peru	37	38
Israel	...	60
Philippines	43	42
Australia[c]	50	62
New Zealand[d]	47	57

Source: Statistical Office of the United Nations.
[a] Excluding compensation of agricultural employees.
[b] 1954.
[c] Fiscal year beginning 1 July.
[d] Fiscal year beginning 1 April.

The role of wages in the inflationary process, however, has been determined not only by the proportion of wage costs to the total, but also by the nature and extent of the institutions through which wage earners may seek to protect or improve their levels of living. In some countries such institutions have been developed only in certain industries or areas, while in others, wage earners throughout the economy are closely bound together by extensive trade union or political organization. In the former countries the efforts of labour in the organized sectors to raise their level of wages, whether in compensation for losses in real wages or to secure gains in real wages, have not necessarily been associated with corresponding action on the part of labour in other sectors. In the latter countries, by contrast, the extensiveness of labour organization has, through the competitive action of unions in the various sectors or through their co-ordinated action at the national level, resulted in a tendency for wages to rise more or less proportionately in all sectors. Thus, in the former countries, the effect upon the general level of wages of an advance in rates in certain sectors—say, in response to a rise in the cost of living—has been limited by the fact that similar increases have not taken place concurrently in other sectors. In the latter countries, however, wages in the various sectors have been more closely interrelated and action to raise wages in one sector has either spread quickly to other sectors or has taken place concurrently with similar action in other sectors; the whole structure of wages has thus tended to rise, with consequently greater effects upon the general wage-cost level.

Some indication of these institutional differences is provided by a comparison among countries of the extent to which the annual changes in wages in the various branches of manufacturing have been similar or dissimilar. For the limited number of countries for which such data are available, it is evident that the annual changes in wages which have taken place in the various

branches of manufacturing since 1950 have corresponded much more closely to each other in some countries than in others (see table 25). Of the countries studied, wage increases in the different branches of manufacturing were more closely alike in Australia, New Zealand, Argentina and Chile than in Colombia, Mexico and Peru. In the former countries, institutions concerned with wage determination have clearly been extensively developed and, much more than in the latter countries, a wage increase in one branch of manufacturing has tended to evoke corresponding increases in other branches or has taken place as part of an adjustment in wages common to all branches.

Of the various institutional arrangements in primary producing countries which have tended to bring about conformity in the movement of wages in the different branches of manufacturing,[12] the most important has generally been the linking of wages to prices. Through the operation of such links in a period of price inflation, wages have tended to rise concurrently in all branches. In Argentina and Chile, for example, where wages have been more or less formally linked to prices, the conformity in the movement of wages within the various branches of manufacturing has, in large measure, reflected the rapid inflation of prices which these countries have experienced. In a sense it may be said that the relatively narrow dispersion of the increases in manu-

[12] It is also interesting to note that wages in other sectors of production have moved more closely in line with manufacturing wages since 1950 in some countries than in others. In Australia and New Zealand, wages in such branches of production as agriculture, mining, construction and transport moved closely in line with the changes in wages paid in manufacturing. Similarly, in Argentina, wages in mining and services corresponded closely in their movement to manufacturing wages. In Colombia and Peru, on the other hand, wages in such branches as agriculture, mining, transport, construction and services showed some tendency to rise relative to manufacturing wages; and in Mexico, agricultural wages similarly underwent a relative increase. In Chile, daily earnings in both agriculture and copper mining increased more sharply than daily earnings in manufacturing between 1950 and 1953.

Table 25. Wages in Manufacturing Industries: Average Change and Dispersion of Changes,[a] Selected Countries

(Percentage change from preceding year)

Country and item	1951	1952	1953	1954	1955	1956
Argentina						
Average change	23.9	24.0	9.4	17.0	11.2	15.5
Dispersion of changes	9.3	5.5	4.0	4.1	3.5	8.6
Relative dispersion of changes	39	23	43	24	31	55
Chile						
Average change	...	...	31.8	42.1	83.4	...
Dispersion of changes	...	...	12.4	12.6	30.4	...
Relative dispersion of changes	...	...	39	30	36	...
Colombia						
Average change	6.9	−5.8	2.0	4.0	...	...
Dispersion of changes	6.8	14.2	13.5	5.4	...	...
Relative dispersion of changes	99	245	675	135	...	...
Mexico						
Average change	10.1	4.2	9.8	8.8	14.1	6.9
Dispersion of changes	10.6	8.1	10.8	10.5	8.4	8.7
Relative dispersion of changes	105	193	110	119	60	126
Peru						
Average change	8.2	12.3	12.0	10.9	...	...
Dispersion of changes	17.3	25.5	12.3	17.7	...	...
Relative dispersion of changes	211	207	103	162	...	...
Australia[b]						
Average change	23.4	8.8	5.0	5.9	...	...
Dispersion of changes	3.7	2.8	1.8	2.1	...	...
Relative dispersion of changes	16	32	36	36	...	...
New Zealand[c]						
Average change	...	5.1	8.7	8.3	6.9	...
Dispersion of changes	...	3.4	4.3	3.5	4.1	...
Relative dispersion of changes	...	67	49	42	59	...

Source: International Labour Office, *Yearbook of Labour Statistics, 1957* and national publications.

Number of industries and type of wage data for each country: Argentina: sixteen industries, monthly earnings; Chile: twenty industries, daily earnings; Colombia: eleven industries, daily earnings; Mexico: seventeen industries, monthly earnings; Peru: sixteen industries, daily earnings; Australia: fifteen industries, annual earnings; New Zealand: twenty industries, annual earnings.

[a] The dispersion of changes is measured by the standard deviation of the percentage changes of wages in each industry from the average change for all industries. The relative dispersion of changes is measured by the coefficient of variation.

[b] Fiscal year beginning 1 July.

[c] Fiscal year beginning 1 April.

facturing wages evident in these two countries has merely been an indirect measure of their rapid price inflation. But it is also true that price inflation has fostered the introduction or extension of wage-price links and that, in the absence of the institutional arrangements which have thus been developed, the dispersion of the increases in wages would have been greater. In Australia and New Zealand wages and prices have also been more or less closely linked. In Australia a formal link was enforced at the federal level up to 1953 and, while it was thereafter discontinued by the Commonwealth, some states in the country have continued to apply it. In New Zealand, the link has been less formal, but prices have none the less been a major consideration in the national determination of wage awards. In Colombia, Mexico and Peru, on the other hand, close wage-price links have apparently been absent or have been confined to a limited number of industries.[13] Amongst other countries not studied above, in which wage-price links have been of major importance in the determination of wages, are Bolivia and Israel.

These differences amongst countries in the nature and extent of the institutions concerned with wage determination, which have been illustrated above, have considerably modified the role of wage costs in the inflationary experience of each country. Though the forces impinging upon these institutions in the various countries have often been similar, the institutional differences amongst countries have modified the final effects of these forces upon wage costs and prices.

In general, the effects upon wage costs of these differences in the institutional systems of countries have been brought into play by economic events outside the institutional system itself. There have been a few special instances, however, where the forces raising wage costs have come from within the institutional system. A case in point is Argentina, where, during the early post-war years, an aim of governmental policy was the redistribution of income in favour of labour; large increases in money wages were decreed and labour's share of national income, in fact, rose from 48 per cent in 1947 to 59 per cent in 1949. Again, in some countries where both wages and prices have continuously advanced at a very high rate, adjustments in wages have come to include a large element of compensation, not merely for past but also for expected increases in prices. The wage-price spiral has thus acquired a momentum of its own, though its pace has sometimes been accelerated, sometimes decelerated, by the influence of other economic events. Apart from such special instances, however, it is broadly true that increases in wage costs in primary producing countries have been initiated by forces outside the system of wage determination itself.

Probably the most important single factor impinging upon the wage structures of primary producing countries and inducing increases in wage costs has been excess demand; but it is important to realize that the process whereby it has affected wages in these countries has not been identical in manner to that in the industrial countries. In the latter countries a situation of excess demand has tended to raise wages through two channels. On the one hand, since excess demand for final goods and services has also implied excess demand for labour, wages have been drawn up by the competition of employers for scarce labour; and on the other hand, since excess demand raises prices, wage earners have sought to protect their level of living by securing increases in remuneration. But in the primary producing countries it has been mainly through the latter channel that excess demand has impinged upon wages. While demand-induced wage increases have occurred in some advanced primary producing countries, as, for example, Australia and New Zealand, where acute labour shortages have been experienced in most post-war years, in most primary producing countries there exists a wide-spread and persistent problem of open or disguised unemployment; and, generally, it has been the scarcity of capital equipment, together with the lack of managerial and technical skills, and not a scarcity of labour, which has restricted output.

While, in the primary producing countries, however, the effect of excess demand upon wages operates mainly through one, and not two, channels, this does not necessarily render wages in these countries any less sensitive to an expansion in demand. For though the supply of labour may be responsive to an expansion in demand, the supply of consumer goods tends to be inflexible; in other words, though wages are insensitive to an increase in demand for labour, prices are highly sensitive to an increase in demand for final goods and services. Typically, in the primary producing countries as in industrial countries, a rise in investment expenditure has, through raising incomes and employment, increased the demand for consumer goods. As a result of inflexibility in the production of foodstuffs, the rise in output and employment in urban areas has not necessarily been accompanied by a sufficient expansion in marketable supplies—unless of course, an increase in imported foods has taken place. Consequently, the expansion in activity has been associated with some rise in food prices and a corresponding fall in real wages. This has given rise to compensatory increases in money wages, their promptitude and scale being dependent upon the nature and extent of the institutions concerned with wage determination. Unless food supplies have increased in the meantime, however, the higher level of money wages has simply transmitted a further upward thrust to prices. In these circumstances a recovery in real wage rates may

[13] It is possible that the relatively wide dispersion of wage changes in these countries might also be the result of a long-term tendency for wage differentials to narrow as their economies become more developed and integrated. But an examination of the changes in wages among industries does not suggest that the dispersions have been significantly influenced by this factor in the short period under review.

not take place until the rise in incomes and employment in the urban areas has been reversed.

In illustration of this mechanism it is instructive to note the experience of Argentina and Mexico in recent years. For both of these countries data on industrial employment are available, and these indicate that since 1950 both countries have experienced two major cyclical upswings in activity when the rate of expansion in industrial output and employment, and hence, in urban incomes, has accelerated. Although output per man apparently increased in both countries during these periods of rising activity, real earnings declined, or at best remained stable; and a principal reason underlying these movements in real wages was the inflexibility in

Table 26. Changes in Money Wages and Real Wages,[a] Selected Countries
(Percentage change from corresponding period of preceding year)

Country and item	1950	1951	1952	1953	1954	1955	1956
Argentina							
Money wage	18	28	24	9	14	11	18
Real wage	−7	−6	−10	5	10	−1	2
Brazil							
Money wage	8	7	16	2	47	32	23
Real wage	−2	−1	−3	−16	24	−10	23
Chile							
Money wage	16	11	29	13	28	70	57
Real wage	2	−10	13	−16	−26	−2	—
Colombia							
Money wage	33	2	−3	3	9	...	...
Real wage	10	−6	−1	−4	—	...	...
Mexico							
Money wage	9	11	4	6	10	15	8
Real wage	2	−1	−9	9	5	−2	3
Peru							
Money wage	18	14	11	28	2	4	...
Real wage	3	4	4	18	−3	−1	...
Burma							
Money wage	...	...	3	3	2	...	...
Real wage	...	...	7	5	5	...	...
Ceylon							
Money wage	...	11	2	−2	3	...	...
Real wage	...	6	3	−4	3	...	...
Egypt							
Money wage	10	15	4	2	9	4	...
Real wage	4	5	4	9	14	4	...
India							
Money wage	−2	7	7	—	—	6	...
Real wage	−4	4	8	−3	5	12	...
Indonesia							
Money wage	...	...	...	...	6	14	10
Real wage	...	...	...	...	9	13	−8
Israel							
Money wage	5	21	60	33	18	13	14
Real wage	12	11	2	4	5	7	7
Philippines							
Money wage	...	...	...	7	4	3	−3
Real wage	...	...	...	11	5	4	−5
Australia[b]							
Money wage	16	23	14	5	6	8	5
Real wage	5	2	−2	1	5	5	−1
New Zealand[c]							
Money wage	11	10	5	7	9	6	...
Real wage	6	−2	−2	3	4	4	...

Source: International Labour Office, *Yearbook of Labour Statistics* (Geneva), and national publications.

[a] Refers to general wage level or to wages in manufacturing; wages are monthly, weekly or daily earnings, except for Indonesia, where data refer to minimum rates.

[b] Fiscal year beginning 1 July.

[c] Fiscal year beginning 1 April.

supplies of foodstuffs in the face of rising aggregate demand. In both countries, for instance, an acceleration in the expansion of industrial employment and output occurred during the Korean boom. In Argentina, where a serious shortage of per capita food supplies had been experienced since 1949, real wages fell sharply in 1950 and 1951 despite large increases in money wages (see table 26). Although a decline in industrial employment had set in by 1952, this coincided with a particularly severe contraction in per capita food supplies, and real wages again fell. Real wages recovered only in 1953 and 1954, when employment remained at a relatively low level but per capita supplies of foodstuffs had increased. In Mexico high levels of industrial employment and output were recorded in the years between 1950 and 1952, but again, in the face of stagnation in per capita food supplies, food prices rose more strongly than money wages and real earnings fell. Employment, however, fell in 1953 and 1954, while in 1954 there was some increase in per capita food supplies. Accordingly, in both years, although the advance in money wages was more moderate than in 1950 and 1951, real wages rose.

A tendency for real wages to remain stable or to decline when urban employment rose was again evident in both countries during the more recent upswing in activity. In Mexico this was associated with an acceleration of the rate of increase in money wages and, at the same time, with a rise in food prices in urban areas. In Argentina, however, the stability of real wages was related less to the inflexibility in urban food supplies than to that characterizing the supply of other consumer goods.

The experience of these countries illustrates the central role which the inflexibility in the supply of consumer goods, and particularly, urban supplies of foodstuffs, has played in the inflation of costs in underdeveloped countries. Where expansion in the supply of consumer goods has been sluggish, real wages have been particularly sensitive to changes in the level of aggregate demand; and where institutional arrangements designed to secure compensatory adjustments in wages have been extensively developed, the economy has been especially prone to sharp increases in wage costs.

It is not an accident, then, that in numerous countries high rates of increase in wages have been associated with the presence of a structural imbalance in the rates of increase in consumer supplies and in total output. That a number of countries entered the present decade with such structural imbalance present in their economies has been pointed out in an earlier section. Though there has generally been some improvement in food supplies since 1950, such a structural imbalance is not readily corrected, and the wage-price spirals thereby engendered have persisted down to the present.

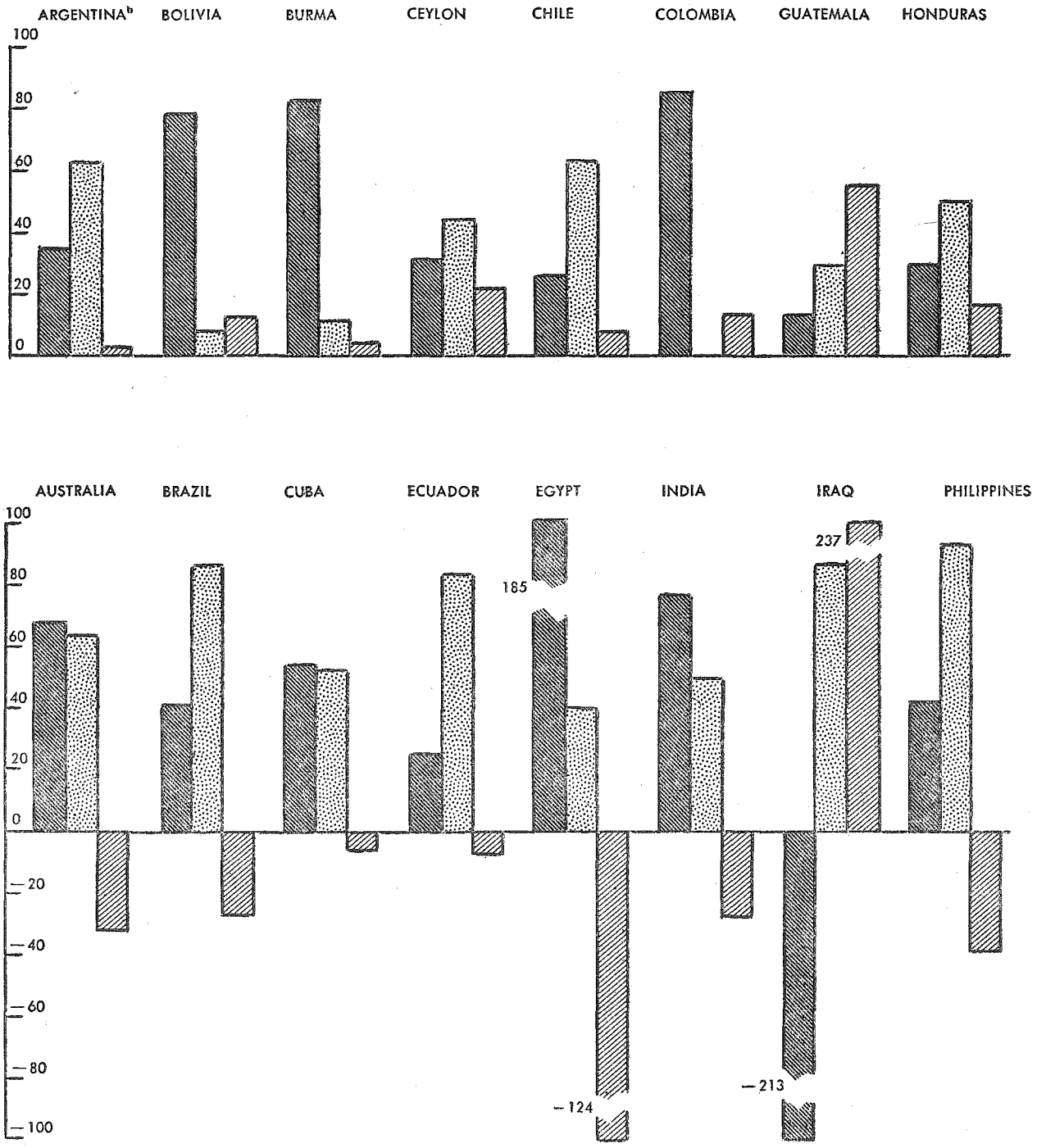
The general importance of excess aggregate or sectoral demand in generating or accelerating wage-price spirals should not, however, be allowed to obscure the fact that independent changes in cost factors have sometimes exerted a considerable, or even a predominant, influence upon wages. Increases in costs of imported commodities and in net indirect taxes have not only directly affected domestic price levels, as noted above, but have also thereby contributed indirectly towards the generation or acceleration of wage-price spirals. A number of countries have, at times, expressly utilized subsidies and price controls in order to nullify or moderate the effect of a rise in costs upon prices and wages. In some countries multiple exchange rates have been used for the same purpose; while very high rates have been applied to some imports, the importation of foodstuffs and other essential consumer goods has been permitted at favourable rates of exchange. Conversely, when preferential rates have been abandoned, when price controls or subsidies have been withdrawn or when indirect taxes have been increased, the advance in wages has frequently been accelerated.

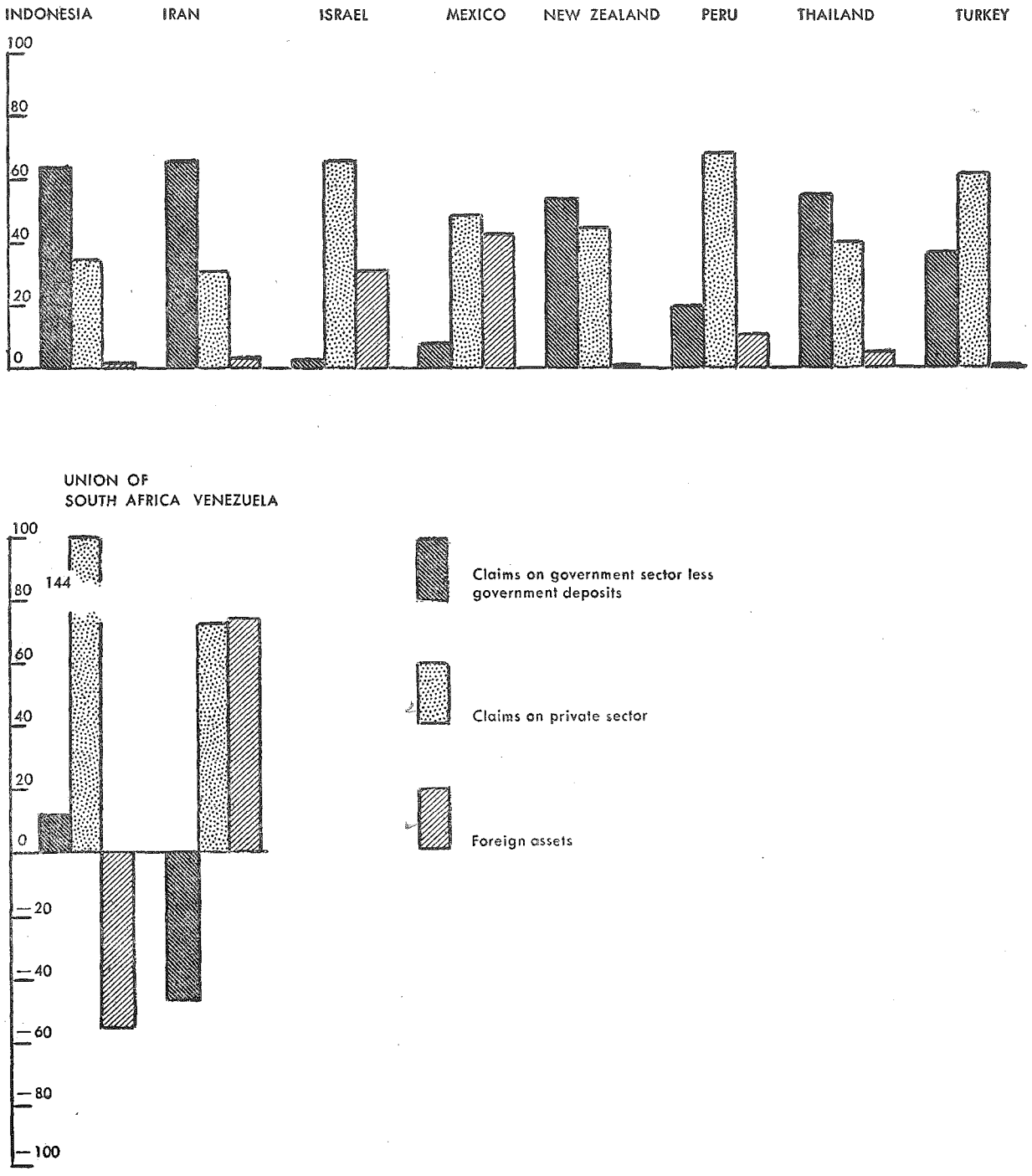
CHANGES IN MONEY SUPPLY

Thus far the price spiral has been viewed as being propelled by pressures from the cost side, with both prices and money supply adjusting passively to changes in costs. Though such cost pressures have been sufficient in many under-developed countries, as in the industrial countries generally, to account for the magnitude of the price spiral, this has not necessarily been true for all the under-developed countries. Even in those in which cost pressures may not have played an active role in the price spiral, cumulative price increases may nevertheless have resulted from expansion of the money supply in excess of the volume which the private sector was prepared to hold at a given level of real income and prices. In such instances, changes in the money supply have been an active, rather than passive, factor in the price spiral, with prices and wages adjusting to changes in the money supply.

In most countries, the principal factor accounting for increases in the money supply has been the expansion of governmental borrowing (see chart 6). As governments have commonly assumed a major role in the economic development of their countries, large budgetary deficits have been incurred; and these deficits have been financed mainly by borrowing from the banking system. In some countries, the primary expansion in the supply of money has originated, not in governmental borrowing, but in the foreign trade sector. Receipts of foreign exchange in excess of payments, whether because of a favourable balance on current account or because of capital inflows, have provided the basis for an expansion of the domestic supply of money. This, for example, has been the principal cause of the expansion of the money supply in Iraq and Venezuela during the period since 1950. In most countries, however, the foreign trade sector has not been of major significance in such expansions since 1950. In fact, in a number of countries, notably Australia, Brazil, Cuba, Ecuador, Egypt, India, the Philippines and the Union of South Africa, the

Chart 6. Components of Money Supply as Percentages of Total Increase, from 1950 to 1956[a]





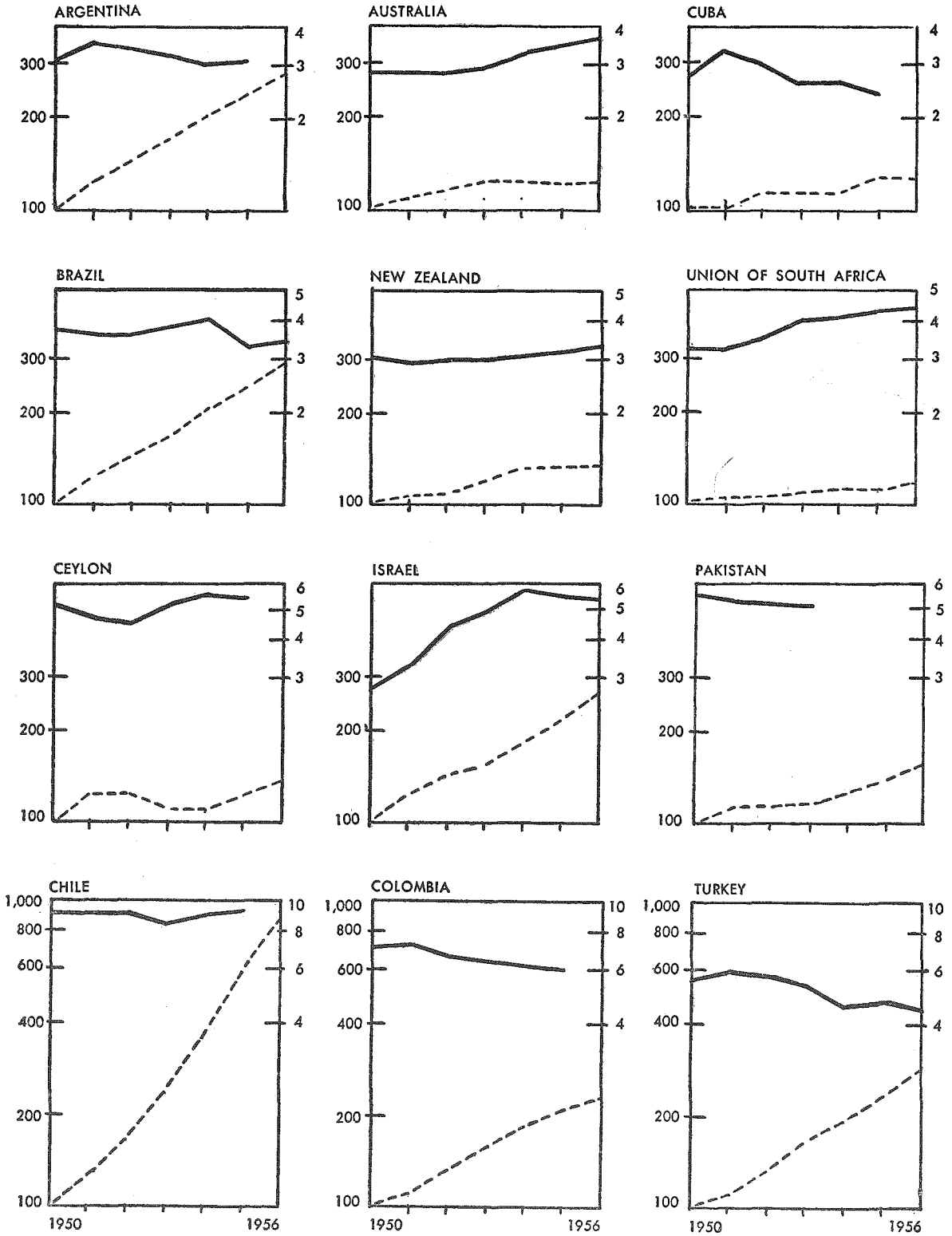
Source: International Monetary Fund, *International Financial Statistics;* and national sources.

[a] Refers to assets and claims of the banking system as a whole. In the case of Colombia, claims on the government sector include those on the private sector.

[b] From 1950 to 1955.

Chart 7. Index of Money Supply[a] and Ratio of Gross National Product to Money Supply[b]

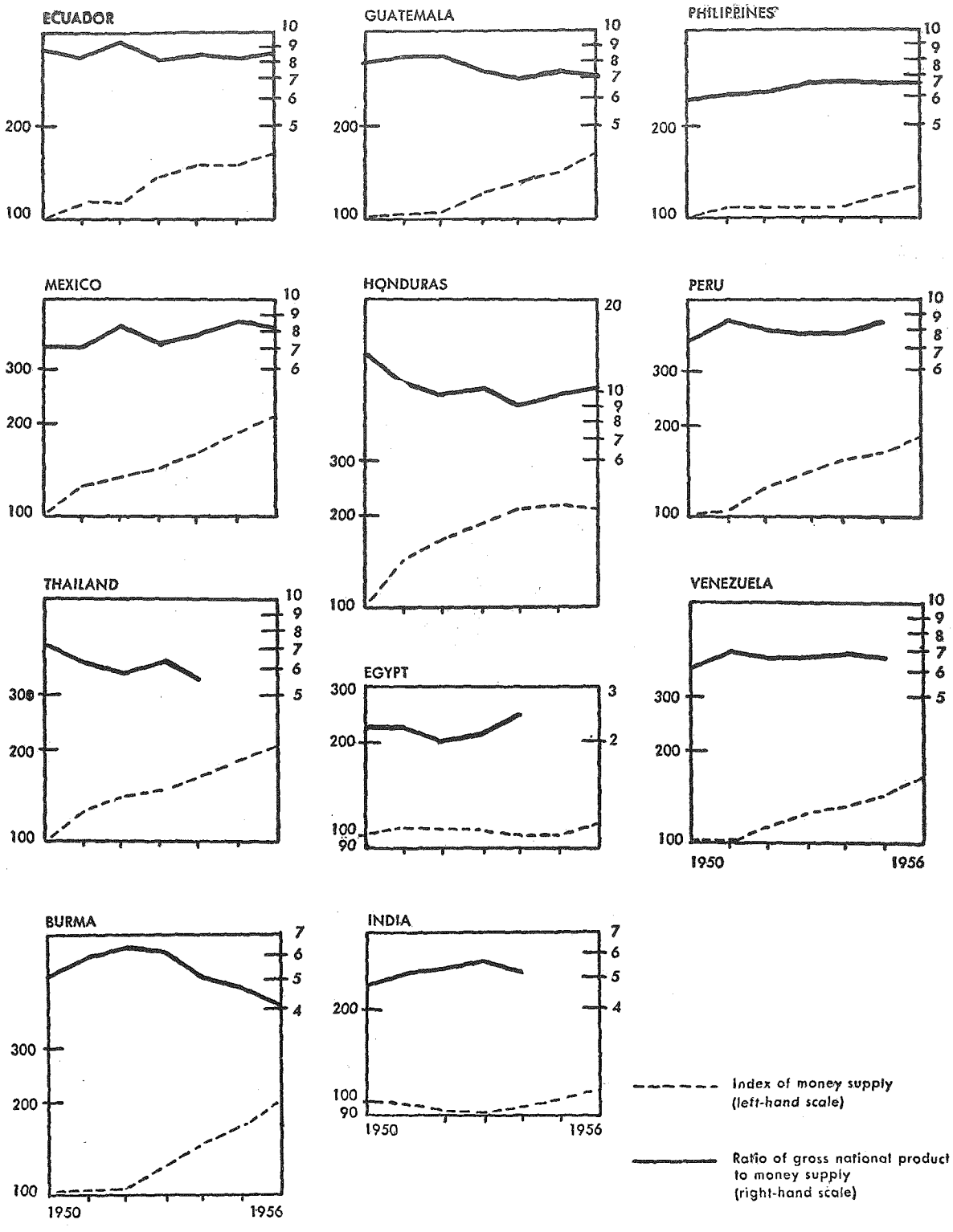
(Index, 1950 = 100)



Source: Statistical Office of the United Nations and Bureau of Economic Affairs; based on national sources. Figures for Australia, Burma, India, New Zealand and Pakistan refer to fiscal years.

[a] Money supply refers to currency and deposit money. Figures for each year are averages of the money supply at the end of the current and preceding year.

[b] Wherever figures for gross national product were not available, those for net domestic product or national income have been used.


ECUADOR
GUATEMALA
PHILIPPINES
MEXICO
HONDURAS
PERU
THAILAND
EGYPT
VENEZUELA
BURMA
INDIA
1950
1956
Index of money supply
(left-hand scale)
Ratio of gross national product
to money supply
(right-hand scale)

change in foreign assets has exerted a contracting influence upon the money supply.

The proportion of the increase in money supply that is accounted for by governmental borrowing has generally been substantially greater in Asian countries than in Latin American countries. Although, in both groups of countries, increases in governmental borrowing from the banking system—to the extent that they have not been offset by central bank action—have provided a base for the secondary expansion of credit by the commercial banks to the private sector, such a secondary expansion has generally assumed greater importance in Latin American countries. To a considerable extent, this has reflected the greater increase in the demand for working capital generated in these countries by the prevalence of wage-price spirals. But it has also reflected the larger role played in them by private investment. For, in under-developed countries generally, it must be remembered, the lack of organized capital markets renders the private sector heavily dependent upon the banking system, not only for short-term credit to finance current transactions, but also for loans to undertake new, fixed investment.

Because of the lack of organized capital markets and the difficulties encountered in financing increased budgetary expenditure through higher taxation, increases in the supply of money have been a principal means through which the advances in the level of government expenditure and of private investment expenditure have been financed; and increases in wages have similarly been financed almost entirely by this means. To a considerable extent a greater supply of money has therefore been a necessary—though, of course, not a sufficient—condition of these increases in expenditure. But the significance of the additions to the supply of money in primary producing countries has apparently not been limited to the fact that they have permitted such increases in expenditure. For, while the advance in output would not have occurred except under the stimulus of these increases in expenditure, the provision of additional supplies of money to finance them appears, in turn, to have induced further increases in expenditure. The reason for this must be sought in the relatively inelastic demand for liquidity, reflected in the absence of organized capital markets in under-developed countries; given the ever present danger of inflation in a country seeking to develop rapidly, there is evidently little willingness to hold increases in the money supply in the form of idle balances or to increase holdings of other liquid assets. Large-scale expansion of the stock of money thus tends to augment the flow of total expenditure on goods and services. The unwillingness to accumulate money in the form of idle balances is suggested by chart 7, which shows that the income velocity of money has tended to remain constant even in countries experiencing a large expansion in the money supply.[14] It is true that a sharp fall in velocity was associated with the sudden increase in money supply that occurred in a number of countries during the Korean boom period, but the velocity tended to return to its previous value within a relatively short period of time.

In most primary producing countries, while declines in the income velocity of money may have tended, over fairly short periods, to offset increases in the supply of money, it is clear that large and continuous increases in the supply of money have not been absorbed in idle balances. There has, in other words, been a limit below which the income velocity of money would tend not to fall, and increases in the supply of money, after this point has been reached, have tended to generate roughly proportionate increases in money income and expenditure. It is true that the secondary increases in expenditure which ensue from increases in the money supply may induce an expansion in real output and therefore also raise real incomes. However, since the responsiveness of output to increases in demand diminishes sharply when productive capacity has once become fully utilized or supply bottlenecks in key sectors have been encountered, recurrent, secondary increases in money expenditure tend to exert inflationary pressure on prices. In these countries, therefore, changes in the money supply constitute an active factor in the price spiral, with prices and wages adjusting to these changes. Thus, even though the budget deficit, the export balance or private investment may not change from year to year, the financing of even such unchanged expenditure by means of a continuous expansion in the supply of money, in the face of an unwillingness to hold larger cash balances and other liquid assets, tends to generate a persistent upward pressure on the level of prices.

International Aspects of Inflation

It has already been noted that periodic increases in the external balance arising mainly from changes in world market conditions for primary commodities have played an important role in exerting inflationary pressure upon prices in the primary producing countries. Conversely, it would seem that deterioration in the external balance should serve to alleviate inflationary pressures arising from domestic sources. It has, for instance, been shown in the preceding chapter that in the industrial countries a deterioration in the external balance, either through increased imports or through a

[14] Long-term changes in the structure of the economy or the habits of the community may, of course, affect the trend in velocity. One important factor in under-developed countries is, for example, extension of the market economy. If the supply of money is not adjusted to the enlargement of the monetized sector of the economy, this will tend to affect the trend in income velocity.

diversion of exports to home markets, constitutes a fairly direct alternative to an increase in domestic prices whenever inflationary pressure is intensified. Thus, a close inverse relationship has been evident in the industrial countries between changes in the internal demand for savings and the external balance.

In the primary producing countries, however, this relationship and its significance as an offset to internal inflationary pressures are considerably modified. It is true that, in quite a number of these countries, a close inverse relationship between changes in the internal demand for savings and the external balance has existed, but in others, it has been much less evident. However, even where, as in Australia, New Zealand, Turkey, the Union of South Africa and a number of Latin American countries, a close inverse relationship has been discernible, this has not always meant that the external balance has in fact served as an outlet through which a rise in the pressure of internal demand has been relieved. For, as explained in more detail below, the causal sequence of events in these countries does not run in any simple way from changes in the internal demand for savings to changes in the external balance.

In contrast to most industrial countries, exports of the primary producing countries consist of a very narrow range of commodities, and generally these do not bulk large in domestic consumption. Accordingly, the emergence of inflationary pressure may have little or no effect upon the volume of exportable supplies absorbed by the home market. This, at least, is certainly true among countries whose major exports consist of mineral or agricultural raw materials.

There are, nevertheless, a few countries—whose major exports include foodstuffs—where the volume of exportable supplies may be affected by the emergence of internal inflationary pressure, and several of these, including Argentina, Australia, Burma, New Zealand, Thailand and Turkey, have, in fact, experienced substantial degrees of inflation in recent years. Even in these cases, however, clear-cut evidence of increases in domestic consumption at the expense of exports is not the rule (see table 27). In Argentina, for example, the re-emergence of inflation in 1955 coincided with a sharp increase in per capita beef consumption in the country, and it might be thought that this took place at the expense of exports. But, on the other hand, beef production expanded even more rapidly in 1955 and 1956, and the export volume more than tripled during these two years.[15] Again, in Thailand, during recent years when inflationary pressure has been manifest, rice exports have shown no increase in spite of higher production levels, and per capita consumption appears to have risen significantly. However, world marketing conditions facing rice exporters have also deteriorated in recent years, so that the evidence is not conclusive. Turkey may be an important exception, however, for the data strongly suggest that internal inflation has encroached upon exportable supplies of wheat. Wheat production expanded rapidly from 1950 to 1953, and the country became an important exporter. In later years, although production declined somewhat from the peak reached in 1953, it remained at a high level, but exports fell away almost to nothing. This reflects the diversion of output towards consumption, induced, in part, by higher domestic incomes.

Except in a few special instances, then, the emergence of internal inflationary pressure has not much affected supplies of exports. The inverse relationship between the external balance and the internal demand for savings which is evident in a considerable number of primary producing countries has thus turned almost wholly upon fluctuations in imports. In fact, if changes in the internal demand for savings to finance investment and budget deficits are compared with changes in the value of imports—both expressed as ratios of gross private income—a close relationship in their movements is apparent in many countries (see chart 8). It is obvious that, whereas the narrow range of commodities exported by primary producing countries severely limits the extent to which they may be absorbed by the domestic market, the same is not true of imports. Imports cover a wide range of commodities, and an increase in demand for almost any type of product can be satisfied by an increase in imports. But it would be erroneous to suppose that imports have therefore played an entirely passive role, fluctuating in response to changes in the internal demand for savings and thus tending to moderate the impact of increased demand upon the level of domestic prices. For imports and the internal demand for savings have been more directly interrelated. On the one hand, changes in the internal demand for savings have largely reflected changes in the level of investment activity. But, on the other hand, since there is little production of capital equipment in primary producing countries, changes in the level of investment activity

[15] If the data for earlier years are considered, the evidence in Argentina is more conclusive. From 1945 to 1947 beef production increased sharply by over 25 per cent and then remained about stable until 1951. Per capita consumption during this period increased by nearly 40 per cent, so that exports rose only during the two years of rapid increase in production, and by 1950 had again fallen to the low level set in 1945. When production then declined in 1951 and 1952, exports fell to a new low level. These changes are shown below (with production and exports in thousands of metric tons):

	1944	*1945*	*1946*	*1947*	*1948*	*1949*	*1950*	*1951*	*1952*
Production.....	1,620	1,454	1,696	2,055	1,999	2,063	1,044	1,880	1,788
Exports.....	291	176	227	338	176	318	174	120	103
Per capita consumption (pounds)	146	152	174	193	205	209	204	200	183

Source: Commonwealth Economic Committee, *Meat, a Review* (London).

Substantial price increases began in 1945, but were undoubtedly moderated by this diversion of exports to the domestic market, and by the large expansion of imports which took place. Argentine authorities were well aware of the decline in meat exports, and, in 1949, attempted to restrict domestic meat consumption.

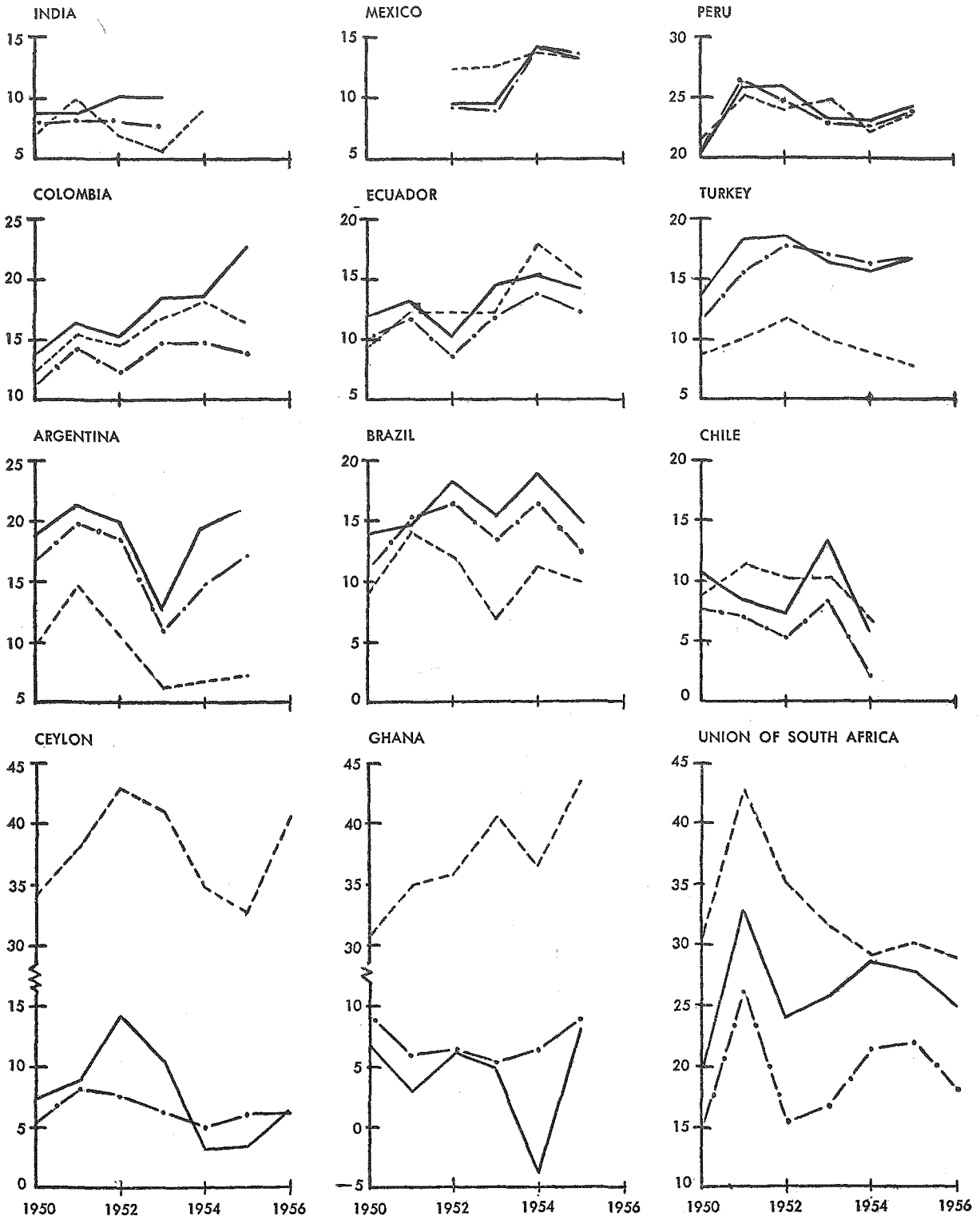
Table 27. Production, Exports and Domestic Consumption of Selected Commodities

(Thousands of metric tons except as indicated)

Country and commodity	1949	1950	1951	1952	1953	1954	1955	1956
Argentina								
Wheat:								
Production	5,200	5,144	5,795	2,100	7,633	6,200	7,690	5,250
Exports	1,861	2,740	2,550	104	2,257	3,046	3,607	2,641
Beef and veal:								
Production	2,063	2,044	1,880	1,788	1,766	1,815	2,147	2,515
Exports	318	174	120	103	115	108	194	362
Consumption	1,599	1,614	1,608	1,513	1,535	1,584	1,732	1,900
Per capita consumption (pounds)	209	204	200	183	183	184	198	213
Turkey								
Wheat:								
Production	2,517	3,872	5,600	6,447	8,000	4,900	6,900	6,400
Exports	—	—	24	483	605	1,400	159	177
Consumption	2,878	2,948	3,949	4,068	4,200	3,772	4,628	4,700
Per capita consumption (pounds)	309	311	406	408	412	355	423	421
New Zealand								
Beef and veal:								
Production	181	188	180	195	185	203	230	254
Exports	60	60	44	58	45	61	96	120
Consumption	96	99	106	104	100	103	103	110
Per capita consumption (pounds)	113	114	121	116	107	108	106	111
Mutton and lamb:								
Production	323	337	297	354	338	333	352	358
Exports	261	258	212	300	256	281	271	276
Consumption	61	63	66	69	70	71	77	79
Per capita consumption (pounds)	73	73	75	77	76	75	80	80
Butter and cheese:								
Production	282	298	294	315	294	299	306	...
Exports	245	241	258	279	264	227	243	...
Consumption	34	39	43	46	48	49	50	...
Per capita consumption (pounds)	39	45	48	50	51	51	51	...
Australia								
Wheat:								
Production	5,190	5,939	5,013	4,346	5,312	5,387	4,588	5,319
Exports	3,217	3,251	3,470	2,199	2,776	1,837	2,759	2,575
Consumption	1,054	1,047	1,140	1,164	1,237	979	1,088	1,130
Beef and veal:								
Production	617	662	594	686	715	732	763	817
Exports	82	72	44	39	158	114	149	124
Consumption	454	496	475	474	462	480	504	549
Per capita consumption (pounds)	124	132	123	120	115	116	119	127
Mutton and lamb:								
Production	364	278	281	402	371	394	386	362
Exports	87	24	14	42	64	60	57	35
Consumption	267	238	247	310	316	323	318	312
Per capita consumption (pounds)	73	63	64	78	78	78	75	72
Butter and cheese:								
Production	222	212	179	217	212	240	254	...
Exports	90	105	53	59	63	72	104	...
Consumption	115	141	144	140	150	149	150	...
Per capita consumption (pounds)	32	37	37	35	37	36	35	...
Burma								
Rice:								
Production	5,253	5,283	5,588	5,934	5,706	5,897	5,962	6,566
Exports	1,199	1,217	1,288	1,281	986	1,484	1,665	1,967
Thailand								
Rice:								
Production	6,790	6,891	7,442	6,708	8,371	5,800	7,835	8,137
Exports	1,234	1,532	1,638	1,436	1,363	1,034	1,248	1,260

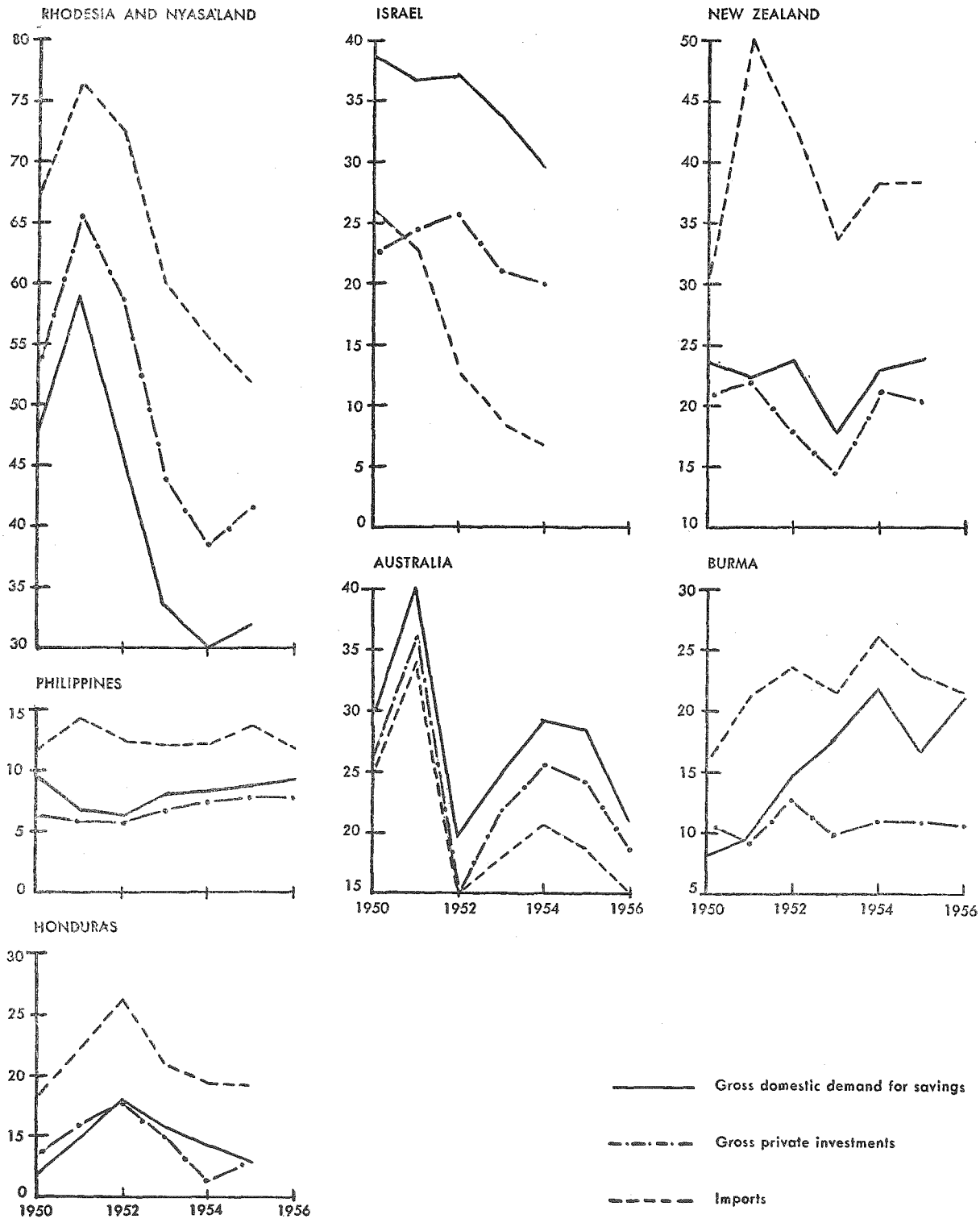
Source: Commonwealth Economic Committee, *Grain Crops, a Summary* (London), *Dairy Produce, a Review* (London) and *Meat, a Review* (London); for Turkey, Central Statistical Office *Agricultural Statistics*, 1936–1956 (Ankara).

Chart 8. Ratio of Gross Internal Demand for Savings, Imports and Investments to Gross Private Income[a]



Source: See table 20.

[a] Imports refer to merchandise imports only. Years indicated are calendar years, except for Australia, New Zealand and India, which are fiscal years 1950/51 to 1956/57, and for Burma, 1949/50 to 1955/56.


RHODESIA AND NYASALAND
ISRAEL
NEW ZEALAND
AUSTRALIA
BURMA
PHILIPPINES
HONDURAS
1950
1952
1954
1956
Gross domestic demand for savings
Gross private investments
Imports

have been heavily dependent upon imported supplies; imports may, in fact, account for as much as half the value of investment in many countries. Thus, owing to the economic structures of these countries, increases in imports have, in themselves, often been a partial condition of increases in the internal demand for savings. Imports of investment goods have moved closely in line with changes in the level of investment activity; and accordingly, the greater the share of investment goods in total imports, the more closely have total imports moved in line with changes in the internal demand for savings. This being so, it cannot be said that increases in imports have simply served passively to absorb increases in the internal demand for savings. To a considerable extent, the latter could not have been realized without such increases in imports. The deterioration in the external balance that has tended to take place when the internal demand for savings has risen must therefore be considered less as an alternative to a rise in domestic prices, than as a condition of the rise in the internal demand for savings.

It is this interrelationship between imports and domestic investment which explains why, in a considerable number of countries, changes in total imports and the internal demand for savings have moved closely together. In the Latin American countries and in Australia, New Zealand, Turkey, and the Union of South Africa, the share of investment goods in total imports has been high and, with the single exception of Chile, total imports and the internal demand for savings have shown a close correspondence in their movements. In the Asian countries, on the other hand, the share of investment goods in total imports has been much smaller, and the relationship between the internal demand for savings and imports has therefore been less striking. Ceylon has been an exception, in that a close variation between the movement in the internal demand for savings and imports has been evident.

If, in the countries where variations in imports and the internal demand for savings are closely associated, it is not an adequate explanation to describe imports as acting simply as a safety valve for internal demand pressures, it is no less remarkable that there have been other countries where changes in imports and the internal demand for savings have been associated only loosely or not at all. For this means that, in the primary producing countries generally, the movement of imports cannot be described as simply a response to changes in internal demand. What in fact has primarily determined changes in the level of imports in these countries has been variations in the availability of foreign exchange. With only few exceptions, insufficiency in supplies of foreign exchange has been a persistent problem facing them, and imports have been subject to controls of one kind or another. In such conditions, the emergence of inflationary pressure has not necessarily led to increases in imports, but may simply have added to the existing excess of demand over supplies of foreign exchange. In the absence of increased receipts, the increase in imports which might be permitted to meet a rise in domestic demand has been severely circumscribed by the level of foreign exchange reserves. In almost every country, changes in imports can thus be explained by changes in foreign exchange receipts or in reserves, and seldom simply by domestic economic developments.[16]

It is within the limits set by the supply of foreign exchange that official policy has determined the total volume of imports. Official policy, however, has acquired additional significance from the fact that it has been a major determinant of the composition of imports. When imports have increased, their effect upon domestic inflation has varied according to whether official policy has permitted the increase to take the form of investment goods or consumption goods. Increased imports of investment goods have permitted an expansion of domestic investment activity. But since part of the increase in investment expenditure has been spent in the home market upon employment of labour and purchase of domestic commodities, this has increased the pressure of demand on supplies of consumer goods and services, and prices have tended to rise. In other words, the rise in the internal demand for savings, partly induced by the increase in imports, has not been wholly offset by this increase, and inflationary pressure has therefore mounted. On the other hand, when the increase in imports has consisted largely of consumption goods, inflationary pressure has tended to be relieved.

In many countries the relationship between imports and domestic inflationary pressure has been obscured by the impact of other factors, acting independently, upon the domestic level of prices. Nevertheless, in a number of countries, interesting relationships between changes in imports and domestic prices have been evident; and, in conformity with the pattern described above, the nature of these relationships has varied with the differences among countries in the composition of their imports. Thus, in some, where changes in imports have been largely in the supply of investment goods, domestic prices and the volume of imports have exhibited a tendency to move together. For example, it was primarily changes in the volume of imported capital goods that accounted for the rise in imports after 1951 in Turkey, the decline from 1951 to 1953 and the subsequent rise from 1954 to 1955 in Argentina, and the

[16] An illustration of the interaction between foreign exchange earnings, imports and import restrictions is provided by the experience of Australia. There, large export earnings during the Korean boom permitted a rapid expansion in imports and, until mid-1951, exchange holdings also rose. At that point export earnings declined rather sharply, and the high volume of imports led to a 50 per cent reduction in exchange reserves from mid-1951 to mid-1952. Import restrictions were tightened markedly, and the volume of imports fell by one-half. This brought about an improvement in the reserve position, and restrictions were progressively eased in 1953, with a consequent expansion of imports. In mid-1954 reserves again began to decline, and the process was repeated, with imports falling from mid-1955 to mid-1957. Similar illustrations could be drawn from the experience of almost any of the primary producing countries.

decline which began in Cuba in the latter part of 1952 and in Peru at the end of 1953; and these changes were associated with corresponding changes in the pace of advance in domestic prices. On the other hand, in several other countries, where changes in imports have been primarily in the volume of imported consumer goods, a clear inverse relationship between the cost of living and the volume of imports has been evident. For example, in Burma the cost of living, which had been declining since 1950, began to rise rapidly in the second quarter of 1955 following a sharp reduction in imports of consumer goods—largely textiles. The reduction in Indonesia's imports in the latter part of 1954 and the increase in the latter part of 1955; the increased food imports in India in May of 1951, and the import cuts in Pakistan in September 1952 were all closely followed by opposing and relatively sharp changes in inflationary trends.

While the emergence of internal inflationary pressure has not been related in any simple and immediate way to deterioration in the external balance, this does not necessarily imply that, over a longer period, the external balance has been unaffected by domestic inflation. When domestic inflation has persisted for some time, the volume of both exports and imports may undergo changes as a result of changes in the relationship between their prices and the level of domestic prices and costs. On the one hand, a rise in domestic prices and costs relative to export prices may depress production for export, or at least discourage its expansion; and, on the other hand, a rise in domestic prices relative to import prices may intensify demand for imports and discourage domestic production of substitutes for imports.

As regards exports, the process through which domestic inflation may reduce the volume of exports from primary producing countries is clearly different from that to be found in most instances in industrial countries. In the latter, prices of export goods are largely determined in the same way as prices in domestic markets, namely, by domestic costs of production; inflation, by and large, leads to price increases in the export industries of more or less the same proportion as the rise in the general price level. In so far as a reduction in output results, it is because higher prices make the goods less competitive in export markets, and sales decline. In the primary producing countries, however, prices of export goods are largely determined in world markets, and internal inflation has little effect on them. Internal inflation, however, affects the profitability of export production, since it increases domestic costs relative to world prices; and this may induce producers either to curtail production or to shift resources—wherever feasible—to other lines of production for domestic use where prices do vary with domestic costs. In most cases such changes may be made only gradually over a period of years, but by the same token, once the change has been made, it may not be reversible except over a long period.

This tendency for inflation to squeeze profits in the export sector can be offset to the extent that producers are granted more favourable rates at which their foreign exchange earnings can be converted into domestic currency. If these rates are adjusted in line with the rise in domestic prices, the relationship between export prices and domestic costs may not be disturbed. It is changes in this relationship, then, which indicate the extent to which inflation may affect the export sector. Though it is not possible to obtain the precise indices of costs desirable in this connexion, cost of living estimates may be used as a rough indication. In so far as these are representative of the general price level, they may also be taken for this purpose as sufficiently representative of the order of magnitude of production costs in the export sector.

Examination of data on the cost of living and the exchange rates does not reveal many countries which imposed new penalties on exports in recent years by maintaining unfavourable exchange rates in relation to domestic inflation during this period (table 28). Only in Australia, New Zealand, and Turkey has inflation advanced at a fairly rapid rate throughout the nineteen fifties unaccompanied by any adjustment in the exchange rate.[17] In a number of other countries there were intervals of several years when the cost of living rose substantially more than the increases in the exchange rate applicable to exports. This was the case in Argentina, Brazil, Malaya, Mexico and Thailand in the years preceding 1953 or 1954, and in Burma from 1954 to 1957. In Indonesia there were sharp fluctuations in the relationship between the cost of living and the exchange rate; in the Union of South Africa the cost of living rose rather slowly throughout 1950 to 1957 while the exchange rate remained stable after the 1949 devaluation. Among these countries, however, only in Brazil was there any clear tendency over the whole period since 1948-1949 for domestic prices to rise more rapidly than the exchange rate applicable to exports.

Even in the countries mentioned exporters were not always on balance penalized by rising domestic prices, for the world prices of their export commodities were sometimes rising at least as rapidly. In Brazil and New Zealand—for which export price indices are available—this was clearly the case; and it was probably also true of Thailand, although such an index is not available.

It is not, then, surprising to find little indication that internal inflationary trends seriously affected the production of export commodities during this period.[18] The

[17] The currency was devalued in Australia and New Zealand in 1949, but in both countries rising prices had eliminated this gain by 1951.

[18] Only Malaya experienced a slight decline in production, while Mexico, Indonesia and Turkey were among the countries which achieved the largest increases.

Table 28. Cost of Living and Average Effective Export Exchange Rates[a]

(1948=100)

Country and item	1937	1949	1950	1951	1952	1953	1954	1955	1956
Turkey									
Cost of living	29	110	104	102	109	112	124	134	153
Export rate	45	100	100	100	100	100	100	100	100
Ratio	65	110	104	102	109	112	124	134	153
Australia									
Cost of living	68	109	121	146	171	179	180	184	193
Export rate	82	108	144	144	144	144	144	144	144
Ratio	83	101	84	102	119	124	125	128	134
Brazil									
Cost of living	23	98	103	108	132	161	190	234	277
Export rate	79	100	100	100	100	106	149	206	217
Ratio	29	98	103	108	132	151	128	113	128
New Zealand									
Cost of living	71	103	108	119	128	133	140	144	149
Export rate	86	110	122	122	122	122	122	122	122
Ratio	82	93	88	97	105	109	115	118	122
Venezuela									
Cost of living	...	108	109	118	119	118	118	118	118
Export rate	...	100	100	100	100	100	100	100	100
Ratio	...	108	109	118	119	118	118	118	118
Malaya[b]									
Cost of living	...	...	100	125	127	123	116	112	114
Export rate	...	...	100	100	100	100	100	100	100
Ratio	...	...	100	125	127	123	116	112	114
Ecuador									
Cost of living	...	98	98	109	111	112	117	119	113
Export rate	...	100	111	111	111	111	111	111	111
Ratio	...	98	98	109	111	112	117	119	113
Pakistan									
Cost of living	...	99	95	99	101	112	110	106	110
Export rate	...	100	100	100	100	100	100	115	114
Ratio	...	99	95	99	101	112	110	106	110
Colombia									
Cost of living	35	107	129	140	137	147	160	159	169
Export rate	101	112	112	121	131	136	137	144	158
Ratio	35	96	116	115	105	109	117	111	107
Burma									
Cost of living	26	135	117	115	109	105	100	102	118
Export rate	63	103	111	111	111	111	111	111	111
Ratio	42	130	105	103	98	94	90	92	106
Thailand									
Cost of living	8	97	100	111	122	135	134	142	150
Export rate	17	97	115	117	104	103	116	142	151
Ratio	48	100	87	95	117	131	115	100	99
Union of South Africa									
Cost of living	65	104	104	116	126	130	132	136	139
Export rate	82	108	144	144	144	144	144	144	144
Ratio	79	96	72	80	88	90	92	95	97
Philippines									
Cost of living	25	94	97	106	98	95	94	93	95
Export rate	100	100	100	100	100	100	100	100	100
Ratio	25	94	97	106	98	95	94	93	95
Argentina									
Cost of living	48	132	165	223	310	323	335	377	426
Export rate	87	100	117	168	190	191	193	231	478
Ratio	55	132	140	132	163	169	174	164	89
Cuba									
Cost of living	38	87	84	94	93	92	89	89	89
Export rate	101	100	100	100	100	100	100	100	100
Ratio	38	87	84	94	93	92	89	89	89

Table 28. Cost of Living and Average Effective Export Exchange Rates[a] (*continued*)
(1948=100)

Country and item	*1937*	*1949*	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Mexico									
Cost of living	27	106	111	125	144	141	148	172	179
Export rate	64	139	154	154	154	154	199	222	222
Ratio	42	76	72	82	93	92	74	77	81
Indonesia									
Cost of living	8	96	113	189	200	213	226	300	343
Export rate	69	111	286	286	429	429	429	429	429
Ratio	12	86	39	66	47	50	53	70	80
Peru									
Cost of living	30	115	130	143	153	167	175	183	193
Export rate	52	179	196	198	203	222	255	250	250
Ratio	58	64	66	72	76	75	69	74	76
Ceylon									
Cost of living	42	99	104	109	108	...	109	109	109
Export rate	81	111	144	144	144	144	144	144	144
Ratio	51	89	73	76	75	77	76	76	76
India									
Cost of living	35	102	103	108	105	109	103	98	108
Export rate	81	111	144	144	144	144	144	144	144
Ratio	42	92	72	75	73	76	72	70	75
Egypt									
Cost of living	35	99	104	114	113	105	101	101	103
Export rate	81	108	144	144	144	144	144	144	144
Ratio	43	92	72	79	78	73	70	70	72
Iraq									
Cost of living	15	80	73	78	84	73	72	74	79
Export rate	81	108	144	144	144	144	144	144	144
Ratio	18	74	51	54	58	51	50	51	55

Source: International Monetary Fund, *International Financial Statistics* (Washington, D. C.). Export rate series for Argentina and Burma estimated from national sources, taking into account prices paid by government boards for major exports.

[a] Countries are arranged in descending order of the ratio in 1956.

[b] 1950=100.

impact on prices in local currency in relation to costs appears rarely to have been substantial, and was nearly always eased within a few years. In the short run at least, the production of most primary products does not appear to have been responsive to changes in costs in relation to world market prices, but has rather been largely dependent upon other factors, such as changes in the pattern of world demand.[19]

It should not, however, be concluded that inflation has not adversely affected the production of export commodities even over the longer term; there are several extreme cases where changes in relative prices and costs have been of such a magnitude and have continued for a sufficiently long time to have had an adverse effect on production. In Chile, for example, the rate at which the large mining companies could acquire the pesos needed to meet local costs remained unchanged from 1934 until 1952. During this time the cost of living and wages multiplied tenfold. From 1952 to 1955 the relationship between local costs and the exchange rate changed little. Thus, even though copper prices rose considerably over the period, the cost-price relationship was even less favourable to producers than that which had prevailed during the depressed nineteen thirties. This was but one aspect of a policy designed to increase the contribution of the copper industry to government revenue and to government supplies of foreign exchange, a policy which held returns in the industry at a relatively low level. As a result, even during years when demand for copper was on the whole strong and world price high, Chilean production stagnated and the country's share of the world market declined. The revision of policy in 1955, among other changes, granted a much more favourable exchange rate to the copper companies in an effort to bring about an expansion in production. Again, in Brazil, there was almost no adjustment in the exchange rate applied to coffee and cotton exports from the late nineteen thirties until 1953, in spite of a sevenfold increase in the cost of living. Although world prices rose substantially for these commodities also, this meant that coffee producers continued to be faced with the same unfavourable relative price situation which prevailed during the nineteen thirties, while for cotton growers the lesser rise in the world price resulted in an even further deterioration of their position. Coffee production declined about 25 per cent from the pre-war

[19] See *World Economic Survey, 1956*, chapter 3.

level, and cotton production increased only slightly. And in Argentina, the rate granted on wool and wheat exports lagged far behind cost of living increases from the late nineteen thirties until 1952; the rate was less than doubled, while the cost of living increased more than sixfold. Again, increases in world prices were not sufficient to compensate for this situation and the position of producers deteriorated even from the level of the nineteen thirties. In this instance also export production lagged and policy had to be changed eventually in an effort to stimulate output.

Similar changes in the relationship between domestic prices and the exchange rate applicable to imports have also probably intensified the demand for imports in some countries, though this effect is, in practice, even less easy to establish. As can be seen from table 29, since 1948 the cost of living has risen very much more than the price of imported goods in a number of countries. In Brazil to 1953, in Argentina to 1955, and in Indonesia and Turkey to 1956 this change in relative prices was particularly severe. In each of these instances, the cost of living had risen by about 60 per cent more than import prices since 1948.

If a longer time period is considered, the extent of this shift in relative prices has in a number of instances been quite extreme. Cost of living, import exchange rate, and dollar import price changes indicate the following approximate shifts from the 1937 relation. In Brazil, from 1937 to 1953, domestic prices rose three times as much as import prices; in Indonesia, domestic prices were, relatively, four time as high as import prices in 1948 compared with 1937, and by 1956 were still two and a half times as high; in Burma by 1949, in Chile by 1954, in the Philippines by 1948, and in Bolivia by 1955-1956, the domestic price level had risen about twice as much as import prices from 1937, and in Colombia by 1950 the margin was about 75 per cent. In Chile, Bolivia and Colombia recent devaluations have restored the pre-war relationship, but in Indonesia—even after the devaluation in 1957—and in Burma and the Philippines, the difference continues to be some 50 per cent. In Brazil domestic prices are still twice as high as import prices, compared with pre-war. Price differentials of this magnitude have very probably been an important factor in intensifying the demand for imports, necessitating strict controls to keep demand within the limits set by foreign exchange earnings.

Government Anti-Inflationary Policies

During recent years, governments have become increasingly concerned with the problem of inflation, and official policies have generally tended to assume a more restrictive character. While in some countries the current phase of governmental restraint has been a continuation of a trend begun earlier, in many others it has marked a reversal of previous post-war policies. In earlier years, the strong inflationary tendencies were closely connected with the efforts of governments to accelerate the rate of economic growth. As inflation

Table 29. Ratio of Cost of Living to Import Prices in Local Currency
(1948=100)

Country	*1949*	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Indonesia[a] [b]	...	100	121	133	128	146	137	167
Argentina	122	128	92	114	151	156	159	...
Turkey	125	141	114	121	131	142	146	159
Ghana	118	125	121	118	125	130	143	141
Venezuela	130	141	134	138	141	144	141	141
Australia	105	101	100	116	128	129	128	131
New Zealand	112	108	103	102	112	118	119	123
Honduras	...	110	107	110	110	116	125	118
Colombia	100	115	98	92	103	113	110	116
Malaya[c]	100	95	95	108	114	119	113	115
Brazil	104	133	117	128	164	139	113	105
Philippines	104	109	104	99	100	103	102	103
Cuba	102	106	99	99	100	105	98	...
Mexico[b]	...	100	98	109	106	86	93	...
Ceylon	103	106	94	86	97	111	107	97
India	108	97	82	80	91	92	89	96
Union of South Africa	101	96	87	85	90	91	93	95
Chile	102	95	84	88	95	107	108	93
Peru	74	83	77	80	90	84	83	82
Egypt	98	102	97	82	79	79	77	77
Pakistan[b]	...	100	81	95	108	106	84	63
Israel[b]	...	100	90	...	81	56	47	48

Source: United Nations, *Monthly Bulletin of Statistics* and International Monetary Fund, *International Financial Statistics.*

[a] Ratio of food prices to import prices.

[b] 1950=100.

[c] 1949=100.

developed over the years, however, many countries began to realize that their earlier policies had not only had serious inflationary consequences, but had often failed to foster rapid economic growth. In some countries which experienced severe price inflation, very little economic growth was achieved; and even where there was substantial growth, inflation gave rise to distortions in the pattern of investment and production, tended to discourage savings and exerted mounting pressure on the balance of payments. Further, unremitting price inflation invariably encroached upon the incomes of some classes of society and thus aggravated social tensions and unrest. It was the emergence of such difficulties that prompted many governments to reappraise their earlier policies.

There is, then, little doubt that government policies have been increasingly reformulated to foster economic development within a context of economic stability. Restraining budgetary and monetary measures—and in a number of instances exchange reforms—have been increasingly adopted to mitigate inflation. In some countries which have experienced severe inflation, comprehensive programmes of stabilization have been introduced. Anti-inflationary policies, however, have not consisted solely of measures designed to restrain the level of aggregate demand. As has been seen above, a common source of inflation in many countries has been the emergence of imbalances between demand and supply of particular commodities, especially foodstuffs; and governmental action to facilitate the adaptation of the domestic pattern of production to changing demand conditions has therefore been of considerable importance in anti-inflationary policy.

Probably the most widespread single instance of governmental action in this latter respect has been the emphasis placed upon expansion of food production. Particularly in the Asian countries, post-war economic development programmes have generally given priority to such expansion of output. Although these efforts were often motivated by balance of payments considerations, the expansion of food production was also regarded as necessary to meet the increasing requirements arising from population growth, urbanization and higher per capita incomes. In many countries, there has been much greater government investment in the agricultural sector since 1950; in some it has constituted a substantial proportion of total investment. For instance, in India, government agricultural investment under the first five-year plan absorbed more than 40 per cent of its total investment expenditure,[20] and in Ceylon for the period 1954-1959 it is expected to account for about 37 per cent of total government investment. In these countries the increase in government agricultural investment, through providing farmers with additional irrigation water, improved seeds, farm implements, fertilizers, pesticides and other supplies, has been instrumental in expanding food production. Moreover, in a number of countries, government price policy concerning rice has also tended to stimulate production. Compulsory procurement by the government, which was enforced in some of them during the early post-war years when there was a food shortage, has generally been discontinued. Upon the abolition of such purchasing schemes, the official paddy prices were fixed at levels generally regarded as fair and adequate to the producers; and they have since been adjusted upwards from time to time.

In Latin America, during the earlier post-war years—when attention was concentrated upon industrialization—expansion of food production was commonly not emphasized. But, in recent years, greater weight has been given to it. The wheat development policy adopted by many countries provides an example, the most striking instance being in Mexico, where, because of an active government development programme, production of wheat, together with other agricultural products, has increased rapidly in recent years. As a result, Mexico has become more or less self-sufficient in wheat. Similarly, in Brazil, the increased supply of fertilizers and improved seeds provided by the Government to farmers, combined with a price support scheme, has resulted in a steady expansion of wheat production over the past few years. Wheat production in Peru and Colombia has also expanded, though to a lesser extent than in Brazil and Mexico.

In Argentina and Chile, where stagnation of agricultural production has been an important factor contributing to inflation, positive measures have also been taken recently to stimulate expansion. In Argentina, measures adopted in October 1955, which modified the exchange rate and agricultural prices, were intended to revive agriculture. In Chile, price controls affecting some agricultural products were completely or partially dropped in 1953; and a long-term agricultural development plan was drawn up in 1954.

Governmental action to achieve a more balanced distribution of resources has not, however, been confined to encouragement of food production. Similar reasons have played some part in persuading a number of countries to unify or simplify their multiple exchange rate systems and devalue their currencies during recent years. For, under the multiple rate systems, exports of key commodities often tended to be discouraged by the overvaluation of the applicable export rate, and domestic production of substitutes for imported commodities was deterred by the low rates prevailing for certain classes of imports. In fact, in countries such as Argentina, Brazil, Chile, Colombia and Indonesia, which have utilized multiple rates over most years since 1950, the spread between the rates applicable to the various categories of exports and imports had widened with the passage of time.[21] In other words, while the rates applicable to some internationally traded commodities rose

[20] This estimate includes expenditure on community development schemes and on power works.

[21] See *World Economic Survey, 1956*, pages 122-126.

in line with, or even ahead of, the general level of domestic prices, the rates for others lagged increasingly behind; and the incentive to domestic production of major exports and certain classes of import substitutes was thus steadily weakened.

It is true, of course, that, partly because preferential rates have usually been granted on imports of essential consumer goods, multiple exchange rate systems have in the shorter term had disinflationary effects. This aspect of multiple rate systems has, moreover, been reinforced by the fact that the effective average rate applicable to exports has invariably been lower than that applicable to imports in terms of national currency; and, accordingly, the systems have provided a means of withdrawing income from the community. But, in a number of countries, the disadvantages of multiple rate systems in discouraging production of essential goods as well as encouraging illegal export of capital have been found to outweigh their benefits, and the systems have been abolished or greatly modified in recent years. In Bolivia, for example, towards the end of 1956, exchange rates were unified at a level that implied a substantial devaluation. In Chile, the various import rates were unified in mid-1956, the new rate being about three times higher than the average effective rate prevailing in 1955. In Israel, multiple rates were abandoned and the currency devalued in 1954.[22] Although there continued to be two rates in Argentina—one being about double the other—the exchange system was considerably simplified in late 1955 and the effective import rate was approximately tripled. Exchange reforms in such countries have, it is true, invariably raised domestic prices of imports and exports. But where these reforms have also generally been part of an effective over-all stabilization programme, they have not given rise to cumulative inflation; and, as an integral part of these stabilization programmes, they have, in the longer run, tended to foster a more balanced distribution of resources.

Policies designed to facilitate redistribution of resources have necessarily been of a long-run character. In the shorter period, efforts to curb inflation have depended upon more immediate measures intended to restrain aggregate demand or advances in costs.

In a few countries where the wage-price spiral has been particularly acute, one of the more immediate measures adopted by governments has been wage restraint. Restrictive wage policies, however, have usually been introduced simply as one aspect of a broader anti-inflationary policy: for it is recognized that isolated governmental efforts to halt or slow down the advance in wages may encounter strong resistance and engender serious social unrest.

Such a restrictive wage policy was introduced in Bolivia during 1956 as part of a general policy of price stabilization. However, since the programme entailed removal of most subsidies and price controls, abolition of the system of government stores and devaluation of the exchange rate, the cost of living rose appreciably; and in partial compensation for the increase, wages were raised. They were thereafter frozen at the new level for a year. Since this limitation on wages was accompanied by other restraints imposed on demand, the new stabilization programme appeared to be successful, as the cost of living declined during the greater part of 1957.

A similar limitation on wage increases was imposed in Chile during the early part of 1956, and, again, this measure formed part of a general anti-inflationary programme. The automatic adjustment of wages in response to increases in the cost of living, which had been in force for many years, was abandoned; the wage increase in 1956 was fixed at no more than 50 per cent of the rise in the cost of living during 1955. This was undoubtedly the most important single factor in accounting for the appreciable slowing down of the advance in prices during 1956, when the cost of living rose by 33 per cent, as compared with 80 per cent during the previous year. The practice of limiting wage increases was continued into 1957, when the increase was limited to 80 per cent of the advance in prices during 1956. During the first nine months of 1957, however, the cost of living rose by about 40 per cent; for, although wages had been stabilized, the pressure of demand on prices was sustained by a budget deficit.

Apart from such instances, however, policies of wage restraint have been of minor importance as anti-inflationary measures. In the shorter period, budgetary and monetary measures have thus been the most frequent expressions of anti-inflationary policy.

BUDGETARY POLICY

During recent years, governments have increasingly utilized budgetary measures as an instrument of anti-inflationary policy, seeking to arrest the rise in the budget deficit as a proportion of gross national product. In a number of countries, however, there has recently been an increase in this proportion.

The recent trend towards tighter budgetary policies has been widespread in Latin America, and it has been particularly evident in countries experiencing acute inflation. In these countries, budgetary restraints were usually adopted as part of a general programme of stabilization. In Mexico, for example, a more stringent budgetary policy was introduced in 1954 upon devaluation of the currency, and it has since been maintained. In other countries, where deficits arising from the operations of autonomous government agencies or State enterprises constituted an important proportion of the total deficit, central governments have sought to exercise stricter controls over the budgets of these agencies. A notable example was provided in the Bolivian stabi-

[22] A separate rate for remittances was, however, retained.

lization programme adopted in December 1956, with a decree that the budgets of the official autonomous agencies would thereafter be consolidated in a single national budget and that these agencies would no longer be authorized to borrow directly from the central bank. Control over the spending of such government agencies has also been tightened in Chile in the past few years; and, in consonance with the wage stabilization measures adopted in 1956, the draft budget for 1957 was drawn up to yield a surplus. In both Argentina and Brazil, steps were taken in 1956 to reduce expenditure and to increase revenue by raising existing tax rates or imposing new taxes. That these countries have resolved to employ budgetary restraints as a means of checking inflation is a significant fact in itself, since these efforts indicate a clear reversal of earlier policies.

Complete budget data are available for only nine of the Latin American countries for the period between 1950 and 1955; these are shown in table 30. Although in the period from 1953 to 1955, as compared with 1950 to 1952, the budget deficit as a proportion of gross national product rose in most countries, it is clear that this rising trend was arrested in 1955. Both restraints on government spending and increases in revenue were responsible for this stabilization. In 1955, government total expenditure as a proportion of national product declined in Argentina, Chile, Honduras, Mexico and Peru. Characteristic of governmental expenditure policy was the curtailment both of current consumption and of investment expenditure. Reduction of current spending was, however, limited, in part by the continuing obligation to provide funds for the social welfare services prescribed by law. Moreover, as prices continued to rise, higher salaries had to be granted to government employees, and costs of materials consumed by governments also increased. The curtailment of investment expenditure was especially sharp in Argentina, Chile and Honduras after 1954.

Contrary to this movement, government expenditure as a proportion of national product increased considerably in Colombia and Venezuela in 1954 and 1955. In both cases, government expenditure policy was heavily influenced by changes in the export sector. The increased revenue from a favourable export situation in these two years induced both Governments to expand investment. There were also small increases in government expenditure in Ecuador and Guatemala.

While government revenue has also risen in relation to gross national product in a number of countries, this increase has not generally been accompanied by basic reform of the tax system. One of the fundamental reasons for the limited increase in revenue in relation to national product is the regressive nature of the tax systems. Direct taxation, which in the industrial countries yields a high or substantial proportion of total revenue, is generally not very important in the tax systems of Latin American countries. In Mexico, for instance, direct taxes have been less than 3 per cent of national product in recent years. In Argentina and Chile, although the ratio has amounted to 8 or 9 per cent, the burden must be considered relatively light in relation to the level of real income. During recent years, while there are instances where the rate of direct taxation has been raised or new taxes, such as an excess profits tax, have been imposed, any large increase in the direct tax burden, especially on business, has generally been avoided in government tax policy for fear that such an increase would tend to weaken the stimulus to private investment. Furthermore, in the absence of a progressive tax system, the continuance of inflation has itself tended—in striking contrast to its effects in developed countries with progressive tax systems—to reduce the tax yield in relation to national product. For instance, the failure to revalue urban and rural property has led to a fall in yield relative to national product; and the practice whereby tax obligations arising in one year are paid in the next has necessarily meant a reduction in the tax burden in a period of rising prices.

While, in Latin America, there has been a general tendency to adopt stricter budgetary policies, trends among the Asian countries have been more divergent. Where inflation has been severe, as in Indonesia and Israel, a similar tendency towards tighter budgetary policies is visible. In Israel, budgetary restraints were tightened at the time when the currency system was reformed in 1954. Taxes were raised and government investment expenditures were cut; as a result, the budget deficit declined. In Indonesia, after unsuccessful efforts to reduce the budget deficit during the period from 1950 to 1954, vigorous measures were taken in early 1955 upon the renewal of a sharp rise in prices. Restraints on spending, together with a rise in exchange profits and surcharges, tended to stabilize the budget deficit for a short period; in 1956, however, as a result mainly of the increase in military expenditure, the budget deficit appeared to rise again.

A restrictive budgetary policy has also been pursued in Ceylon and the Philippines, and this has contributed to the price stability evident in these two countries throughout the period. In Ceylon, the Government varied its expenditure as a counter-cyclical measure to offset changes in the balance of payments, as, for example, during the tea boom in 1954 and 1955. In the Philippines, upon completion of post-war reconstruction around 1950, the Government adopted a restrictive budgetary policy; and both expenditure and revenue remained approximately constant in relation to national product throughout the period from 1950 to 1956.

In contrast with these trends, budgetary operations in the other countries have generally been the major inflationary force. In India, Thailand and Turkey, as well as in Ghana, total expenditure as a proportion of national product has recently risen appreciably; this was also true of Burma in recent years except that in

Table 30. Government Revenue and Expenditure,[a] by Country, 1950 to 1956[b]

(Percentage of gross national product)

Country and year	Expenditure			Revenue	Surplus or deficit (−)
	Current	Investment	Total		
Argentina					
1950–1952, average	12.0	9.1	21.1	18.5	−2.6
1953	13.1	8.2	21.3	18.8	−2.5
1954	12.9	7.4	20.3	15.7	−4.6
1955	12.1	5.8	17.9	14.0	−3.9
Chile					
1950–1952, average	11.8	4.5	16.3	14.5	−1.8
1953	11.9	5.5	17.4	13.0	−4.4
1954	12.3	4.8	17.1	14.1	−3.0
Colombia					
1950–1952, average	9.9	1.4	11.3	9.1	−2.2
1953	10.8	1.8	12.6	9.1	−3.5
1954	10.9	2.8	13.7	10.2	−3.5
1955	10.5	7.3	17.8	9.9	−7.9
Ecuador					
1950–1952, average	13.7	3.3	17.0	15.4	−1.6
1953	13.8	4.2	18.0	15.5	−2.5
1954	13.1	4.9	18.0	16.5	−1.5
1955	12.8	6.0	18.8	17.2	−1.6
Guatemala					
1950–1952, average	...	...	10.9	10.4	−0.5
1953	...	...	11.5	11.9	0.4
1954	...	...	13.1	12.0	−1.1
1955	...	...	13.9	11.5	−2.4
Honduras					
1950–1952, average	6.8	2.4	9.2	9.9	0.8
1953	6.8	3.4	10.2	9.2	−1.0
1954	8.2	3.0	11.2	8.2	−3.0
1955	7.5	2.3	9.8	9.6	−0.2
Mexico					
1952	4.8	4.8	9.6	8.9	−0.7
1953	4.4	3.7	8.1	7.5	−0.6
1954	5.1	5.3	10.4	8.1	−2.3
1955	3.7	4.8	8.5	7.3	−1.2
1956	2.9	3.4	6.3	5.6	−0.7
Peru					
1950–1952, average	9.3	2.1	11.4	11.7	0.3
1953	10.0	2.3	12.3	11.2	−1.1
1954	9.6	2.1	11.7	12.0	0.3
Venezuela					
1950–1952, average	...	...	20.9	20.8	−0.1
1953	...	...	17.7	19.9	2.2
1954	...	...	19.2	19.7	0.5
1955	...	...	20.2	22.0	1.8
Burma					
1950–1952, average	9.5	4.3	13.8	13.8	—
1953	11.4	10.4	21.8	15.3	−6.5
1954	15.2	13.2	28.4	19.6	−8.8
1955	13.3	12.5	25.8	21.3	−4.5
1956	12.8	9.2	22.0	13.0	−9.0
Ceylon					
1950–1952, average	12.3	5.6	17.9	13.4	−4.5
1953	13.8	6.8	20.6	14.9	−5.7
1954	12.4	5.9	18.3	17.2	−1.1
1955	12.1	6.4	18.5	18.1	−0.4
1956	15.5	7.1	22.6	19.2	−3.4
Ghana					
1950–1952, average	4.9	3.6	8.5	14.3	5.8
1953	6.1	5.8	11.9	17.1	5.2
1954	5.7	5.0	10.7	25.1	14.4
1955	7.0	5.0	12.0	20.1	8.1

Table 30. Government Revenue and Expenditure,[a] by Country, 1950 to 1956[b] (*continued*)

(Percentage of gross national product)

Country and year	Expenditure			Revenue	Surplus or deficit (−)
	Current	Investment	Total		
India					
1950–1952, average	6.0	3.0	9.0	7.6	−1.4
1953	6.1	3.3	9.4	7.1	−2.3
1954	7.0	4.5	11.5	8.2	−3.3
Indonesia					
1950–1952, average	13.9	1.2	15.1	14.2	−0.9
1953	13.6	1.1	14.7	12.3	−2.4
1954	12.3	1.1	13.4	9.2	−4.2
1955	11.5	0.9	12.4	10.3	−2.1
Israel					
1950–1952, average	18.6	6.6	25.2	13.9	−11.3
1953	18.1	6.2	24.3	13.7	−10.6
1954	18.6	5.7	24.3	16.7	−7.6
Philippines					
1950–1952, average	7.5	2.4	9.9	8.5	−1.4
1953	7.9	2.1	10.0	8.9	−1.1
1954	8.0	2.0	10.0	9.4	−0.6
1955	8.3	2.0	10.3	9.4	−0.9
1956	8.2	1.9	10.1	8.9	−1.2
Thailand					
1950–1952, average	9.3	2.3	11.6	9.4	−2.2
1953	12.5	2.0	14.5	11.7	−2.8
1954	12.9	3.2	16.1	12.8	−3.3
Turkey					
1950–1952, average	5.9	5.1	11.0	10.1	−0.9
1953	6.7	3.9	10.6	6.6	−4.0
1954	6.2	6.5	12.7	10.0	−2.7
1955	6.0	5.5	11.5	9.3	−2.2
1956	6.6	6.0	12.6	9.3	−3.3
Australia					
1950–1952, average	10.1	9.8	19.9	16.8	−3.1
1953	10.0	8.4	18.4	16.0	−2.4
1954	9.9	8.6	18.5	15.6	−2.9
1955	10.3	8.6	18.9	15.4	−3.5
1956	10.0	8.3	18.3	16.4	−1.9
New Zealand					
1950–1952, average	11.5	8.1	19.6	17.2	−2.4
1953	12.3	9.4	21.7	16.9	−4.8
1954	11.0	8.8	19.8	18.2	−1.6
1955	11.1	9.5	20.6	17.7	−2.9
1956	11.7	9.9	21.6	17.5	−4.1
Union of South Africa					
1950–1952, average	11.7	8.3	20.0	14.3	−5.8
1953	11.8	10.5	22.3	14.8	−7.5
1954	11.2	9.0	20.2	14.4	−5.8
1955	11.0	8.4	19.4	14.2	−5.2
1956	11.4	8.7	20.1	14.1	−6.0

Source: United Nations Bureau of Economic Affairs; Statistical Office of the United Nations, *Statistical Yearbook, Statistics of National Income and Expenditure*, and national sources.

[a] Wherever possible, data are based upon national income accounts; otherwise, cash budget accounts are used. In the latter cases, the breakdown of expenditure is approximate, as investment expenditure often includes some miscellaneous expenditures which cannot be separated. However, investment expenditure refers only to "expenditure on communication, public works and energy" in Indonesia; "public works and other capital expenditure" in Peru; "capital outlays" in Turkey; and "economic development expenditures" in Thailand.

[b] The number of years for each country is limited by data available. Data for the budget and gross national product generally refer to calendar years. For India and New Zealand, they both refer to fiscal years beginning April of the year stated; for Australia, fiscal years beginning July; and for Burma, fiscal years ending September. In Ceylon, Guatemala and Venezuela, only budget data are on the basis of fiscal years.

1956 expenditure declined sharply. While there has been a rising trend of expenditure throughout the post-war years, as government participation in economic activity increased, the large increase in recent years has been mainly the result of efforts to accelerate the pace of economic development. In some cases, a rise in military expenditure has also been a contributing factor.

Again, in contrast to other primary producing countries, there has been a significant rise in government revenue in relation to national product, but it has lagged behind expenditure. The rise in revenue has been due not so much to direct as to indirect taxation. Among the indirect taxes, duties on both imports and exports have generally constituted a high proportion of the total. In view of the instability of foreign trade, however, there has been a tendency to place increasing reliance on domestic transaction and consumption taxes. In many countries, revenue has been increasingly derived from taxes on such essential consumer goods as sugar, salt, matches and kerosene. In general, the scope of income taxes on individuals and enterprises is still limited by the under-developed nature of these economies, although yields have been increasing as tax-collecting machinery has been improved. While the bulk of direct taxes has been derived from agriculture, agricultural taxes have often failed to keep pace with increases in farm production and prices.

It was inevitable that in those countries where the budget deficit rose, the pace of advance in prices should tend to accelerate in recent years. In order to reduce the budget deficit, Burma resorted to curtailment of investment expenditure in 1956. In India reliance was placed upon higher taxation; in addition to an increase in direct taxes, steps were taken in 1957 to authorize the imposition of two new taxes—a tax on the net wealth of individuals and companies and a tax on personal expenditure.

In Australia, New Zealand and the Union of South Africa, in contrast to the other primary producing countries, the emphasis of government anti-inflationary policy has been shifted appreciably during the period under review. Since 1953, fiscal measures have generally been relied upon only to complement monetary restraints, which have become the principal instrument of anti-inflationary policy. Total government expenditure was strictly controlled in the period from 1953 to 1956. As government investment in these countries has amounted to 40 to 50 per cent of total government expenditure, a firm ceiling on investment expenditure has been maintained. Because of this relative stability in government expenditure, these countries have not felt obliged in recent years to stiffen taxation in order to curtail demand. In fact, Australia took advantage of this stability to grant tax concessions in both the 1953/54 and the 1954/55 budgets. Although in the 1956/57 budget tax rates were raised, they were lowered again in the subsequent budget.

From the foregoing it is evident that, in the majority of primary producing countries, budgetary operations have been increasingly modified to exercise some restraint upon the upward trend in total demand. However, in many countries, inflation has been generated as much by sharp and irregular increases in export earnings as by domestic forces of a less variable character. Budgetary measures to counter inflation arising from this source have necessarily been of a flexible and short-run nature. The strictest form of such measures has been direct participation by the government in trade in the main export commodity; this has permitted it to set the price to domestic producers at a level substantially lower than the world market price, so that rising export profits have accrued to the government. The method most commonly employed, however, has been the absorption of rising export earnings through the manipulation of export duties or the application of penalty exchange rates.

Among the primary producing countries under review, such restraining measures have been exercised mainly by Asian and African countries. In Burma, the State Agricultural Marketing Board monopolized the purchase of paddy from the farmer for sale on both the export and home markets. The government purchase price paid to farmers remained unchanged between 1948 and the crop year 1955/56, although the price of rice in the world market rose sharply from 1948 to 1953, when the post-war peak was reached. In spite of a decline after 1953, the world market price was still above the procurement price fixed by the Government. As a result, the rise in export profits during these years, which would otherwise have gone to raise the income of the private sector, accrued entirely to the Government. Similar operations covering the marketing of rice in Thailand from 1948 to 1954 and of cocoa in Ghana diverted increases in earnings to the Government to a somewhat lesser degree. In Ghana there were some fluctuations in the procurement price. It was raised by 50 per cent in 1950 and a further 15 per cent in 1951, but it was thereafter reduced to the 1950 level and held approximately steady until 1955, when the price prevailing in 1951 was restored. This meant that somewhat more than half the rise in the world price from 1949 to 1951 accrued to the producers, while the gains from a sharper price increase in 1954 were diverted entirely to the Government. In Thailand, although the price paid to rice farmers remained unchanged, the Government had to use various incentive measures to acquire the necessary quantity of exports, and the result was equivalent to an increase in the procurement price.[23]

While Burma and Ghana have relied entirely upon State monopolies to offset increases in export profits,

[23] The State marketing of copra in Indonesia, though important in insulating prices to domestic consumers from the influence of fluctuating world prices, is less significant in the present connexion, because copra is not a major export. The cotton and jute price support scheme in Pakistan was mainly for the purpose of subsidizing exports.

Table 31. Ratio of Revenue Collected on Exports[a] to Total Value of Merchandise Exports,[b] Selected Countries
(Percentage)

Country	1950	1951	1952	1953	1954	1955	1956
Burma	37	32	36	46	42	31	24
Ceylon	11	16	16	13	15	20	20
Ghana	12	15	19	18	38	28	...
Indonesia	16	27	17	11	6	7	4
Thailand	16	18	27	19	19	11	18

Source: United Nations, *Statistical Yearbook* and *Economic Survey of Asia and the Far East, 1957* (sales number: 58.II.F.1); Burma: Ministry of National Planning, National Income of Burma (Rangoon); Ghana: Ministry of Finance, *Economic Survey, 1955* (Accra).

[a] Revenue from exports refers to the net profits of the State Agricultural Marketing Board in Burma; in Indonesia and Thailand it includes monopoly profits, exchange profits and export duties.

[b] Except in Burma, revenue figures are based on fiscal years and export figures on calendar years. In Burma, both figures refer to fiscal years ending in September.

other Asian countries have mainly used export duties to achieve the same purpose. Export duties have long been an important source of government revenue, but during or after the Korean period many countries also began to use them as an anti-inflationary weapon. The general practice has been to raise the duty on exports when prices rise, either by means of frequent administrative orders or in accordance with an automatic sliding-scale formula; and, by such means, governments have been able to absorb a part of increases in export profits. Thus, for instance, during the course of the Korean boom, export duties on jute and cotton in Pakistan, on rubber in Indonesia and Thailand, and on tea, coconut products and rubber in Ceylon were repeatedly raised to offset the rise in world market prices. In Ceylon, a sliding scale was also used for various periods between 1951 and 1956. Variable export duties have, however, been less effective than State monopolies in neutralizing export profits, since the upward adjustment in rates has not only been generally smaller than the rise in prices but has also tended to lag behind prices.

Table 31 shows, for Burma, Ceylon, Ghana, Indonesia and Thailand, the extent to which export profits have been diverted to the government; this is reflected in the ratio of government revenue collected on exports to the total value of exports. There is clear evidence that these countries have, in varying degree, succeeded in siphoning off income from the export sector during boom years. In Burma, for example, the ratio rose sharply during the rice boom between 1950 and 1953; and it declined drastically after 1954 when there was a fall in the world market price for rice. In other countries, where government operations were less drastic, the transfer of rising export profits from the export sector was only partial. In Ghana, the largest proportion was transferred in 1954, when the price of cocoa in the world market reached its post-war peak. In Ceylon, variable export duties had the effect of increasing the Government's share of export profits during the Korean boom; in the subsequent period, duties were at first lowered but were later raised between 1954 and 1956 when tea and rubber prices were buoyant. In Indonesia, however, the decline in the Government's share of export earnings, in the face of rising export prices for rubber after 1954, was mainly due to a shift towards greater reliance upon import duties and exchange surcharges on imports.

With one or two striking exceptions, governments in Latin America have not adopted measures to absorb export profits to the same extent as governments in the Asian and African countries; and the measures which have been used have more often involved exchange policy than export duties. That less concern over taxation of abnormal export profits has been manifested in Latin America has been partly due to the fact that the commodity boom in 1951 affected their export prices less than in most Asian and African countries; circumstances in most countries have thus argued less powerfully for the adoption of such neutralization measures.[24] While taxation of export receipts has not been uncommon, export duties have been used mainly as a source of government revenue, rather than as an active anti-inflationary weapon.

Probably the most comprehensive systems designed to siphon off increases in export profits were those operated in Argentina and Chile. In Argentina, the State trading agency (IAPI), which operated up to 1955, established fixed prices for major agricultural products, and any gain resulting from rising world prices consequently accrued to the Government. In Chile, a complex set of measures, applied to the operations of the large mining companies, yielded much the same result. Because the companies tended to receive only a fixed and rather low price for their products, the profits from a rise in the world price of copper went to the Government. However, in both Argentina and Chile, concern over the resulting lag in export production led to discontinuance of these measures in 1955.

In many countries, penalty exchange rates have been applied to major exports, but they have not often been

[24] Export prices for Latin America as a whole rose less than 15 per cent from 1950 to 1951, while the increase for Asian and African countries over the same period ranged from 25 to 50 per cent.

varied in line with changes in world prices. For example, both Brazil since 1953 and Colombia since 1951 have applied a penalty rate to the sale of foreign exchange earned by coffee exporters; this policy has been based upon a desire to absorb a part of the profits resulting from the favourable price of coffee in world markets. However, in both countries exporters were granted somewhat more favourable rates in 1954, at a time when world prices rose as much as 35 to 40 per cent above the 1953 level. A similar policy has been pursued in a number of other countries. For example, in Venezuela, a penalty rate has been applied to the conversion by petroleum companies of foreign exchange into local currency; and in Chile the complex set of measures applying to the operations of mining companies, referred to above, included a heavy penalty rate.[25] Since such measures are in fact equivalent to an *ad valorem* export duty, they have not prevented the income of the export sector from rising proportionately to earnings during boom periods. Furthermore, during recent years, the more favourable rates granted by governments to exporters in the face of rising domestic price levels have tended to have a short-run inflationary effect. In Argentina in 1953, for example, a substantial rise in export earnings coincided with an almost 50 per cent increase in the official price paid to producers of wheat.

Whether, on balance, this diversion of income from the export sector to government has been anti-inflationary, has depended upon the extent to which the increased revenue may have served to increase government expenditure. To the extent to which the level of expenditure has been determined by considerations other than the magnitude of government revenue, the increase in revenue has had an anti-inflationary effect since it has reduced private spending without increasing public spending. In some countries, however, such transfers may, in fact, have been inflationary; these were the cases where government spending was rapidly adjusted upward when revenue increased, but in the subsequent decline proved more resistant to cuts. The situation was apt to be particularly serious when the changes in revenue were proportionately large. For example, in Indonesia, Bolivia and Chile, as a result of a sharp increase in revenue in 1951, government spending was rapidly adjusted upward, but, when revenue fell off in succeeding years after the boom had subsided, large deficits emerged.

Generally, however, during the periods within which an export boom has occurred, the increase in government revenue from export earnings has reduced the budget deficit or increased the surplus. Contributing to this result in many instances has been the time lag which frequently occurs before government spending is adjusted to a change in receipts. This lag is often likely to be longer than in the private sector since new estimates have to be prepared and there are unavoidable delays before authorized increases in expenditure are effected. An example is provided by Burma's experience during the rice boom, when the upward adjustment of investment expenditure lagged behind the rise in export profits. In a few countries, this lag has been reinforced by government action. In Ceylon, for example, where the Government has pursued a counter-cyclical budgetary policy, government spending has, from time to time, been deliberately prevented from rising to the same extent as revenue.

The anti-inflationary effect of such lags in government spending has been of more demonstrable importance in countries where the export boom has not been of a temporary nature, but has taken the form of a continuously rapid expansion of exports. In this situation, while government expenditure has increased steadily, revenue has run ahead, so that a more or less continuing budget surplus has emerged. This has been the experience of Venezuela, Iraq, and, to a much smaller extent, Peru.

MONETARY POLICY

In conjunction with budgetary policy, many countries have also made increasing use of monetary policy during recent years. Through a variety of means, central banks have sought to restrain the expansion in the volume of credit extended by the commercial banks to private enterprises and private persons; and, in so far as these restraints have been effective, monetary policy has contributed to a lessening of inflationary pressure. It is to be recalled that private investment in the primary producing countries is heavily dependent upon financing by the banking system; consequently, to the extent that monetary policy restricts the demand for, or supply of, credit, private investment expenditure may be reduced. Moreover, since such restraints place some limitation upon expansion in the supply of money throughout the country, the inflationary effect of an increase in the liquidity of the private sector may also be curbed. It must be recognized, however, that the efforts of central banks to restrain the expansion of credit by commercial banks have, in most countries, taken place in circumstances where the cash reserves of the commercial banks have been continuously augmented through increased governmental borrowing from central banks or through rising receipts of foreign exchange; generally, part of the primary increase in money supply created by governmental borrowing or rising foreign exchange receipts has been absorbed into the cash reserves of the commercial banks. Thus, while the central banks have sought to limit the volume of credit, other forces have been at work to facilitate its expansion. In these circumstances, monetary policy has not reduced the volume of credit but has, at best, only moderated its rate of expansion.

[25] Although Bolivia has also applied a penalty rate to mineral exports, the situation is not comparable to that of Venezuela or Chile; the mining companies are State-owned and have received heavy subsidies from the Government, which have tended to offset the effects of this rate.

Central banks may seek to limit the volume of credit through influencing both the demand for, and the supply of, credit. If the cost of borrowing is raised, the demand for credit—at least for certain purposes—may be moderated. In practice, however, in primary producing countries, the direct influence of central banks upon market rates of interest is severely circumscribed by the lack of capital markets and other institutional factors. Moreover, the increase in prices in many countries has been of such a magnitude that even substantial changes in interest rates would not have significantly deterred borrowers. In fact, during the period from 1950 to 1957 only seven of the countries under review introduced changes in the discount rates of the central banks (see table 32); and of these, it was only in India, New Zealand and the Union of South Africa, and in Turkey after mid-1955, that the changes were in the direction of greater restraint.

Table 32. Changes in Central Bank Rates, Selected Countries, 1950–1957

Country and date	*Change in interest rates (per cent)*
Brazil	
May 1954	6 to 8
May 1955	8 to 6
Ceylon	
July 1953	2½ to 3
June 1954	3 to 2½
India	
November 1951	3 to 3½
May 1957	3½ to 4
New Zealand	
November 1954	3½ to 4
July–October 1955	4 to 7[a]
Philippines	
February 1954	2 to 1½
Turkey	
February 1951	4 to 3
June 1955	3 to 4½
June 1956	4½ to 6
Union of South Africa	
March 1952	3½ to 4
September 1955	4 to 4½

Source: International Monetary Fund, *International Financial Statistics*.

[a] Raised by successive steps to 5 per cent in July, 6 per cent in September and 7 per cent in October.

It has, then, been mainly over the supply of credit that central banks have sought to exert some control. As one means of achieving this end, efforts have been made to limit the increase in the cash reserves of the commercial banks, since these reserves are the base upon which an expansion of credit rests. In part, this task has been rendered more difficult in some countries by the presence of foreign-owned banks, which are able to draw upon their head offices for additional funds. In most countries where credit has expanded appreciably, however, the principal obstacle to more effective restraints by the central banks has been the continued augmentation of the commercial bank's cash reserves through the effects of budget deficits and favourable external balances upon the supply of money. In most countries, primary increases in the supply of money from these sources have been evident in the years since 1950; and in some countries, such as Bolivia, Brazil, Chile, India and Turkey, the rate of expansion has clearly accelerated in the recent past (see table 33). By no means all of these primary increases in the money supply, however, were deposited with the commercial banks to swell their cash reserves and provide the basis for a secondary expansion in the money supply. In almost all the primary producing countries, partly because of the extension of the monetized sector of the economy and partly because banking habits are limited to a small segment of the community, a substantial part of the primary increase in the money supply was held by the public in currency. Consequently, that part of the primary increase in money supply which flowed into the cash reserves of the commercial banks was correspondingly reduced.

Nevertheless, in most countries during the period from 1950 to 1957, commercial banks experienced appreciable increases in their cash reserves from these sources. To offset these increases completely, the central banks would have had to sell assets to the commercial banks to an equal amount. Generally, however, operations of the central banks only partially offset these increases, and commercial banks in most countries therefore did experience a rise in reserves, making possible a secondary expansion of money through an enlarged volume of credit[26] (see table 34). But the experience of individual countries varied greatly. Among the Latin American countries, Chile was the only instance where the action of the central bank resulted consistently in a decline in the net cash reserves of the commercial banks over a period of years. In the remaining countries, there was generally a net accumulation of cash reserves by the commercial banks over the period as a whole. In Cuba, Guatemala, Honduras and Venezuela, where the primary changes in money supply originated predominantly in the foreign trade sector, the operations of the central banks generally did not offset the impact of these changes upon the reserves of the commercial banks, though there were exceptions in individual years. In Brazil after 1953 and in Mexico between 1952 and 1954, liberal credit policies were pursued by the central banks, and the cash reserves of the commercial banks increased

[26] This is revealed by a comparison of the figures in lines C and D of table 34. Figures in line C have been taken from table 33; these measure the primary changes in the money supply originating in governmental borrowing and in foreign assets, net of the changes in currency in circulation. Figures in line D measure the changes in the cash reserves of the commercial banks exclusive of their borrowing from central banks. The difference between lines C and D represents, if positive, sale of assets by central authorities to commercial banks and, if negative, sale of assets by commercial banks to central authorities.

Table 33. Changes in Primary Supply of Money, by Country

(Millions of national currency)

A. Changes in foreign assets and claims on government sector[a]
B. Changes in currency in circulation
C. Changes in the supply of cash available to commercial banks[b]

Country	1951	1952	1953	1954	1955	1956
Bolivia						
A	770	2,070	14,610	4,660	26,390	159,590
B	610	2,200	5,370	8,420	18,630	107,790
C	160	−130	9,240	−3,760	7,760	51,800
Brazil						
A	−3,800	1,800	8,200	−5,300	8,600	12,800
B	3,300	3,100	6,400	11,100	8,100	10,400
C	−7,100	−1,300	1,800	−16,400	500	2,400
Chile						
A	3,240	4,630	6,750	−700	17,620	17,470
B	1,650	3,530	5,160	6,090	17,270	17,320
C	1,590	1,100	1,590	−6,790	350	150
Colombia[c]						
A	159	119	107	314	26	345
B	54	97	74	81	20	158
C	105	22	33	233	6	187
Cuba						
A	4	9	57	−14	39	101
B	46	35	−6	13	5	17
C	−42	−26	63	−27	34	84
Ecuador						
A	−102	145	−16	45	−48	60
B	−16	72	36	90	−37	88
C	−86	73	−52	−45	−11	−28
Guatemala						
A	−1	5	2	−4	16	17
B	1	5	8	1	−2	7
C	−2	—	−6	−5	18	10
Honduras						
A	14	4	4	13	−11	4
B	5	4	4	6	−6	4
C	9	—	—	7	−5	—
Mexico						
A	62	126	−65	312	2,836	524
B	543	193	220	777	451	609
C	−481	−67	−285	−465	2,385	−85
Peru						
A	130	114	245	107	−100	477
B	126	134	190	156	99	330
C	4	−20	55	−49	−199	147
Venezuela						
A	19	145	12	37	78	322
B	34	77	25	61	52	78
C	−15	68	−13	−24	26	244
Burma						
A	46	59	168	113	343	192
B	40	18	84	67	158	105
C	6	41	84	46	185	87
Ceylon						
A	96	−53	−99	119	156	33
B	51	−20	−22	7	42	17
C	45	−33	−77	112	114	16
Egypt						
A	27	3	−13	−8	12	45
B	14	3	−16	−1	−3	41
C	13	—	3	−7	15	4

Table 33. Changes in Primary Supply of Money, by Country (*continued*)

(Millions of national currency)

A. Changes in foreign assets and claims on government sector[a]
B. Changes in currency in circulation
C. Changes in the supply of cash available to commercial banks[b]

Country	1951	1952	1953	1954	1955	1956
India						
A	−880	−80	590	980	1,980	1,560
B	−300	−520	100	590	1,610	1,000
C	−580	440	490	390	370	560
Indonesia						
A	90	2,420	−36	3,090	1,010	1,120
B	750	1,020	870	2,320	1,290	770
C	−660	1,400	−906	770	−280	350
Iran						
A	−610	2,230	4,110	200	500	2,340
B	−750	1,410	1,910	−20	150	940
C	140	820	2,200	220	350	1,400
Iraq						
A	−6	−1	6	3	2	5
B	−2	−2	4	7	2	5
C	−4	1	2	−4	—	—
Israel						
A	...	−11	8	−15	37	85
B	...	18	18	21	24	56
C	...	−29	−10	−36	13	29
Pakistan						
A	...	...	...	495	68	280
B	...	...	...	203	415	477
C	...	...	...	292	−347	−197
Philippines						
A	−181	66	23	−17	37	116
B	−48	−3	27	10	4	62
C	−133	69	−4	−27	33	54
Thailand						
A	688	32	712	578	525	566
B	713	−78	338	532	628	245
C	−25	110	374	46	−103	321
Turkey						
A	218	19	501	208	754	728
B	139	94	151	40	490	490
C	79	−75	350	168	264	238
Australia						
A	120	−109	222	−94	−7	135
B	39	29	18	19	21	6
C	81	−138	204	−113	−28	129
New Zealand						
A	15	17	52	−20	−7	29
B	4	1	6	5	2	−2
C	11	16	46	−25	−9	31
Union of South Africa						
A	−47	25	1	20	−29	9
B	8	6	8	4	4	3
C	−55	19	−7	16	−33	6

Source: International Monetary Fund, *International Financial Statistics.*

[a] Refers to assets and claims of the banking system as a whole. Adjustment has been made for changes in government deposits and for revaluation of foreign assets.

[b] Difference between rows A and B.

[c] Refers to Central Bank only.

appreciably. In Bolivia, there were large increases in the primary supply of money, particularly in more recent years, and operations of the central bank only partially offset their effect upon cash reserves.

By comparison with the Latin American countries, the action of central banks in the Asian countries has gone further in nullifying the effects of a primary expansion in the supply of money upon the position of

Table 34. Changes in Cash Reserves of Commercial Banks, by Country

(Millions of national currency)

C. Changes in supply of cash available to commercial banks[a]
D. Changes in net cash reserves of commercial banks[b]
E. Commercial banks' borrowing from Central Bank

Country	1951	1952	1953	1954	1955	1956
Bolivia						
C.	160	−130	9,240	−3,760	7,760	51,800
D.	580	820	1,890	4,730	4,370	32,120
E.	—	—	—	—	—	—
Brazil						
C.	−7,100	−1,300	1,800	−16,400	500	2,400
D.	−100	2,100	−500	2,200	3,900	4,100
E.	1,500	1,400	1,400	1,200	300	1,000
Chile						
C.	1,590	1,100	1,590	−6,790	350	150
D.	780	−450	350	−1,630	−5,080	−3,010
E.	−140	1,320	2,180	4,860	6,880	7,770
Colombia						
C.	105	22	33	233	6	187
D.	21	33	23	117	−227	68
E.	14	16	−10	—	185	−12
Cuba						
C.	−42	−26	63	−27	34	84
D.	−8	−44	17	−32	13	54
E.	6	43	−24	19	7	−12
Ecuador						
C.	−86	73	−52	−45	−11	−28
D.	−32	69	14	7	−9	35
E.	−2	−3	−1	5	2	5
Guatemala						
C.	−2	—	−6	−5	18	10
D.	−1	−3	2	−1	12	9
E.	1	3	1	1	−4	−1
Honduras						
C.	9	—	—	7	−5	—
D.	6	−1	−3	4	−3	—
E.	−1	−1	1	—	1	—
Mexico						
C.	−481	−67	−285	−465	2,385	−85
D.	−305	95	9	193	415	52
E.	54	−48	10	−13	−7	4
Peru						
C.	4	−20	55	−49	−199	147
D.	179	37	−143	281	−150	389
E.	−5	60	234	−259	154	−112
Venezuela						
C.	−15	68	−13	−24	26	244
D.	105	61	14	−9	50	185
E.	...	...	...	...	...	...
Burma						
C.	6	41	84	46	185	87
D.	−7	26	6	27	30	50
E.	...	...	...	...	...	...
Ceylon						
C.	45	−33	−77	112	114	16
D.	27	−71	−64	41	38	14
E.	...	...	...	...	...	...
Egypt						
C.	13	—	3	−7	15	4
D.	−3	5	1	−14	12	−7
E.	17	−12	—	9	—	4

Table 34. Changes in Cash Reserves of Commercial Banks, by Country (*continued*)

(Millions of national currency)

C. Changes in supply of cash available to commercial banks[a]
D. Changes in net cash reserves of commercial banks[b]
E. Commercial banks' borrowing from Central Bank

Country	1951	1952	1953	1954	1955	1956
India						
C	−580	440	490	390	370	560
D	−280	−30	−10	180	−260	−710
E	140	−60	−10	100	230	610
Indonesia						
C	−660	1,400	−906	770	−280	350
D	−360	250	280	470	−770	190
E	...	...	...	...	...	...
Iran						
C	140	820	2,200	220	350	1,400
D	−40	−90	230	200	610	−390
E	...	...	...	...	...	...
Iraq						
C	−4	1	2	−4	—	—
D	−1	1	3	−2	2	−1
E	...	...	...	...	...	...
Israel						
C	...	−29	−10	−36	13	29
D	8	6	8	−23	39	22
E	—	—	—	4	12	19
Pakistan						
C	...	...	...	292	−347	−197
D	22	4	19	−113	16	1
E	44	−63	−33	146	−3	34
Philippines						
C	−133	69	−4	−27	33	54
D	−166	20	16	−30	−15	−61
E	32	4	−27	45	30	108
Thailand						
C	−25	110	374	46	−103	321
D	54	13	79	−57	−7	37
E	—	—	22	−10	−7	—
Turkey						
C	79	−75	350	168	264	238
D	26	−211	−51	−352	74	17
E	83	214	85	500	85	246
Australia						
C	81	−138	204	−113	−28	129
D	23	−14	10	−14	1	−7
E	—	—	—	—	—	—
New Zealand						
C	11	16	46	−25	−9	31
D	1	15	19	−21	−10	—
E	—	—	—	—	—	—
Union of South Africa						
C	−55	19	−7	16	−33	6
D	−37	20	−16	9	6	23
E	—	—	—	—	—	—

Source: See table 33.

[a] Row C of table 33.

[b] Changes in total cash reserves at the end of the period, exclusive of borrowing from Central Bank.

the commercial banks. In some of them, moreover, such action was intensified in the more recent period. In India and the Philippines, for instance, the net cash reserves of the commercial banks declined in 1955 and 1956 despite a primary expansion in the supply of money. In Ceylon, during earlier years, a neutral central bank policy was reflected in the close correspondence between the variations in the primary supply of

money determined by changes in government borrowing or the external balance and the variations in commercial banks' reserves; in 1954 and 1955, however, the monetary impact of the export boom was, to a large extent, offset by central bank operations.

In Australia the policy of the central bank followed a contra-cyclical pattern. When the primary supply of money increased in 1951, 1953 and 1956, monetary restraints were tightened. A contractionary tendency, on the other hand, such as the decline in export receipts in the aftermath of the Korean boom, was countered by action to strengthen the liquidity of the commercial banks. In New Zealand the action of the central bank tended to moderate the expansion in cash reserves throughout the period. The central bank did not offset the loss in cash sustained by the commercial banks in 1954 and 1955 but took steps to prevent them from gaining reserves in 1956.

In general, then, while central banks have not wholly offset the effects of primary increases in the supply of money upon the credit base of the commercial banks, they have had some restraining influence. In a number of countries, in fact, the commercial banks have so extended their loan portfolios in relation to their reserves that they have been required to resort increasingly to their central banks for liquid funds. Though the necessity of such action has been brought upon them by the expansion of their credits to the fullest extent, it is also true that, if increases in the primary supply of money had not been partially offset by central bank operations, the need for such action might not have arisen. Where such recourse to the central bank has proved necessary, the control which the central bank could exercise over further increases in credit was clearly strengthened, since the central bank can vary the terms or conditions upon which it is willing to permit use of its rediscount facilities.

In recent years, a common practice among central banks has been to set limits to the amount which commercial banks, either individually or in the aggregate, could borrow. In some countries, such limits have been supplemented by other conditions whenever there was an increase in the use of the central bank's rediscount facilities. In Colombia, for example, the rules governing the types of commercial paper eligible for rediscount were frequently stiffened; and in Mexico, requests by commercial banks to utilize the rediscount facilities of the central bank were, at times, granted only in the event that the commercial banks' deposits were declining. In Chile, the central bank has applied a selective scale of rediscount rates; as the proportion of each commercial bank's rediscounted paper to its capital and reserves has risen, a progressively higher rediscount rate has been applied.

In many countries central banks have exerted control over the volume of commercial bank credit, not only through efforts to limit cash reserves, but also by means of varying legal reserve requirements.[27] This measure was originally adopted in some countries as a means of countering the effects of wide fluctuations in the balance of payments upon domestic liquidity. In recent years, it has been more generally utilized to offset the excessive increases in cash reserves of the commercial banks that have resulted from repeated budget deficits. In a number of countries, including Bolivia, Colombia, Mexico, New Zealand and Peru, variations in legal reserve requirements were frequently introduced between 1950 and 1957.

Generally, central banks have authority to vary legal reserve requirements within fairly wide limits. In Burma, for example, the legal requirement of the amount of cash to be held against demand deposits can be varied between 8 and 40 per cent; in Colombia, it may be varied from 10 to 30 per cent, and in New Zealand, from 7 per cent upward. In some countries, notably in Colombia, Mexico and Peru, supplementary reserve requirements, amounting to as much as 100 per cent, can be imposed against an increase in demand deposits.

The experience of some countries does indicate that variations in reserve requirements have been, at times, an important means whereby the effect of large increases in the cash reserves of the commercial banks upon the volume of credit has been nullified or limited. In Ceylon, for example, during the Korean boom, credit extended by the commercial banks was increasing rapidly, partly because of speculative inventory accumulation; but an increase in reserve requirements led to a subsequent contraction. In Australia and New Zealand, variations in legal reserve requirements tended to counteract the effect of changes in the budget deficit or surplus, or in the foreign balance, upon the commercial banks' ability to lend. It also proved an effective measure in Peru during 1953 and 1956, when higher reserve requirements brought about an appreciable deceleration in the rate of increase in bank credit. In Brazil, on the other hand, during 1954, increased use by the commercial banks of the rediscount facilities of the central bank tended to lessen the impact of an increase in reserve requirements upon the volume of credit.

Through these various means, used either singly or in combination, central banks have, in varying degree, sought to limit the expansion in credit extended by commercial banks to the private sector. These controls have not been consistently applied over the whole period since 1950, but have been varied in accordance with changing economic circumstances in each country. Nor should it be supposed that the various controls, when used simultaneously, have always been exercised

[27] At present, among the countries under review variable legal reserve requirements are in force in Bolivia, Colombia, Ecuador, Guatemala, Peru and Venezuela in Latin America; Burma, Ceylon, Egypt, India, Pakistan and Thailand in Asia and in Australia, New Zealand and the Union of South Africa.

Table 35. Changes in Commercial Banks, Claims on the Private Sector, by Country
(Percentage)

Country	1951	1952	1953	1954	1955	1956
Bolivia	21	30	1	54	89	179
Brazil	8	8	19	18	12	22
Chile	21	20	30	36	46	33
Colombia[a]	17	14	16	31	27	27
Cuba	31	16	−6	9	6	5
Ecuador	1	19	16	26	10	14
Guatemala	11	−1	12	13	−6	27
Honduras	−7	24	21	−8	9	21
Mexico	22	13	14	19	21	12
Peru	31	27	12	7	20	13
Venezuela	9	21	28	27	17	20
Burma	22	12	−10	32	2	16
Ceylon	55	−8	6	19	4	34
Egypt	3	−5	—	27	2	11
India	22	−7	−2	13	14	25
Indonesia	253	11	−1	18	42	26
Israel	...	29	41	21	16	18
Pakistan	19	−14	1	23	20	6
Philippines	33	—	11	11	18	13
Thailand	28	54	38	15	32	15
Turkey	39	49	32	20	19	12
Australia	24	−4	5	18	5	−5
New Zealand	43	−9	−3	22	7	−7
Union of South Africa	49	−11	13	13	14	3

Source: See table 33.
[a] Including claims on the government sector, which have been small.

in the same direction. In some countries, when the increase in the cash reserves of the commercial banks has been limited by central bank operations or when legal reserve requirements have been raised, their effects upon the volume of credit have been offset through recourse by the commercial banks to the rediscount facilities of the central banks.

For such reasons, an accurate appraisal of the effects of central bank policy would require an examination of the experience of each country at a level of detail outside the scope of the present study. At the broad level of analysis presented here, it is, however, instructive to note the rates at which increases in advances of the commercial banks have taken place against this setting of central bank controls. For the countries for which such information is available, the data do not, on the whole, suggest any widespread tendency towards significant deceleration in the rate of increase in advances over the period since 1950 (see table 35). In fact, in countries such as Bolivia and Chile, where inflation was severe and of growing intensity in the years between 1954 and 1956, some acceleration was evident. The use of selective credit controls, however, within this context of an expansion in aggregate advances, may have had some anti-inflationary effects in some countries. Instances can be found where the increase in total expenditure was concentrated particularly upon such activities as speculative inventory accumulation or building; and since the maintenance of these forms of expenditure was frequently heavily dependent upon continuous increases in the supply of credit, selective controls may have tended to limit the rate of increase in aggregate expenditure.

While on the whole the rate of increase in aggregate advances has not been retarded by the operations of the central banks, it is, however, a fact that in a number of countries the cash reserve ratios of the commercial banks have tended to decline over the period; and although the decline in this ratio may have been as much a result of the expansion in advances as of the influence of the central banks upon cash reserves, it can at least be said that where it has occurred the potential, if not the actual, influence of the central banks upon the volume of credit has been strengthened (see table 36).

Declining cash reserve ratios have been most consistently evident among Asian countries. In some of them—for example, Indonesia and Thailand—the decline was particularly noticeable in the past few years. Where the cash reserve ratio of the commercial banks increased, as in Turkey, or deteriorated only moderately, as in India or Pakistan, reserves were replenished by increased borrowing from the central bank. A similar situation of declining cash reserve ratios prevailed in Australia, New Zealand and the Union of South Africa.

Developments in Latin America were generally similar, though there were a few exceptions. In Guatemala the liquidity of the commercial banks improved, while

Table 36. Cash Reserve Ratios for Commercial Banks, by Country

(Percentage)

I. Ratio of total cash reserves[a] to total deposits
II. Ratio of borrowing from Central Bank to total deposits

Country	1950	1951	1952	1953	1954	1955	1956
Bolivia							
I	16	26	34	42	51	36	42
II	—	—	—	—	—	—	—
Brazil							
I	19	20	22	20	20	21	21
II	8	9	11	13	12	11	10
Chile							
I	11	11	12	13	14	11	11
II	16	11	14	14	17	17	17
Colombia							
I	15	17	20	19	21	17	15
II	23	20	20	16	11	22	15
Cuba							
I	33	30	30	30	28	27	28
II	1	1	7	4	7	7	4
Ecuador							
I	41	39	42	41	35	35	35
II	4	4	2	2	2	3	3
Guatemala							
I	42	41	44	48	48	52	51
II	22	24	36	35	38	18	12
Honduras							
I	38	53	44	33	42	37	30
II	7	4	2	5	4	6	5
Mexico							
I	40	31	30	27	26	25	24
II	1	2	1	1	1	—	—
Peru							
I	15	18	18	19	18	16	19
II	6	5	6	12	4	7	4
Venezuela							
I	33	38	35	30	26	24	27
II	—	—	—	—	—	—	—
Burma							
I	24	19	33	27	24	22	25
II	—	—	—	—	—	—	—
Ceylon							
I	25	28	23	14	17	19	18
II	—	—	—	—	—	—	—
Egypt							
I	26	33	27	27	22	27	24
II	...	11	3	3	7	7	9
India							
I	12	11	10	9	11	10	9
II	—	1	1	—	1	3	7
Indonesia							
I	61	29	35	48	53	21	24
II	—	—	—	—	—	—	—
Israel							
I	27	24	25	22	12	20	24
II	...	...	...	...	1	3	6
Pakistan							
I	13	14	12	9	10	10	11
II	8	9	6	3	8	10	11
Philippines							
I	40	19	23	20	20	19	22
II	2	6	7	3	8	11	21

Table 36. Cash Reserve Ratios for Commercial Banks, by Country (*continued*)

(Percentage)

I. Ratio of total cash reserves[a] to total deposits
II. Ratio of borrowing from Central Bank to total deposits

Country	1950	1951	1952	1953	1954	1955	1956
Thailand							
I	34	31	28	28	23	19	20
II	—	—	—	1	1	—	—
Turkey							
I	10	17	11	10	14	17	20
II	17	20	25	22	37	34	33
Australia							
I	7	8	7	7	6	6	6
II	—	—	—	—	—	—	—
New Zealand							
I	31	31	39	41	29	26	26
II	—	—	—	—	—	—	—
Union of South Africa							
I	26	16	20	16	17	17	20
II	—	—	—	—	—	—	—

Source: See table 33.

[a] Including borrowing from Central Bank.

in Brazil and Peru it remained approximately stable. But in the remaining countries commercial banks have generally been in a less liquid position in the past few years than in the earlier period after 1950. In Chile during recent years and in some other countries in particular years, the decline in reserve ratio was moderated by increased borrowing from central banks.

It may be said, in conclusion, that some tendency towards greater monetary stringency in the private sector has been evident in many primary producing countries. But in a number of them the control exercised by central banks over the volume of private credit has been greatly vitiated by the increases in the supply of money that have taken place outside the private sector. Further, it is to be borne in mind that, while restraints on the supply of credit to the private sector may have moderated the level of private investment expenditure and thus exerted a disinflationary influence, a large part of the actual expansion in credit was often necessitated by rising business costs generated by inflationary forces other than private investment expenditure.

Conclusion

Inflation in the primary producing countries cannot be explained by any one causal factor. Excess aggregate demand, imbalances between sectoral demand and supply, and various cost factors, including rising import prices and money wages, were all, at one time or another, found in conjunction with inflation. Often, the various influences were present together; in such cases, it is difficult or impossible to distinguish unequivocally the primary agent in the chain of causation. Nevertheless, one conclusion emerging from the analysis is that excess demand, at both the aggregate and sectoral levels, has been a major force in the inflation occurring in primary producing countries.

The widespread tendency for demand to exceed available supplies of goods and services has frequently reflected the deep-rooted aspirations of countries in the early stages of development to achieve higher living levels through capital formation. The heavy reliance of governments upon deficit financing provides striking evidence of the determination of countries to develop their resources. But policies which ignore the dangers inherent in fiscal and monetary instability provide, at best, an uncertain foundation for growth, and, in recent years, the trend towards greater restraint in the character of official policies has borne witness to increasing recognition of this fact.

Sectoral imbalance has also proved to be a major problem for many countries. Food supplies in particular have been at the root of inflation in numerous countries. Not only have food prices risen absolutely, but in a majority of countries they have risen more rapidly than the general level of prices. In Latin America, especially, where rapid urbanization has created additional pressure on food supplies, this has proved in many instances to be a particularly acute problem.

Post-war experience has clearly demonstrated the importance of an appropriately balanced expansion of output in all major sectors. Adequate food supplies are

an indispensable ingredient of stable long-term growth, and success in achieving sustained economic development requires that due weight be given to expanded agricultural output. Many countries, recognizing that insufficient food supplies are a cause of inflation, have taken energetic steps to remedy the situation. And yet, while inflationary pressures have indeed been lessened in many cases as a result of successful efforts to expand food production, there remain a number of countries where per capita food supplies in recent years have shown no improvement since before the Second World War, or have even declined.

The problem of food shortages has had widespread repercussions upon the price structure of many countries. While the institutional setting has also been a major controlling element, a food problem has been a significant link in the inflationary process: the decline in real income resulting from increased food prices has often provoked claims for higher wages. In large measure, rising food prices together with the institutional framework within which wages are determined have accounted for the spiralling inflation of costs. The advance in food prices, however, does not wholly explain the magnitude of the wage-price spirals experienced by many countries; excess aggregate demand and rising import prices have also at times induced increases in wages. And it has been mainly through advances in wage costs that such inflationary influences have become permanently embedded in the domestic price structure.

Even in countries where prices may not have been affected by cost pressures, a price spiral has often been engendered by increases in the money supply required to finance budget deficits, private investment or the export balance. When these increases have been in excess of the amount which the community has been willing to hold at a given level of real income and prices, they have assumed an active role in raising prices and wages.

The problem of reconciling the dual aims of economic growth and economic stability has been rendered difficult for many primary producing countries by circumstances outside their control. The instability of foreign trade has been a factor of major consequence in inflation in many primary producing countries. The particularly close links in these countries between investment and the foreign balance, and between government revenue and trade developments, have often caused sharp fluctuations both in supply availabilities of many key commodities and in demand pressures. Moreover, the predominance of agricultural production in the economies of these countries means that total supplies—both for export and for the domestic market—have been subject to the vagaries of weather conditions.

There is little doubt that removal or lessening of the instability in export markets of primary products would represent a major contribution towards greater price stability in the economic activity of under-developed countries. But the central problem of securing additional resources to hasten the pace of economic development and, at the same time, avoiding inflation would remain. Additional resources may be raised in various ways, of which a major policy instrument is taxation. It is true that in countries with very low per capita incomes there is no prospect of achieving the record of those with higher incomes where the tax burden often approximates one-fourth or more of the gross national product. Yet it cannot be said that the tax limit has been reached in under-developed countries. A higher degree of progressivity and greater reliance on income taxes would seem to provide much scope for the mobilization of additional resources.

While principal reliance must be placed on domestic resources, foreign capital may considerably facilitate the process of stable growth, both by supplementing the supply of domestic savings and by financing imports of capital equipment. Were the under-developed countries able to augment their domestic resources by drawing on a greater supply of foreign capital, they would be better placed to counter the constant danger of inflation that accompanies their compelling need to hasten the pace of economic growth.

Chapter 3

INFLATION IN CENTRALLY PLANNED ECONOMIES

Despite State ownership of most productive capacity and State planning of resource allocation, the centrally planned economies have all experienced considerable inflationary pressure during certain periods of their history. It is of interest to consider how such pressure can develop in a planned economy, where concentration of economic power in the central authorities would seem to have eliminated any obstacle to continual adjustment of demand to the level of supply. If all goods and services were subject to direct distribution by government agencies, no problem of imbalance between demand and supply could arise, although major shifts in the allocation of national product from consumption to accumulation might still create social tensions. The problem of balance between demand and supply in the centrally planned economies is created by the fact that, as a rule, consumer goods and labour are not directly allocated but exchanged, that is, incomes are paid in money and used for purchases of goods. These payments take the form of money flows which may generate inflationary pressure if they are not in line with the flows of consumer goods and services available for sale.

The problem of imbalance between flows of money and of goods is confined to the consumption sector; intra-industry transactions do not raise similar problems of imbalance, since the bulk of producer goods, in the centrally planned economies, is subject to direct allocation, and maladjustments in this sector have no direct effect on prices. However, excess liquidity in individual enterprises may result in lower efficiency, in piling up of stocks and—most important from the point of view of inflationary developments—in raising wages above the planned rates. Naturally, any such inflation of the wage bill may upset the planned balance between the demand and supply of consumer goods.

Thus, though output and its allocation are centrally planned, the use of money rewards creates the possibility of divergent movements of money incomes and of supply of consumer goods. This duality of flows makes it imperative to supplement production plans by financial plans in order to co-ordinate money flows with the physical flows of consumer goods. From the point of view of inflationary developments, the most important section of the financial plan is the "balance between money income and expenditure of the population", the purpose of which is to bring about the final co-ordination of wage, output and allocation plans so as to balance personal disposable income with the planned supply of consumer goods.

The balance between demand and supply of consumer goods may be upset, in centrally planned economies, by changes similar to those which in private enterprise economies generate inflationary pressure. Thus, a rise in investment, net exports or government expenditure in relation to national product will tend to generate pressure of demand upon supply of consumer goods unless the excess demand is eliminated by a rise in savings or in direct taxation. Similarly, an increase in income payments in relation to output will, other things being equal, result in pressure on prices of consumer goods.

Characteristics of Inflationary Pressure

Despite important similarities between the general causes of inflation in private enterprise and in centrally planned economies, significant differences exist both in the process of inflation and its effects and in the mechanism of readjustment.

These differences reflect essential dissimilarities both in the institutional framework of the two types of economies and in specific economic policies which, though not essential to central planning, have become a lasting feature of the system.[1]

Since in the centrally planned economies virtually all industry, building, transportation and trade as well as most services are nationalized, almost all investment expenditure is government expenditure and almost all profits accrue to the government. Profits of enterprises are either retained for future investment or transferred to the budget; they do not, therefore, enter the stream of private income and have no effect on consumer demand or on savings.

Personal income, in the centrally planned economies,

[1] Recent changes in the methods of planning and management have not resulted in any alterations of the methods of price determination, relevant for the problem of inflation, although they have given rise to extensive discussions of some aspects of price problems.

The system of planning and price formation described in this section does not apply to Yugoslavia, which during the last five years has granted to individual enterprises the right to plan their output and to determine their prices without direct interference of the central authorities.

is composed almost exclusively of wages, salaries, peasants' income in money and kind, and transfer payments to individuals. This difference between the composition of private income in centrally planned and in private enterprise economies, and the existence in the former of a single government-business sector, account for significant dissimilarities in the part played by various taxes, profits and savings in the two systems.

THE ROLE OF TAXATION AND WAGE POLICY IN BALANCING DEMAND AND SUPPLY

The fact that almost all income represents income of labour, together with the prevailing levels of consumption and the wide scope of State-financed social insurance, accounts for low average and marginal rates of private savings. In consequence, private savings offset only an insignificant part of investment and other government expenditure; nearly all such expenditure is financed instead out of government revenue from profits and taxes. Income tax represents, in all centrally planned economies, only a small proportion of government revenue; and as a rule little reliance has been placed on changes in the rate of income tax as a means of restricting the growth of personal disposable income. The only significant exception has been the tax in kind paid by peasants in the form of compulsory deliveries at prices considerably below market prices. The small part played by direct taxation is closely related to the existence of a single business-government sector and to the structure of private income. Since the predominant part of these incomes is composed of wages and salaries paid by the government sector, it is largely a matter of indifference whether the change in the distribution of income in favour of the government, required by a rise in investment or government expenditure, is brought about by a curb on wages in relation to output before tax or by a rise in income taxes; the effect of these alternative measures on take-home pay is identical. All centrally planned economies have attempted in the past to restrict the growth of disposable income by restraining the growth of wage payments rather than by raising the income tax.

The largest part of government revenue is derived from the turnover tax, which has an altogether different role from that of indirect taxes in private enterprise economies; indeed the turnover tax in centrally planned economies is not easily distinguishable from enterprise profits. Since the turnover tax and profits together represent the difference between cost and market price and since both accrue to the government sector, there is little reason to treat them as distinctive economic categories from the standpoint of the relation between demand and supply. In fact, the turnover tax might be considered at least partly as a profit tax rather than as an indirect tax. The distinction between profits and the turnover tax is important chiefly for administrative and accounting purposes. Since unit cost of production and prices received by the enterprise are fixed by the plan, changes in profits of the enterprise are an indication of improvement or deterioration in the input-output ratio of the enterprise and depend solely on its technical efficiency. On the other hand, the difference between the market price and cost is largely influenced by changes in the allocation of resources in the economy and other factors independent of the efficiency of individual enterprises. In these conditions it is considered administratively expedient to define as profits of the enterprise only a very small part of the difference between cost and market price of consumer goods, and to transfer the remainder of the difference to the budget in the form of a turnover tax.[2]

Although the role of the turnover tax in centrally planned economies bears some resemblance to that of profits in private enterprise economies, it differs from such profits in two important respects. First, it is imposed almost exclusively on consumer goods; and second, unlike profit rates in the private enterprise economies, it has no effect on economic decisions. Indeed, a direct consequence of State ownership and central planning is the elimination of the profit motive as a determining factor influencing the growth of output and the allocation of resources between end-uses. Production and investment decisions in the centrally planned economies are entirely unrelated to current or prospective profits; and, therefore, wide discrepancies between the relative rates of profit in the consumer and producer goods sectors have no effect on their relative rates of growth. The centralization of output and investment decisions in the government severs all links between movement of prices and profits in consumer and investment sectors. Thus, a rise in the pressure of consumer demand leading to higher prices, profits and turnover tax in the consumer goods sector has no direct effect on demand for investment goods and, therefore, need not influence prices and profits in the investment sector. A widening of the gap between the rate of profits in these two sectors will not by itself lead to any shift in resources towards consumption. High profits provide no basis for diverting resources from investment or from exports to consumption, nor for any change in the allocation of resources that is not in accordance with the plan.

THE PRICE SYSTEM AND INFLATIONARY PRESSURE

The lack of any definite relationship between prices of producer and of consumer goods and the special role played by the turnover tax in equating demand and supply of consumer goods are reflected in significant differences in price formation in these two sectors.

Prices of producer goods, sold almost entirely within the government sector, are composed of cost, inclusive

[2] Planned profits are calculated as a percentage of planned cost; a part of planned profits and a much smaller proportion of profits in excess of plan are transferred from the enterprise to the government budget.

of depreciation allowances, plus a certain percentage of cost defined as profits. These prices are, in general, cost-determined, although their adjustment to changes in cost may be delayed, resulting during the intervening period in a change in the rate of profits or even in losses requiring subsidies. Since the bulk of investment is financed by the government sector and centrally allocated, any change in profits of investment goods industries will be reflected only in government accounts and will have little effect on the economy as a whole. From the point of view of inflationary pressure the only relevant change in the investment goods sector is a change in the wage cost, which may inflate private income and raise effective demand for consumer goods.

The method of price formation in the consumer sector differs basically from that prevailing in investment goods industries. Unlike prices of producer goods, prices of consumer goods include, in addition to a fixed percentage markup over costs, a variable rate of turnover tax, which is adjusted so as to clear the market for such goods. Thus, the aggregate market value of a given supply of consumer goods will tend to equal the total income available for consumption, consisting of the total wage bill plus transfers and payments to the peasants after deduction of income tax and personal savings. It follows from this method of pricing that there must be a definite relation between the amount of the turnover tax and the income paid out for producing goods and services for other than consumption purposes. If there were no transfer payments, income taxes and personal savings, and if all workers were employed only in the sector producing consumer goods, the aggregate market value of these goods would be set so as to equal the incomes paid out in this sector, namely, the wage cost. Since, however, part of the labour force is engaged in activities which produce goods and services not available for personal consumption,[3] the wage bill of these workers also adds to the demand for consumer goods. It is therefore necessary to raise the prices of consumer goods above their wage cost to a level which will equate their aggregate value with the effective demand generated in the entire economy. The price-cost ratio of consumer goods is therefore determined by the ratio of the wage bill of the investment sector to the wage bill of the consumer sector. Thus, setting aside the adjustment for transfer payments less income taxes and personal saving, the difference between the value and the cost of the aggregate supply of consumer goods must correspond to the wage bill in the investment sector. This difference, apart from the small margin of profits, is absorbed by means of the turnover tax imposed upon consumer goods.

It will be readily apparent that a shift in the allocation of resources toward uses other than consumption will, other things being equal, increase the wage bill of investment workers in relation to the total wage bill and will, therefore, call for a corresponding increase in consumer prices and in the rate of turnover tax.[4] Conversely, an increase in the share of resources allocated to consumption will lead to price reductions. Similarly, for a given allocation of resources as between consumption and other uses, a change in unit wage costs brought about by a disparity between the rates of increase in output per man and in wage rates will also involve a change in demand for consumer goods in relation to supply and will therefore require a change in prices and in the rate of turnover tax on consumer goods. Changes in unit wage costs may thus offset or reinforce the effect of changes in the allocation of resources. On the one hand, a decline in wage cost may, for instance, be instrumental in reducing personal disposable income in relation to total output, thereby offsetting the effects of a reduction in the share of consumer goods in total output; such a combined change would leave demand and supply in balance without necessitating any adjustment of prices. A rise in money wages in relation to total output, on the other hand, which in itself would result in pressure on prices of consumer goods, might be offset by a commensurate increase in the share of resources devoted to consumption.[5]

One distinctive feature of the price system prevailing in the centrally planned economies is that whether an average rise or decline in unit wage cost occurs in the investment or in the consumer sector, its effect on prices of consumer goods will be identical so long as the ratio of consumption to national product remains unchanged. An increase in output per man in the investment sector will, other things being equal, have the same effect on

[3] Strictly speaking, not available for sale to consumers, since some goods and services are made available to consumers free of charge.

[4] Disregarding transfer payments, direct taxes and savings, and treating income of peasants as equivalent to wages paid in consumer goods industries, the value of consumer goods may be assumed equal to the total wage bill in the economy, whereas their cost equals the wage bill in consumer goods industries. The ratio of value to cost will thus equal the total wage bill divided by the wage bill in consumer goods industries, or setting p = price of consumer goods, c = cost of consumer goods, W_c = wage bill in consumer goods and W_I = wage bill in the rest of the economy: $\frac{p}{c} = \frac{W_c + W_I}{W_c} = 1 + \frac{W_I}{W_c}$. Since any shift in the allocation of resources away from consumption will, if unit wage costs remain unchanged, raise the ratio $\frac{W_I}{W_c}$, it will require an increase in prices of consumer goods and in turnover tax.

[5] Under the assumption specified at the beginning of the preceding footnote, the combined effect, on the pressure of demand on consumer goods, of changes in the unit wage cost and in the allocation of resources as between consumption and other uses, may be derived from the following equation:

$$\text{Average unit price of consumer goods} = \frac{\text{total wage bill}}{\text{volume of consumption}}$$

$$= \frac{\dfrac{\text{total wage bill}}{\text{volume of national output}}}{\dfrac{\text{volume of consumption}}{\text{volume of national output}}}$$

$$= \frac{\text{unit wage cost}}{\text{share of consumption in national output.}}$$

prices of consumer goods as a corresponding[6] increase in output per man in the consumer sector; its effect in either case would be a decline in the ratio of the total wage bill to the supply of consumer goods. A rise in wage rates in either sector, at a given ratio of consumption to national product, would have an opposite effect.

The differences in the methods of pricing producer and consumer goods are also important in distinguishing between demand and cost inflation in centrally planned economies. Demand inflation has no direct effect on prices of producer goods, since these goods are centrally allocated; on the other hand, cost inflation, that is to say, a rise in unit wage costs, will directly influence producer goods prices, although its effect may at times be delayed by government subsidies. In contrast, demand inflation directly affects prices of consumer goods, and even cost inflation, that is, a rise in unit wage costs, influences prices of consumer goods only indirectly through its effect on consumer income and demand. In consequence, a rise in unit wage costs in the centrally planned economies may be associated with a decline in prices of consumer goods, if it is accompanied by an increase in the share of national product allocated to consumption.

PLANNING AND PROBLEMS OF IMBALANCE

Since both physical and monetary flows are subject to planning, and there are specific plans to co-ordinate the money income of the population with the supply of consumer goods, it follows that any lack of co-ordination between various output and income plans may result in either an excess or a deficiency of effective demand. The elimination of a deficiency of demand would not present any difficulty in a centrally planned economy; a rise in money wages or a reduction in prices would clear the market and reduce government revenues from profits and turnover tax without any detrimental effect on the rate of investment and the rate of growth of national product. The elimination of excess demand, however, has proved a much more difficult problem during the post-war period. In certain periods of extremely large relative shifts in the allocation of resources in favour of investment or armaments, the planning authorities were aware at the onset that *ex-ante* adjustment of money incomes to the available supply of consumer goods would not be feasible and that the fulfilment of plans of output and investment was bound to give rise to inflationary pressures. Such inflation was allowed to develop in situations when the fulfilment of plans required very severe restriction on the rate of growth or even a reduction in the absolute level of real wages.

As a rule, however, the planning authorities not only attempted to avoid inflationary price increases but tended to increase real wages through reducing prices rather than through raising money payments. Under such conditions, disproportions generating inflationary pressures arose either from defective planning or from failure to fulfil plans according to the original relationships that had been set among various targets.

The possibility of disruption of relationships originally planned between various output and income targets stems primarily from the fact that the planning authorities do not have absolute control over factors which are crucial from the point of view of their inflationary effect. Among them, the most important are the plans for the supply of agricultural produce and the plans for productivity. Failure to fulfil plans for a rise in output per man entails an increase in employment above the planned quotas and disrupts the originally established balance of money income and outlays of the population. On the other hand, the supply side of the balance may be adversely affected by failure to fulfil planned increases in agricultural output, as a result either of unfavourable weather or of adverse effects of government policy towards the peasants. The disruption of plans for agriculture may in turn result in non-fulfilment of plans of industrially produced consumer goods largely dependent on agricultural raw materials. Furthermore, plans for the supply of agricultural produce may be disrupted by the peasants' unwillingness to deliver the prescribed compulsory quotas or by reducing their free sales to the urban population.

An important factor tending to reinforce the inflationary effect of the disruption of plans for the supply of consumer goods has been the general tendency to promote the expansion of the investment sector regardless of difficulties encountered in fulfilment of plans in other sectors. At least until 1953, only in exceptional cases were investment plans scaled down with a view of eliminating imbalances caused by the non-fulfilment of plans in consumer sectors or by larger-than-planned increases in incomes. The fulfilment of investment plans in such conditions, and even more, their over-fulfilment, would obviously result in a decrease in the share of consumption in national product below the ratio originally planned, and would be reflected in a rise in the total wage bill in relation to the supply of consumer goods.

In the foregoing review of the inflationary effects of non-fulfilment or over-fulfilment of production plans, it was assumed that no disruption of wage-rate plans occurred. However, this need not always be the case. Inflationary demand pressure may also result from an increase in wage rates in excess of the plan, unless it is associated with a commensurate increase in output per man above planned levels. A rise in wages in excess of planned rates could be the result of deliberate decisions of the central authorities or of unauthorized but often tacitly approved decisions of management of enterprises. It might also result from pressure of labour for higher wages than those set in the plan.

As productivity and the supply of labour are not

[6] Weighted by the share of wages in each sector in the total wage bill.

under direct control of the planning authorities, the government may sometimes find it necessary to raise wage rates above levels originally planned in order to stimulate the inflow of labour from the countryside to the cities and to induce a larger proportion of the urban population to enter industrial occupations. Similarly, a planned rise in output per man may prove difficult to achieve without exceeding the planned wage rates, either directly by increases across the board or indirectly by a greater than planned differentiation of wage rates.

Pressure of labour for wage increases has taken various forms, such as absenteeism, high turnover, resistance against the upward revision of norms,[7] and outright demands for wage increases and cessation of work. These pressures have frequently resulted in unauthorized wage increases, granted by managements of individual enterprises. Such unauthorized increases in wages have been stimulated—and often caused—by the shortage of qualified workers and have taken the form of competitive bidding up of wages by the managers. This was made possible by laxity of "financial discipline", which enabled managers to overspend the planned wage fund by diverting resources earmarked for other purposes, and by bank credits. Such transgressions were at times tolerated, however, if not actually encouraged, in cases when they were found necessary to fulfil production plans.[8]

The fact that, in spite of central planning of the wage bill and of wage rates, wages may increase in excess of planned rates, opens the possibility of a price-wage spiral in the centrally planned economies. An initial increase in cost of living caused either by a relative shift in the allocation of national product in favour of uses other than consumption or by failure to reduce unit wage costs according to plan may generate pressure for higher wages. If such wage increases are not granted, workers may become restive and productivity may be adversely affected so that governments have occasionally found it expedient to raise wages above originally planned levels. By raising incomes, however, such wage increases in turn generate new pressures of demand on supply, which may have to be met by further increases in prices, and thus a price-wage spiral may develop.

A rise in average prices received by peasants—either through outright price increases or through a reduction in the share of compulsory deliveries at lower prices—also has an inflationary effect similar to that of wage increases. Such an increase, which disrupts the originally established balance of income and outlays of the population, has at times been unavoidable because the plans for the acquisition of agricultural produce at set prices have proved to be inoperative.

As a general rule the authorities of the centrally planned economies have tended to achieve a balance between supply and demand without resort to rationing, by setting prices of consumer goods at a level equating supply and demand. Prices in State and co-operative trade, however, have frequently been set below the level warranted by the demand-supply situation, resulting in shortages, queueing and speculation. Discrepancies between State prices and the price level equating supply and demand have at times also been reflected in a wide spread between official and black market prices for industrially produced consumer goods and between State and free farm market prices for food. This duality of prices was often permitted despite significant differences between the effects of price increases in State and in private trade. Whereas a rise in prices in State trade is similar to a tax on profits in private enterprise economies, and therefore has no secondary effect on demand pressure, a rise in prices on free farm markets or in unauthorized urban trade results in an increase in income of peasants and urban traders, and since the rate of savings of the population is generally low, especially in a period of rising prices, such higher incomes add to the pressure of demand on the supply of consumer goods. During periods of rising prices, this policy of permitting dual prices may have been motivated by a desire to hold State prices down as long as possible even at the cost of haphazard distribution, on the assumption that lower paid workers would be more likely to take advantage of the lower prices in the State trade than would higher income groups. However, even during periods of general price reductions, prices of several consumer goods were frequently reduced more than changes in the supply-demand situation warranted, with the result that some pressure of demand against supply would remain. Although no conclusive information exists about the reasons for such policy, it may be that such imbalance was due to some miscalculation. Since the planned reduction of prices must be related to planned changes in output per man, in the wage bill and in production of consumer goods, a failure to fulfil some of these targets or over-fulfilment of others would necessarily lead to an unexpected disequilibrium between supply and demand.

Lack of correspondence between price levels and the supply-demand position has frequently led to involuntary accumulation of liquid savings in the hands of the population. These savings have then continued to exert pressure on the supply of consumer goods in subsequent periods. In several cases demand pressure was reflected mainly in specific shortages, especially in shortages of meat and fats, while the supply of other consumer goods seemed to be adequate at a given price level. This would seem to lead to the conclusion that a change in relative prices might have been sufficient to eliminate shortages without affecting the general price level. Often, how-

[7] Upward revision of norms amounts to a reduction of piece-rates. When the attempt to impose a reduction of piece-rates fails, the planned drop in unit wage costs will not be achieved and the planned balance between the income and supply of consumer goods will be upset.

[8] A more stringent financial control over the disposal of enterprise funds has considerably reduced unauthorized wage increases in several countries.

ever, especially in a period when demand was shifting towards higher quality goods (for instance, from bread and potatoes to meat), only a very substantial rise in prices of goods in short supply would have absorbed the excess demand. In such conditions an increase in prices of goods in short supply could hardly have been compensated by a reduction in prices of other goods sufficient to leave the cost of living unchanged.

Price Developments, 1949-1956

The intense inflationary pressures of the immediate post-war years were followed in the centrally planned economies by a relaxation of tensions towards the end of the reconstruction period. This phase was in turn succeeded by a new period of inflationary pressure, associated, in most countries, with the inception of long-term plans of economic development. This second period of inflation lasted, for most countries of the group, until about 1953, and was followed by several years of declining prices.

The inflation between 1945 and 1949 differed in fundamental respects from that which developed during the subsequent period. The problems faced by most of eastern Europe during the years following immediately after the end of the war were in many respects similar to those of the western European countries which had suffered war damage and occupation. The solution of these problems was greatly facilitated by the existence of unused capacity and was aided by foreign grants, two factors which in the later period were of little importance in the centrally planned economies. Nationalization of productive resources and central planning were both still in their initial stages during the earlier period, so that the inflationary processes of that period cannot be considered as typical for the planned economies. By 1949 the process of reconstruction had been completed in almost all countries and the framework of the new system was, broadly speaking, established. The essential difference between the character of inflationary developments during these two periods, as well as the extreme scarcity of data relating to the earlier period, makes it expedient to limit the following analysis to the period from 1949 to 1956.

Despite the similarities in the institutional framework and in programmes of economic development of the centrally planned economies, the direction of changes

Table 37. Price Indices of Consumer Goods, by Country
(1953 = 100)

Country and item	1949	1950	1951	1952	1954	1955	1956
Bulgaria							
State and co-operative trade, retail prices	74	94	105	107	89	83	77
Food	...	...	...	104	88	84	79
Industrial goods	...	...	...	111	90	83	75
Collective farm market prices	...	...	...	...	93	89	87
China, mainland[a]							
All trade, retail prices	...	86	95	96	100	102	102
Staple food	...	...	...	96	100	101	101
Subsidiary food	...	...	...	89	103	105	106
Textiles	...	...	...	100	100	102	102
Fuels	...	...	...	97	102	103	103
Daily "necessities"	...	...	...	99	99	100	100
Czechoslovakia							
State and co-operative trade, retail prices	...	...	...	...	94	91	89
Cost of living index, urban families[b]	...	76	92	92	87	86	84
Food	...	62	85	88	91	90	88
Clothing	...	85	86	78	73	69	63
Fuel and light	...	91	93	102	94	92	91
Rent	...	100	100	100	100	100	100
Other goods and services	...	127	132	125	93	90	90
Eastern Germany[c]							
All trade, retail prices, goods and services	...	133	118	107	93	90	89
Goods	...	136	120	107	92	89	89
Services	...	99	100	100	98	98	98
Cost of living index[d]	...	145	115	105	93	91	90
Food[e]	...	167	123	109	90	86	87
Clothing	...	113	93	93	97	98	94
Fuel and light	...	134	126	125	100	100	100
Rent	...	100	100	100	100	100	100
Household goods	...	107	107	99	102	102	102
Other services[f]	...	109	106	105	99	96	95

Table 37. Price Indices of Consumer Goods, by Country (*continued*)

(1953 = 100)

Country and item	*1949*	*1950*	*1951*	*1952*	*1954*	*1955*	*1956*
Hungary							
State and co-operative trade, retail prices	...	...	...	97	96	96	...
Food	...	...	...	95	94	94	...
Industrial goods	...	...	...	100	98	98	...
Cost of living index	56	59	72	100	95	94	93
Food	46	52	68	100	96	93	93
Clothing	62	64	72	101	96	97	93
Fuel and light	81	82	86	89	104	104	...
Household furnishings	73	72	72	103	97	97	...
Services	86	89	90	99	100	100	...
Poland							
All trade, retail prices, goods and services	52	56	62	71	94	91	91
Food	45	49	53	67	95	95	95
State and co-operative trade	45	48	51	62	95	94	94
Collective farm prices	37	45	58	89	99	105	105
Catering	51	53	60	80	93	92	92
Industrial goods	59	64	72	75	91	85	84
Services	68	69	71	71	98	98	97
USSR							
State and co-operative trade, retail prices	158	127	116	110	95	95	95
Food	178	139	124	114	97	97	97
Industrial goods	137	114	108	108	92	92	92
Collective farm market prices	...	107	108	107	110	110	101
Yugoslavia							
All trade, retail prices	46	61	124	93	99	113	118
Cost of living index[e]	...	...	118	96	98	111	117
Food[h]	...	...	...	93	100	118	125
Clothing	...	...	...	102	83	89	90
Fuel and light	...	...	...	114	106	114	120
Rent	...	...	...	57	112	130	135
Furnishings	...	...	...	94	96	99	100
Other services	...	...	...	88	111	123	133

Source: Bulgaria: *Statisticheski Godishnik na Narodna Republika Bulgaria*, 1956 (Sofia), and *Statisticheski Izvestia*, No. 1, 1958 (Sofia).

China, mainland: Report on fulfilment of plan for 1956, State Statistical Bureau (Peking).

Czechoslovakia: *Statisticka Rocenka Republiky Ceskoslovenske, 1957* and *Statisticke Zpravy*, No. 4, 1957 (Prague). State and co-operative retail trade price index derived from data on retail sales in current and constant prices. Aggregate cost of living index and the index of food prices, 1954–1956, from *Statisticka Rocenka, 1957;* all other data on cost of living are estimates published in United Nations, *Economic Survey of Europe in 1953* (sales number: 1954.II.E.2) and United Nations, *Economic Bulletin for Europe*, vol. 8, No. 1, 1956 (Geneva).

Eastern Germany: *Statistisches Jahrbuch der Deutschen Demokratischen Republik*, 1956 (Berlin).

Hungary: State retail sales price index derived from the value of retail sales in current prices and the volume index in 1955 prices reported in *Statisztikai Evkonyv, 1949–1955* (Budapest). Cost of living index, 1949–1955, from same source; that for 1956 from reply of the Hungarian Government to a United Nations questionnaire.

Poland: *Rocznik Statystyczny*, 1957 (Warsaw).

Union of Soviet Socialist Republics: State retail prices: *Narodnoe Khozyaistvo SSSR* (Moscow, 1956); collective farm market prices: same source, and *Sovetskaya Torgovlya*, 1956 (Moscow).

Yugoslavia: *Statisticki Godisnjak*, 1955 and 1957 (Belgrade).

[a] Eight cities.

[b] No official index of cost of living is available for the period prior to 1954. The aggregate index for 1950 to 1953 and the indices of prices of clothing, fuel, light, rent and other goods and services for 1950 to 1956 are estimates based on prices in December 1950 to 1952, June 1953 and April 1954 to 1956. The aggregate index and food index for 1954 to 1956 are official indices referring to April of each year. The difference between the estimated and official indices for the years for which the latter were available was insignificant. Similarly, there was little difference between the average annual data and the indices referring to April from 1954 to 1956. It is probable that owing to much greater amplitude of changes between 1950 and 1954 the difference between the annual averages and data based on prices referring to a single month were much greater. In consequence the indices for 1950 to 1954 may not reflect adequately the movements of the average price levels and should be considered mainly as a rough indication of the direction and intensity of changes.

[c] The indices reproduced in the table are at variance with an index of retail prices derived from data on retail trade in current and constant prices published in *Neues Deutschland*, 13 February 1958. The derived data seem to indicate that the decline in prices between 1950 and 1956 was considerably smaller than that shown by the index given in the table, particularly in 1951. The lack of information on the cause of this discrepancy makes it difficult to assess which of the two indices reflects more accurately the price movements during that period.

[d] For an industrial worker's family with an average monthly income of 396 Deutsche marks, and with four persons.

[e] Weighted average of food, and tobacco and beverages. The weights (42.1 and 7.8 per cent) represent the share of these expenditures in family budgets in 1955 (*Wirtschafts Wissenschaft*, No. 5, 1956).

[f] Weighted average of education and entertainment, and transportation. The weights (3.4 and 2.3 per cent) are from *Wirtschafts Wissenschaft*.

[g] For a worker's family with four persons.

[h] Weighted average of food, and tobacco and beverages. The weights (55.8 and 5.5 per cent) represent the share of these expenditures in family budgets in 1955 (*Statisticki Godisnjak*, 1957).

in price levels from 1949 to 1956, their turning points and intensity varied from country to country. This will not be surprising if account is taken of the fact that at least at the beginning of the period the countries differed considerably with respect to the stage reached in development, the degree of government control, and general economic, political and social conditions.

THE PATTERNS OF CHANGE

Three broad patterns of price change emerge from the examination of consumer price movements during this period (see table 37). In one group of countries there was a strong upward movement of prices during the first half of the period, followed by a declining trend, tending to taper off at the end of the period. This group includes Bulgaria, Czechoslovakia, Hungary, Poland and Romania.[9] In the second group, composed of mainland China and Yugoslavia, prices were mounting throughout the period, although in Yugoslavia the upward movement was interrupted in two instances by temporary price declines. In the last two countries—Eastern Germany and the Soviet Union—consumer prices were declining throughout the period. Here, even to a larger extent than in the first group, the decline tapered off and was almost brought to a halt in 1955.

There were also pronounced differences in the magnitude of changes among countries. In the first group of countries, where the upward trend of prices was reversed in the middle of the period, the rate of increase appears to have been lowest in Czechoslovakia, where between 1950 and 1953 consumer prices rose by 32 per cent. It was somewhat higher in Bulgaria, where between 1949 and 1952 prices in State and co-operative trade increased 44 per cent, but much steeper in Hungary and Poland, where the increase during the three years preceding the peak was as high as 78 per cent and 79 per cent, respectively (see table 37). The decline in prices during the following period was not sufficient, in most of these countries, to bring the index down to its former level, owing to the fact that wage earnings increased very substantially during the period of mounting prices and continued to climb after reversal of the trend. Thus, the decline in prices between 1953 and 1956 amounted to 16 per cent in Czechoslovakia, 7 per cent in Hungary and 8 per cent in Poland. Bulgaria appears to be the only country where the price level of consumer goods in State and co-operative trade was in 1956 close to the 1949 level.

In mainland China, which was able only in 1950 to halt the hyper-inflation inherited from the civil war, prices declined by 20 to 30 per cent during that year, but from 1950 to 1956 they increased again by about 20 per cent. The largest part of this increase took place in 1951 in connexion with the acceleration of industrialization and a rise in military expenditure associated with the Korean hostilities; since then the rate of price increase has averaged less than one per cent per annum.

Yugoslavia experienced the largest over-all increase in prices between 1949 and 1956; the index for 1956 was 2.5 times higher than in 1949, although somewhat below that of the highest level reached in 1951. The maximum price increase, amounting to about 270 per cent, occurred from 1949 to 1951, but this was followed by a decline of 25 per cent in 1952. Consumer prices rose again by 7 per cent in 1953 and remained at about this level in 1954, but from 1954 to 1956 the index rose again by 18 per cent.[10]

As mentioned above, the Soviet Union and Eastern Germany were the only two countries of the group which experienced a sustained decline in consumer prices through most of the period. In the Soviet Union the downward movement began after derationing and the monetary reform of 1947, which eliminated the liquid savings accumulated during the war. Prices continued to fall until 1954. In 1955 and 1956, prices in State and co-operative trade remained at their 1954 level, but the decline in prices on collective farm markets in 1956 resulted in a further drop in the cost of living. This sustained reduction in prices of consumer goods, in conditions of continuous economic growth, brought down the index of retail prices in State and co-operative trade in 1954 by some 56 per cent as compared with the fourth quarter of 1947; between 1950 and 1954, prices declined by 26 per cent. The reductions in prices in State and co-operative trade were not always accompanied by parallel movements on the collective farm markets. From 1947 to 1950, prices on the collective farm markets declined much more, and from 1950 to 1956 much less, than prices in State and co-operative trade.[11] These divergent movements of prices on differ-

[9] Romania has not so far published any general price indices. The scattered information on prices of specific commodities indicates an upward movement until 1952. Thus, between June 1950 and December 1952, ration prices of food and clothing increased while prices of similar goods on free sale in State trade declined. Between December 1952 and September 1953, these movements were reversed. Lack of information on the share of rationed and non-rationed purchases precludes any definite conclusion about the combined effect of these changes on the average price levels, but it appears that the average level of prices in September 1953, though below that of December 1952, was considerably above that of June 1950. The elimination of rationing at the end of 1954 was accompanied by a rise in the average price level of about 15 per cent, as indicated by the implied price index derived from data on retail trade in 1954 and 1955, in current and constant prices, given in *Anuarul Statistic*, 1957 (Bucharest). In 1956, prices declined by 3 per cent. The conclusion with respect to price increases prior to 1953 is supported by the fact that the revenue from the turnover tax during that period was increasing substantially in relation to the value of retail trade.

[10] The cost of living index rose by 17 rather than 18 per cent. The data in the text refer to the index of retail prices, because no index of cost of living is available for the period 1949-1952.

[11] When compared with pre-war levels, prices on the collective farm markets in 1947 were much higher than State prices. From 1950 to 1956 State prices declined by 26 per cent while prices on collective farm markets, after considerable fluctuations, were lower by 6 per cent.

The share of collective farm markets in total trade fell from 14 per cent in 1940 to 12 per cent in 1950, and 7 per cent in 1956; their share in total sales of food was 20 per cent in 1940, 18 per cent in 1950 and 12 per cent in 1956.

ent markets were not, however, in the long run of such a magnitude as to affect appreciably the changes in the aggregate price level. Thus, the combined index of consumer prices declined from 1947 to 1956 by 59 per cent and from 1950 to 1956 by 25 per cent.[12]

In Eastern Germany between 1950 and 1956, the official index of retail prices fell by 33 per cent and the index of cost of living by 38 per cent. Most of the decline took place between 1950 and 1954, while during the two subsequent years, the over-all reduction did not exceed 3 per cent. The actual decline from 1950 to 1956 was probably much smaller than indicated, as is implied by new, presumably revised, data on retail sales in current and constant prices.[13]

The causes of the considerable differences in direction and magnitude of price movements in individual countries will be analysed in the following section. At this stage it suffices to mention that this disparity of price movements reflected differences in changes in the rate of investment and unit wage costs which in turn were directly related to the availability of unused capacity at the beginning of the period, to the character of organization and planning, as well as to the abilities of governments to control the movement of wages and other income payments to the population. Both in Eastern Germany and in the Soviet Union an important role was played by the availability, at the beginning of the period, of unused or damaged capacity in industry as well as in agriculture, which could be put into operation without considerable outlays. In addition, in Eastern Germany an important factor enabling the Government to reduce prices was the elimination of reparation payments, which made it possible to increase the share of national product used for domestic consumption.

Despite considerable differences in the pattern of price changes over the period 1949-1956 as a whole, most of the centrally planned economies introduced substantial price reductions between 1953 and 1956. This fall in prices in conditions of rising levels of output and employment is in sharp contrast with price movements in industrial private enterprise economies, where there has been no important decline in price levels since the war. The main reason for this dissimilarity seems to be the difference in the way in which a rise in productivity is passed on to consumers in the two systems. While in the private enterprise economies an increase in productivity is generally reflected in higher money wages, in the centrally planned economies the general tendency has been to pass on the effects of rising productivity through price reductions rather than through increases in money wage rates.[14] It is significant that no such policy could be applied successfully in the presence of extreme strains imposed upon the economies by rising rates of investment and other government expenditure characteristic of the initial period of implementation of the plans for rapid economic growth. Thus the Soviet Union, which during the post-war years has achieved very considerable price reductions, went through a period of almost continuous inflation before the Second World War, not unlike that experienced by most of the centrally planned economies at the inception of their plans of development between 1949 and 1953. The pattern of price movements, if not their amplitude, was in many respects similar in both cases. In the Soviet Union after the First World War, as in the other countries after the Second World War, inflation inherited from the war was halted towards the end of reconstruction, but, after a period of price stabilization, strong inflationary pressures developed again under the impact of the first stages of fulfilment of the long-term plans of economic development. When the difficulties of the initial period of industrialization were over, prices began to decline. In the Soviet Union prices of consumer goods were rapidly increasing between 1928 and 1935, and the derationing, which took place during that year, was associated with the beginning of the period of declining prices, which lasted until 1938. This trend was interrupted by the internal changes related to the imminence of the Second World War, and, from 1938 on, the upward movement of consumer prices was resumed. The amplitude of price variations during that period cannot be traced on a year-to-year basis, owing to lack of data; but the magnitude of the rise in prices is roughly indicated by the following indices for isolated years, derived from official statistics:[15] 1928 = 100, 1932 = 250,[16] 1937 = 525, 1940 = 625.

CHANGES IN COMPONENTS OF THE COST OF LIVING

A comparison of price changes of individual items included in the general index, reproduced in table 37, shows significant disparities between the movements of

[12] Based on the following statement contained in the reply of the Government of the Soviet Union to the United Nations questionnaire of 29 October 1957 on inflation: "Taking into account the decline in prices of goods acquired by the population on the kolkhoz markets, the purchasing power of the rouble increased, by the end of 1956, 2.44 times as compared to 1947, and, compared to 1950, 1.33 times."

[13] *Neues Deutschland* of 13 February 1958 published in graphic form an index of retail sales in current and constant prices, which seems to indicate that retail prices fell by only 15 per cent between 1950 and 1956. Lack of information on the methods of computation and the coverage of these indices makes it difficult to derive a definite conclusion as to the actual rate of decline of consumer prices during the period.

[14] Similarly, increases in real personal income, made possible by a relative shift in allocation of resources from investment to consumption, have also been frequently brought about by price reductions rather than by increases in money wages.

[15] Obtained by dividing the value index of retail sales by the volume index. The value of retail sales in current prices is given in *Socialisticheskoe Stroitelstvo*, 1936, and *Narodnoe Khozyaistvo SSSR* (Moscow, 1956). The index of volume was published in *Voprosy Ekonomiki*, No. 10, 1957 (Moscow). While these data indicate the average changes in prices of rationed and non-rationed goods in State trade, they do not reflect price movements in the collective farm markets. The inclusion of farm market trade and prices in the index would probably accentuate the price increases between 1928 and 1932 and reduce their rate of increase during the subsequent period.

[16] Weighted average of "commercial" and ration prices.

food prices, of industrially produced consumer goods, and of services. In almost all countries the increases in food prices were much steeper and their reductions less pronounced than in those of manufactured goods, especially of clothing, which represents the second largest item in consumer purchases. This divergence is due to the much slower rise in the supply of food than of other consumer goods in relation to demand, and reflects the difficulties encountered in almost all countries in raising agricultural production. An exception to this pattern is to be found in Eastern Germany, where food prices declined much more than those of manufactured goods throughout the period. This was probably due both to the very high level of food prices in relation to manufactures in the beginning of the period, and to a considerable increase in imports of food. A rise in commercial exports of industrial goods, partly influenced by declining reparation payments, made it possible to increase imports and raise the supply of food in line with, or more than, that of industrial goods. Similarly, although for different reasons, in the Soviet Union prices of food also declined more than those of industrial goods between 1947 and 1953. During part of this period, from 1947 to 1950, the greater decline of food prices was due to a swift recovery of agricultural production. This recovery made it possible to lower the ratio of food prices to those of industrial consumer goods, which had been extremely high in 1947 owing to particularly depressed conditions in agriculture. However, from 1950 to 1953, the rise in agricultural output and in State procurement of food, especially of items for which demand was increasing rapidly, was rather limited, and the decline in food prices during that period does not seem to reflect adequately the change in supply-demand relations. This is partly indicated by the failure of free market prices to follow the lead of State and co-operative trade. From 1953 to 1956 food prices in State and co-operative trade declined, although not as much as prices of industrial goods, while food prices in collective farm markets rose in 1954 by 10 per cent above 1953 and returned only in 1956 to their 1953 level.

The prices of services in countries for which data are available have shown a great degree of rigidity in the periods of both mounting and falling prices. This resulted from the general policy of keeping rents and prices of several communal and cultural services at a very low level, frequently below cost. In Yugoslavia, however, where the system of centralized fixing of prices was abandoned after 1949 and individual enterprises were allowed to price their goods or services according to the market situation, prices of services, previously also at relatively low levels, increased after 1952 at a rate much steeper than that of the general cost of living.

PRICE CHANGES IN PRODUCER GOODS

It was pointed out earlier that whereas prices of consumer goods are as a rule demand-determined, those of producer goods are cost-determined. The consequence of this method of price determination is that a rise or decline in prices of consumer goods, induced by a change in the allocation of resources between end-uses, will not generally be associated with an increase or a decline in prices of producer goods. The disparity of price movements in these two sectors may be further accentuated by the frequent use of budgetary subsidies to keep prices of producer goods stable. The scarcity of data on prices of producer goods in the centrally planned economies makes it difficult to trace the movement of those prices over any length of time. However, scattered information and implicit indices, derived from data on output in constant and current prices, indicate that prices of producer goods generally lagged behind those of consumer goods; they increased much less during periods of rising consumer prices and either declined less or failed to show any drop during periods of falling consumer prices. In Poland the implied index of prices of investment goods shows an increase from 1949 to 1955 of about 21 per cent, and the implied index of prices of consumer goods, a rise of about 68 per cent. In Hungary the implied price index for investment indicates a rise between 1949 and 1954 of 8 per cent, and the implied price index for consumption, a rise of 83 per cent.[17]

Information on price movements of producer goods in the Soviet Union seems to indicate that although prices of both producer and consumer goods were reduced by approximately 40 per cent from 1949 to 1955, the timing of these changes was not uniform. Throughout the war and until 1947, average retail prices in State and co-operative trade had been increasing,[18] whereas producer goods prices had been kept at their 1941 level with the aid of heavy subsidies. Prices of consumer goods reached their peak in 1947 and began to decline but prices of producer goods were maintained in general at their former level up to January 1949 when they were increased by 56 per cent.[19] This move, associated with the abolition of most of the subsidies, was followed by successive reductions which brought the prices of producer goods down by 32 per cent below their 1949 level in January 1952 and by another 11 per cent in July 1955, the total decline between 1949 and 1955 amounting to 40 per cent.

In Eastern Germany the decline in prices of consumer goods was accompanied by very considerable increases in prices of producer goods. While aggregate indices of prices of producer goods are not available, their general trend is clearly indicated by data on prices of

[17] The indices were derived from data on accumulation and consumption in constant and in current prices as registered in national income statistics.

[18] As a result not only of increases in prices but also of a rise in the share of non-rationed to total sales. Ration prices remained unchanged throughout the war, but were increased in 1946.

[19] N. Kisman and I. Slavnyi, *Sovietskie Finansy* (Moscow, 1956).

several investment goods,[20] and by estimates based on comparison of indices of consumer prices with the general price index derived from data on national income in constant and in current prices. The rise of prices of producer goods was mainly due to the gradual elimination of subsidies, since unit wage costs during this period were declining.

PRICE VARIATIONS AND CHANGES IN SUPPLY-DEMAND POSITION

Since prices in State and co-operative trade are determined by the government, their movement does not necessarily reflect the changes in intensity of pressure of demand upon the available supply on a year-to-year basis. Upward adjustments of prices of consumer goods frequently lagged behind the rise in demand, while price reductions were often greater than justified by the rise in supply in relation to effective demand. In addition, changes in price levels were often the result of measures aimed at correcting maladjustments between supply and demand inherited from the past rather than those generated during the current year. Thus, price changes during a given year were influenced by measures such as the introduction or elimination of rationing, or as a monetary reform involving the cancellation of liquid assets accumulated during an earlier period. Price changes were also used occasionally as a means of arresting or of promoting a change in the distribution of income among various groups of the population.

[20] According to *Statistische Praxis*, No. 3, March 1957, the following price increases took place between 1950 and 1954: Siemens-Martin crude steel ingots, 40 per cent; pre-rolled ingots, 30 per cent; flat bars, 81 per cent; seamless pipes, 12 per cent; copper plate, 150 per cent; hot rolled steel plates, 19 per cent.

Table 38. Indices of Consumer Prices, Wage Bill and Retail Sales, Selected Countries
(Preceding year = 100)

Country and item	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Bulgaria							
State and co-operative trade, retail prices	126	112	103	93	89	94	93
Wage bill	111	122	123	115	114	108	106
Retail sales in constant prices	114	89	122	114	124	112	115
Retail sales in current prices	143	99	125	106	110	106	105
Ratio of wage bill to volume of retail sales[a]	98	137	101	101	92	95	92
Czechoslovakia							
State and co-operative trade, retail prices	...	...	...	...	94	97	98
Wage bill	123	118	111	112	111	105	107
Retail sales in constant prices	...	...	...	...	118	110	109
Retail sales in current prices	...	...	...	...	111	107	107
Ratio of wage bill to volume of retail sales[a]	...	...	...	...	94	95	98
Eastern Germany							
Retail prices of goods	...	88	89	93	92	97	100
Wage bill	...	114	111	111	114	103	103
Retail sales in constant prices	...	141	131	117	118	110	104
Retail sales in current prices	134	124	117	109	109	106	104
Ratio of wage bill to volume of retail sales[a]	...	81	85	95	97	94	99
Hungary							
State and co-operative trade, retail prices	106	121	140	103	96	100	99
Wage bill	132	123	144	116	112	104	109
Retail sales in constant prices	109	100	90	111	120	105	111
Retail sales in current prices	(115)	(121)	(126)	114	115	105	110
Ratio of wage bill to volume of retail sales[a]	121	123	160	104	94	98	98
Poland							
Retail prices of goods	108	110	116	143	93	97	99
Wage bill	144	120	115	151	110	108	116
Retail sales in constant prices	109	106	104	97	119	111	115
Retail sales in current prices	118	117	120	138	111	107	115
Ratio of wage bill to volume of retail sales[a]	132	114	111	156	93	98	100

Source: Annual price changes based on table 37 except as indicated. Other data as follows: Bulgaria: *Statisticheski Godishnik na Narodna Republika Bulgaria*, 1956, and *Statisticheski Izvestia*, No. 1, 1958.

Czechoslovakia: *Statisticka Rocenka Republiky Ceskoslovenske*, 1957 and *Statisticke Zpravy*, No. 3, 1957. Eastern Germany: *Statistisches Jahrbuch der Deutschen Demokratischen Republik*, 1956. Retail sales in constant prices obtained by deflating the current price data by the retail sales price index of goods. Hungary: *Statisztikai Evkonyv*, 1949–1955, *Statisztikai Havi Kozlemenyek*, No. 7, 1957 (Budapest); United Nations, *World Economic Survey, 1955* (sales number: 1956.II.C.1). Retail sales in current prices for 1949–1951 estimated by converting data in constant prices by use of the cost of living index. For 1956, retail sales in constant prices obtained by deflating data in current prices by the cost of living index. Retail price index from table 37, extrapolated by the cost of living index. Poland: *Rocznik Statystyczny*, 1957. Retail trade in current prices obtained by converting data in 1956 prices by the index of prices of goods.

[a] Indices of wage bill divided by indices of retail sales in constant prices.

Thus, in some instances wages and prices were raised simultaneously with the aim of reducing the real income of non-wage earners, particularly of peasants, and also the real value of accumulated saving.

The influence of these factors makes it difficult to assess to what extent price changes reflected variations in the demand-supply position on a year-to-year basis. Despite this, some insight may be gained by comparing changes in the wage bill with those in the volume and value of retail trade. Changes in the wage bill do not reflect adequately the variations in aggregate demand for consumer goods and services, but nonetheless they give a rough indication of their direction and magnitude.[21]

Since the wage bill is the major element in variations of effective demand, a rise in the ratio of the wage bill to the volume of retail trade indicates an increase, and conversely a decline in the ratio suggests a decrease, in the pressure of demand upon supply. On the other hand, if the change in this ratio is compared with the change in prices it will indicate whether retail prices of consumer goods were set at a level corresponding to the new supply-demand position.

The indices of annual changes in the wage bill and the volume and value of retail trade, reproduced in table 38, indicate that very frequently in periods both of rising and of declining prices, changes in prices of consumer goods did not adequately reflect current changes in demand-supply relations. In Bulgaria, in 1950, the ratio of the wage bill to the supply of consumer goods declined but prices were raised, probably with the intention of eliminating the pressures of demand generated earlier. In contrast, in 1951 and 1953 prices increased less than the rise in the ratio of the wage bill to the supply of consumer goods, and in 1954 price reductions were greater than the decline in this ratio, thus indicating a widening discrepancy between the demand and supply at given prices. In Eastern Germany, price reductions were in general kept in line with the change in the ratio of wage bill to supplies, but in 1953 and 1954 the pressure of demand seems to have increased as a result of a more than warranted reduction in prices. The fact that both in Eastern Germany and Bulgaria, as well as in several other countries, the gap between supply and demand appears to have been widened in 1954 seems to reflect the non-anticipated wage increases which were granted during this period as a result of over-all changes in economic policy. In Hungary and Poland the annual increases in the wage bill between 1949 and 1953 continuously exceeded the increases in the volume and in the value of retail trade, thus indicating that the price level was consistently below the level required to equate demand and supply. From 1953 to 1956 the changes in prices both in these countries and in Czechoslovakia were more synchronized with changes in the ratio of the wage bill to that of the volume of retail trade.

It has already been mentioned that conclusions derived from a comparison of indices of the wage bill with those of the volume and value of retail sales must be treated with caution, largely because they do not reflect changes in peasants' income, transfer payments and taxes. Since 1952, demand seems, in fact, to have increased more than is indicated by the rise in the wage bill. In connexion with measures designed to expand agricultural output, such as the increase in prices paid to the peasants and a reduction in delivery quotas and in income tax, peasants' income rose considerably. In addition, various transfer payments to the population were increased, and subscriptions to loans were reduced. It is, therefore, possible that the combined effect of these measures was to increase the disposable income more than is indicated by the rise in the wage bill. As a result, pressure of demand evidently continued to persist in several countries notwithstanding the declines in price indices of consumer goods. In most cases these pressures were concentrated on specific items of crucial importance, such as meat, fats and some industrial consumer goods. Among the countries already mentioned, the shortages were noted mostly in Poland and to a lesser extent in Eastern Germany, the only country of the group which was not yet able to abolish rationing of several items. In Yugoslavia, where price fixing was abandoned by the Government, the problem of discrepancy between the price levels and the demand and supply position ceased to exist.

Lack of data on the wage bill in the Soviet Union makes it impossible to apply to this country even the very approximate gauge of changes in the demand-supply position used for other centrally planned economies. However, it is evident from official statements that, as in many other centrally planned economies, price reductions in the Soviet Union were often greater than justified by the change in the supply-demand ratio and frequently resulted in an imbalance between demand and supply. According to a recent official statement:[22] "a serious gap between the available quantity of goods and the monetary incomes of the population brings about a disproportion in circulation and adversely affects the Soviet trade. We now have every possibility of eliminating this disproportion. Proper planning enables us to prevent such cases of disproportion in circulation in the future and to eliminate the queues and irregularities in supply, which exist in some places, in the initial years of the new five-year plan". Although the good harvest of 1956 resulted in a narrowing of the gap between State-fixed and farm market prices of certain food items, shortages of other food items, particularly livestock products, persisted;

[21] The wage bill represents the major share of the money income of the population, the other two important items being transfer payments and the money income of peasants.

[22] By the Minister of Trade, Mr. Mikoyan, *Pravda*, 18 February 1956.

similarly shortages of certain manufactures, the farm demand for which had greatly increased, also remained.[23]

As mentioned previously, the movements of consumer prices during the period of inflationary pressures were frequently influenced by the introduction or abolition of rationing, by monetary reforms aimed at the elimination of pent-up demand through partial cancellation of accumulated savings, and by wage-price reforms intended to reduce the real value of cash holdings and to bring about changes in the distribution of income between the State and the population or between different groups of the population.

Since both the timing and the content of such policy decisions varied from country to country, comparison of price indices on a year-to-year or a country-to-country basis does not always yield conclusive information about the relative changes in the pressure of demand upon supply. Between 1949 and 1954 all countries abolished rationing, except the Soviet Union, which had already done so, and most of them resorted to monetary reforms which cancelled a considerable proportion of liquid savings.[24]

Derationing was usually associated with an increase in prices of goods that had been rationed and with a reduction in prices of similar goods that had formerly been sold at much higher prices without rations. The effect of such changes on purchasing power of former ration holders was usually compensated by wage increases. Their effect on peasants and other non-wage earners depended on the direction and the rate of change of prices of goods that had not been rationed. Under these conditions, the new average price levels set after derationing were the object of policy decisions, based, among other factors, on the desired changes in the distribution of income and on the ways and means of dealing with problems of pent-up demand. In most of the countries, pent-up demand was eliminated by monetary reforms which cancelled a large proportion of involuntary savings accumulated during the period of strong inflationary pressures. However, there was no monetary reform during that period in Hungary, and the Polish reform of 1950 was already too remote to have any effect on the situation which subsequently developed. These differences in policy were to a large extent responsible for the much greater price increases in Hungary and in Poland than in other countries of the group.

In Poland the abolition of rationing in 1953 was not accompanied by a monetary reform. Instead, the Government decided to raise prices by about 40 per cent and wages by 15 to 40 per cent for various groups of wage and salary earners. In fact, both prices and wages rose during the year by about 40 per cent. The aim of these changes was to reduce the real value of liquid savings and, by raising prices of industrial goods sold to the peasants, to reduce the real farm income per unit of output and to bring to an end the relative shift in distribution of income in favour of peasants. Obviously this rise in prices was not entirely due to the current deterioration in the demand-supply position in 1953.

Similarly, the 40 per cent rise in prices, which took place in Hungary in 1952, cannot be entirely attributed —although much more so than in Poland—to the changes in the supply-demand situation during that year. Since the abolition of rationing at the end of 1951 was not accompanied by elimination of pent-up demand, the average level of prices had to be raised much more than in countries such as Bulgaria and Czechoslovakia which had introduced a monetary reform. This initial rise in prices, however, was followed during the second half of the year by further increases, owing to a sharp deterioration in the situation caused by a disastrous harvest.

Finally, the doubling of consumer prices in Yugoslavia, in 1951, was only partly due to the sharp decline in food supply caused by the 1950 drought. To a large extent it was also the result of derationing associated with compensatory wage increases and of the abolition of compulsory deliveries. In order to recover the losses caused by the rise in average prices paid to the peasants, the Government substantially increased the farm tax and sharply increased prices of industrial goods sold to the peasants.

Causes of Price Developments, 1949-1956

The changes in the relation between supply and demand for consumer goods, underlying the considerable movement of prices in the centrally planned economies between 1949 and 1956, were determined both by changes in the proportion of national income going to consumption and by changes in current wage cost. Such

[23] According to *Komunist*, No. 11, 1957 (Moscow): "In connexion with the lag in the rise in output of several goods behind the rise in the income of the population, the demand of the population for a series of foods, (meat, fats, sugar and others), and some important industrial goods was not completely satisfied. The good 1956 harvest considerably increased the supply of all agricultural goods and the level of consumption increased over 1955. At the same time, the important measures introduced by the party and the Government (such as increase in pensions, increase in wages of the lower paid groups of workers and employees, and elimination of payments for education) increased considerably the purchasing power of the population for consumer goods. The demand was not entirely satisfied in 1956 also."

[24] Bulgaria and Hungary derationed partially at the end of 1951 and eliminated rationing entirely in 1952. Poland and Czechoslovakia derationed in 1953, and Romania in 1954. In Eastern Germany rationing was eliminated gradually, but even in 1956 several items were still rationed.

Monetary reforms involving cancellation of liquid assets were introduced in Poland in 1950, in Bulgaria and Romania in 1952, and in Czechoslovakia in 1953.

changes in cost, whether incurred in the investment or consumer sector, influenced prices of consumer goods primarily through their effect on the income of the population and thus on demand for consumer goods. The effect of relative shifts in the allocation of national product, as between consumption and other uses, upon the pressure of demand against supply of consumer goods, was at times offset and at times reinforced by changes in money payments in relation to output. A decline in unit wage cost, owing to an increase in output per man in excess of a rise in wage rates, acted as a factor restricting the growth of demand for consumer goods in relation to supply, and an increase in unit wage cost had an opposite effect. While the movement of prices between 1949 and 1956 was influenced both by shifts in allocation of resources and by changes in cost, there is little doubt that, in most instances, the paramount cause of price movements was the change in relative share of national product allocated to consumption.

Comparison of the data on relative changes in investment, retail sales, consumption and national income, in constant prices, reproduced in table 39, with price indices shown in table 37, indicates a high degree of synchronization between the price movement and the shifts in allocation of resources in most countries of the group.

In Bulgaria, Czechoslovakia, Hungary, Poland and Romania, the period of rising prices was generally one of substantial increases in investment, armaments and other government expenditure in relation to national product, and the period of decline in prices was generally characterized by a fall in the share of such expenditure. In Czechoslovakia, Hungary, and Poland, the sharp increases in government expenditure in relation to national income were partly due to revisions of the original plans under the impact of rising international tensions associated with the outbreak of the Korean hostilities. All revisions of plans provided for accelerated output of investment goods in relation to total production.[25] Between 1949 and 1953 investment increased in Hungary three times, and in Poland more than twice; during the same period, retail sales increased only 16 per cent in Poland and even declined in Hungary. In Czechoslovakia, investment rose 74 per cent, but retail trade only 16 per cent. In Bulgaria, investment also rose more than retail sales, especially in 1951, when retail sales fell; and in Romania, for which no data are available for the period prior to 1950, investment rose considerably more than retail sales in 1951 and 1952.[26] The resulting decline in the share of consumption in national income is clearly indicated by the data on allocation of national income reproduced in table 40, for countries for which such data are available. Thus, in Hungary the share of consumption in national product, in constant prices, declined from 66 per cent in 1949 to 46 per cent in 1953, and in Poland from 79 per cent to 67 per cent.

Cost increases, on the other hand, played only a secondary role in the price movements of these countries. A comparison of changes in output per man and in average money wages indicates that in several cases output per man was increasing at a higher rate than average money wages. In Czechoslovakia, output per man increased more than average money wages in each year between 1949 and 1953. In Bulgaria, during three years out of five, output per man exceeded the rise in average money wages, though the change in 1953 as compared with 1949 was the same for both indices. In Poland and Hungary, on the other hand, average money wages did increase much more than output per man over the period as a whole, largely as a result of price-wage reforms associated with derationing; even so, however, output per man rose more than average money wages during two years out of four for which data are available. Thus, it seems likely that, for the period as a whole, rising wage cost was not a significant factor in the price increases, although during certain years it undoubtedly contributed to the increased pressure of demand upon supply.

The policy of sharp increases in investment in relation to national income was reversed in all countries of this group around 1953, the year which marked a turning point in price movements. The period between 1953 and 1956 was characterized by a continuous increase in consumption in relation to national income (see table 40). In Bulgaria the share of consumption rose from 66 per cent in 1953 to 79 per cent in 1956. In Hungary, during the same period, consumption more than made good the previous relative decline, rising from 46 to 76 per cent, and in Poland it recovered much of the earlier loss, rising from 67 to 74 per cent.[27]

In Czechoslovakia and Romania, for which no data on the percentage allocation of national income were published, an increase in the share of consumption in national income is clearly indicated by a comparison of the indices of consumption or retail sales and national income. Thus, in Czechoslovakia, personal consumption rose between 1953 and 1956 by 37 per cent, while national income increased by only 19 per cent. Fixed investment, which in 1954 declined and in 1955 increased less than national income, rose more than national income in 1956. The rise in fixed investment was evidently offset by a decline in stock formation or in

[25] Although for the period as a whole, the degree of fulfilment of the plans was greater for consumer than for producer goods, this was mainly due to changes in annual plans after 1953; up to that year the more ambitious investment targets were generally reached.

[26] The rise in total retail sales was probably smaller than indicated by the data in table 39, which, since they relate only to State trade, may reflect in part a shift from private to State trade during this period.

[27] In Hungary, the share of consumption in national product in 1954 amounted to 58 per cent; the considerable increase in that share in 1956 reflected in part a decline of 10 per cent that year in the national product.

Table 39. Indices of National Income, Fixed Investment, Retail Sales[a] and Consumption, by Country
(In constant prices; 1953 = 100)

Country and item	1949	1950	1951	1952	1954	1955	1956
Bulgaria							
National income	58	65	83	83	98	108	113
Total investment	64	65	77	91	108	115	114
State investment	67	67	82	91	114	119	122
Retail sales	71	81	72	88	124	139	160
Personal consumption	...	...	...	84	109	125	135
China, mainland[b]							
National income	...	...	...	85	109	115	121
Total investment	...	...	...	57	115	132	215
Retail sales	...	43	...	75	113	116	138
Czechoslovakia							
National income	72	79	86	95	104	113	119
Total investment	58	69	84	98	98	106	129
State investment	59	72	86	101	98	101	113
Retail sales	86	...	...	...	118	130	142
Personal consumption	...	...	...	...	116	128	137
Eastern Germany[c]							
National income	...	69	83	94	106	111	114
Total investment	...	47	61	80	91	101	133
State investment	...	41	59	81	94	98	131
Retail sales	...	63	78	91	109	115	119
Personal consumption	...	68	81	92	110	115	118
Hungary							
National income	64	77	90	88	96	104	93
State investment	33	61	89	101	69	65	58
Retail sales	92	100	100	90	120	126	141
Personal consumption	91	97	101	97	120	129	140
Poland							
National income	69	79	85	91	111	120	130
Total investment	47	66	74	87	107	111	115
Investment, socialist sector	...	61	73	86	105	107	109
Retail sales	86	94	100	103	119	132	152
Personal consumption	80	87	93	97	118	128	142
Romania							
National income	63	66	83	90	105	125	130
Investment, socialist sector	...	42	59	79	88	98	110
Retail sales[d]	...	63	79	79	114	125	141
USSR							
National income	61	73	82	91	112	125	141
Investment, socialist sector	62	75	85	95	118	134	155
State investment	64	76	86	96	118	129	151
Retail sales	49	65	75	82	118	124	134

Source: Bulgaria: *Statisticki Godishnik, 1956*, and reply of the Government of Bulgaria to the United Nations questionnaire of November 1957 on economic trends, problems and policies; China, mainland: *Razvitie Narodnogo Khozyaistva Kitaiskoi Narodnoi Respubliki* (Moscow, 1956); *Voprosy Ekonomiki*, No. 7, 1957 (Moscow); *People's Daily* (Peking). Czechoslovakia: *Statisticka Rocenka, 1957; Rude Pravo* (Prague), 31 October 1957; United Nations, *World Economic Survey, 1956* (sales number: 1957.II.C.1). Eastern Germany: *Statistisches Jahrbuch*, 1955 and 1956; *Statistische Praxis*, Nos. 3 and 5, 1957 (Berlin); United Nations, *Economic Survey of Europe in 1955* (sales number: 1956.II.E.2). Hungary: *Statisztikai Evkonyv*, 1949–1955; *Statisztikai Havi Kozlemenyek*, No. 7, 1957; United Nations, *World Economic Survey, 1956* and data communicated to the Secretariat of the United Nations. Investment in constant prices, 1949–1955, obtained by deflating reported investment valued in current prices by the implied price index for net investment. The 1956 figure is based on the percentage change in constant prices. Poland: *Rocznik Statystyczny*, 1956 and 1957; 1949 investment extrapolated by data in 1950 prices. Romania: *Anuarul Statistic, Al RPR*, 1957 (Bucharest); speech by Georghin Dej, 29 December 1955; United Nations, *World Economic Survey, 1955* and *World Economic Survey, 1956*. Soviet Union: *Narodnoe Khozyaistvo SSSR v 1956 Godu* (Moscow, 1957); *Vestnik Statistiki*, No. 1, 1950 (Moscow); *Pravda* (Moscow), 18 January 1950 and 29 January 1952; *Bolshevik* (Moscow), November 1951. Retail sales in constant prices for 1949 obtained by deflating values in current prices.

[a] Excluding farm market sales.

[b] In current prices.

[c] In current prices. Indices of national income in constant prices derived from data recorded in *Statistisches Jahrbuch, 1955*, and indices of personal consumption, obtained by converting the data on current prices reproduced in the table by the index of cost of living, are as follows:

	1950	1951	1952	1953	1954	1955
National income	73.8	87.8	95.7	100.0	111.7	120.2
Personal consumption	50.2	67.4	85.8	100.0	117.1	129.4

The above indices were not reproduced in the table because of an obvious inconsistency. They suggest an increase of 260 per cent in real personal consumption and a rise of 160 per cent in real national income between 1950 and 1955. On this basis personal consumption, which in 1950 accounted for 69 per cent of national income, would in 1955 exceed considerably the total national income. The probable reason for this discrepancy is the inadequacy of the official price indices, which seem to overstate the actual decline in consumer prices.

[d] Excluding private non-farm market.

Table 40. Percentage Distribution of National Income by Type of Expenditure,[a] Selected Countries[b]

(Based on constant prices except as indicated)

Country and type of expenditure	*1949*	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Bulgaria								
Accumulation	...	...	...	26.7	28.0	18.9	16.5	14.0
Social consumption	...	...	...	6.7	6.2	6.6	6.9	7.1
Personal consumption	...	...	...	66.6	65.8	74.5	76.6	78.9
China, mainland[c]								
Accumulation	...	...	...	15.7	18.3	21.6	20.5	22.8
Eastern Germany[c]								
Accumulation	...	14.7	14.6	14.7	13.9	14.8	14.8	16.1
Social consumption	...	16.6	18.1	17.5	16.8	14.2	13.5	12.5
Personal consumption	...	68.7	67.3	67.8	69.3	71.0	71.7	71.4
Hungary								
Accumulation	21.0	26.8	34.0	28.4	31.4	24.9	27.1	6.1
Social consumption	13.0	15.1	14.3	20.9	22.4	17.3	16.4	18.2
Personal consumption	66.0	58.1	51.7	50.7	46.2	57.8	56.5	75.7
Poland								
Accumulation	15.4	20.5	20.1	22.6	27.7	23.0	22.2	20.0
Social consumption	6.0	5.6	6.1	5.5	4.8	5.3	5.7	6.3
Personal consumption	78.5	73.9	73.8	71.9	67.4	71.6	72.1	73.7
Yugoslavia[c]								
Accumulation	...	...	...	22.5	24.6	24.6	21.1	17.3
Social consumption	...	...	...	16.3	16.9	18.6	20.8	23.4
Personal consumption	...	...	...	61.2	58.5	56.8	58.1	59.3

Source: Bulgaria: *Statisticki Godishnik, 1957;* based on 1952 prices. China, mainland: *People's Daily*. Eastern Germany: *Statistisches Jahrbuch*, 1955; *Statistische Praxis*, Nos. 3 and 5, 1957. Hungary: *Statisztikai Evkonyv*, 1949–1955, and data reported by the Hungarian Government to the Secretariat of the United Nations; 1949–1954 derived from absolute values given in 1949 prices. 1955, 1956, estimated by extrapolating the above values by the reported percentage increase of each component in 1954 prices; export-import balance added to social consumption. Poland: *Rocznik Statystyczny*, 1957, derived from absolute figures given for 1955 and 1956 and indices 1949–1955; export-import balance and losses added to social consumption. Yugoslavia: *Statisticki Godisnjak*, 1956; United Nations, *World Economic Survey, 1956*; export-import balance and statistical discrepancy added to social consumption.

[a] As the percentage share of a given type of expenditure in the total depends in part on relative prices used in the valuation of a given expenditure, data in this table may be viewed only as indicative of changes over time, to be used with caution in any inter-country comparisons. Since in Bulgaria, Hungary and Poland the ratio of consumer goods prices to producer goods prices was highest in the middle of the period, and by the end of the period it had presumably not yet declined to the 1949 level, the share of personal consumption in total income would be highest when based on prices of the mid-period and lowest when based on prices at the beginning. The effect of a change in the base year of valuation can be illustrated by Polish data. Expressed in 1950 prices, the share of personal consumption in the total declined from 69.1 per cent in 1949 to 55.4 per cent in 1953 and increased to 62.8 per cent by 1956. The comparable movement, based on 1956 prices, was 78.5, 67.4 and 73.7 per cent, respectively.

The relative movements of prices of consumer and producer goods should also be borne in mind when considering the data for mainland China and Eastern Germany, based on current prices. Since in mainland China prices of producer goods declined at a time when prices of consumer goods increased, the increased share of accumulation would have been higher than indicated in the table if expressed in constant prices. The opposite is true for Eastern Germany, where producer goods prices increased and consumer goods prices declined. Here the increase in the share of personal consumption would be quite substantial if the data were expressed in constant prices.

[b] The system of national accounting adopted in the centrally planned economies distinguishes three major types of expenditure on national product: personal consumption, social consumption and accumulation. This classification corresponds approximately to that of personal consumption, government expenditure and net capital formation used in the national accounting of other countries. There are, however, some major differences, the nature of which should be borne in mind when considering the figures given in the table. The most important is the exclusion of services from the total national product and consequently from consumption also. Thus, personal consumption represents goods acquired by individuals and, in some countries, subsistence of armed forces and of persons in hospitals, rest homes and other State institutions. Social consumption is composed of consumption of goods by the government and by establishments providing services to individuals. Government expenditure on military equipment and installations may be allocated partly to social consumption and partly to accumulation. It is also probable that in some countries social consumption contains an adjustment for the foreign trade balance, which in others is listed separately. In order to render the data comparable in this respect, net foreign balance was included in social consumption in all cases when it was given separately.

[c] In current prices.

social consumption, so that the share of expenditure not devoted to consumption declined, as shown by the indices of personal consumption and national income.

In Romania, between 1953 and 1956, national income rose by 30 per cent, retail sales by 40 per cent, and State fixed investment by 10 per cent. While the data on State investment and on retail trade do not reflect adequately the changes in personal consumption and in total investment, the fact that retail sales increased four times as much as investment clearly indicates a shift towards consumption, although it yields little information about the magnitude of that shift. In contrast to the situation in other countries, this shift was not continuous, the lack of continuity reflecting fluctuations both in investment and in agricultural production. Thus, in 1954 the share of consumption in national product

seems to have increased substantially as a result of a fall in fixed investment and of liquidation of agricultural stocks; in 1955, fixed investment and agricultural inventories rose more than consumption; and in 1956 a further rise in fixed investment in relation to national product was probably offset by a fall in agricultural stocks.[28]

The effect of the rise in the share of consumption in national product on the supply-demand position was in some countries partly offset during this period by an increase in unit wage cost and the resulting rise in money income in relation to output. Between 1953 and 1956, output per man rose more than money wages only in one country of this group, namely Czechoslovakia. In the other countries money wages increased at a higher rate than productivity, except for Bulgaria, where the over-all increase of both indices was identical (table 41).

It is significant that in all countries money wages increased much more than output only in 1954, the year immediately following the changes in economic policies introduced in 1953, while in 1955 and in 1956 either output per man rose more than money wages or only slightly less. In Poland and Hungary, however, money wages increased much more than output per man in 1956 under the impact of political upheavals which took place during that year in both countries. In Poland this was due mostly to a rise in wages while in Hungary output per man also fell sharply as a result of disruption of work during the October fighting.

Other measures taken after 1953 in all countries of this group also led to an increase in income payments in relation to output. In particular, peasants' income was raised both through reductions in compulsory deliveries, which increased the share of their output sold at higher market prices, and through increases in official prices paid for goods under delivery quotas.

The rise in money payments in relation to output did not result in any rise in the pressure of demand upon supply as long as it was associated with a relative shift in the allocation of resources in favour of consumption, and it was possible instead to reduce prices. It is significant, however, that the initial sharp increases in consumption in relation to national income, which occurred in 1954, were in general followed by much smaller shifts in subsequent years. Since money payments in relation to output continued to increase, the downward movement of prices slowed considerably. In two countries of the group, the rise in money income in relation to output was of such magnitude that an upsurge of inflation could be avoided only by a reduction of planned investment. In Hungary, in 1956, the rise in income payments was associated with an absolute decline in national product; and, while output of consumer goods fell less than investment, inflation could be avoided only by reduction of stocks. In Poland, income of the population increased much more than output in 1956, owing to a rise both in wages and peasants' income in relation to production; but the resulting gap between demand and supply at given prices was considerably narrowed by a downward revision of plans for fixed investment and stock formation. Even after these revisions, retail sales rose by 15 per cent while money income of the population increased by 17 per cent, according to an official estimate. However, during this year, a substantial rise in peasants' savings, mostly under the impact of the new policies, had a restraining influence on the pressure of demand upon supply.[29]

[28] In countries where the share of agriculture in national product is large, a decline in agricultural output during a given year will affect national product considerably but may have little effect on consumption, since the latter depends largely on agricultural supplies produced during the preceding calendar year.

[29] The rise in peasants' savings was mainly due to a growing belief that the expansion of agricultural output would not result in higher delivery quotas or taxes, and that the policy of collectivization had been abandoned at least for the near future. This, together with the expectation of a future increase in the supply of farm equipment and of fertilizer, induced peasants to restrict their consumption with the view of raising their investment in the future.

Table 41. Indices of Gross Output per Man, and Real and Money Earnings per Worker, in Industry, by Country

(1953 = 100)

Country and item	*1949*	*1950*	*1951*	*1952*	*1954*	*1955*	*1956*
Bulgaria							
Output per man	71	75	85	93	101	106	114
Earnings per worker:							
Money	68	76	83	94	106	111	114
Real	91	81	79	88	120	133	147
Ratio of real earnings to gross output[a]	128	108	93	94	118	126	129
China, mainland[b]							
Output per man	...	...	...	90	114	125	151
Earnings per worker:							
Money	...	...	...	91	102	106	121
Real	...	...	...	94	102	105	118
Ratio of real earnings to gross output[a]	...	...	...	105	89	84	78

Table 41. Indices of Gross Output per Man, and Real and Money Earnings per Worker, in Industry, by Country (*continued*)

(1953 = 100)

Country and item	*1949*	*1950*	*1951*	*1952*	*1954*	*1955*	*1956*
Czechoslovakia							
Output per man	65	73	80	92	102	110	118
Earnings per worker:							
Money	69	77	83	92	109	110	113
Real[c]	...	101	90	100	124	128	135
Ratio of real earnings to gross output[a]	...	138	112	109	122	116	114
Eastern Germany[d]							
Output per man	...	77	85	92	105	113	125
Earnings per worker:							
Money	...	78	86	92	110	114	118
Real[c]	...	54	75	87	119	126	130
Ratio of real earnings to gross output[a]	...	70	89	95	113	111	104
Hungary[f]							
Output per man	68	80	91	99	99	105	95
Earnings per worker:							
Money	59	70	75	96	111	116	122
Real	110	122	107	95	116	122	131
Ratio of real earnings to gross output[a]	163	151	118	96	117	116	139
Poland[d]							
Output per man	65	70	80	91	107	114	119
Earnings per worker:							
Money[g]	48	59	65	71	106	110	122
Real[g]	92	104	105	101	113	121	135
Ratio of real earnings to gross output[a]	143	148	132	112	106	106	113
Romania							
Output per man	...	75	86	96	103	112	122
Earnings per worker:							
Money[g]	...	...	...	92	111	120	131
USSR							
Output per man	71	80	88	94	106	115	123
Earnings per worker:							
Money[g]	...	99	100	100	101	104	107
Real[g]	67	78	85	91	105	108	112
Ratio of real earnings to gross output[a]	94	98	97	97	99	94	91
Yugoslavia							
Output per man	...	...	...	94	100	103	106
Earnings per worker:							
Money[g]	...	...	114	99	107	111	121
Real[g]	...	...	97	103	109	100	103
Ratio of real earnings to gross output[a]	...	...	...	109	109	97	97

Source: Bulgaria: *Statisticki Godishnik, 1956*. China, mainland: *People's Daily*. Czechoslovakia: *Statisticka Rocenka Republiky Ceskoslovenske, 1957*. Eastern Germany: *Statistisches Jahrbuch*, 1955 and 1956. Hungary: *Statisztikai Evkonyv, 1949–1955*, and *Statisztikai Havi Kozlemenyek*, No. 7, 1957. Poland: *Rocznik Statystyczny*, 1957. Romania: *Anuarul Statistic RPR*, 1957; *Probleme Economice*, May 1957 (Bucharest) and table 42. Soviet Union: *Narodnoe Khozyaistvo SSSR v 1956 Godu* and reports on fulfilment of plans. Yugoslavia: *Statisticki Godisnjak*, 1955 and 1957 and *Index 1957*, No. 1. It was assumed that the increase in money wages for the whole economy in 1956 was equal to the increase in wages of industrial workers.

Real wages for Czechoslovakia, Eastern Germany, Hungary and Yugoslavia were obtained by deflating money wages by the cost of living index; for Hungary, a cost of living index for wage earners was used which differs somewhat from that given in table 37. Real wages for Bulgaria, Poland and Mainland China were obtained by deflating money wages by the retail price indices shown in the same table. The index of money wages for the Soviet Union was derived by multiplying the index of real wages by an estimated retail price index including free farm market prices. The retail price index was derived from data on State and collective farm market prices weighted by the 1940 shares of these two markets in total trade. Since the retail price index may not reflect adequately changes in cost of living, the index of money wages indicated in the table may involve certain errors.

[a] Real earnings per man divided by output per man.

[b] Excluding small-scale and private industry.

[c] Since the index of cost of living used to deflate money wages for 1950–1952 relates to the price levels of December each year and the data on money wages are annual averages, it is possible that real wages declined less in 1951 and 1952 than was shown by the index.

[d] Including salary earners.

[e] As indicated in footnote c to table 37, it is not certain whether price indices reproduced in that table were revised after the publication of the *Statistisches Jahrbuch*. It is, therefore, possible that the increases in real wages obtained by use of these indices overstate the actual rise in real wages.

[f] Industry under the jurisdiction of central ministries only.

[g] Average in national economy.

For mainland China and Yugoslavia, the two countries where prices of consumer goods continued to increase throughout the period under review, data on changes in the allocation of national product are available only for 1952 to 1956, and only in current prices. In Yugoslavia, prices of consumer goods between 1952 and 1956 increased only slightly more than prices of producer goods, so that the changes in the ratio of consumption to national product in current prices may be assumed to correspond approximately to the change in the allocation of national product in physical terms. Between 1949 and 1951, strong inflationary pressures were generated by a high rate of investment and by a rising share of national income devoted to military use. In 1952, for the first time, the pressures were alleviated, mostly as a result of a considerable import surplus financed by foreign lending and of the recovery of agricultural output during the 1951 harvest.

During the following two years the share of consumption in national income was again reduced: in 1953, mainly under the impact of the poor harvest of 1952 and a further rapid rise of accumulation and social consumption; and in 1954 because of a considerable rise in social consumption. Beginning with 1954, the share of accumulation declined; the effect of this decline was partly offset, however, by an increase in social consumption, so that the share of consumption in national product remained practically unchanged. Owing to a substantial rise in incomes in relation to output, however, consumer prices, which declined in 1954, increased again sharply in 1955, and again, though to a much lesser degree, in 1956. The rise in cost of living during the last two years was mainly due to increases in prices of food and services, while prices of industrially-produced consumer goods increased much less and, in the case of clothing, remained in 1956 below their 1953 level. The rise in food prices reflected mainly stagnation of agricultural production, while the rise in prices of services was the result of increasing cost.

Mainland China was the only country in the group where the share of consumption continued to decline between 1953 and 1956. This difference in pattern of changes reflects partly the fact that, unlike other countries of the group, mainland China was in its first stages of industrialization during this period. While no data are available for the period prior to 1952, it is known that the hyper-inflation, inherited from the civil war, was arrested in 1950, and was followed by a short period of declining prices. In 1951, however, the share of consumption fell sharply in connexion with the acceleration of industrialization and the rise in armaments associated with the hostilities in Korea. This trend continued almost without interruption during the following years. While the data on changes in the rate of accumulation in national income reproduced in the table are based on national income statistics in current prices, they seem to reflect adequately the actual changes in the allocation of national product, since prices of investment and consumer goods moved approximately in parallel during the period to which they refer.[30] Comparison of these data with indices of national income, investment and retail trade, reproduced in table 39, indicates that the major factor in the inflationary pressures between 1952 and 1956 was the continuous rise in fixed investment, which, in 1953 and again in 1956, exceeded several times the rate of increase of national income. However, the inflationary effect of these increases was considerably reduced by countervailing or much smaller changes in the formation of stocks. Thus, a rough estimate of changes in accumulation, derived from the data related to the share of accumulation and to the changes in national product, indicates that accumulation rose by about 38 per cent in 1953, 27 per cent in 1954, and 17 per cent in 1956. In 1955, it did not increase at all. The data on retail sales in mainland China are much less representative of changes in consumption than those in other centrally planned economies, because the peasants' consumption out of their own output in relation to the total is much larger than elsewhere and because the rise in indices of retail sales is much more influenced by increases in the share of retail trade in total consumption. Thus, the estimate derived from the data on changes in national income and the share of accumulation indicate that consumption increased much less than retail sales during each year, except in 1955, when it seems to have increased at a rate twice as high as retail sales. While sufficient information is not available, it is probable that an important part in these changes was played by the fluctuations of agricultural output and the ensuing accumulation or decumulation of agricultural stocks. This was certainly the case in 1956, when grain stocks, out of the current harvest, declined from 12.6 million tons in 1955 to barely over 5 million in 1956.

The effect of this rise in accumulation in relation to national income, on the supply-demand position, was largely offset by severe restrictions imposed upon the growth of the money income of the population in relation to output. With respect to wage earners, this was achieved by keeping wage increases substantially below the rise in output per man. As indicated in table 41, output per man rose between 1952 and 1956 by almost 70 per cent while money wages increased by only 33 per cent. At the same time the growth of peasants' income and consumption was considerably restrained by the introduction of compulsory deliveries of agricultural produce at prices fixed by the government and by a virtual elimination of free sales of the most essential agricultural goods. These measures were not, however, sufficient to keep demand in line with supply, and rationing of several items, introduced in 1953, was extended in 1954 and in 1955. Rationing of edible oil, meat and

[30] In fact, prices of investment goods tended to decline, while those of consumer goods increased. The indicated rise in the rate of accumulation somewhat understates, therefore, the increase which would be obtained if the data were expressed in constant prices.

sugar was introduced in some areas and that of cotton cloth and food grains was introduced on a nation-wide scale. As far as may be judged from the data on retail prices, the restrictions imposed upon the rise in income payments, together with the partial rationing, were effective in curbing the demand pressure generated by the rise in accumulation in relation to national product. In view of the magnitude of these shifts, the rise in consumer prices was, during that period, remarkably small.

The two countries of the group which witnessed an almost continuous decline in prices of consumer goods between 1949 and 1956 were Eastern Germany and the Soviet Union. The statistical information on changes in the allocation of national product in physical terms is in general less adequate for the Soviet Union and for Eastern Germany than for most of the other countries. Nonetheless, the evidence seems to indicate that both in the Soviet Union and in Eastern Germany, during most of the period, the share of consumption in national product was either increasing or remained unchanged, and that the wage policy succeeded in restricting the growth of incomes in relation to output.

For the Soviet Union, data on changes in the allocation of national product are not available, and, therefore, information on such changes must be derived from comparing the volume indices of national income, fixed investment and retail sales. However, in this country both investment and retail sales show a greater increase than national income for several years, and, therefore, their comparison does not yield conclusive evidence about the shifts in the allocation of national product to or from consumption.

This apparent inconsistency of data evidently reflects two facts: first, that changes in the rate of accumulation are influenced not only by fixed investment, but also by changes in inventories, and second, that the changes in retail sales may not adequately measure those in total consumption owing to variations in peasants' consumption of their own produce. Generally, however, for the Soviet Union, there appears to be a closer correlation between changes in retail sales and those in consumption than between changes in fixed investment and those in total accumulation.[31] The relative movements of retail sales and national income may, therefore, be considered as more indicative of changes in the rate of consumption than are the relative movements of investment and national income. On this basis, the data in table 39 indicate that from 1949 to 1951 the share of consumption in national product was probably increasing or at least remained constant. This trend seems to have been interrupted in 1952, a year in which both the changes in retail trade and the indices of fixed investment point towards a shift in favour of accumulation, but in 1953 again the much larger rise in retail sales than in national income and fixed investment indicates a significant increase in consumption in relation to national income. While no definite conclusion can be derived from the data for 1954, the indices for 1955 and 1956 leave little doubt that during these two years the share of consumption in national income fell. It is significant that these are the only two years since 1947 during which there has been no reduction in prices in State and co-operative trade.

Thus, it appears that the period of declining prices in the Soviet Union was characterized either by a rise in consumption in relation to national income or by a relative stability of this ratio, whereas an increase of this ratio in 1955 and 1956 halted the price reductions. The fact that the ratio of accumulation to national income remained approximately constant during the period of falling prices indicates that the main factor which made these reductions possible was the restrictions imposed upon the growth of disposable income in relation to total output. While no data on money wages are available for the Soviet Union, the index derived by inflating real wage rates by the index of retail prices suggests that average money wage rates may have remained practically unchanged between 1949 and 1954, although they rose afterwards (table 41).[32] During this period, output per man increased very substantially, and since the share of national product devoted to consumption remained unchanged, the supply of consumer goods increased much more than the money wage bill, creating conditions for a considerable reduction in consumer prices. In 1955 and 1956, however, though output per man continued to rise in excess of the increase in money wages, it was not possible to cut prices further, largely because the share of resources allocated to consumption was reduced instead. An additional factor was the rise in other elements of income in relation to output. Thus, prices paid to peasants for deliveries and contractual purchases by government agencies were increased in 1953 and 1954; and in 1955 and 1956 higher basic wages were granted to certain groups of workers, and pensions and other transfer payments were increased substantially. Also, during the same period, taxes on peasants' income and on certain groups of urban population were reduced.[33] Thus, in contrast to the earlier

[31] The effect of the changes in State fixed investment may be offset or reinforced by changes in other government expenditure, in investment of collective farms and especially, in case of fluctuations of agricultural output, by changes in agricultural stocks. On the other hand, in the Soviet Union, the share of retail sales in total consumption is much greater, and the changes in that share much less important, than in other centrally planned economies.

[32] It is evident that, since retail prices do not adequately reflect the changes in cost of living, the use of such indices for inflating real wages can give only a broad approximation of the changes in money wages. Most probably the average money wages increased slightly during the period, although it is not unlikely that the inflow of new workers and changes in the structure of the labour force could have resulted in a stable level of average wages despite an increase in money wage rates in some sectors or for some groups of workers.

[33] For details see United Nations, *World Economic Survey, 1956* and *Economic Survey of Europe in 1956* (sales number: 1957.II.E.1).

years, the reduction in the unit wage cost did not result in any reduction in consumer prices because its effect was offset by a rise in other payments and by a reduction in the share of resources allocated to consumption. While prices in State and co-operative trade did not rise and prices in the collective farm markets declined in 1956, the pressure of demand upon supply at the existing price level seems, in fact, to have increased.[34]

In Eastern Germany, another country where consumer prices were declining during most of the period, the share of personal consumption in national income in current prices remained about unchanged from 1950 to 1952, and increased during the subsequent period. These changes were mainly the result of a decline in social consumption, from 18 per cent in 1951 to 12 per cent in 1954; the share of accumulation remained virtually unchanged, except for a temporary dip in 1953 and a substantial increase in 1956. These data do not, however, reflect adequately the real shifts in the allocation of national product, because of differences in the direction of price changes in the consumer and investment sectors. As has been noted above, whereas consumer prices declined considerably, prices of investment goods were increased sharply owing to elimination of subsidies. It appears, therefore, that in physical terms both social consumption and accumulation declined substantially in relation to national income and that the rise in the share of personal consumption was more pronounced than is indicated by the data in current prices. This was most likely due to the fact that reparation payments during this period were first curtailed and then abolished.

Restrictions imposed upon the growth of income payments in relation to output contributed only to a limited extent to the decline in prices. Between 1951 and 1953, output per man increased slightly more than money wages, and in 1954, wages rose much more than output. Only in 1955 and 1956 were money wages increased much less than output per man. Moreover, after 1953, money income of the peasants rose more than output and transfer payments were also raised.

It should be added that the rather unusual pattern of changes in Eastern Germany, as compared to the other countries of the group, was partly due to the situation at the beginning of the period. While in most of the other countries consumption had already recovered its pre-war levels by 1950, in Eastern Germany real wages were then still about 50 per cent below pre-war levels.[35] While comprehensive data on total consumption are not available, it is significant that in 1950 per capita consumption of meat and fats was more than 50 per cent below the pre-war level, and even in 1956 it had not yet reached that level.

[34] See statement referred to in footnote 22 in this chapter.

[35] In the Federal Republic of Germany, by comparison, the pre-war level was exceeded in 1950 by about 10 per cent.

It has already been stated that inflation in the centrally planned economies had little effect on the allocation of resources between end-uses. The inflationary price increases were the inevitable result of the failure to prevent money incomes from rising faster than the supply available for consumption, and they served to bring about a redistribution of income between government and the population in accordance with shifts in the allocation of resources away from consumption. Another effect of inflationary processes, this one contrary to the Government's objectives, was a shift in the distribution of income from the urban to the rural population. The introduction or extension of compulsory deliveries at low prices, as well as various forms of rationing benefiting the urban population, tended to restrict such shifts, but in most cases were not sufficient to prevent them altogether.

In certain countries and periods these shifts were associated with a decline in over-all per capita consumption. Such decreases were exceptional, however, and were usually the result of a particularly large drop in agricultural output caused by bad weather. A more frequent occurrence was a decline in per capita consumption of the urban population. In Hungary such decreases occurred in 1951 and 1952 and in Poland from 1951 through 1953.

Real wages fell in one period or another in all countries subject to inflationary pressure, with the exception of mainland China. Thus, in Bulgaria, real earnings declined in 1950 and 1951, in Czechoslovakia in 1951, in Hungary in 1951 and 1952, and in Poland from 1951 through 1953 (table 41). However, even in cases where real wages did not decline, price inflation was instrumental in restricting their increase whenever the attempt to keep money wages down proved unsuccessful. An approximate measure of the drop in the share of product allocated to wage earners, during the period of inflation, can be obtained by comparing the changes in real wages with those in output per man (table 41).

Thus, real income of labour in relation to industrial production declined between 1949 and 1952 by 27 per cent in Bulgaria, and by 41 per cent in Hungary; and between 1950 and 1953 by 27 per cent in Czechoslovakia, and 32 per cent in Poland. In mainland China, between 1952 and 1956, it declined by 25 per cent. It must be stressed that this decline resulted only in part from price increases, since money wage rates were frequently kept below the rise in output per man.

Similarly, price changes were instrumental in bringing about the redistribution of real income in favour of labour after the turning point of 1953. This was particularly important in 1954, when there were unusually steep increases in real wages owing largely to price reductions. During that year, the rise in real wages considerably exceeded the increase in output per man in all countries experiencing a reversal of price trends. In Bulgaria, Hungary and Poland, real wages continued to rise faster than output per man between 1954 and

1956, although the difference between these two rates was considerably smaller than in 1954. In Czechoslovakia, however, output per man rose more than real wages in 1955 and in 1956.

In Eastern Germany and in the Soviet Union the real income of labour in relation to industrial output was either increasing or remained unchanged between 1949 and 1954. Thus, in Eastern Germany, real wages were increasing more than output per man except in 1955 and 1956, when the reverse was true. In the Soviet Union, each year from 1949 through 1954, the rise in real wages approximated the rise in output per man. In 1955 and 1956, however, the situation changed and in both years real wages rose much less than output per man. It will be remembered that during these two years price reductions were negligible and the share of consumption in national income had decreased.

While the shifts in the distribution of income in favour of the State, which took place in the countries subject to strong inflationary pressures between 1950 and 1953, was in agreement with government policy, the redistribution of income in favour of the peasants was contrary to the objectives of the Government during that period. The attempts to prevent such shifts were dictated by two reasons. First, it was believed that a rise in peasants' money income in the presence of shortages of industrial consumer goods and of agricultural implements, would have a disincentive effect on increases in agricultural output and sales, and would induce the peasants to raise the share of their output devoted to consumption. Second, it was believed that the shift of income in favour of the peasants would reduce the real income of workers and would discourage increases in productivity. In order to prevent such shifts, a programme of rationing was introduced on several occasions, associated frequently with a dual system of prices: ration prices for the urban workers and much higher non-ration prices for the rest of the population. At the same time the free disposal of agricultural produce was restricted by collectivization and compulsory deliveries at low prices.

While the introduction of these measures had a restraining influence on the shifts in the distribution of real income among various groups of the population, it was not entirely successful in preventing it altogether. Thus, it seems that in the group of countries which, prior to 1953, passed through a period of strong inflationary pressure, peasants' consumption increased more or declined less than urban consumption. This is certainly true in the case of food consumption. With respect to total consumption, the available information relating to Hungary and Poland, the two countries which suffered most intensive inflationary pressure, indicates that there were such relative shifts during at least part of the period. Thus, in Hungary in 1951, total consumption rose by 4 per cent, while retail sales did not increase, and in 1952, retail sales declined by 10 per cent, while total consumption fell by less than 4 per cent. In Poland, there was a similar change in 1951, when total consumption rose more than retail sales, and in 1953, when retail sales fell by more than 3 per cent, while total consumption increased by over 3 per cent.

Planning and Inflation

It was originally intended that a rise in the proportion of resources devoted to accumulation or social consumption should be achieved without price increases by limiting the growth of money income in relation to output. Although consumption was to increase less than national product, all the plans provided for a rise in real wages through both an increase in money payments and a reduction in prices of consumer goods. The planned reduction in prices or even their stability could be achieved, however, only provided that the rise in personal income was kept within the limits set by the plan and the supply of consumer goods was increasing as planned.

None of the countries which went through a period of considerable decline in the share of consumption in national product was able to achieve these objectives. The two major factors which upset the planned balance between the income of the population and the supply of consumer goods were failure to prevent a greater than planned rise in money wages and non-fulfilment of the plans of agricultural output and supply of food. Although a rise in wage cost did not play a significant part in the development of the pressures of demand on supply, the failure to reduce unit wage costs in conformity with the plan resulted in a much greater than anticipated growth of disposable income and in consequence in a greater than planned rise in effective demand.

In some countries, this was due to the fact that the planned increase in output per man could not be achieved, thereby giving rise to a larger than planned increase in non-agricultural employment and in the wage bill (table 42). However, even in such countries as Czechoslovakia and Poland, where output per man rose in line with or in excess of the planned quotas, this result could be achieved only by raising wages more than anticipated. The rise in wages in excess of the plan was due either to the resistance of workers against the upward revision of production norms without commensurate increases in wages or, in cases of shortages of qualified workers, to bidding up of wages by the management of enterprises. Thus, whether or not the plans of output per man were achieved, the planned reductions of unit wage costs were not fulfilled and the

Table 42. Indices of Planned and Actual Increases in Employment, Output per Man and Agricultural Production, during the Five-Year Plans Ending in or Prior to 1955[a]

(Year preceding beginning of plan = 100)

Country	Employment		Output per man		Agricultural production	
	Planned	Actual	Planned	Actual	Planned	Actual
Bulgaria[b]	138	153	160	166	157	117
Czechoslovakia	130	112	160	173	157	113
Eastern Germany	119	129	172	147	157	112
Hungary	161	174	192	147	...	...
Poland	160	161	166	170	150	120
Romania	140	150	175	148	188	150
USSR	113	129	150	144	145	120

Source: Reports on fulfilment of plans.

[a] The periods covered by the plans are as follows: Bulgaria, 1949–1953; Czechoslovakia, 1949–1953; Eastern Germany, 1951–1955; Hungary, 1950–1954; Poland, 1950–1955; Romania, 1951–1955; Soviet Union, 1951–1955.

[b] The five-year plan of Bulgaria was officially terminated one year ahead of schedule, that is, in 1952. During that year the index of employment was 146, that of output per man 155, and that of agricultural production 96. The index of actual output indicated in the table refers to 1953. Although during that year both employment and output per man exceeded the original targets set for 1953, employment rose by 11 per cent more than planned, whereas output per man rose by only 3 per cent.

ensuing growth of money income in excess of the plan upset the balance between the income of the population and the supply of consumer goods.

On the supply side, the decisive factor of imbalance was the failure to raise agricultural production and the supply of food according to plan. It is significant that not a single country of the group was able to fulfil its plans of agricultural output (table 42). The considerable lag in the expansion of output and supply of food resulted in shortages which, at least for specific items, continued even during the period of declining prices. Specific food shortages existed even in countries such as the Soviet Union and Eastern Germany, where prices were declining throughout the period.

The lag in agricultural production was crucial not only because of its effect on the over-all balance of demand and supply, but also because of the importance of food in workers' budgets. Shortages of food exerted a much greater pressure on prices and wages than shortages of less essential items. In addition, since a part of total food supplies was sold on non-controlled markets, a rise in prices on these markets had, in several countries, a secondary inflationary effect, caused by the fact that in most cases the additional profits of the peasants were spent on consumer goods.

The effect of the lag in agricultural output on the supply-demand situation was particularly important during the period preceding 1953, when the rate of increase in industrial production was the highest, while agricultural output generally lagged far behind (table 43). In Bulgaria, in 1952, when prices of consumer goods reached their peak, agricultural production was lower than in 1948. In Czechoslovakia agricultural output shows hardly any change between 1948 and 1952. In Poland, agricultural output rose by 10 per cent in 1950, fell during the following years and again in 1953 reached the level of 1950. In Yugoslavia in 1953, agricultural production did not exceed its 1948 level. It is true that the stagnation of agriculture in these countries during this period was partly due to unfavourable weather conditions. However, it appears that the main reason was the scarcity of investment goods allocated to agriculture, inadequate supplies of fertilizers, and the disincentive effect of government policy towards the peasants, including compulsory deliveries at very low prices and attempts to impose collectivization against the wishes of the large majority of peasants.

The effect of the stagnation of agricultural production on the supply-demand situation of the urban areas was in general reinforced by the considerable shifts of

Table 43. Indices of Gross Industrial and Agricultural Output, by Country

(1953 = 100)

Country and item	1949	1950	1951	1952	1954	1955	1956
Bulgaria							
Producer goods	47	56	66	89	120	128	149
Consumer goods	60	67	81	86	104	113	128
Total, industrial production	54	63	75	87	111	119	137
Crops	63	66	103	75	81	91	82
Animal products	88	80	92	99	101	108	106
Total, agricultural production	71	70	99	82	87	96	90

Table 43. Indices of Gross Industrial and Agricultural Output, by Country (*continued*)

(1953 = 100)

Country and item	*1949*	*1950*	*1951*	*1952*	*1954*	*1955*	*1956*
China, mainland							
Producer goods	21	...	...	73	120	140	199
Consumer goods	37	...	...	78	115	116	141
Total, industrial production	30	...	...	76	117	126	164
Crops	...	...	...	...	...	...	...
Animal products	...	...	...	...	...	...	...
Total, agricultural production	65	...	...	97	103	111	117
Czechoslovakia							
Producer goods	52	61	72	89	104	113	125
Consumer goods	69	79	86	96	105	119	129
Total, industrial production	59	68	78	91	105	116	127
Crops	...	...	...	...	90	102	101
Animal products	...	...	...	...	115	121	130
Total, agricultural production	94	97	99	96	98	109	110
Eastern Germany							
Producer goods	50	62	75	88	110	120	130
Consumer goods	49	64	80	91	110	117	121
Total, industrial production	49	63	77	89	110	119	126
Crops	...	...	...	...	...	...	...
Animal products	...	...	...	...	...	...	...
Total, agricultural production	...	84	101	101	109	111	112
Hungary							
Producer goods	...	...	...	...	...	...	...
Consumer goods	...	...	...	...	...	...	...
Total, industrial production	46	58	74	90	104	112	100
Crops	...	...	...	...	...	...	...
Animal products	...	...	...	...	...	...	...
Total, agricultural production[a]	87	97	115	72	95	110	92
Poland[b]							
Producer goods	43	55	68	84	113	126	139
Consumer goods	45	60	74	86	109	122	131
Total, industrial production	44	57	71	85	112	124	136
Crops	106	107	97	100	108	109	117
Animal products	81	97	94	94	103	108	116
Total, agricultural production	96	103	96	97	106	109	117
Romania							
Producer goods	...	57	...	...	104	125	141
Consumer goods	...	63	...	...	111	117	125
Total, industrial production	43	60	75	90	107	121	134
Crops	...	...	88	79	95	115	83
Animal products	...	...	98	100	112	128	118
Total, agricultural production	91	...	92	86	100	119	95
USSR							
Producer goods	54	69	80	90	114	130	145
Consumer goods	60	69	80	89	113	122	134
Total, industrial production	56	69	80	89	113	127	141
Crops[c]	...	99	96	112	104	130	155
Animal products	...	...	...	...	...	...	...
Total, agricultural production	...	...	...	...	...	...	...
Yugoslavia							
Producer goods	...	...	...	...	...	...	...
Consumer goods	107	103	101	89	115	129	144
Total, industrial production	92	94	91	90	114	132	146
Crops	...	...	...	...	...	...	...
Animal products	...	...	...	...	...	...	...
Total, agricultural production[d]	...	...	100	66	87	100	88

Source: Bulgaria: *Statisticheski Godishnik na Narodna Respublika Bulgaria*, 1957. China, mainland: *Razvitie Narodnogo Khozyaistva Kitaiskoi Narodnoi Respubliki*, 1956; *People's Daily*. Czechoslovakia: *Statisticka Rocenka, 1957*, and *Statisticky Obzor*, No. 12, 1956 (Prague). Eastern Germany: *Statistisches Jahrbuch*, 1955, and report on plan fulfilment, 1956. Hungary: *Statisztikai Havi Kozlemenyek*, No. 7, 1957, and *Statisztikai Evkonyv*, 1949–1955; estimations for 1956 by the Secretariat of the United Nations. Poland: *Rocznik Statystyczny*, 1957. Romania: *Anuarul Statistic Al RPR*, 1957; plan fulfilment reports; *Razvitie Ekonomii Stran Narodnoi Demokratii* (Moscow, 1955), and United Nations, *World Economic Survey, 1955*. Soviet Union: *Narodnoe Khozyaistvo SSSR v 1956 Godu*. Yugoslavia: *Statisticki Godisnjak*, 1957; index of agricultural production compiled by the Secretariat on the basis of information on annual changes.

[a] Net product.

[b] 1949–1955, socialized industry; 1955–1956, all industries, linked.

[c] Grain only.

[d] Rough estimate.

the population from the countryside to the cities, not accompanied by commensurate increases in the supply of food. The tendency of the remaining rural population to raise its per capita consumption was partly prevented by the introduction or extension of compulsory deliveries. However, these measures were not always successful and as a result, in the countries which prior to 1954 experienced inflationary pressures, per capita supply of food to urban areas declined.[36] However, even in countries where no such decline took place, the deficiency of agricultural output and of supply of food to the cities was the most important factor in price increases, first on free and unauthorized markets and later in State and co-operative trade. The decline in prices after 1953 was greatly facilitated by the improvements in food supplies, owing to a rise in domestic output and an increase in net imports. At the same time, shifts in population to the cities were either arrested or slowed down, and in some countries even a reverse tendency appeared.

In Eastern Germany and in the Soviet Union, the supply of food to the cities seems to have increased proportionately more than the urban population. However, between 1950 and 1953, these increases took place in the face of little, if any, increases in agricultural production. This would seem to indicate that the rise in supply was due to an increase in the share of agricultural production devoted to urban consumption, or to changes in foreign trade. After 1953, agricultural output increased both in Eastern Germany and the Soviet Union; in the latter, however, this did not result in an acceleration of retail sales of food, probably because of a greater increase in peasants' consumption.

The difficulties caused by the failure to raise the supply of food and agricultural raw materials led to radical changes in government policies towards agriculture after 1953. In all countries, greater reliance was placed upon income incentives as a means of increasing output. Peasants' incomes were substantially increased by raising prices paid for the State purchases and by reduction or elimination of compulsory deliveries. In some countries collectivization of agriculture was abandoned. Supplies of fertilizer and of agricultural implements were substantially increased and in the Soviet Union the area under cultivation was extended by about one-fourth between 1953 and 1956, through bringing under cultivation of virgin and fallow lands. The current plans of economic development provide generally for an increase in the share of investment devoted to agriculture and for a much higher increase in agricultural output in relation to that of national product than earlier long-term plans. The greater attention devoted to agriculture in the current plans of development is associated with the increased importance currently being attached to increasing levels of consumption.

[36] For instance in Hungary, retail sales of food increased in 1951 by only 2 per cent and declined by 8 per cent in 1952; in Poland between 1949 and 1953, urban population rose by 21 per cent but retail sales rose by only 13 per cent and sales of food rose even less.

Part II

CURRENT ECONOMIC DEVELOPMENTS

Chapter 4

RECENT TRENDS IN INDUSTRIAL COUNTRIES

The recent slackening in economic activity in the industrial group of countries ends the boom phase of a production cycle which began, for the group as a whole, in 1954, accelerated in 1955, maintained its advance, albeit at a slower pace, in 1956, and reached its zenith before the close of 1957.

Three major periods of expansion may be distinguished in the post-war period of which the first two were both, to a considerable extent, abnormal. The exceptional upsurge of private demand in the early post-war years resulted from the release of resources by governments at the end of the war, and the use by private business and consumers of accumulated liquid assets to make good their arrears of investment and consumption. The second main period of rapid growth was dominated by rising expenditures on defence material and associated production facilities necessitated by the Korean conflict. From the end of that conflict, however, governmental claims upon resources levelled off or declined, and the way was open for the first post-war phase of expansion which did not depend upon special supporting factors.

The main features of this period of economic upswing are delineated in table 44. The beginning of the period, following the mild recession experienced after the Korean boom, was marked by a rapid growth in residential construction and personal consumption, which played a dominant part in the revival of demand. Both these components of demand, which had been restrained during the Korean conflict, were now allowed and, in many cases, encouraged by governments to expand rapidly. This was followed by a revival in business investment activity, which benefited in some countries from special incentives provided by governments.

Table 44. Industrial Countries: Real Gross National Product and its Major Components, 1953–1957[a]

(At constant prices; as percentages of 1953 gross national product)

Year	Gross national product	Personal consumption	Government expenditure	Fixed investment			Change in inventories	Exports and imports of goods and services		
				Total	Residential construction	Machinery and equipment		Balance	Exports	Imports
1953	100.0	65.8	15.7	17.3	3.8	8.3	1.0	0.2	9.3	−9.1
1954	101.2	67.6	14.7	18.1	4.2	8.1	0.2	0.6	10.2	−9.6
1955	108.5	72.2	14.5	19.8	4.7	8.6	1.6	0.4	11.1	−10.7
1956	112.2	74.8	14.8	20.8	4.5	9.5	1.2	0.6	12.1	−11.6
1957	114.4	76.6	15.1	21.2	4.3	9.9	0.7	0.9	13.0	−12.1

Source: United Nations Bureau of Economic Affairs.

[a] Including Denmark, Federal Republic of Germany, France, Italy, Netherlands, Norway and the United Kingdom in western Europe; and Canada and the United States in North America. Calculated, except for Canada, on the basis of purchasing power parities, as established for the purposes of table 32 of Organisation for European Economic Cooperation, *Comparative National Products and Price Levels*, Milton Gilbert and Associates (Paris, 1958). Data for Canada included on the basis of the official exchange rate. Exports and imports of goods and services represent the sum of the figures for the individual countries.

As business expenditure on plant and equipment grew, there was a tendency for residential construction to slow down, especially where governments, concerned to prevent the boom from developing excessive momentum, imposed credit and other restrictions designed to limit the expansion of demand and release resources for other purposes. Nevertheless a rapid increase in personal consumption, especially of durables, together with the growth in business investment, generated a powerful upsurge of demand in the industrial group of countries in 1955, more than offsetting the slackening in residential construction in western Europe as shown in table 45. The sharp rise in production led to an increase in the degree of utilization of capacity, especially in the engineering sector of industry, where there was some pressure of demand against capacity. This provided an additional stimulus to industrial investment, which was also spurred by favourable long-term business expectations and by competitive pressures for the exploitation of new technological developments. Thus business expenditure on plant and equipment came to provide the main expansionary force in the boom.

Whatever obstacles were encountered in the supply of materials, equipment and labour during this period did not significantly hamper the growth of production. Most of the essential raw material and energy require-

Table 45. Western Europe and North America: Gross National Product, Gross Fixed Investment and Consumption[a]

(At constant prices; percentage change compared with preceding year)

Region and item	*1954*	*1955*	*1956*	*1957*
Western Europe				
Gross national product	6	6	4	4
Gross fixed investment	10	10	6	4
Residential construction	10	5	2	2
Machinery and equipment	10	15	8	5
Personal consumption	5	6	4	4
Durable consumption	12	12	3	7
North America				
Gross national product	−1	8	3	1
Gross fixed investment	2	9	5	1
Residential construction	11	18	−9	−9
Machinery and equipment	−8	3	12	3
Personal consumption	2	7	3	2
Durable consumption	—	22	−8	—

Source: United Nations Bureau of Economic Affairs.
[a] See footnote *a* to table 44.

ments were met by bringing into operation unused capacity existing within the industrial countries themselves, and the labour force proved to be adequate to meet the growing needs of the economy, except in a few skilled trades. Certain shortages of materials did develop for a time in western Europe, but were overcome by imports from North America. There was, as a result, a rapid growth in the trade of western Europe with North America, a development which was further stimulated by measures of trade liberalization in western Europe.

As the economic upswing entered its third year in 1956, there appeared a number of signs of weakening in demand pressures in some of the major industrial countries. The expansive forces of business investment in these countries did not prove sufficiently powerful to prevent the over-all rate of growth from declining slightly, as a result of the gradual slackening in certain other important components of demand. Residential construction slackened further in western Europe and declined in North America, thereby retarding the pace of growth in total investment. Equally, if not more important was the sharp decline in consumption of durables, especially motor cars, in two of the larger countries, namely the United Kingdom and the United States. Nor, finally, was any stimulus to the economy being derived from the course of government expenditures.

While total demand expanded more slowly in 1956 than in 1955, productive capacity grew even more rapidly than before in North America, reflecting the response of business investment to the previous year's economic expansion. The consequent fall in the rate of utilization of capacity was the main factor tending to slow down the growth of business investment in 1957. In western Europe, which had embarked upon the current phase of economic expansion earlier than North America, business investment was already losing some of its upward momentum in 1956.

Thus the year 1957 opened with the volume of business expenditure on plant and equipment expanding at a slower pace than in the preceding period. Since other components of demand showed no signs of significant upturn, the gap between total demand and productive capacity continued to open, and the volume of idle equipment was steadily augmented. Nevertheless business investment continued to rise slowly until the latter part of the year, owing in large part to the continuation of investment projects begun earlier during the period of greatest pressure of demand.

In North America, where the lag in the growth of demand in relation to capacity was particularly pronounced, the volume of business investment in plant and equipment began to fall in the last quarter of 1957. Of more immediate importance in depressing the volume of production, however, was a move by business to reduce the level of inventories, in response to the slackening in final demand. The resulting decline in total investment continued into 1958. In western Europe and Japan, likewise, business investment and industrial production tended to level off towards the end of 1957. As a result, some governments relaxed the monetary restrictions imposed during the earlier phase of expansion, and in the United States efforts were made to stimulate demand by accelerating government expenditures.

The Slackening in Demand

The rate of growth of the gross national product declined in 1957 in most industrial countries for the second year in succession. In Japan too it fell for the first time during the recent period of economic expansion. In the

early phases of the economic upswing relatively high rates of growth in total real product had been recorded. In the western European countries, as a whole, total output increased a little less than 5 per cent in 1953 and about 6 per cent in 1954 and 1955. Real output rose evenfaster in Canada, Japan and the United States—by about 8 per cent—during 1955; in Canada and the United States this was the first full year of recovery from the 1953/54 recession. During 1956 there was a fall in the rate of expansion of economic activity both in western European countries and in North America. In western Europe as a whole the more moderate rate of growth in total product achieved in 1956 was maintained in 1957; in Canada and the United States, on the other hand, the rate of growth dropped further, as shown in table 46.

Recent changes in the rate of growth of the gross national product in industrial countries have generally reflected similar movements in industrial production.[1] It can be seen from the following table that industrial production rose at a rate of 9 to 10 per cent in western Europe in 1954 and 1955, and 11 per cent in North America in 1955 following the decline in production experienced there in 1954. During 1956 there was a pronounced fall in the rate of increase of production in both areas and in 1957 there was no further advance in industrial production in North America. The fact that in western Europe the pace of expansion was approximately maintained in 1957 was due largely to the moderate revival of industrial activity in the United Kingdom, and the continued high rates of growth recorded in France and Italy; most other countries in the area reported a lower rate of increase in industrial production in 1957 than in 1956. In Japan the rate of expansion in industrial activity reached its peak in 1956, a year later than the other industrial countries, and slowed down markedly in the course of 1957.

[1] In France and Italy, where the rate of growth of industrial production was generally maintained from 1955 to 1957, the bad harvest of 1956 was largely responsible for the relatively smaller increase in the gross national product in that year than in 1955 and 1957. On the other hand, in Norway, the good harvest and fish catch in 1956 contributed to a relatively higher rate of growth in gross national product in that year than in 1955 and 1957.

Per cent change in industrial production compared with preceding year

	1954	*1955*	*1956*	*1957*
Total	−1	11	4	2
Western Europe	9	10	5	5
North America	−7	11	3	—
Japan	7	7	22	14

Source: Statistical Office of the United Nations.

Increases in industrial output in 1957 were concentrated in the first half of the year; in many countries production declined from the first half of 1957 to the second half, after allowing for seasonal factors as shown in table 47. The tendency for production to slacken or decline continued into 1958.

The gradually diminishing rate of expansion of output during 1956 and 1957 was primarily the result of a slackening in the growth of aggregate demand. It is true that the increase in the level of production and employment—in western Europe since early 1953 and in North America since the middle of 1954—had resulted in a considerable reduction both in unemployed labour reserves and in spare productive capacity. Consequently the rate of growth of industrial production in 1956 probably could not, in some countries, have reached levels as high as those obtaining in the earlier years of the upswing even if there had been no change in the pressure of aggregate demand. As it was, however, in most countries the point was never reached at which supply conditions would have been as tight as they had been in, say, 1951;[2] this was because demand was already beginning to slacken during 1956, and eased further in 1957.

The slowing down of aggregate demand was partly the result of government policies, but also reflected the operation of forces inherent in the cycle. The mildest governmental restraints on demand were those introduced in Canada and the United States; but it was precisely in these countries that the slackening in demand became most pronounced by the end of 1957. More vigorous governmental measures to curb the growth of demand were introduced in the Scandinavian countries and the United Kingdom at an early stage of the up-

[2] For further discussion of this point, see chapter 1.

Table 46. Real Gross National Product and Its Major Components, by Country[a]

(At constant prices; as percentages of 1956 gross national product)

Country and year	*Gross national product*	*Personal consumption*	*Government expenditure*	*Fixed investment*	*Change in inventories*	*Exports and imports of goods and services*		
						Balance	*Exports*	*Imports*
Western Europe[b]								
1955	*96.3*	*64.8*	*12.3*	*17.2*	*1.3*	*0.7*	*16.6*	*−15.9*
1956	*100.0*	*67.5*	*12.8*	*18.2*	*1.1*	*0.4*	*17.6*	*−17.2*
1957	*103.8*	*70.1*	*12.9*	*18.9*	*1.3*	*0.6*	*18.8*	*−18.2*
Belgium								
1955	97.1	67.2	11.1	16.8	0.1	2.0	34.6	−32.7
1956	100.0	68.9	11.4	17.6	0.7	1.4	38.1	−36.7

Table 46. Real Gross National Product and Its Major Components, by Country[a] (*continued*)

(At constant prices; as percentages of 1956 gross national product)

Country and year	Gross national product	Personal consumption	Government expenditure	Fixed investment	Change in inventories	Exports and imports of goods and service: Balance	Exports	Imports
Denmark								
1955	98.8	67.7	13.0	17.2	—	0.9	33.9	−33.0
1956	100.0	68.3	13.2	17.4	1.4	−0.4	34.6	−34.9
1957	104.4	70.7	13.2	17.8	1.0	1.5	37.4	−35.9
Federal Republic of Germany								
1955	94.5	55.5	12.5	21.0	2.9	2.6	20.2	−17.6
1956	100.0	59.8	12.7	22.4	1.3	3.7	23.3	−19.7
1957	104.6	62.9	13.2	22.5	1.6	4.4	26.4	−22.0
France								
1955	95.8	65.6	12.4	16.2	0.8	0.9	15.2	−14.3
1956	100.0	68.8	14.3	17.3	1.4	−1.9	14.0	−15.9
1957	106.1	72.9	14.9	18.8	1.4	−1.9	14.9	−16.8
Italy								
1955	95.9	65.0	10.4	19.6	1.4	−0.5	12.6	−13.1
1956	100.0	67.9	10.9	21.2	0.8	−0.7	13.9	−14.7
1957	105.4	70.8	11.0	22.8	0.5	0.2	16.7	−16.4
Netherlands								
1955	96.6	56.0	13.7	21.8	1.9	3.2	51.4	−48.2
1956	100.0	60.9	13.7	24.2	2.9	−1.7	53.5	−55.2
1957	102.5	60.3	13.7	——28.8——		−0.3	56.3	−56.6
Norway								
1955	95.9	54.9	9.7	35.1	1.3	−5.1	34.9	−40.0
1956	100.0	56.4	10.0	36.4	2.5	−5.3	37.8	−43.1
1957	102.9	58.0	10.3	37.7	1.7	−4.8	39.2	−44.0
Sweden[c]								
1955	96.8	56.3	18.0	22.0	1.8	−1.3	19.7	−21.0
1956	100.0	57.8	18.7	22.6	1.2	−0.3	21.8	−22.2
1957	102.1	58.5	19.5	23.0	1.1	—	23.6	−23.6
United Kingdom								
1955	98.4	62.8	18.5	15.4	1.6	0.2	23.2	−23.0
1956	100.0	62.9	18.6	16.1	1.3	1.1	24.7	−23.6
1957	101.8	64.1	18.0	16.9	2.3	0.5	24.9	−24.4
North America[b]								
1955	*96.9*	*64.2*	*13.2*	*17.8*	*1.5*	*0.1*	*6.2*	*−6.0*
1956	*100.0*	*66.3*	*13.4*	*18.7*	*1.1*	*0.6*	*7.0*	*−6.5*
1957	*101.0*	*67.3*	*13.8*	*18.8*	*0.2*	*0.9*	*7.5*	*−6.6*
Canada								
1955	92.3	60.0	12.7	21.3	0.9	−2.5	19.3	−21.8
1956	100.0	63.9	13.0	25.5	2.2	−4.6	20.5	−25.2
1957	100.5	64.9	13.0	26.6	0.4	−4.3	20.5	−24.8
United States								
1955	97.2	62.7	16.6	16.3	1.0	0.5	4.9	−4.4
1956	100.0	64.8	16.5	16.9	0.9	0.9	5.7	−4.8
1957	101.0	65.7	16.9	16.9	0.2	1.3	6.2	−4.9
Japan[d]								
1955	91.0	57.8	10.6	17.5	4.2	0.9	13.1	−12.2
1956	100.0	61.6	11.1	21.3	7.0	−1.0	14.7	−15.7
1957	106.1	64.6	11.9	25.6	6.7	−2.7	15.8	−18.5

Source: Statistical Office of the United Nations and Bureau of Economic Affairs; replies of Governments to the United Nations questionnaire of November 1957 on economic trends, problems and policies; Organisation for European Economic Co-operation, *General Statistical Bulletin;* and national sources.

Figures for 1957 are preliminary estimates of governments or of the United Nations Bureau of Economic Affairs.

[a] Except in the case of Japan, Norway, Sweden and the United Kingdom, where it was not possible to do so, figures have been adjusted to conform, as far as possible, to the United Nations system of national accounts. This has involved the following adjustments in the case of the United States: "net foreign investment" was replaced by the balance of exports and imports of goods and services, by adding foreign economic aid and private remittances abroad to net foreign investment and omitting the corresponding items from government expenditure and personal consumption, respectively; the value of civil public construction was transferred from government expenditure to fixed investment; and an amount equal to the value of new government buildings was added to government expenditure in respect of depreciation of government buildings.

[b] See footnote *a* to table 44.

[c] Public civilian investment in corporations and enterprises is included in fixed investment; the rest of public investment is included in government expenditure.

[d] No provision is made for inventory valuation adjustment.

swing, and by France and the Netherlands in 1957. The stringency of the measures adopted was due to balance of payments difficulties in the countries concerned; this, in turn, generally reflected the fact that the pressure of demand in these countries had risen relatively more than in their principal trading partners.

While the severity of the specific anti-inflationary measures adopted varied widely from country to country, there was much more uniformity in the impact of over-all government revenue and expenditure policies upon the economy. As was shown in chapter 1, the total outcome of these policies was that, in general, a mildly expansionist influence upon the economy was exerted from 1953 to 1954, following the end of the Korean boom, and an equally mild anti-inflationary influence was felt from 1954 to 1957.[3]

Table 47. Percentage Changes in Industrial Production in the First and Second Half of 1957 compared with the Preceding Half Year

(On a seasonally adjusted basis)

Country	First half	Second half
Total	2	−1
Western European countries[a]	3	1
Belgium	3	−6
Denmark	2	−4
Federal Republic of Germany	6	−1
France	4	4
Italy	5	1
Netherlands	4	−4
Norway	—	1
Sweden	3	—
United Kingdom	1	1
Canada	−1	−3
United States	1	−2

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin* (Paris).

[a] Member countries of the Organisation for European Economic Co-operation.

The progressive deceleration in aggregate demand in 1956 and 1957 was the result of a pronounced decline in the rate of expansion of fixed investment and a slowing down in personal consumption, especially of durables, in some of the larger industrial countries. An important factor in retarding the growth of fixed investment was a slackening in residential construction, which had provided much of the initial impetus to the expansion of demand in the early stages of the upswing. Government policies involving credit restriction and higher interest rates were partly responsible for this development. Governments in the Scandinavian countries and in the United Kingdom were particularly active in this respect, since in addition to introducing restrictive monetary policies, they adopted direct measures which included a reduction of housing subsidies and public construction activity, the limitation of building permits and the imposition of taxes on construction.

Business investment began to slow down in western Europe in 1956 and in North America in 1957. In the course of the boom the rate of creation of new capacity appears to have reached a new post-war peak, and this in turn called for a rate of expansion of output greater than in previous years if all the additional capacity was to be fruitfully employed. As it was, however, the rate of increase of output in several of the major countries was somewhat lower than in previous years, so that there was a tendency for idle capacity to accumulate, even while production was rising. As the gap between production and capacity opened, investment outlays first levelled off and then declined, thus contributing to a fall in aggregate demand. Evidence of the development of excess capacity will be examined in some detail below.

The slower advance of aggregate demand in 1956 and to some extent in 1957 was also the result of developments in consumption. In general, changes in personal consumption were in line with changes in total output during the recent boom; the peak rate of increase in consumption was reached in 1955, amounting to 6 per cent in western Europe and over 7 per cent in North America, as shown in table 48. These rates of increase were reduced considerably in 1956-1957. In the United Kingdom and the United States there was a rise in the ratio of personal savings to personal disposable income in 1956, which was associated with a substantial fall in consumer expenditure on durables, especially motor cars. While in the United States a reaction against the exceptionally high level of automobile sales in 1955 was mainly responsible for this development, in the United Kingdom it reflected strong governmental measures aimed at restraining consumer expenditure on durables.[4] Measures introduced by the Scandinavian countries in 1954/55 and by the Netherlands in 1957 had a similar effect in curbing the expansion of personal consumption. There was also a significant increase in the proportion of personal income devoted to saving in the Federal Republic of Germany in 1957.

INTER-COUNTRY DIFFERENCES IN TIMING

The slowing down in the growth of demand and production did not occur in all industrial countries at the same time. It began at a relatively early stage in the upswing in the United Kingdom and especially in the Scandinavian countries, where the upsurge of demand led to serious balance of payments difficulties;[5] strong

[3] The United States Government exerted a fairly substantial retarding influence on the economy through the budget in 1955, but this did not prevent a vigorous expansion of total output in that year. The restraining effect of the budget was much reduced in 1956, and by 1957 the budget had become slightly expansive.

[4] The relaxation of these measures late in 1956 and early in 1957 in the United Kingdom was accompanied by a revival in consumer expenditure on durables.

[5] In Sweden and the United Kingdom the high rate of inventory accumulation in 1955 also contributed to the deterioration in external balances.

Table 48. Changes in Gross National Product, Personal Disposable Income and Personal Consumption, by Country

(In real terms; percentage change from previous year)

Country and year	Gross national product	Personal disposable income[a]	Personal consumption
Western Europe[b]			
1955	*6.2*	...	*5.8*
1956	*3.8*	...	*4.2*
1957	*3.8*	...	*3.9*
Denmark			
1955	−0.9	...	−1.6
1956	1.2	...	0.9
1957	4.4	...	3.5
Federal Republic of Germany			
1955	11.8	8.7[c]	9.4
1956	5.8	7.4[c]	7.8
1957	4.6	7.2[c]	5.0
France			
1955	6.7	8	5.9
1956	4.4	6	6.4
1957	6.1	6	5.9
Italy			
1955	6.8	...	3.9
1956	4.3	...	4.4
1957	5.4	...	4.2
Netherlands			
1955	7.1	...	6.8
1956	3.5	...	8.8
1957	2.5	...	−1.0
Norway			
1955	2.9	...	2.6
1956	4.3	...	2.7
1957	2.9	...	2.8
Sweden			
1955	4.0	5.2	3.9
1956	3.2	2.7	2.7
1957	2.1	1.8	1.0
United Kingdom			
1955	3.0	4.7	3.2
1956	1.6	3.1	0.4
1957	1.8	2.7	2.0
North America[b]			
1955	*7.7*	...	*7.2*
1956	*3.2*	...	*3.3*
1957	*1.0*	...	*1.6*
Canada			
1955	8.2	8.8	8.0
1956	8.3	7.9	6.6
1957	0.5	1.5	1.5
United States			
1955	7.0	5.8	7.1
1956	2.9	4.5	3.2
1957	1.0	1.4	1.6
Total industrial countries[b]			
1955	*7.2*	...	*6.7*
1956	*3.4*	...	*3.6*
1957	*2.0*	...	*2.4*

Source: See table 46.

[a] Personal disposable income deflated by implicit deflator for personal consumption.

[b] See footnote *a* to table 44.

[c] Disposable income from wages and salaries, retirement pensions, public transfer payments and withdrawals by self-employed persons for private purposes.

governmental measures aimed at improving the balance of payments position by restraining the growth of demand were introduced in 1954 and 1955. In the Scandinavian countries the expansion of demand slowed down in the course of 1955, and in the United Kingdom in 1956. There was also an easing of demand in 1956 in the Federal Republic of Germany and the United States, though not as pronounced as in the United Kingdom. The other industrial countries, with the exception of France and Italy, did not experience a slackening in the growth of demand and production until 1957; in France and Italy the growth of demand was maintained throughout most of 1957. Chart 9, which shows changes in industrial production from 1954 to 1957 on a seasonally adjusted basis, gives some indication of these differences in the phasing of the cycle in the various groups of countries.

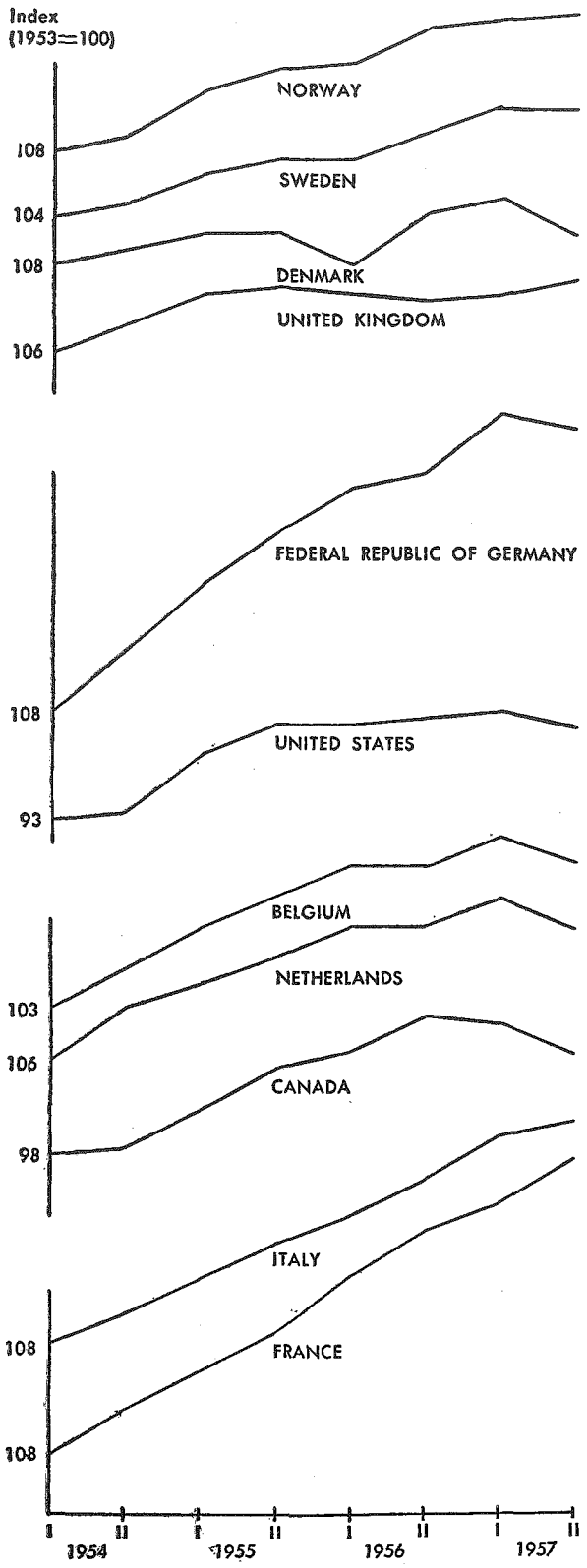
In Denmark, which had suffered a moderate decline in real national output in 1955, the relaxation of previously imposed restrictions in the middle of 1956 was followed by a revival in construction and industrial activity. This continued until May 1957 when, following a renewed deterioration in the balance of payments, new measures were adopted to restrict the growth in consumption.[6] These measures were followed by a fall in the level of industrial production and an increase in unemployment in the second half of 1957, although for the year as a whole total real output was higher than in the preceding year. In Norway and Sweden, the easing of demand in the latter part of 1955, and the relatively moderate pace of expansion in total product during 1956 and 1957, was associated with a slower rate of growth in fixed investment and durable consumption during that period. The slackening in these categories of expenditure, especially durable consumption, was reflected in a slower rate of growth of imports than exports and in an improvement in the real foreign balance.[7] The very considerable increase in external demand for shipping services during and immediately after the Suez crisis and the continued rise in external demand for basic export commodities also contributed to the improvement in foreign balance and to a moderate rate of growth in demand and production in both countries during these two years. In Norway the partial liberalization of building restrictions early in 1957 and a waiver of duty on imports of certain categories of machinery were instrumental in stimulating residential construction and business investment during that year.

There was no easing in demand in 1955 in the United Kingdom, where stringent measures against the expansion of demand were adopted later than in the Scandinavian countries. A rapid increase in industrial invest-

[6] A deterioration in the terms of trade as a result of a fall in the prices of agricultural exports also had an adverse effect on the balance of payments.

[7] In Sweden a slowing down in the rate of inventory accumulation in 1956 and 1957 also contributed to the improvement in the foreign balance.

Chart 9. Indices of Industrial Production
(Seasonally adjusted half-yearly averages)



Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, March 1958 (Paris).

ment and in the consumption of durables in that year more than offset the adverse effect of a decline in residential building, associated with a sharp fall in public housing construction and a reduction of housing subsidies. There was, however, a pronounced slackening in demand in 1956, owing largely to a considerable decline in consumer expenditure on durables, especially motor cars, and to a slower rate of growth of fixed investment. The fall in consumption of durables followed immediately upon the introduction of government measures in the last quarter of 1955 and early in 1956, raising purchase tax rates on durables and restricting hire-purchase transactions. The decline in the rate of growth of fixed investment was accounted for by a continued fall in residential construction and a marked slowing down in the expansion of business investment. The effect of the easing in demand was seen in a slight decline in industrial production and an improvement in the external balance to which the slower rate of inventory accumulation also contributed.

Despite the persistent decline in residential construction and a further slowing down in manufacturing investment, the rate of increase of total fixed investment was more than maintained in the United Kingdom in 1957. This was largely accounted for by a substantial rise in investment in public utilities and transport and communications, which are largely nationalized. Additional stimulus to the growth of demand, especially in the engineering sector, was provided during that year by a rise in consumption of durables and in the export of motor cars. The revival in consumer expenditure on durables was associated with a progressive relaxation of the previously imposed restrictions late in 1956 and during the first half of 1957.[8] In spite of this, total consumer expenditure did not rise in relation to personal disposable income, the greater advance in durable consumption being offset by slower growth in other components of consumption. There was also a decline in the volume of government expenditure, owing to a substantial fall in outlays for defence. The relatively moderate revival in total demand associated with these developments led to a rise in the seasonally adjusted index of industrial production in the second quarter of 1957. During the remainder of the year production was maintained at approximately this level, which was slightly lower than in the last quarter of 1955; there was a tendency for industrial output to decline at the end of the year. At no time during 1957 did the pressure of demand reach the high point attained in 1955; the moderate deterioration in the real external balance resulted largely from a rise in the rate of inventory accumulation and from the delivery of imports delayed from 1956 by the closing of the Suez Canal, rather than from an excessive pressure of domestic demand.

[8] The easing of the restrictions affecting purchases of motor vehicles did not have an immediate impact on sales because of the imposition of petrol rationing from December 1956 to May 1957, in connexion with the Suez crisis.

Apart from the United Kingdom, two other major industrial countries experienced a slackening in the growth of demand in 1956, though on a less significant scale—namely, the Federal Republic of Germany and the United States. In the Federal Republic, the easing of demand in 1956, which was particularly noticeable in the capital goods industries, resulted largely from a pronounced decline in the rate of growth of residential construction and of business expenditure on plant and equipment. However, a rise in personal consumption in relation to disposable income helped to maintain the expansion of demand in consumer goods industries. The easing of domestic demand was accompanied by a substantial improvement in the real external balance, which accounted for almost a fifth of the increase in total product during that year. The slackening in demand continued into 1957, during which year fixed investment failed to increase any further. The slowdown was now extended to the consumer goods industries, accompanying a rise in the proportion of personal disposable income set aside for savings. A mild stimulus to the growth of demand in 1957 was provided by a decline in the surplus on government current account, which resulted largely from tax reductions introduced late in 1956 and in 1957, and from increases in the salaries of public employees and in transfer payments. There was also a further improvement in the external balance.

In the United States, where the upswing in economic activity had started later than in western Europe, there was, by contrast with the Federal Republic of Germany and the United Kingdom, a rapid acceleration in business investment during 1956. The greater momentum of industrial investment was, however, outweighed by a fall in residential construction and in consumer expenditure on durables, especially motor cars. Housing investment was adversely affected by reduced availability of funds, higher costs of land and construction, and more selective demand.[9] The fall in durable consumption in 1956, which was even more significant in slowing down the expansion of demand,[10] was, as mentioned earlier, mainly a reaction against the large number of automobile sales in the preceding year. The increase in world demand for United States exports, which resulted in a rise in the real export balance, partly offset the weakening in internal demand.

The slackening in demand persisted into 1957. Total fixed investment showed no further increase, a continued decline in residential construction being roughly offset by a slight rise in other investment. In the course of 1957, the volume of business investment at first levelled off and then dropped towards the end of the year. As will be shown below, the slackening in business investment, as in the Federal Republic of Germany and the United Kingdom in 1956 and 1957, was largely due to the failure of demand to grow as fast as capacity. There was also only a slight recovery of consumption in relation to personal disposable income, which was now rising more slowly.

In the first half of the year the adverse effects of these developments on aggregate demand were largely offset by a further growth of exports and by a continuation of the upturn in defence expenditure which had begun in 1956. However, even these two buoyant components of demand turned downwards in the latter part of the year; this, coupled with disappointing sales of new automobile models, led to a small decline in total final demand at the end of the year. Industrial production, which had been virtually stable from the fourth quarter of 1955 to the third quarter of 1957, declined in September and continued to fall thereafter, while unemployment rose.

The adverse effects of the decline in final demand on industrial production were aggravated by inventory liquidation, which statistically was by far the largest element in the drop in total demand in the fourth quarter of 1957. Inventory accumulation had already fallen to low levels in the first three quarters of 1957 because of declines in new orders and diminishing backlogs of unfilled orders in manufacturing industries. New orders for industrial goods reached a peak late in 1956, and the subsequent decline was the inevitable by-product of the slowing down in the growth of demand. Since output was maintained at a high level, the fall in the volume of new orders was accompanied by a steady decline in outstanding orders. As sales fell, stocks of manufacturers were drawn down in the closing months of the year. Liquidation also appears to have been general in wholesale and retail trade, except for automobile dealers, who experienced some involuntary accumulation, and food retailers.

There was no significant easing in the growth of aggregate demand in 1956 in the other industrial countries, namely Belgium, Canada, France, Italy, Japan, and the Netherlands, mainly because of rapid increases in fixed investment and personal consumption. In France a steep rise in public expenditure, consisting primarily of higher military outlays connected with the Algerian conflict, also provided a major stimulus to demand. However, total demand weakened considerably in Canada in 1957, and there was a less marked easing of demand for the year as a whole in Belgium, Japan and the Netherlands. In Canada developments during 1957 resembled those in the United States. Although fixed investment rose for the year as a whole, it levelled off in the course of the year and then declined; consumer expenditure on durables also fell. This was accompanied by inventory developments similar to those in the United States. Industrial production declined gradually after the first quarter and unemployment

[9] See *Economic Report of the President* (Washington, D.C., January 1957), page 25. It should also be noted that, as a result of the large volume of residential construction since 1950, there was a substantial increase in the stock of vacant units, available for sale and rent.

[10] The decline in automobile sales was twice as large as that in residential construction in 1956.

rose, especially at the end of the year. In Belgium, where the boom had been largely based on demand from abroad, falling external demand for coal, steel and other metal products resulted in deterioration in the external balance; this, together with a slight decline in real fixed investment, contributed to a slowing down in the growth of total demand. In the Netherlands the Government introduced severe measures early in the year aimed at restraining personal and public expenditure, and also suspended the investment allowance, with a view to reducing the pressure of domestic demand and improving the external balance. These measures were instrumental in slowing down the growth of investment and especially of consumption expenditure, and brought about an easing in domestic demand in the second half of the year. In Japan, too, there was a pronounced slackening in investment demand in the course of the year following a number of measures adopted by the Government to this end. The setback in demand in Belgium and the Netherlands resulted in a decline in industrial production in the second half of the year. Unlike the situation in Belgium and Japan, there was some improvement in the external balances of Canada and the Netherlands during 1957.

The only two countries which did not experience a significant setback in the growth of demand during the greater part of 1957 were France and Italy. In both countries fixed investment continued to rise faster than total output, and at about the same rate as in the previous year. In France the increase in defence expenditure, though slower than in 1956, provided a further stimulus to the mounting pressure of domestic demand, especially for engineering products. In the second half of the year the steep rise in prices which followed the *de facto* devaluation of the franc and the government policy of reducing subsidies and increasing indirect taxes had an adverse effect on real wages. But the impact of this on consumption was partly offset by the expectation of increases in prices, and for the year as a whole the volume of consumption rose almost in proportion to the national product. The fears of devaluation and of restrictions on imports, both of which materialized in the second half of the year, also gave rise to speculative imports which were reflected in a rapid accumulation of inventories and a moderate deterioration in the external balance. In Italy, where consumption rose less than total output, strong external demand for exports throughout most of the year provided a powerful stimulus to the growth of demand and to industrial investment and resulted in an improvement in the real external balance. In both countries the rate of increase in industrial production for the year as a whole was maintained at the high level reached in 1956, although in Italy production declined moderately in the last quarter of 1957, after allowing for seasonal movements.

The slower rate of expansion in aggregate demand in the industrial countries in 1956 and especially in

Table 49. Changes in Employment and Unemployment, by Country

(Percentage change from previous year)

Country and year	Total civilian employment	Employment in manufacturing	Percentage unemployment[a]
Belgium			
1955	...	3	4.6
1956	...	3	3.6
1957	...	1	3.0
Denmark			
1955	...	−1	9.7
1956	...	−4	11.1
1957	...	3	10.2
Federal Republic of Germany[b]			
1955	5	8	5.1
1956	5	6	4.0
1957	3	3	3.4
France[c]			
1955	1	1	1.7
1956	1	1	1.1
1957	3	3	0.8
Italy			
1955	...	1	9.8
1956	...	2	9.9
1957	...	2[d]	9.0
Netherlands			
1955	...	2	1.3
1956	...	1	0.9
1957	...	—	1.3
Norway[b]			
1955	1	2	1.2
1956	—	1	1.4
1957	1	—	1.4
Sweden			
1955	1	2	...
1956	1	1	1.5
1957	0.5	—	1.9
United Kingdom			
1955	2	2	1.2
1956	1	—	1.3
1957	—	—	1.6
Canada			
1955	3	1	4.4
1956	4	6	3.4
1957	2	1	4.6
United States			
1955	3	4	4.4
1956	3	2	4.2
1957	—	−1	4.3
Japan			
1955	3	2	...
1956	2	13	...
1957	3	9	...

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

[a] The percentage of unemployment relates to the ratio of unemployed either to the total civilian labour force or to the civilian labour force available for hire. Unemployment percentages are not, however, comparable between countries owing to differences in definition.

[b] Civilian employment refers to wage and salary earners only.

[c] Civilian employment refers to the over-all index of employment of the Ministry of Labour. Unemployment percentages represent the ratio of applicants for employment to the civilian labour force covered by the over-all index.

[d] First six months compared with the corresponding period of the preceding year.

1957 was accompanied in general by a slackening in demand for labour. This was reflected in a smaller rate of increase in employment, a reduction in weekly hours worked in industry, and an increase in unemployment, as shown in table 49.

The easing in demand for labour became particularly pronounced in the latter part of 1957 and the early months of 1958. In some countries, notably Canada and the United States, there was a decline in the level of employment and an increase in industrial unemployment, especially in the automotive and steel industries. In most of the other industrial countries likewise there was a tendency for unemployment to increase during this period, although not as much as in North America.

Developments in Foreign Trade and Payments

The foreign trade of industrial countries followed the same general course as total economic activity during the recent boom. The rate of increase in the volume of exports and imports reached a peak during 1955, when the advance in output was also greatest. Foreign trade grew faster than total output in 1955, and approximately in proportion to industrial production. The expansion of trade slowed down less than production, both total and industrial, in 1956, and in North America the volume of exports actually accelerated in 1956, as shown in table 50. By 1957 the foreign trade boom was slackening rapidly, and in the last quarter of the year there was little or no advance over the corresponding quarter of 1956.

The volume of trade between the industrial countries themselves responded sensitively to the upsurge in business activity in 1955, as shown in table 51, rising more rapidly than industrial production in that year. Although production began to slacken in 1956, trade among the industrial countries continued to advance at almost the same pace as in 1955, and it was not until 1957 that a significant slowing down occurred. The most dynamic elements in the growth of this segment of trade in 1955-1956 were the upsurge in the demand of North America for goods from western Europe and Japan and a corresponding advance in the purchases of western Europe from Japan and North America. Although intra-European trade also rose significantly during this period, it did not dominate the development of trade of industrial countries, as in previous years.

The rise in North American demand accompanied a recovery from the recession of 1954, and reflected a continuing shift in the composition of North American imports towards finished manufactures, favouring imports from other industrial countries. As will be seen below, this shift was of considerable importance in relation to the buoyancy of North American imports as the recession began at the end of 1957. The relatively

Table 50. Quantum of Exports and Imports of Industrial Countries

(Corresponding period of preceding year = 100)

Item and year	Total[a]	North America	Western Europe[b]		
			Total	Continental	Sterling
Exports[c]					
1954	110	104	111	114	105
1955	111	110	111	113	107
1956	110	116	107	107	106
1957	106	106	106	107	103
1957 First quarter	116	121	113	116	106
1957 Second quarter	106	109	104	105	102
1957 Third quarter	106	104	107	107	105
1957 Fourth quarter	99	94	102	103	98
Imports					
1954	105	93	112	116	102
1955	112	112	112	112	112
1956	109	112	107	111	97
1957	105	100	106	107	103
1957 First quarter	112	101	115	121	102
1957 Second quarter	106	99	106	107	103
1957 Third quarter	104	101	104	105	104
1957 Fourth quarter	101	99	103	102	104

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

[a] Including Japan.

[b] Member countries of the Organisation for European Economic Co-operation. The sterling countries are Iceland, Ireland and the United Kingdom; continental countries are the remainder.

[c] Excluding special category exports of the United States.

Table 51. Quantum of Exports of Industrial Countries by Major Areas of Destination[a]
(Percentage change from preceding year)

Country or area of origin	North America	Western Europe	Total[b] industrial countries	All other
North America[c]				
1955	11	18	13	3
1956	14	16	16	14
1957	−2	6	4	12
Western Europe[d]				
1955	16	14	14	7
1956	21	7	9	3
1957	3	6	6	7
Japan				
1955	74	36	62	18
1956	20	20	20	21
1957	5	31	12	10
Total industrial countries[b]				
1955	15	15	14	7
1956	16	9	12	8
1957	—	6	5	9

Source: United Nations Bureau of Economic Affairs.

[a] Estimated on the basis of the current value of exports to each area, deflated by the over-all export unit value index for each area of origin.

[b] Including Japan.

[c] Excluding United States special category exports.

[d] Member countries of the Organisation for European Economic Co-operation.

greater increase in the exports of Japan and North America to western Europe than in intra-European trade was due to a series of factors. As output in the basic industries and in some of the engineering industries approached capacity in western Europe in 1955-1956, there was a considerable growth in import demand for items in short supply from domestic sources, such as coal, steel and certain types of machinery. The liberalization of imports from Japan and North America proceeded more rapidly than intra-European liberalization —trade within western Europe having already been largely freed in previous years. Western Europe's import demand for grain was also enlarged as a result of the poor harvest of 1956; apart from raising the total import requirements of importing countries, the short crop caused a decline in French exports in that year. In addition to these developments, there were two special factors affecting North American exports to Europe in 1956-1957. The Suez crisis led to higher deliveries of petroleum from the United States, and probably also to some speculative accumulation of inventories of other industrial materials in western Europe. Sales of foodstuffs and cotton under the United States agricultural surplus disposal programme contributed further to the export expansion throughout the period, but especially at the end of 1956 and during the first half of 1957.

The slowing down of trade among industrial countries in 1957 was characteristic of all the main components of this trade, but the tendency was especially marked in respect of shipments to North America, which were barely maintained in the aggregate, a slight decline in trade between Canada and the United States being a little more than offset by relatively small further increases in deliveries from Japan and western Europe. Cessation of special petroleum shipments by the United States at mid-1957 coincided with the curtailment of agricultural surplus disposal; and these factors, superimposed upon a weakening of demand in western Europe as shortages disappeared and activity began to slacken, resulted in a sharp fall in United States exports to Europe in the second half of 1957.

Exports of the industrial countries to the rest of the world as a whole lagged behind their trade with one another in the sense that they increased much less over the entire period, and that they continued to gain momentum in 1956-1957. There was a progressive increase in the exports of western Europe and Japan to the centrally planned economies, in line with a corresponding rise in import trade. There were, however, considerable differences in the development of trade with various groups of primary producing countries, which did not all participate to the same extent in the boom originating in the industrial countries. The countries making the largest gains during the recent boom were the exporters of minerals, including the Middle Eastern exporters of petroleum up to the time of the Suez crisis. There were, however, other notable advances in exports, especially from the overseas sterling area to continental western Europe and Japan and from the dollar countries of Latin America to North America. Other sectors of trade with primary producing countries showed little or no expansion. Foremost among these were the exports of the overseas sterling area to the United Kingdom, where import demand for most basic materials rose very

little even in 1955, and subsequently dropped in 1956 along with industrial production. Exports of the French dependencies to France did not increase very much until 1956. Nor was there any appreciable advance in the exports of the agricultural countries of non-dollar Latin America in the course of the boom. Stagnation in these sectors of trade contributed to the relatively smaller growth in the import demand of primary producing countries than of industrial countries over the period as a whole.[11]

The fact that the industrial countries' exports to primary producing countries tended to accelerate in 1956-1957—when the boom in industrial countries was slackening—is in line with experience in previous post-war economic expansions. As in the past, import demand of the primary producers responded to the growth in their export incomes only with a lag. This was natural since time was required for the advance in export incomes to generate repercussions throughout the economy, and hence an increase in import demand. Time was also needed before governments could decide that improvements in external balances were likely to persist long enough to warrant an easing of import restrictions; and even when such restrictions were eased, relatively long delivery periods applied to many of the capital goods which predominate in the import trade of primary producing countries. An additional factor of considerable importance tending to raise exports to primary producing countries in 1956 and 1957 was that private capital outflow from the United States reached a high point in those years.

The fact that the cycle of import demand in the primary producing areas lagged somewhat behind the corresponding cycle in industrial countries accounts for the changing importance of the two groups of countries as markets for the exports of western Europe and North America in 1957. For the first time for several years, the volume of exports of industrial countries to the rest of the world expanded rather more quickly than trade among the industrial countries themselves. Since, however, the imports of industrial countries were not equally buoyant, owing to the slowing down in economic activity, some of the primary producing countries began encountering balance of payments difficulties in the course of 1957, and were compelled to tighten their import controls once again.

Changes in the terms of trade were, in the aggregate, of minor importance during the recent boom, although some individual countries did experience significant shifts at one time or another. The average annual terms of trade of western Europe with the rest of the world did not change by more than one per cent in any year from 1953 to 1957, as shown in table 52. Changes were somewhat greater for North America, but still relatively small in comparison with previous periods of expansion; moreover the tendency was for the terms of trade of North America to improve moderately, rather than the reverse.[12] The terms of trade did, however, move significantly in favour of the industrial countries in the course of 1957, owing to the fall in commodity import prices during the year while export prices for manufactures were stable or increasing.

SHIFTS IN BALANCES OF PAYMENTS

The external balances of the industrial countries responded throughout the recent boom to relative changes in the pressure of domestic demand on domestic resources in each of them. Where the growth of demand in particular countries was confronted by lack of elasticity in the supply of certain commodities—especially coal, steel and various types of durable manufactures—imports of these goods increased, or exports were held back, so that balances of payments suffered accordingly.

[11] However, the rise in France's imports from her dependencies in 1956-1957 was followed by an increase in French exports to the dependencies in 1957.

[12] One important development contributing to this was the fact that increases in over-all United States import prices were held in check by declines in coffee prices from the unusually high levels reached in 1954.

Table 52. Terms of Trade of Industrial Countries[a]
(1953 = 100)

Year and period	Export unit value		Import unit value		Terms of trade	
	Western Europe	United States	Western Europe	United States	Western Europe	United States
1954	97	99	98	103	99	96
1955	100	100	100	102	100	98
1956	102	103	102	105	100	98
1957	105	107	104	105	101	102
1957 First quarter	104	108	105	106	99	102
Second quarter	106	107	107	106	99	101
Third quarter	108	107	105	105	103	102
Fourth quarter	103	108	99	104	104	104

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 2, 1958 (Paris).

[a] Data for western Europe relate to trade of the OEEC countries with the rest of the world; data for the United States relate to trade with all countries.

Conversely, as demand eased in response to government anti-inflationary measures or for other reasons, balances of payments improved once more.

From the latter months of 1956, however, the effects on balances of payments of differences in the degree of pressure on resources were complicated by a series of developments associated with or following upon the Suez crisis. The severe difficulties experienced in a number of countries during 1957 were not associated with major changes in balance of payments positions on current account for the year as a whole. In several countries, the changes in trade balances for 1957 recorded in table 53 appear to have been less marked than in previous years of the recent upswing, owing perhaps to a greater uniformity in developments in domestic demand and in rates of change of output than in preceding years. Like the Scandinavian countries and the United Kingdom in 1954-1955, most of the countries which had seen their external balances deteriorating in 1956 acted more or less vigorously to restrain domestic demand. Whether because of governmental measures or because of inherent forces, or both, demand slackened in virtually all the industrial countries in 1957, as shown above. This in itself set limits to the fluctuations in current external balances in 1957, especially in comparison with the previous three or four years, when there had always been one group of countries moving ahead more rapidly than the rest.

The main exception seems to be Japan, where the investment boom continued well into 1957, while demand in export markets was getting increasingly out of line with Japan's growing demand for imports; as a result the current balance of payments deteriorated considerably, measures to restrain domestic demand were adopted beginning in March 1957, and import finance was curtailed. In France and Italy, where demand did not slacken significantly in 1957, the real balance of trade did not deteriorate. Despite the slowing down of activity elsewhere, Italian exports accelerated, and both France and Italy benefited from better harvests. In addition, France imposed import restrictions at mid-year. There was, however, a setback in the terms of trade and hence in the current trade balance of both countries.

Within the broad context of more limited fluctuations than in previous years, external balances improved in real terms in 1957 in Canada, the Federal Republic of Germany, the Scandinavian countries and the United States. In Norway and Sweden the improvement in real external balances was accompanied by a deterioration of current merchandise trade balances because of greater increases in import prices than in export prices. However, in these two countries as well as in the Netherlands, adverse movements in the current balance of visible trade were more than offset by higher net earnings from services. External balances deteriorated both in real and money terms in Belgium-Luxembourg, Japan, and the United Kingdom.

Despite the relatively moderate shifts in balances of payments on current account for the year 1957 as a whole, a number of countries experienced serious pressure on their gold and dollar reserves in the course of the year. The Suez crisis, together with other factors referred to above, resulted in a temporary shift to the United States as a source for imports of certain key commodities. Consequently there was a sharp rise in United States exports to Europe in the first half of 1957, and thus a simultaneous increase in the United States export balance and deterioration in the balances of western European countries, followed by an opposite movement in the second half of the year. Total United States payments had for some years been exceeding total receipts, so that gold and dollars had been flowing to the rest of the world. This situation was, however, reversed at the end of 1956, as will be shown below. At the same time, the Federal Republic of Germany, where the pressure of domestic demand was relatively weaker than in other European countries, was continuing to run massive surpluses with other members of the European Payments Union (EPU). This meant that the Federal Republic of Germany and the United States were both absorbing reserves fairly rapidly from other countries towards the end of 1956 and during most of 1957. The latter countries lost about 1.5 billion dollars in gold and dollar reserves from September 1956 to September 1957; and the losses would have been even greater but for net drawings of 1.0 billion dollars against quotas in the International Monetary Fund during this period.

Capital movements contributed considerably to the balance of payments difficulties of a number of countries, associated with these developments. A sharp increase in the French deficit on trade account in the first half of 1957 resulted in heavy outflows of capital and pressure on the gold and foreign exchange reserves.[13] There was also growing speculation on the possibility of extensive currency realignments in western Europe during the third quarter of 1957. Thus, for example, large deficits in the European Payments Union beyond anything warranted by normal transactions were recorded in one or more months during the third quarter of 1957 by Belgium-Luxembourg, Denmark, France, the Netherlands, Norway, Sweden, Turkey and the United Kingdom. Correspondingly large surpluses were reported by Austria, the Federal Republic of Germany, Italy, Portugal and Switzerland. As a result of pressure on the balance of payments, the French Government, begining on 12 August 1957, imposed a 20 per cent surcharge on some 60 per cent of total French imports from countries outside the franc area, and extended a

[13] According to a statement by the French Minister of Finance before the National Assembly in November 1957, the gold and foreign exchange reserves fell by 1.3 billion dollars from January 1956 to November 1957; the loss would have amounted to 2.0 billion dollars but for drawings on the International Monetary Fund and on credits advanced by the European Payments Union and certain foreign banks.

Table 53. Changes in the Quantum of Exports and Imports, Terms of Trade and Current Trade Balances

(Millions of dollars; percentage change from preceding year)

Country and year	Quantum of trade		Terms of trade[a]	Change in current trade balance[b]
	Exports	Imports	(Percentage change from preceding year)	(Millions of dollars)
Belgium-Luxembourg				
1955	17	11	3	181
1956	7	11	3	−56
1957	−2	2	—	−137
Canada				
1955	8	14	1	−273
1956	8	19	1	−591
1957	1	−4	−3	124
Denmark				
1955	9	−1	1	86
1956	2	7	—	−79
1957	8	2	−3	15
Federal Republic of Germany				
1955	16	24	−2	−335
1956	16	12	1	399
1957	14	12	1	335
France				
1955	16	13	2	213
1956	−10	16	—	−1,190
1957	10	4	−2	−58
Italy[c]				
1955	14	9	−3	−53
1956	9	12	1	−158
1957	17	9	−4	−74
Japan				
1955	31	5	−4	310
1956	20	27	1	−269
1957	12	25	−4	−702
Netherlands				
1955	10	8	1	−77
1956	4	13	−1	−342
1957	5	6	−2	−144
Norway				
1955	2	4	5	−21
1956	14	8	5	17
1957	—	—	−3	−13
Sweden				
1955	5	11	2	−78
1956	11	6	−3	13
1957	8	6	−1	−13
United Kingdom				
1955	8	12	−1	−730
1956	6	−1	2	816
1957	2	4	3	−137
United States[d]				
1955	10	11	2	155
1956	17	8	1	1,680
1957	8	3	3	1,730

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

[a] Ratio of export unit value to import unit value.

[b] Exports f.o.b. less imports c.i.f. Imports of Canada and United States adjusted to c.i.f. (f.o.b. plus 10 per cent).

[c] Quantum of exports and imports derived by dividing value by official unit value indices.

[d] Excluding shipments under military aid programmes.

premium of 20 per cent to a similar proportion of exports.[14]

[14] At the same time the special compensatory tax on imports was abolished, and the existing system of export subsidies was superseded for all except a few products.

The short-term balance of payments position of France began to improve immediately after the August changes in the exchange system; in fact, the August EPU deficit was already sharply reduced from the July

level. However, some speculation continued,[15] and on 28 October virtually all imports were made subject to the 20 per cent surcharge and all exports to the 20 per cent premium. Therafter a further improvement in the balance of payments occurred, and the deficit on trade account in the fourth quarter of 1957 fell well below the level of the corresponding quarter in 1956.

The particularly large deteriorations in the EPU positions of the Netherlands in August 1957 and of the United Kingdom in August and September 1957, and the corresponding increase in the surpluses of the Federal Republic of Germany in those months were not due to any exceptional changes in trade balances[16] but rather to heavy short-term capital transfers, reflected in the residual "Other items" for these countries for the third quarter of 1957 in table 54. These were reversed in the last quarter of 1957 following the raising of the bank rate and other restrictive measures in the Netherlands[17] and the United Kingdom, and the declarations by the Governments of the Federal Republic of Germany and the United Kingdom of their intention to maintain existing exchange parities.

[15] In particular, there was a considerable increase in imports of coal and steel, which were exempted from the previous import surcharge; France could not restrict imports of these commodities from other members of the European Coal and Steel Community.

[16] Although there was some shift in the United Kingdom trade balance with the EPU area from the second to the third quarter of 1957, much or most of this appears to have been seasonal in character. On the other hand, part of the shift in "Other items" in the third quarter reflects a substantial decline in the import balance of continental western Europe with the overseas sterling area.

[17] The improvement in the Netherlands EPU balance during the last quarter of 1957 was partly attributable to the purchase by a private bank in the Federal Republic of Germany of Netherlands Treasury bonds in the amount of $52 million.

FLUCTUATIONS IN DOLLAR BALANCES OF PAYMENTS

The recent production cycle was marked by growing export balances on current account of the United States, as shown in table 55; so much so that during the last quarter of 1956 and the first nine months of 1957, as noted above, the rest of the world began losing gold and dollar reserves as a result of transactions with the United States for the first time since 1951. The net inflow of funds into the United States was reversed during the last quarter of 1957 at the very time when production and income in the United States were beginning to fall. This shift in the United States balance of payments, illustrated in chart 10, was in marked contrast to previous experience of cyclical downturn in the United States, which has usually been accompanied by a deterioration in the dollar balance of the rest of the world.

The increase in the export balance of the United States from 1953 to 1957 cannot be ascribed to any change in the relationship of total imports to the domestic economy. United States imports of goods and services have risen, if anything, faster than, and merchandise imports as fast as, the gross national product. On the other hand, exports rose considerably faster than output in the United States, especially after 1955, as may be seen from table 56.

The reappearance of a dollar gap seems to have been due primarily to a more rapid expansion of economic

Table 54. Trade and Payments Balances with the European Payments Union, 1957 by Quarters[a], Selected Countries
(Millions of dollars)

Country and item	*First quarter*	*Second quarter*	*Third quarter*	*Fourth quarter*
Federal Republic of Germany				
Trade balance	+417.0	+482.7	+390.0	+403.5
Other items	−51.3	−86.3	+307.7	−437.6
Total balance	+365.7	+396.4	+697.7	−34.1
France				
Trade balance	−127.8	−242.4	−122.4	−54.0
Other items	−124.4	−51.3	−87.4	−32.4
Total balance	−252.2	−293.7	−209.8	−86.4
Netherlands				
Trade balance	−110.7	−119.1	−30.6	−41.1
Other items	+98.9	+113.1	−61.7	+187.4
Total balance	−11.8	−6.0	−92.3	+146.3
United Kingdom				
Trade balance	+62.4	+21.0	−97.8	−81.3
Other items	−22.6	−24.9	−303.6	+84.9
Total balance	+39.8	−3.6	−401.4	+3.6

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 2, 1958 (Paris).

[a] Trade balances are the exports f.o.b. to all countries in the European Payments Union less imports c.i.f. (excluding, however, the trade of France, the Netherlands and the United Kingdom with their respective affiliated monetary areas). Payments balances, referred to in the body of the table as "total balances," consist of the net surpluses or deficits with the European Payments Union. "Other items" are calculated as a residual.

Chart 10. Supply of Dollars by the United States and Use of Dollars by Rest of World, 1954-1957

(Seasonally adjusted quarterly data)

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D. C.).

[a] Represents payments abroad for United States imports of goods and services, government grants and capital outflows on government and private account.

[b] Represents receipts from abroad for United States exports of goods and services (excluding military aid exports), foreign long-term investment in the United States and errors and omissions. The vertical distance between the two curves represents the increase or decrease (shaded area in the chart) in foreign gold and dollar assets.

Table 55. United States: Balance of Payments, 1953–1957

(Millions of dollars)

Item	*1953*	*1954*	*1955*	*1956*	*1957*
Exports of goods and services[a]	17,081	17,938	19,915	23,518	26,262
Imports of goods and services[b]	−16,644	−16,088	−17,923	−19,800	−20,627
Balance of goods and services	437	1,850	1,992	3,718	5,635
Government grants and capital[a]	−2,196	−1,638	−2,308	−2,465	−2,725
United States private capital[c]	−845	−2,105	−1,609	−3,483	−3,582
Foreign long-term investment in United States	206	244	344	542	339
Change in foreign gold and dollar assets (decrease −)	2,102	1,516	1,130	996	−428
Errors and omissions	296	178	451	692	761

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D. C.).

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

[b] Including government military expenditures abroad.

[c] Including private donations.

Table 56. United States: Ratio of Imports and Exports to Gross National Product

Year	Imports			Exports[a]	
	Goods and services				
	Including overseas military expenditure	Excluding overseas military expenditure	Merchandise	Goods and services	Merchandise
1953	4.58	3.88	3.03	4.64	3.38
1954	4.45	3.73	2.87	4.90	3.54
1955	4.58	3.86	2.94	5.06	3.65
1956	4.78	4.08	3.08	5.65	4.18
1957	4.75	4.03	3.05	6.05	4.44

Source: Economic Report of the President, January 1958 (Washington, D. C.); United States Department of Commerce, *Survey of Current Business* (Washington, D. C.), February and March 1958.

[a] Excluding military aid exports.

activity in the rest of the world than in the United States, especially in 1956 and 1957. It may be seen from data presented earlier in this chapter that the real national product advanced more quickly in Canada in 1956 and in western Europe in 1956 and 1957 than in the United States. The following data also show that the rate of growth of industrial production in the United States was smaller than in the rest of the world except during the initial phase of United States recovery from the 1953/54 recession (indices, 1953 = 100):

	1954	1955	1956	1957
United States	93	104	107	107
Rest of world[a]	108	119	126	130

Source: Statistical Office of the United Nations.
[a] Excluding centrally planned economies.

At the same time, there has been a very marked increase in the ratio of imports to total output in Canada, Japan and western Europe since 1953. In western Europe the volume of imports had moved approximately in proportion to total output from 1950 to 1953. From 1953 to 1957, on the other hand, western Europe's imports increased more than twice as fast as aggregate output. Still greater disparities between the rate of growth of imports and of total output were recorded in Canada and Japan since 1953. In other words, not merely did economic activity grow more rapidly in other industrial countries than in the United States, but this growth had a relatively greater effect upon import demand. In addition, there was a tendency for the share of the United States in the total imports of the rest of the world to increase, as may be seen in the following data showing United States exports as a percentage of total world exports and of exports to certain selected areas in 1953 and 1956:

	United States exports[a] as a percentage of world exports to					
	World	Western Europe	Canada	Japan	Total industrial countries[b]	All other countries[b]
1953	16.2	9.2	73.7	32.2	18.1	2.07
1956	17.9	12.1	75.4	34.2	20.4	21.2

Source: Statistical Office of the United Nations.
[a] Excluding special category exports.
[b] Excluding the United States.

Of greatest importance in the expansion of exports from 1953 to 1957 were the agricultural surplus disposal programme of the United States and the growth of demand in the rest of the world for non-agricultural raw materials and industrial equipment. The latter were required to facilitate the production and investment boom that was taking place in many parts of the world, and to relieve specific shortages. Demand for United States exports was also stimulated by an unusually large expansion in 1956 and the first half of 1957 of United States foreign investment, especially in Canada, Latin America and to a lesser extent in western Europe.

Something like one-half of the increase in exports shown in table 57 appears to relate to shipments associated with special or temporary situations; these include exports of agricultural products as well as of coal, petroleum[18] and, to some extent, of metals. Liberalization of imports outside the dollar area has apparently not yet gone far enough to provide a major stimulus to United States exports of manufactured consumer goods. The group of "Other manufactures" shown in table 57, consisting largely of consumer goods, accounts for less than 6 per cent of the rise in export shipments from 1953 to 1957.[19] The main result of dollar liberalization programmes thus far appears to have been to make it possible for countries outside the dollar area to reduce or eliminate discrimination in imports of raw materials and to purchase larger amounts of industrial producer goods in which the high level of United States technology is characteristically embodied. For example, while previously machinery and certain raw materials may have been imported from North America by some of the European countries only when certain criteria of essentiality had been satisfied, or when alternative supplies from other sources were not available, the easier dollar position of these countries in more recent years probably resulted in fewer re-

[18] As noted above, increased exports of petroleum in 1957 mainly reflected the repercussions of the Suez crisis.

[19] This was, however, partly due to the levelling off of demand in 1957 in Canada, the chief United States market for consumer goods.

Table 57. United States Exports,[a] 1953 and 1957
(Millions of dollars)

Item	1953	1957	Increase
Agricultural products	2,848	4,511	1,663
Food	1,721	2,498	777
Raw cotton	517	1,048	531
Selected non-agricultural materials and equipment	6,376	10,786	4,410
Coal and related products	346	845	499
Petroleum and products	498	796	298
Metals and manufactures	1,050	2,395	1,345
Machinery and vehicles[b]	3,682	5,376	1,694
Chemicals and related products	800	1,374	574
Other manufactures	1,599	2,006	407
Textile manufactures	640	667	27
Passenger cars	276	298	22
Wood and paper manufactures	155	267	112
Miscellaneous manufactures	528	774	246
Other	702	1,088	386
Total exports[a]	11,525	18,391	6,866

Source: United States Department of Commerce, *Total Export Trade of the United States*, 1953, 1956, 1957 (Washington, D. C.).

[a] Excluding special category exports.

[b] Excluding passenger cars.

straints on the freedom of business in these fields. In the absence of serious declines in economic activity or in the world supply of dollars, it might be expected that much of the increase in United States exports of such goods may be maintained.

The rising United States export balance which resulted from the convergence of the various influences reviewed above was financed primarily by a growing outflow of United States private capital and a progressive decline in the rate of accumulation of gold and dollar reserves by other countries — culminating in the reappearance of the dollar gap during the last quarter of 1956 and a reduction of reserves for the year 1957 as a whole, as shown in table 55.

The reversal of the dollar flow during the last quarter of 1957, which coincided with the onset of the United States recession, appeared to be due in part to the temporary or cyclical character of certain of the factors which had accounted for the previous export balance. Shipments of agricultural surpluses declined after the middle of the year, both as a result of a reduction in the finance available for such shipments, and because of lower demand abroad associated with good harvests and the completion of purchases for inventory.[20] Exports of petroleum fell with the re-opening of the Suez Canal; at the same time slackening demand abroad caused a decline in deliveries of such industrial materials as coal and metals, as well as of industrial equipment. Finally, a sharp contraction in United States foreign investment in the course of 1957 was also associated with a drop in the demand for United States capital equipment.

[20] In so far as these shipments were financed in domestic currencies of other countries, a reduction in their level could not, of course, contribute to any improvement in the demand-supply position for dollars.

More striking, however, was the course taken by imports of goods for consumption, which rose 5 per cent in value from the fourth quarter of 1956 to the fourth quarter of 1957. It is true that gross national product was still slightly higher in the last quarter of 1957 than in the corresponding quarter of 1956. But there was a sharp change from inventory accumulation to liquidation, equivalent to 2 per cent of total output and a fall of 5 per cent in industrial production — developments which would normally strike severely at imports.

The interpretation of the unexpected buoyancy of imports at the end of 1957 involves factors of both short-term and longer-term significance. On the one hand, the value of imports of certain items rose because of special situations. This applies, for example, to the replenishment of inventories of coffee, which were generally run down early in 1957, and to the large expansion in imports of meat products, associated with a relative shortage of domestic supplies.[21] These developments are reflected in the import data for crude and manufactured foodstuffs shown in table 58. There is probably also an exceptional element in the rise in imports of cars, involving a shift in the pattern of consumption, seeing that total sales of cars in the domestic market declined sharply.

Of longer-term consequence is the fact that the share of recession-sensitive commodities in total United States imports has been declining in recent years. Imports of crude and semi-manufactured materials other than petroleum did drop 10 per cent in value from the fourth quarter of 1956 to the corresponding quarter of 1957, but at that time they comprised little more than one-

[21] There was also a large increase in general imports of tobacco, though not in imports for consumption.

Table 58. United States Imports, Fourth Quarters of 1956 and 1957

(Millions of dollars)

Item	Fourth quarter 1956	Fourth quarter 1957	Percentage increase or decrease(—)
Crude foodstuffs	444	577	30.0
Manufactured foodstuffs	263	320	21.7
Crude and semi-manufactured materials	1,592	1,516	−4.8
Petroleum	346	392	13.3
Other	1,246	1,124	−9.8
Finished manufactures	889	911	2.5
Automobiles	47	109	131.9
Other	842	802	−4.8
TOTAL	3,187	3,323	4.3

Source: United States Department of Commerce, *Total Import Trade of the United States*, Part 3 (Washington, D. C.).

third of total United States imports compared with nearly one-half in 1948. Post-war United States imports of foodstuffs and finished manufactures have shown substantial resistance to the onset of recessions, and this has also been true of imports of petroleum, where there has been a rising trend in relation to domestic output.

An additional factor tending to maintain United States imports, at least in relation to domestic output, was the fact that at the peak of the boom it had become temporarily profitable to raise the domestic output of raw materials above normal levels.[22] Data on production and imports of copper, lead and zinc, for example, show that domestic output reached a peak during the first half of 1957 and declined sharply in the latter part of the year, while the volume of imports of ores or consumption of foreign ores was generally maintained or even increased.[23]

[22] From 1954 to 1957 the volume of imports of industrial raw materials other than petroleum rose substantially less than industrial production in the United States.

Developments on capital account were also favourable to the rest of the world at the onset of the recession. A cessation of speculative capital inflow is suggested by the change in the balancing item in the United States balance of payments in the fourth quarter of 1957; the previous inflow had probably been associated with the balance of payments difficulties encountered in certain of the western European countries earlier in the year. The net change in foreign gold and dollar assets shown for the fourth quarter in table 59 was also affected by the drawing of a $250 million Export-Import Bank loan by the United Kingdom and the postponement of service on the United Kingdom loan, amounting to $138 million.[24]

The decline in United States exports was still in its early stages by the fourth quarter of 1957, and seemed likely to go a good deal further before levelling off. It was upon this factor that hopes of averting a serious dollar crisis in the event of further significant declines in United States economic activity primarily depended. In 1953/54 it had been possible for expansion to proceed unchecked in the rest of the world even while the recession in North America was under way, without any serious adverse repercussions upon balances of payments with the dollar area. Rather less satisfaction can be gained from the development of the situation in 1957/58, when stability in balances of payments was being achieved through slackening economic activity in the rest of the world, with a consequent weakening in the demand for goods from North America.

[23] While imports of petroleum and of non-ferrous metals thus showed a resistance to the recession, petroleum imports are already subject to restrictive measures, and action which would have the effect of limiting imports of non-ferrous ores and metals is under consideration.

[24] As noted previously, a number of countries drew dollars against their quotas in the International Monetary Fund in the latter part of 1956 and in 1957. Net drawings amounted to $579 million and $913 million in the two years, respectively.

Table 59. United States: Balance of Payments, 1956 and 1957, by Quarter

(Seasonally adjusted data in millions of dollars)

Year	Goods and Services: Exports[a]	Goods and Services: Imports[b]	Goods and Services: Balance	US Government grants and capital[a]	Private capital[c]	Foreign investment in United States	Change in foreign gold and dollar assets (decrease(—)	Errors and omissions
1956								
First quarter	5,392	−4,934	458	−596	−577	125	536	54
Second quarter	5,811	−4,856	955	−618	−623	157	76	53
Third quarter	6,049	−4,995	1,054	−688	−1,129	147	454	162
Fourth quarter	6,266	−5,025	1,241	−633	−1,074	113	−70	423
1957								
First quarter	6,701	−5,102	1,599	−742	−1,018	170	−380	371
Second quarter	6,745	−5,081	1,664	−757	−1,154	128	−103	222
Third quarter	6,593	−5,186	1,407	−611	−712	24	−385	277
Fourth quarter	6,223	−5,258	965	−547	−766	17	440	−109

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D. C.).

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

[b] Including government military expenditures abroad.

[c] Including private donations.

Current Situation and Outlook

THE DEVELOPMENT OF EXCESS CAPACITY IN INDUSTRY

In view of the significant role of business fixed investment in some of the major industrial countries in bringing the recent period of economic expansion to an end, it is important to examine in greater detail some of the factors responsible for this development, and their bearing on the course of the recession. The pronounced slackening in business fixed investment — in western Europe during 1956-1957 and in North America in 1957 —appears to be closely associated with the failure of demand to expand rapidly enough to keep pace with the growth of capacity during this period. Such conditions are naturally apt to lead to a reduction in the level of expenditure on plant and equipment, especially in those industries in which excess capacity is most burdensome.

Unfortunately no comprehensive data are published anywhere on the extent of utilization of capacity. The task of measuring accurately changes in the volume of idle equipment in the economy is therefore impossible, and it becomes necessary to employ partial data or indirect methods of estimation. There are also certain conceptual difficulties connected with the measurement of capacity and these have to be borne in mind in the following discussion.

In two countries—the Federal Republic of Germany and the United States — estimates have been made of changes in capacity utilization in certain sectors of the economy. In the Federal Republic, such estimates are available for capital goods and consumer goods industries separately since January 1955. According to this information, the degree of utilization of capacity, which had, on the whole, been rising in the first three quarters of 1955, declined steadily after October 1955, in both capital and consumer goods industries, even though production continued to advance. It can be seen from the following table that the decline was more pronounced in the capital goods industries in 1956, when business investment slowed down but personal consumption continued to rise rapidly. With the slackening in consumer expenditure in 1957, idle capacity began to increase more quickly in consumer goods industries. By April 1958 the extent of capacity utilization in both sectors of industry was considerably below the level of October 1955.

Federal Republic of Germany: Percentage changes in capacity utilization, compared with October 1955

	Capital goods industries	*Consumer goods industries*
1956, October	−5	−2
1957, April	−4	−3
1957, October	−7	−5
1958, April	−8	−9

Source: IFO—Institut für Wirtschaftsforschung, *Schnelldienst* (Munich).

In the United States, data on the volume and growth of productive capacity are available for a number of major industrial materials since 1951. By comparing the level of capacity and output in particular periods, it is possible to arrive at reasonably reliable estimates of the extent of excess capacity for the production of these materials.

Table 60 shows that during periods of peak activity in 1951, 1953 and 1955/56, the metal industries as a whole worked fairly close to full capacity, the highest degree of capacity utilization being attained in 1951. In the case of textile materials, only in the first half of 1951 was the rate of capacity utilization about as great as that attained by the metals; after 1951 the highest rate of utilization reached, even at the peak level of activity in 1953 and 1955/56, was in the region of 80 per cent.

Taking the major materials as a group, it can be seen that the highest level of capacity utilization—97 per cent —was reached in the first half of 1951. During the 1953 and the 1955/56 economic upswings the corresponding rate was still about 5 per cent below the first half of 1951. The high level of investment in these industries caused productive capacity to rise by 25 per cent in the five years from the beginning of 1951 to the beginning of 1956, while production rose by only 20 per cent during the same period. In 1956 and 1957 a further advance in capacity was accompanied first by stagnation and later by a gradual fall in the level of output. This inevitably meant a steady decline in the ratio of output to capacity.

It may be noted that idle capacity began increasing long before there was an actual downturn in the volume of output; the peak of capacity utilization during the recent boom was reached in the first half of 1956, but production did not begin falling until the beginning of 1957. It also appears that the lowest point of capacity utilization reached in the 1953/54 recession was 77 per cent—a percentage which was passed about three months after the beginning of the current recession in 1957; by the first quarter of 1958 the rate of utilization in major materials averaged only 70 per cent of capacity at the start of the year.

Changes in industrial production and capacity

Estimates of production and capacity growth in United States industry[25] yield conclusions along the lines of those reached above for major industrial materials. Similar estimates point also to an increase in idle capacity in the Federal Republic of Germany and the United Kingdom during 1956 and 1957. These estimates are based on the broad assumption that, over

[25] Unless otherwise stated, the term "industry" as used throughout the following discussion covers only manufacturing and mining.

Table 60. United States: Ratio of Output to Productive Capacity,[a] MajorMaterials, Metals and Textiles

(Percentage)

Year	Total major materials		Metals		Textile materials	
1951						
First half	97		97		95	
Second half	93		98		85	
Full year		95		98		90
1952						
First half	83		80		75	
Second half	86		84		81	
Full year		84		82		78
1953						
First half	91		95		80	
Second half	86		90		73	
Full year		89		92		77
1954						
First half	78		73		68	
Second half	79		75		72	
Full year		78		74		70
1955						
First half	88		90		79	
Second half	92		95		81	
Full year		90		92		80
1956						
First half	92		94		80	
Second half	85		82		77	
Full year		88		88		78
1957						
First half	87		89		80	
Second half	81		79		77	
Full year		84		84		79
1958						
First quarter[b]	70		58		70	

Source: United Nations Bureau of Economic Affairs, based on data supplied by the Board of Governors, Federal Reserve System of the United States.

[a] Based on data for seventeen materials combined with value-added weights. Metals are pig-iron, steel ingots, primary aluminum, and refined copper. Textiles are cotton yarn and synthetic fibers and yarn. Materials included in total and not shown separately are cement, wood-pulp, paper, paperboard, petroleum products, coke, and five industrial chemicals.

It is assumed that changes in capacity between the beginning and end of each year have taken place at a uniform rate.

[b] As per cent of productive capacity in January 1958.

short periods of time, productive capacity in industry changes in line with the volume of gross fixed industrial investment.[26] They are examined here not only for the Federal Republic of Germany, the United Kingdom and the United States, but also for France and Italy, which did not experience a slackening in the growth of demand and production during this period. For the four western European countries, the data are examined in table 61 on an annual basis since 1951. For the United States, where more detailed information extending over a longer period of time is available, a more extensive analysis has been made in table 62.

It can be seen from table 61 and chart 11 that in Italy and especially in France the growth of industrial production during 1956-1957 was higher, in absolute terms, than the average annual absolute increase recorded between the years 1951 and 1955. This was fully in line with the larger volume of investment during 1956-1957

[26] The validity of this assumption depends upon a number of conditions of which the following may be of special importance: (*a*) that the ratio of retirements of old plant and equipment to gross investment in new plant and equipment remains roughly unchanged throughout the period, (*b*) that the rate of completion of new capacity varies proportionally with gross fixed investment, (*c*) that there is no change in the composition of investment or of output which would significantly affect the average relationship between a unit of investment and a unit of output and (*d*) that there are no quality improvements in productive assets due to technological progress except those reflected in the value of gross fixed investment at constant prices.

Assumption (*d*) undoubtedly leads to a considerable understatement of the growth in capacity; to this extent, indications of increases in excess capacity would also be understated. The extent of any bias introduced by assumptions (*a*), (*b*) and (*c*) is not known, but it is probably not such as to invalidate the broad conclusions drawn in the text.

Table 61. Gross Fixed Investment and Changes in Industrial Production, Selected Western European Countries

(At annual rates)

Country and item	1951 to 1955[a]	1956[b]	1957[c]
Countries with no slackening in demand in 1956–1957:			
France			
Gross investment in machinery and equipment (billions of 1954 francs)	1,100	1,400	1,500
Absolute change in industrial production index[d]	5	12	11
Italy			
Gross fixed industrial investment (billions of 1954 lire)[e]	780	910	1,000
Absolute change in industrial production index[d]	8	9	10
Countries with slackening demand in 1956–1957:			
Federal Republic of Germany			
Gross investment in machinery and equipment (billions of 1954 Deutsche marks)	16	22	22
Absolute change in industrial production index[d]	11	10	8
United Kingdom			
Gross fixed industrial investment (millions of 1948 pounds)[e]	764	914	945
Absolute change in industrial production index[d]	4	−1	3

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin* (Paris); and national sources.

[a] Investment relates to the average for the years 1952 to 1955; the annual rate of increase in industrial production is based on the increase from 1951 to 1955.

[b] Investment in 1956; industrial production in 1956 compared with 1955.

[c] Investment in 1957; industrial production in 1957 compared with 1956.

[d] The absolute change in the industrial production index is the number of points by which the index of industrial production (1953=100) increased or decreased (−) during the periods indicated.

[e] Investment in manufacturing, mining and public utilities other than transport and communications.

as compared with the earlier period. In France,[27] where the recovery from the 1952 recession was delayed by about a year, as compared with other western European countries, there was a relatively larger volume of idle capacity during 1955 than elsewhere. The greater buoyancy of production in relation to investment during 1956-1957, as compared with Italy, can be explained partly by the fact that a large part of this idle equipment was brought into operation in response to the powerful expansion of demand during those two years.

Unlike the situation in the above two countries, in the Federal Republic of Germany and the United Kingdom the appreciably larger volume of industrial investment in 1956-1957, as compared with the period from 1951 to 1955, was accompanied by a lower annual absolute growth in industrial production.[28] This was particularly true of the United Kingdom where industrial production actually fell in 1956 and recovered moderately in 1957. There was an increase in idle capacity in both countries during the last two years of the upswing, a fact which is confirmed in the case of the Federal Republic by the estimates of capacity utilization mentioned earlier.[29]

Estimates made on a similar basis for the industrial and manufacturing sectors of the United States economy indicate an even more pronounced lag in demand behind productive capacity than in the case of the Federal Republic of Germany and the United Kingdom. For industry as a whole, and for manufacturing separately, changes in the absolute volume of output are compared with appropriate indicators of the volume of fixed investment in table 62. The two indicators of investment chosen for industry as a whole show broadly parallel movements.

It can be seen from table 62 that between the peak production months of 1948 and 1951, and of 1951 and 1953, the index of industrial production was rising at an annual rate of 6 to 7 per cent of the 1947-1949 average for every $15 to $16 billion invested in nonfarm producers durable equipment. On the other hand, from the 1953 peak to the end of 1955, although the

[27] It will be noted from table 61 that in the Federal Republic of Germany and in France, purchases of machinery and equipment are used as indicators of gross fixed investment in industry.

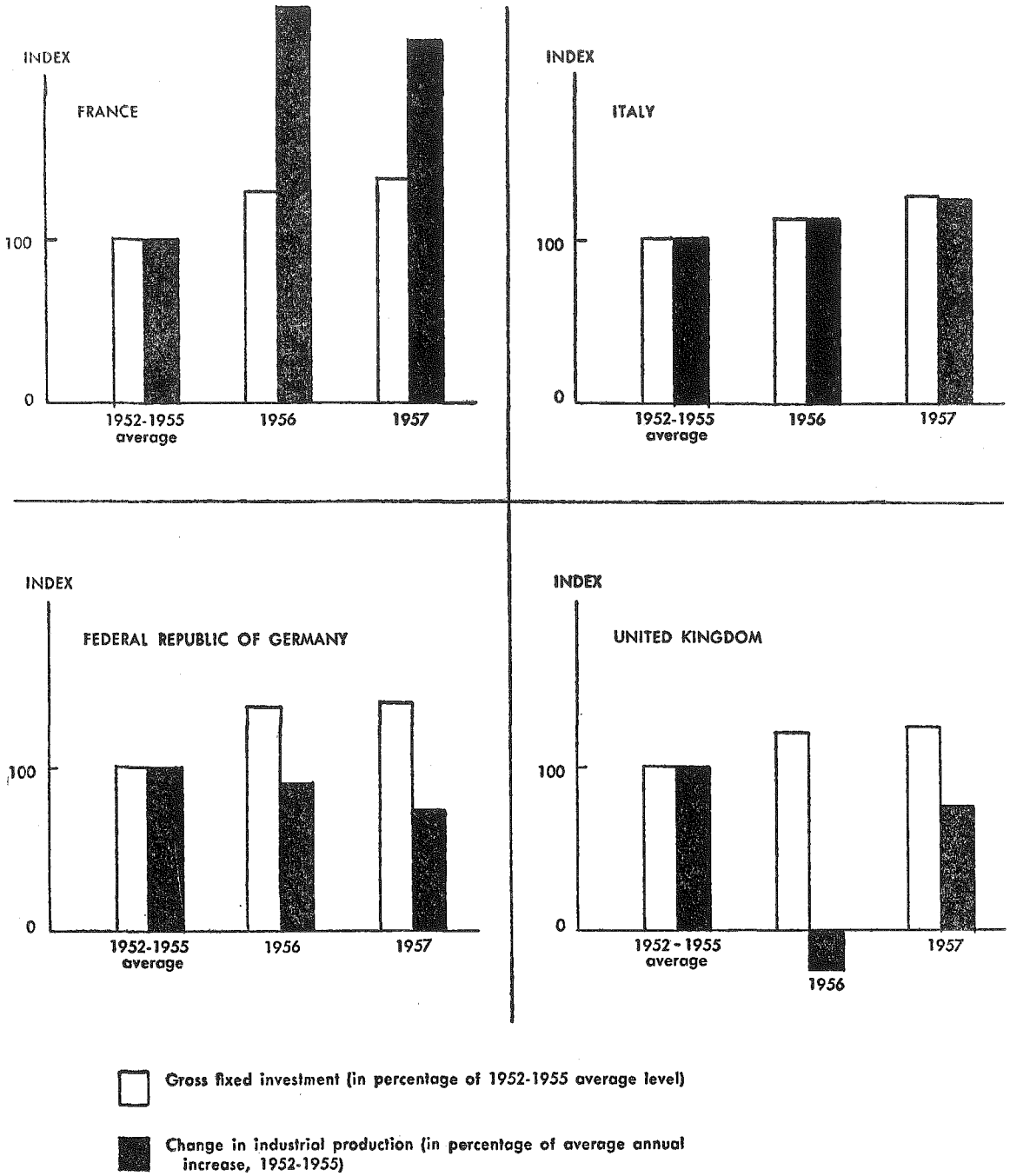
[28] This might have been due in part to a higher degree of utilization of capacity in 1955 than in 1951, if such was the case. Available information suggests that capacity was probably more intensively utilized in 1951 than in 1955 in the United Kingdom. Even in the Federal Republic of Germany, where the relation between the two years is less clear, since capacity utilization was high both in 1951 and in 1955, it is doubtful whether this could have been an important factor.

[29] In the case of the United Kingdom the following passage from the *Economic Survey, 1958*, Cmnd 394 (London), page 30, generally supports this conclusion:

"In the past two years the pressure of demand on productive resources has been gradually easing. Although industrial production in 1957 was only slightly higher than in 1955, the high investment which has been going on for several years in most industries should provide a 'store of capacity' for further expansion."

Chart 11. Gross Fixed Investment and Changes in Industrial Production

(1952-1955 average = 100)



Source: Derived from table 61.

volume of investment was approximately maintained, the rate of growth of production declined to about half the absolute magnitude attained in the preceding two periods, as shown in table 62 and chart 12. Similar trends may be observed in the relative growth of investment and production in the manufacturing sector of the economy. This analysis would indicate that the industrial sector of the economy could not have been as fully employed in the peak period of activity in 1955 as it had been in similar periods in 1951 and 1953.[30]

The lag between the growth of capacity and of pro-

[30] Part of the industrial capacity created in the period 1951-1953 was defence oriented, and may not have been convertible to civilian purposes when defence expenditures were subsequently curtailed. However, the fall in the relative rate of growth of production appears to be too steep to be explained solely by this factor.

Table 62. United States: Gross Fixed Investment[a] and Changes in Industrial Production,[b] Selected Months

(At annual rates)

Item	July 1948 to January 1951 (1)	January 1951 to May 1953 (2)	May 1953 to December 1955 (3)	December 1955 to December 1956 (4)	December 1956 to August 1957[c] (5)	December 1956 to December 1957 (6)
Industry						
Gross investment in non-farm producers durable equipment	15.0	16.3	16.1	18.4	18.8	18.7
Gross fixed investment in industry[d]	7.5	9.8	9.6	11.6	11.8	11.7
Absolute change in industrial production index[b]	7	6	3	2	−1	−11
Manufacturing						
Gross fixed manufacturing investment[d]	6.8	9.0	8.8	10.7	11.0	10.8
Absolute change in manufacturing production index[b]	8	7	3	1	—	−10

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D. C.); Board of Governors, Federal Reserve System of the United States, *Federal Reserve Bulletin* (Washington, D. C.).

[a] Billions of dollars at 1947 prices on a seasonally adjusted basis. Periods covered for investment as follows: column (1), second half of 1948, full years 1949 and 1950; column (2), full years 1951 and 1952 and first half of 1953; column (3), second half of 1953 and full years 1954 and 1955; column (4), full year 1956; column (5), first three quarters of 1957; column (6), full year 1957.

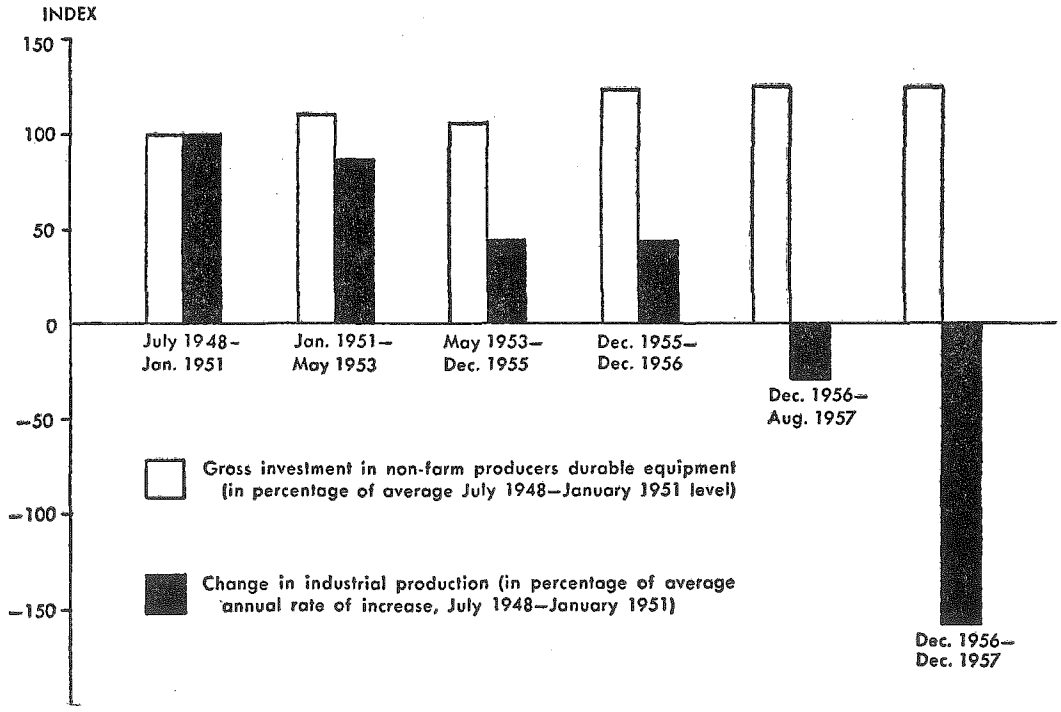
[b] The absolute change in the industrial (or manufacturing) production index is the number of points by which the index of industrial (or manufacturing) production (1947–1949 average = 100) increased or decreased (−), on a seasonally adjusted basis, between the months indicated.

[c] August 1957 is chosen as the last month preceding the current recession.

[d] Seasonally adjusted expenditure on plant and equipment during the periods indicated deflated by implicit deflators for producers durable equipment. The results would not be appreciably different if changes in prices of non-residential construction were taken into account, owing to the broadly similar movements in the prices of such construction and of producers durable equipment during the period under review. Industry includes manufacturing and mining.

Chart 12. United States: Gross Investment and Changes in Industrial Production, Selected Periods

(July 1948-January 1951 = 100)



Source: Derived from table 62.

duction became particularly noticeable after 1955. Although the volume of investment was appreciably higher in 1956 than in 1955, the growth in industrial production from December 1955 to December 1956 was limited to 2 per cent of the 1947-1949 average. This trend continued in 1957, when investment was maintained at the previous high level while production at first continued at a rate slightly lower than in December 1956, and later—after August—turned downwards. Thus even prior to the decline in production which began in September 1957 there was probably substantial idle capacity in many branches of industry, which was considerably augmented in subsequent months as output dropped while new capacity was still being installed at a high rate.

These results can be checked with the aid of certain estimates which have been published on the value of equipment in manufacturing industry.[31] From these estimates two indicators of capacity are available—namely the net volume of equipment in existence at the end of each year and the depreciation of equipment in the course of each year.

The net volume of equipment at any date represents cumulative purchases of equipment less cumulative depreciation, at constant prices.[32] Changes in the net volume of equipment generally tend to undervalue the growth in productive capacity, as no allowance is made for those increases in the efficiency of capital, due to technological advances, which are not reflected in a rise in the value of equipment at constant prices. A similar understatement of the growth of capacity holds for estimates based on depreciation data. Here it is assumed that the capacity to produce in any period is proportional to the stream of capital services available for use in that period, as indicated by depreciation.

These two sets of estimates support the conclusion reached earlier that since 1953 the growth of production has generally tended to lag behind the growth of capacity in the manufacturing sector of the United States economy. It can be seen from table 63 that the ratio of the index of manufacturing production to the indices of the net value of equipment and of depreciation at constant prices had been almost unchanged in the peak production months of July 1948, January 1951 and May 1953, thereby indicating a roughly similar degree of utilization of manufacturing capacity in each of these three months. The rate of utilization declined at the end of 1955 and in 1956, and the decline became more pronounced in 1957 as production first levelled off and then fell steeply in the last months of the year while capacity was continuing to expand. These conclusions receive further support from a comparison of changes in manufacturing production with information on the growth of capacity published by the McGraw-Hill Publishing Company in April 1958. On the basis of the data in table 63, it appears that, by August 1957, the extent of capacity utilization in manufacturing was roughly 10 to 15 per cent, and by December 1957 about 15 to 20 per cent lower than in May 1953.

[31] See "Manufacturing Investment since 1929", United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), November 1956.

[32] The value of equipment was allocated over its useful life by the straight-line method which allots an equal amount of depreciation to each year. The information on useful life was drawn largely from United States Treasury Department, Internal Revenue Service, *Bulletin F: Income Tax Depreciation and Obsolescence; Estimated Useful Lives and Depreciation Rates* (Washington, D.C., 1948).

Table 63. United States: Indices of Production and Capacity[a] in Manufacturing, Selected Months
(May 1953=100)

Item	1948 July	1951 January	1953 May	1955 December	1956 December	1957 August	1957 December
(1) Manufacturing production[b]	75	88	100	105	106	106	99
(2) Net value of equipment[c]	75	87	100	109	113	116	118
(3) Depreciation on equipment[c]	74	87	100	113	118	120	121
(4) Index of capacity[d]	...	85	100	115	121	125	127
Capacity utilization, compared with May 1953							
(1) as percentage of (2)	100	101	100	96	94	91	84
(1) as percentage of (3)	101	101	100	93	90	88	82
(1) as percentage of (4)	...	104	100	91	88	85	78

Source: United Nations Bureau of Economic Affairs, based on United States Department of Commerce, *Survey of Current Business* (Washington, D. C.), November 1956, and *11th Annual McGraw-Hill Survey*.

[a] Estimates of the net value of equipment, and of depreciation, at 1947 prices from the *Survey of Current Business*, November 1956, covering the years from 1929 to 1955, have been extended to 1956 and 1957, using, so far as possible, similar methods of estimation

[b] On a seasonally adjusted basis.

[c] By interpolation.

[d] From "Business Plans for New Plant and Equipment," *11th Annual McGraw-Hill Survey*, 18 April 1958, table VI. The survey is based on reports by large companies only, accounting for about 40 per cent of total employment in industry. Physical capacity is reported to McGraw-Hill by companies according to their own definitions. Weights for the over-all index of capacity are based on value added by manufacture, as used by the Federal Reserve Board in its index of manufacturing production. A uniform rate of growth of capacity in the course of each year has been assumed.

Table 64. United States: Percentage Change in Capacity Utilization in Manufacturing, compared with May 1953

1953/54 Recession				*1957/58 Recession*			
Month	*Capacity utilization (per cent)*			*Month*	*Capacity utilization (per cent)*		
	(1)	(2)	(3)		(1)	(2)	(3)
September 1953....	−5	−5	−5	September 1957....	−10	−13	−17
December 1953....	−12	−12	−12	December 1957....	−16	−18	−22
July 1954.....	−15	−16	−16				

Source: United Nations Bureau of Economic Affairs, using sources and methods indicated in table 63.

(1) Based on net value of equipment at constant prices.
(2) Based on depreciation at constant prices.
(3) Based on McGraw-Hill survey.

The three available estimates of capacity utilization may be used to compare the course of events in the current recession with that in 1953/54. As will be seen from table 64, by September 1953,[33] industry was still operating only slightly below the level of capacity utilization reached in May 1953. Moreover, even at the low point of the recession, in July 1954, industry was operating at only about 15 per cent below the high rate of utilization of May 1953; consequently once the process of inventory liquidation had been completed and government expenditures had been stabilized at a lower level, a relatively moderate growth in private demand was sufficient to reduce excess capacity to the point at which a new upsurge in industrial investment could take place. It may also be significant that while gross national product had stopped declining by the beginning of 1954, and was beginning to rise significantly by the third quarter of that year, investment in producers durable equipment did not show a revival until the second quarter of 1955, and probably did not exceed the 1953 peak in real terms until the end of 1955.[34]

At the onset of the current recession, in September 1957, the rate of capacity utilization was much lower than in September 1953, as may be seen in table 64. By December 1957, moreover, the volume of idle capacity was probably already somewhat greater than that prevailing at the low point of the 1953/54 recession. This would tend to suggest that, in the absence of contrary forces, business investment would be likely to become a much more powerful and persistent factor in the present downturn than it was in 1953/54. This is already reflected in the data in table 65 on anticipated investment in the first half of 1958, which show a much steeper rate of decline than corresponding expectations for the first half of 1954, despite the rise in expenditure on research and development, and pressures for the modernization of equipment. Particularly large cuts in expenditure on plant and equipment were planned by companies producing steel, non-ferrous metals, automobiles and other metal products, which were suffering most from excess capacity.

It is also important to note that the greater the excess capacity which develops in the course of the downturn, the greater must be the scale of the recovery in activity before the expectation of pressure upon capacity would provide an inducement to business to raise its investment outlays significantly. In the absence of other influences tending to encourage investment, the time lag between the end of the decline in over-all activity and a recovery in business investment might, therefore, also well be greater than in 1954-1955.[35]

It will be observed in table 65 that not only investment in manufacturing, but total business expenditure on plant and equipment is expected to decline more rapidly during the present recession than in 1953/54. This is explained largely by developments in the commercial sectors of the economy.[36] Investment in these sectors, which accounts for about 30 per cent of total business expenditure on plant and equipment, continued to grow throughout most of the 1953/54 recession, thereby helping to sustain the level of fixed investment activity. By contrast, this category of investment had begun to fall even prior to the current recession and the decline is expected to go further in 1958.

THE PRESENT OUTLOOK[37]

The tendencies in business fixed investment discussed above have a profound bearing upon the present economic outlook. Their significance is probably greatest in the United States, where it was not clear early in 1958 that there was sufficient offsetting strength in the

[33] September 1953 was the second month of decline in industrial production in the 1953/54 recession, while September 1957 was the first month of decline in the current recession. In August 1953 capacity utilization was slightly higher than in the following month, shown in table 64.

[34] A similar, though shorter, lag occurred in 1949-1950; industrial production began rising before the end of 1949, and total output at the turn of the year, but investment in producers durables did not advance until the second quarter of 1950.

[35] This does not, of course, rule out the possibility of spontaneous increases in investment demand due to technological advances or other factors. Such increases cannot, however, be relied upon to provide a stimulus to the economy at the precise time required by cyclical developments.

[36] These sectors include trade, service, finance, communications and construction.

[37] Based in part upon replies of Governments to a United Nations questionnaire on economic trends, problems and policies.

Table 65. United States: Business Expenditure for New Plant and Equipment
(Indices, seasonally adjusted)

	1953/1954 (Third quarter 1953 = 100[a])			*1957/1958 (Third quarter 1957 = 100[a])*	
	Total	*Manufacturing*		*Total*	*Manufacturing*
1953, Fourth quarter, actual.....	99	99	1957, Fourth quarter, actual.....	96	93
1954, First quarter, anticipated...	97	95	1958, First quarter, anticipated...	90	87
1954, Second quarter, anticipated.	95	94	1958, Second quarter, anticipated.	86	81

Source: United States, Council of Economic Advisers, *Economic Indicators*, April 1954 and March 1958.
[a] Peak investment period during the preceding boom.

economy in the short run to sustain the level of economic activity in the event that expected declines in fixed investment materialized. It is true that there were a number of factors helping to moderate the speed of the downturn in incomes and production. But there was no sure indication as yet of the manner in which the decline might be brought to an end and a new phase of expansion begun.

Elsewhere the outlook for fixed investment in 1958 ranged from moderate increases expected in Norway[38] and Sweden to substantial declines anticipated in the Netherlands and probably Japan. Several governments noted a growth of capacity in relation to demand and even where no reduction in home demand was foreseen it was generally assumed that world demand would continue to slacken. In these circumstances, even those industrial countries which anticipated a rise in output in 1958 did not in general expect that rise to be very great; moreover most governments recognized that their expectations might have to be qualified in the event of unexpectedly adverse developments in export markets.

Even where the outlook for fixed investment seemed least favourable at the beginning of 1958, the relatively long time required for major investments to come to fruition meant that there was still a substantial carry-over of projects not yet completed which was tending to support the level of expenditure to some extent. The effects of the fixed investment decline were, however, expected to become progressively stronger in the course of 1958, and to extend into 1959. Meanwhile for several countries the inventory situation was providing a more immediate source of concern. In North America inventory decumulation in response to the setback in expectations was providing the main depressing influence, and seemed likely to continue for some time. Elsewhere there was evidence of involuntary accumulation of inventories if not of actual liquidation. In western Europe even coal was becoming a surplus commodity. At the same time budgeted government expenditures generally showed little or no increase in real terms in western Europe, but somewhat larger increases in North America; in several of the European countries this represented a deliberate effort to reduce the pressure of aggregate demand even further. While unemployment was generally rising, and further increases were anticipated in all countries, personal disposable incomes were being relatively well sustained as the "automatic stabilizers" began to operate, but little additional support was being derived from changes in the proportion of income spent.

As a consequence of the slackening of demand, restraints upon the economy have been relaxed, although not without many expressions on the part of governments of continued concern over the danger of inflation. Where balance of payments problems have been acute, the policy reversal has been less significant. In most countries, the rate of increase in costs and prices has either already shown some sign of slowing down or is expected to do so within the year. In large measure, this stabilization of prices is attributable to the behaviour of raw materials prices; the rising trend of minerals prices, especially, that accompanied the rapid expansion of demand in earlier years had already, by the end of 1957, been halted or reversed. It is unlikely that total wage costs have also fallen, if only because of the adverse effects on productivity of the slackening in business activity.[39]

It is not yet clear how far France conforms to the general picture of slackening activity. By March 1958 the retail price index was already 13 per cent over the 1957 average, while the Government had hoped that the increase for the year as a whole might be limited to 10 per cent. The rate of increase in retail prices in February and March was, however, significantly less

[38] In Norway investment in ships is expected to rise by about 20 per cent, owing to past orders, but the increase in other fixed investment is to be limited to slightly over 2 per cent.

[39] According to preliminary data assembled by the National Bureau of Economic Research, the ratio of the index of production worker payrolls in manufacturing to the index of manufacturing production in the United States declined slightly, on a seasonally adjusted basis, towards the end of 1957 and early in 1958. This is believed to reflect such factors as the installation of new equipment and the reduction in overtime work at premium pay. However, declines in unit wage costs for production workers have to be considered in conjunction with increases in overhead unit wage and salary costs owing to the decline in output.

than in previous months. Efforts by the Government to curb demand were reflected in a substantial absolute drop in projected public investment expenditure, especially in housing; it was also intended that public consumption should decline—much of the decrease consisting of a 25 per cent cut in real military expenditure. Credit controls were being employed in an attempt to limit private investment which, it was feared, was likely to press upon resources even if activity in general slowed down. Restraints on consumer demand included higher indirect taxes, and the steep increase in prices and incomes was expected by the Government to lead to a very much greater advance in income tax yields than in total output. In consequence of the measures taken to compress home demand, it was anticipated that some unemployment might develop, and the increase in real output was expected to be sharply curtailed. Even so, some concern was expressed by the government that production might be impeded by the inability to finance adequate imports of raw materials. Available data suggest that production in the first quarter of 1958 had not been held back to the extent which had been anticipated.

In Japan, Norway and Sweden, output is expected to increase 2 to 3 per cent in real terms in 1958.[40] For Japan this rate is very much below the average in the post-war period or in the projected five-year plan. Even this advance is based on the expectation that a decline in investment will be more than offset by larger public and private consumption and particularly by an expansion in exports almost as great as in 1957, despite the much less favourable economic climate abroad in 1958 than in 1957. Investment expenditures are expected to increase in Norway and, to a lesser extent, in Sweden—the increase in Norway being concentrated primarily in ships, and in Sweden in housing and other construction. The other components of final demand, however, are not likely to show very much increase. Considerable doubts have been expressed by the two Governments about the development of export markets. In Norway, a substantial balance of payments deficit is anticipated, and in consequence some need is seen to limit consumption and investment. Some minor increases in prices are foreseen, but at the same time labour markets are expected to be less tight, with some rise in unemployment.[41] Industrial production at the beginning of 1958 was significantly lower than the year before in Norway, and somewhat higher in Sweden.

Although some slackening of demand is evident in the Federal Republic of Germany, and unemployment has been increasing, industrial production at the beginning of 1958 was still showing a significant advance over the year before and there appeared to have been some increase in home demand for producer durables and for construction. However, declining export demand was already reflected in order books. There was also a fall in home demand for consumer goods, and some inventory decumulation was taking place, especially in stocks of coal and steel which were particularly affected by developments in the export markets of the engineering industries.

In Denmark and the United Kingdom, output is not expected by the Governments to increase significantly in 1958, even though the level of home demand is expected to be maintained. In Denmark some inventory liquidation is foreseen; and it is expected that business investment will be adversely affected by falling farm incomes, the decreasing rate of expansion of industrial exports, the stagnation of non-agricultural home market sales and the uncertain international outlook. However, tax incentives to private investment introduced in 1957 may exert some influence on outlays in 1958. No appreciable stimulus to the economy for the year 1958 as a whole is expected from residential construction, or from the government or export sectors. Despite the above, consumption is expected to rise, though not sufficiently to avoid some growth in unemployment.

In the United Kingdom no increase is expected in private[42] or public investment in 1958 nor in government expenditure. A moderate advance is expected in the volume of consumption because of a tendency for prices, especially of food, to decline in relation to incomes. Considerable uncertainty is, however, involved in the movement of the export balance and of inventories, and it is recognized that significant declines may occur in both these sectors. While there may well be declines in industrial production and increases in unemployment, the Government does not believe that a sudden sharp recession during the coming months is likely.

In the Netherlands a decrease of 2 per cent in real gross national product is anticipated in 1958. Declines in private investment both in fixed capital and in inventories are not expected to be fully offset by an improvement in the export balance nor by a small rise in consumption. The fall in total output will be reinforced by a decrease in government expenditure, in line with the general policy of curtailing government outlays laid down in the 1958 national budget.

In Belgium, the Government notes that there are no indications that the slackening of economic activity

[40] The 2 per cent increase in real output forecast in Sweden takes account of the effects of a gradual reduction of the working week for most wage-earners from 48 to 45 hours during a three-year period beginning in 1958. In industry this involves a shortening of the working week by one hour in 1958.

[41] However, the Norwegian Government anticipates a tight labour market "in the summer half year".

[42] Manufacturing industry's real investment in fixed assets in the fourth quarter of 1957 fell five per cent below the level of the corresponding quarter of 1956, although total real private fixed investment, excluding housing, was still 3 per cent higher. An inquiry undertaken by the Federation of British Industries, reported in *The Times* of London on 15 March 1958, showed that many more companies expected a decline in authorizations of capital expenditure in 1958 than expected an increase; similar results emerged as regards expected actual disbursements on new capital items in 1958, solely, however, because of lower expenditure on buildings; companies were evenly divided regarding tendencies in equipment outlays in 1958.

which was manifest in 1957 will not continue in 1958. The setback in external demand has been followed by a weakening of domestic demand and liquidation of inventories is expected to continue for some time. Industrial production is expected to fall by about 5 per cent, and employment will decline accordingly. The Government intends to use fiscal and monetary weapons against the recession and to expand public works and other means of raising employment.

It was in Canada and the United States that the decline in demand had gone farthest by the beginning of 1958. The rate of decline of output in Canada has thus far been less than in the United States and the Government anticipates that output in 1958 will not be appreciably lower than in 1957. Private expenditure for plant and equipment in Canada, as indicated by surveys of investment intentions, is expected to be lower than in 1957. On the other hand, expenditure on residential construction has already increased substantially as a result of easier credit provided by the Government, and Canadian government expenditures are also expected to increase somewhat. There is some prospect of a reduction in the import balance, by virtue of an expected decline in demand for imported machinery and equipment. Provision for increases in transfer payments and moderate reductions in both direct and indirect tax rates should contribute to sustaining personal disposable income and consumption. Preliminary data for the first two months of 1958 indicated some revival in industrial production, but there still remained a considerable volume of excess capacity to be taken up.

After six months of the current recession in the United States, total output had fallen somewhat more than during the full twelve-month spans of the recessions of 1948-1949 and 1953-1954, as shown in table 66; the same was true of employment. The role of business investment in the recession has already been examined. Of more immediate importance at the beginning of 1958 was the liquidation of inventories. The decline in inventories in the first quarter of 1958, at an annual rate of $9.0 billion, represents the sharpest drop that has occurred in any quarter in the post-war period. Despite the magnitude of the decline, however, sales were falling even faster. The ratio of manufacturing inventories to sales, which was somewhat higher at the beginning of the current recession than at the corresponding point of the 1953-1954 recession, continued to rise through the first quarter of 1958. New orders also continued to slip back, and orders in hand in March 1958 had dropped to three-quarters of their March 1957 level.

Preliminary data suggest a slowing down, in March 1958, of the rate of decline in new orders experienced during the last quarter of 1957—a development that may have been due in part to rising defence orders. Measures have also been taken to increase or speed up non-defence federal spending; over $8 billion has been made available in increased or accelerated appropriations or in loan funds, for public works and other projects. In all, by May 1958 it appeared that if all spending programmes developed according to plan, total federal cash payments in 1958 might amount to as much as $90

Table 66. United States: Changes in Expenditure and Output in Three Recessions[a]

(Annual rates, seasonally adjusted, at current prices)

Item	1948–1949				1953–1954				1957–1958	
	Downswing		Upswing		Downswing		Upswing		Downswing	
	Billion dollars	Per cent	Billion dollars	Per cent	Billion dollars	Per cent	Billion dollars	Per cent	Billion dollars	Per cent
Consumption expenditure....	3.4	1.9	5.6	3.1	3.6	1.6	6.2	2.6	−2.4	−0.8
Private fixed investment expenditure.....	−2.0	−5.3	6.1	17.2	−0.7	−1.4	1.6	3.2	−2.7	−4.2
Residential construction.	1.3	15.7	2.8	29.2	0.7	5.7	2.2	17.1	0.3	2.1
Plant and equipment....	−3.3	−11.3	3.3	12.7	−1.4	−3.7	−0.6	−1.6	−3.0	−6.1
Inventory change.....	−11.2		13.6		−4.6		2.0		−12.0	
Net foreign investment[b].....	−1.8		−1.8		2.8		0.5		−1.7	
Government expenditure on goods and services[b].....	3.2	8.0	−3.2	−7.4	−9.9	−11.6	−1.2	−1.6	0.8	0.9
Federal.....	1.1	4.7	−3.7	−15.1	−12.9	−21.1	−2.6	−5.4	−1.1	−2.2
Defence.....	0.7	4.1	−0.6	−3.4	−10.0	−18.8	−3.1	−7.2	−1.0	−2.2
Other.....	0.4	6.3	−3.1	−46.3	−2.9	−36.7	0.5	10.0	−0.1	−2.1
State and local.....	2.1	12.5	0.5	2.6	3.0	12.3	1.4	5.1	1.9	5.3
Gross national product.....	−8.5	−3.2	20.4	8.0	−8.7	−2.4	9.0	2.5	−18.0	−4.2
Industrial production.....		−7		14		−9		3		−10

Source: United States Department of Commerce, *Survey of Current Business;* Council of Economic Advisers, *Economic Indicators;* Board of Governors, Federal Reserve System, *Federal Reserve Bulletin* (Washington, D. C.).

[a] Downswing: 1948–1949, fourth quarter 1948 to fourth quarter 1949; 1953–1954, second quarter 1953 to second quarter 1954; 1957–1958, third quarter 1957 to first quarter 1958. Upswing in both cases refers to succeeding two quarters.

[b] Unilateral transfers abroad included in "government expenditure on goods and services" and not in "net foreign investment".

billion, as against $83 billion in 1957.[43] In fact, however, it seemed that the rate of increase in defence obligations was less rapid than had been anticipated,[44] and there was therefore some doubt as to whether the ultimate increase in expenditure would be as large as planned. Some stimulus was also expected from rising state and local government expenditure.[45]

On the other hand, no expansion of demand from the foreign sector, such as that which occurred in 1954, is likely in 1958. In 1954 export demand was responding to the developing boom in western Europe, while during the current recession thus far the export balance has tended to decline.

The operation of the progressive income tax system and the increase in compensation paid to the unemployed were automatically tending to sustain personal disposable income in 1958, as in 1953-1954 and 1948-1949. Moreover, much of the decline in the value of output was being absorbed by falling corporate saving and business taxes, as shown in table 67.

There was also an increase in social security coverage in the first quarter of 1958, and an insurance dividend was paid to veterans of the First World War. During the previous two recessions, however, stronger support to personal disposable income was achieved by reductions in income and profits tax rates.[46] Moreover, a large insurance dividend was paid to veterans of the Second World War early in 1950, which strengthened the forces of recovery.[47]

While personal disposable income had declined less than total output by the first quarter of 1958, consumption was not as buoyant in relation to income as in the two previous recessions, and the demand for housing was also weaker, as shown in table 66. Both in 1949 and in 1954 strong demand for durable consumer goods helped to promote the recovery from the recession. At the same time federal action affecting the availability of mortgage credit encouraged a vigorous upsurge in residential construction; the two post-war peaks in housing starts were reached soon after the end of the recessions, in 1950 and 1955. The current situation, on the other hand, has been marked by continuously declining expenditures on consumer durables since the beginning of 1957. Moreover, despite a number of measures to reduce the cost and increase the availability of mortgage credit, housing starts failed to show the usual seasonal rise in the spring of 1958 and reached only three-quarters of the average 1955 level by April.[48]

[43] This compares with an estimate of $86 billion for the calendar year 1958 in terms of the original budget proposals of January 1958.

[44] It was anticipated early in 1958 that defence orders would rise from $6 billion in the second half of 1957 to $11 billion in the first half of 1958. To some extent this represented a normal seasonal increase, but the rise was accentuated by changes in defence procurement policies. Thus far it would seem that the actual increase in orders may be slower than this, and the major influence upon expenditures correspondingly delayed.

[45] The increase in state and local government expenditure on goods and services in 1958 was expected to amount to about $3 billion.

[46] It should, however, be noted that in 1953-1954 there was also a sharp drop in government expenditure.

[47] The fact that personal disposable income nevertheless declined almost in line with total output in 1948-1949, as shown in table 67, cannot be fully explained because of the statistical discrepancy. However, there was a very large fall in farm incomes in 1948-1949. Farm income declined much less in 1953-1954, and actually rose from the third quarter of 1957 to the first quarter of 1958.

[48] An increase in housing starts from March to April 1958 left the seasonally adjusted total in the latter month still well below January 1958.

Table 67. United States: Changes in Income in Three Recessions[a]

(Annual rates, seasonally adjusted, at current prices)

Item	1948–1949				1953–1954				1957–1958	
	Downswing		Upswing		Downswing		Upswing		Downswing	
	Billion dollars	Per cent	Billion dollars	Per cent	Billion dollars	Per cent	Billion dollars	Per cent	Billion dollars	Per cent
Gross national product	−8.5	−3.2	20.4	8.0	−8.7	−2.4	9.0	2.5	−18.0	−4.2
Gross corporate saving	−2.8	−9.5	2.5	9.4	1.4	4.2	1.5	4.3	−11.0	−9.5
Business taxes	−0.3	−0.8	7.0	18.5	−4.5	−7.3	2.4	4.2		
Personal income from production	−9.5	−4.8	12.9	6.8	−4.2	−1.6	5.6	2.1	−7.0	−2.2
Statistical discrepancy	4.0		−2.0		−1.6		−0.3		—	
Personal income	−7.5	−3.5	15.4	7.5	−1.8	−0.6	6.6	2.3	−4.4	−1.3
Personal income from production	−9.5	−4.8	12.9	6.8	−4.2	−1.6	5.6	2.1	−7.0	−2.2
Transfer payments	2.0	13.9	2.5	15.2	2.4	13.6	1.0	5.0	2.6	10.0
Personal taxes	−1.8	−8.8	1.4	7.5	−3.1	−8.6	0.5	1.5	−1.2	−2.8
Disposable income	−5.7	−3.0	14.0	7.5	1.3	0.5	6.1	2.4	−3.2	−1.1

Source: United States Department of Commerce, *Survey of Current Business;* Council of Economic Advisers, *Economic Indicators.*

[a] Downswing: 1948–1949, fourth quarter 1948 to fourth quarter 1949; 1953–1954, second quarter 1953 to second quarter 1954; 1957–1958, third quarter 1957 to first quarter 1958. Upswing in both cases refers to succeeding two quarters.

As noted previously, the current supply of housing is easier than during the two previous recessions.

In summary, the tendencies in the United States early in 1958 were towards declines in business fixed investment expenditures and in inventories, which were being offset only in part by increases in government expenditure. While the "automatic stabilizers" were once more strongly in evidence, consumer expenditures were not as buoyant in relation to income as in the past, probably because the factors which had supported the demand for consumer durables and housing in the two preceding recessions were no longer as strong.

Mainly because of the behaviour of the United States export balance, the recession has not as yet led to any balance of payments problems among the other industrial countries. During the first quarter of 1958, other countries as a whole were still adding substantially to their gold and dollar reserves as a result of transactions with the United States. Considerable increases in reserves were recorded by Belgium, Japan, the Netherlands and especially the United Kingdom, and of the countries recently in balance of payments difficulties only France was still losing reserves during the early months of 1958.

However, the vulnerability of countries to any reversal in dollar balances of payments may be greater than during the previous post-war recessions. Except in the Federal Republic of Germany and Italy, liquidity positions, as reflected in the ratio of gold and foreign exchange reserve holdings to imports, were not as strong as in 1953, and in many cases were weaker even than in 1948, as shown in table 68.[49] Not merely does this imply serious limitations on the ability of countries to withstand the consequences of any significant decline in exports. It also exposes them to the threat of severe pressures on capital account which could well be even greater, in the short run, than the pressures on current account. In 1953/54 the buoyancy of confidence throughout the world helped to ease the adverse effects of the recession in North America by making possible an actual acceleration in private capital outflow from the United States. The relatively narrower margins of safety implied in current relationships between imports and gold and foreign exchange reserves would inevitably impose obstacles to the repetition of this development. Indeed recent experience in western Europe has provided a significant reminder that the days of perverse capital movements have by no means disappeared.

[49] Of the United Kingdom holding of gold and dollar reserves at the end of 1957, valued at $2.3 billion, $1.0 billion represented a loan from the United States Export-Import Bank, and drawings by India and the United Kingdom upon the International Monetary Fund. In the first quarter of 1958, however, gold and dollar reserves rose a further $500 million. In the case of France, drawings on the International Monetary Fund, together with short-term credits obtained in 1956-1957, are estimated to have amounted to nearly $700 million, compared with total official gold and foreign exchange reserves of $775 million at the end of 1957.

Table 68. Ratio of Gold and Foreign Exchange Reserves to Imports[a] of Industrial Countries

Country	*1948*	*1953*	*1957*
Belgium	.46	.44	.33
Canada	.35	.38	.29
Denmark	.12	.17	.13
Federal Republic of Germany	...	.52	.76
France[b]			
A	...	.24	.13
B	...	.27	.15
Italy	.35	.39	.42
Japan	...	.37	.24
Netherlands	.19	.52	.26
Norway	.19	.16	.14
Sweden	.17	.32	.19
United Kingdom[b]			
A	.24	.27	.20
B	.23	.27	.17
United States	3.03	1.87	1.61

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

[a] C.i.f., except f.o.b. for Canada and the United States. Data relate reserves at end of year indicated to imports during the year. In line B for the United Kingdom, reserves at end of 1957 are related to imports during first half of 1957, at an annual rate.

[b] For France and the United Kingdom, line A relates gold and foreign exchange reserves to imports; line B relates the same holdings to the imports of the franc and sterling areas, respectively, from the rest of the world (imports of the sterling area are calculated as exports, f.o.b., of rest of world to the sterling area, plus 10 per cent).

Chapter 5

RECENT TRENDS IN PRIMARY EXPORTING COUNTRIES

The Implications of Changes in International Trade

COMMODITY TRENDS

The year 1957 opened with the price index of commodities entering international trade at its highest level since 1951—the period of the "Korean boom"—and though the index declined steadily throughout the year the average for 1957 as a whole was slightly (2 per cent) above the figure for 1956 (see chart 13). The price of manufactures in international trade continued rising in 1957 and for the year as a whole was about 4 per cent above the 1956 level. Hence the terms of exchange between primary commodities and manufactured goods—which had dropped slightly below the 1953 level to a post-Korean low in 1956—declined further in 1957. The only major commodities whose relative price in international trade was higher in 1957 than in 1956 were sugar, wool and the fuels; and of these wool had an exchange rate against manufactures still about 10 per cent below the 1953 level, while for sugar the rate had dropped back to the 1953 level by the final quarter of 1957.

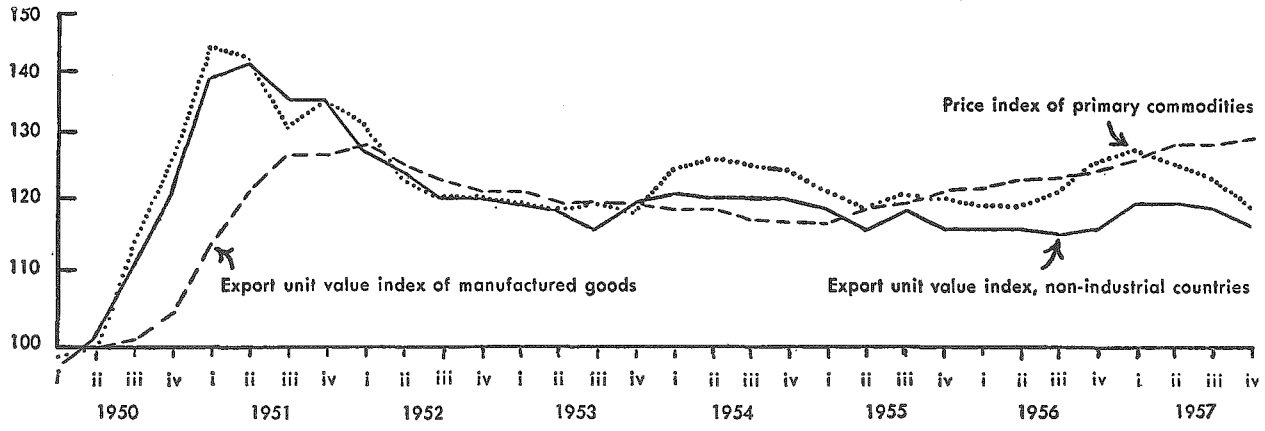
The decline in commodity prices reflects in part the continuing diminution in the rate of expansion of economic activity in the industrial countries. While consumption of primary products appears, on the whole, to have been at least as great in 1957 as in 1956, there was a tendency for industry—in expectation of lower commodity prices and the possibility of reduced demand for its product—to curtail or postpone its purchases of most raw materials. In contrast to this slackening in over-all demand, supplies of most items were greater in 1957 than in 1956[1] because production facilities had been enlarged, as in the case of some of the ores, because of a favourable season, as in the case of certain crops or because of the release or disposal of material from government-held stocks. The resultant market weakness was accentuated in the last quarter of the year when—though the volume of imports was maintained in the aggregate—actual consumption tended to falter in the case of a number of commodities, especially in North America.

By the end of 1957, commodity prices—with a few exceptions, such as those of copper, cheese and olive oil —were tending to stabilize. This applies to the few that had been rising—cocoa and jute, for example—as well as to the many that had been falling during the year. This levelling out process continued into 1958 and the decline in most over-all commodity price indices between the final quarter of 1957 and the first quarter of 1958 was appreciably less than in any comparable interval during 1957 (see table 69). With no significant upturn in total industrial production—and hence in the consumption of raw materials—in immediate prospect,

[1] For details see United Nations, *Commodity Survey, 1957* (sales number: 58.II.D.1).

Chart 13. Indices of Unit Value and Price of Commodities in International Trade

(1950, first half = 100)



Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

Table 69. Indices of Commodity Prices
(Preceding quarter = 100)

Index	1957				1958
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
Economist (United Kingdom)	100	98	96	96	98
Reuter (United Kingdom)	100	96	95	95	98
Financial Times (United Kingdom)	97	99	99	97	99
World Commodity Survey (Federal Republic of Germany)	100	99	98	97	98
Moody (United States)	98	98	102	93	101
Bureau of Labor Statistics[a] (United States)	102	101	101	97	103

Source: Bank for International Settlements, *Press Review* (Basle); *The Economist* (London); *The Financial Times* (London); Bureau of Labor Statistics, *Monthly Labor Review* (Washington, D. C.).
[a] Index of wholesale prices of crude materials for further processing.

this phase may prove to have been only a temporary slowing down of the decline. On the other hand certain developments on the supply side seem to have contributed to a better market adjustment.

The output of a number of commodities has been reduced, by poorer harvests in the case of rice, barley and wool, for example, by deliberate curtailment in the case of copper, nickel and aluminium, for example, or by a combination of both, as in the case of cotton. In some instances a reduction or limitation has been effected less in output than in supplies actually marketed—as for tin and sugar under the established international agreements and coffee under the more recent withholding arrangement made by the major Latin American producers. With the depletion of United States government-owned surplus stocks of rice, butter and the higher grades of cotton, there has also been a lessening of pressure on the market by the type of disposal that increased so greatly in 1956/57.

COMMODITY IMPORTS OF THE INDUSTRIAL COUNTRIES

In 1957, as in 1956, there was a marked contrast between North America and western Europe as a force sustaining commodity exports from the less developed countries. In terms of volume, gross imports into the countries of western Europe were higher in the first half of 1957 than in the first half of 1956 for all commodities except aluminium (6 per cent less), lead (3 per cent less) and cereals (4 per cent less). Except in these commodities and in butter and cheese, coffee, cotton and tin, the gain in gross imports was greater between the first half of 1956 and the first half of 1957 than between 1955 and 1956. In the case of butter and cheese, average unit value was also lower (by 16 per cent) and western European import expenditure recorded a major reduction. The decline in the average unit value of non-ferrous metals (16 per cent) and rubber (11 per cent) was large enough to reduce aggregate expenditure on these commodities too, despite a rise in import volume. This was not the case with cocoa or cotton, the only other commodities whose average unit values were lower in the first half of 1957 than in the first half of 1956, but gross expenditure on cereal imports was slightly lower, notwithstanding a 3 per cent rise in unit value. Allowing for trade within the region, there was a 16 per cent expansion in the value of net imports into western Europe, the principal contributors being petroleum and products, natural fibres and foodstuffs—chiefly beverages and sugar.

By value, gross imports into North America in the first half of 1957 were about 2 per cent above the corresponding level in 1956, but this was due almost entirely to a 20 per cent expansion in petroleum imports. The only other category to record a significant increase was base metal ores; for the rest, commodity imports were all much the same or lower, and in the aggregate expenditure on commodities other than petroleum was 3 per cent less than in the first half of 1956. Since commodity exports from North America were substantially greater, net expenditure on imports declined markedly—from almost $1 billion in the first half of 1956 to almost zero in the first half of 1957. Sugar, butter and cheese, and tea were the only commodities net imports of which were greater in the first half of 1957 than in the corresponding portion of 1956, and the gains were relatively insignificant. A one-third decline in net food imports reflects greater cereal exports in the face of smaller imports of coffee and cocoa. There was a notable rise in the net exports of tobacco, vegetable oils and oil-seeds. Net exports of cotton were markedly higher, net imports of wool much lower. Rubber and metals and ores—raw materials for the capital goods industries—were also imported to a net value significantly lower than that registered in the first half of 1956, while exports of petroleum and products—temporarily replacing supplies from the Middle East—rose to an extent that completely eclipsed the increase in imports.

These developments in the intake of primary commodities by the industrial countries were continued in the second half of the year. A comparison of the first nine months of 1957 with the corresponding period of 1956 shows that imports of the selected commodities into western Europe were 12 per cent higher on a gross

valuation and 14 per cent higher on a net valuation. The only groups to register a decline in the value of net imports were cereals (15 per cent)—because of a reduction in the third quarter—non-ferrous metals (17 per cent) and to a smaller absolute extent butter and cheese (39 per cent) and rubber (5 per cent).

As in the first half of the year, gross commodity imports into North America in the first three quarters of 1957 were slightly above the level of the corresponding portion of 1956, the principal gains—in petroleum (21 per cent) and metals and ores (11 per cent)—just about offsetting reductions in coffee (11 per cent), rubber (12 per cent) and wool (10 per cent). Because cereal exports were lower in the third quarter of 1957 than in the third quarter of 1956—as were the corresponding imports into western Europe—the over-all decline in net imports was somewhat smaller for the nine months than for the first half of the year; but, as then, it reflects chiefly the expansion in exports of cotton, petroleum products and to a smaller extent tobacco and oil-seeds and fats and oils (see table 70).

Table 70. Commodity Imports into North America and Western Europe, First Three Quarters of 1956 and 1957
(Millions of dollars)

Region and commodity	Gross imports			Net imports		
	1956	1957	Difference	1956[a]	1957[a]	Difference
North America[b]						
Foodstuffs	2,068	1,950	−118	423	339	−84
Cereals and flour	59	61	2	−1,406	−1,380	26
Meat	136	150	14	41	34	−7
Butter and cheese	22	21	−1	−15	7	22
Sugar	461	483	22	427	458	31
Beverages	1,390	1,235	−155	1,376	1,220	−156
Coffee	1,186	1,056	−130	1,173	1,043	−130
Cocoa	149	121	−28	147	119	−28
Tea	56	59	3	56	58	2
Tobacco	78	80	2	−209	−231	−22
Oil-seeds, oils and fats	147	149	2	−296	−356	−60
Hides	61	44	−17	11	15	4
Natural fibres	382	348	−34	−62	−503	−441
Cotton	68	62	−6	−360	−770	−410
Wool and hair	260	235	−25	244	216	−28
Hard fibres	55	52	−3	53	52	−1
Rubber	335	295	−40	256	199	−57
Non-ferrous metals	720	784	64	74	52	−22
Base metal ores	591	673	82	296	253	−43
Petroleum and products	1,239	1,497	258	693	576	−117
TOTAL	5,621	5,820	199	1,186	344	−842
Western Europe[c]						
Foodstuffs	4,081	4,321	240	2,952	3,028	76
Cereals and flour	1,475	1,291	−184	1,224	1,035	−189
Meat	797	913	116	388	446	58
Butter and cheese	448	383	−65	197	120	−77
Sugar	347	596	249	192	358	166
Beverages	1,014	1,138	124	951	1,069	118
Coffee	548	604	56	537	589	52
Cocoa	203	218	15	153	164	11
Tea	263	317	54	262	315	53
Tobacco	338	370	32	262	290	28
Oil-seeds, oils and fats	1,091	1,156	65	903	966	63
Hides	217	260	43	161	202	41
Natural fibres	2,043	2,585	542	1,622	2,095	473
Cotton	809	969	160	787	946	159
Wool and hair	1,032	1,399	367	695	987	292
Hard fibres	203	218	15	139	162	23
Rubber	487	461	−26	476	450	−26
Non-ferrous metals	1,462	1,287	−175	637	531	−106
Base metal ores	921	1,079	158	678	811	133
Petroleum and products	2,726	3,439	713	1,884	2,560	676
TOTAL	13,366	14,958	1,592	9,575	10,933	1,358

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D.

[a] A minus sign signifies net exports.

[b] Canada and United States; imports f.o.b., "for consumption"; exports f.o.b., "national".

[c] Austria, Belgium, Denmark, Federal Republic of Germany, France, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden and United Kingdom; imports c.i.f., for consumption, except Ireland and United Kingdom for which they are "general"; exports f.o.b. "special", except Ireland and United Kingdom for which they are "national".

Nothwithstanding the decline in industrial production that was well under way by this time, gross commodity imports into North America were fully maintained in the fourth quarter of 1957. Indeed the value of such imports into the United States was about 2 per cent above the average rate for the year as a whole: agricultural commodities were 5 per cent higher in aggregate value despite a fall in sugar and wool, and minerals 2 per cent lower despite a further rise in petroleum.

If petroleum is excluded, the value of gross United States commodity imports in 1957 as a whole was about 2 per cent below the 1956 level, increases in sugar, tobacco, meat and cereals, iron ore and aluminium, nickel, lead and zinc being more than offset by contractions in coffee and cocoa, wool, rubber, diamonds, copper and tin (see table 71). Petroleum imports, by contrast, were a fifth greater in value and still rising, imports in the final quarter being 2 per cent above the 1957 average rate.

Metal and ore imports into the United States continued to expand despite a significant decline in the output of durable goods industries, and although there was a general decline in domestic mine production—3 per cent in copper, 4 per cent in zinc and 6 per cent in lead—producer stocks rose substantially—13 per cent in copper, 30 per cent in lead and 147 per cent in zinc (see table 72). In the case of tin, which is not produced locally, imports were 30 per cent below the 1956 level, and stocks at the end of 1957 at much the same level as a year earlier. In the case of copper, while imports were maintained more or less at the 1956 level, exports were

Table 71. Primary Commodities: Indices of Gross Imports[a] into the United States and Selected Countries[b] in Western Europe in 1957

(1956 = 100)

Commodity	United States		Western Europe[b]	
	Value	Volume	Value	Volume
Foodstuffs	102	101	102	104
Meat	127	145	108	103
Wheat	98	99	85	88
Rice	[c]	[c]	91	88
Maize	108[d]	...	92	99
Sugar	105	100	154	124
Coffee	96	98	105	102
Cocoa	94	91	110	113
Tea	100	102	116	126
Tobacco	106	103	107	108
Agricultural raw materials	...	...	110	106
Vegetable seeds and oils	111	101	116	107
Animal oils and fats	[c]	[c]	113	109
Rubber	88	96	101	107
Wool	87	79	115	101
Cotton	162	171	110	111
Jute	99	80	127	109
Other vegetable fibres	80	95	97	105
Iron ore	114	...	117	...
Non-ferrous ores and metals	98	101	95	105
Non-ferrous ores	...	...	105	100
Copper	76[e]	100[e]	77	110
Lead	109[e]	114[e]	84	95
Zinc	129[e]	103[e]	88	102
Tin	74[f]	90[f]	141	146
Nickel	110[e]	100[e]	131	106
Aluminium	108[g]	103	89	87
Fuels	120	...	119	...
Petroleum, crude	120	...	121	...
Petroleum products		...	125	...
Total of items listed	101	...	108	104

Source: United Nations Bureau of Economic Affairs and national trade statistics.

[a] Imports c.i.f. and "special" for all countries except United Kingdom, where they are "general", and United States, where they are "for consumption".

[b] Belgium, Federal Republic of Germany, France, Netherlands, Norway, Sweden and United Kingdom. In 1956 imports into these seven countries accounted for 80 per cent of total imports into western Europe, and an even higher proportion of imports of primary commodities.

[c] Not imported in significant quantities.

[d] Imports of tin concentrates practically ceased in 1957; the volume index of gross imports of metal and concentrates combined is 73.

[e] Including the metal content of ores and concentrates.

[f] Value of feeds and fodders.

[g] Including bauxite.

almost 50 per cent higher so that net intake in 1957 was about one-third less than in 1956. The increase in lead and zinc imports seems to have been occasioned, at least in part, by a fear in the minds of traders that action would be taken by the United States Government to protect marginal domestic mines from the full impact of the decline in price by restricting in some way the inflow of ore and metal from foreign sources.[2] The 2 per cent decline in local aluminium output was accompanied by a much greater decline (19 per cent) in local bauxite production, while imports of bauxite were one-fourth higher than in 1956.

Table 72. United States: Changes in Production, Net Imports and Stocks of the Major Non-Ferrous Metals in 1957 Compared with 1956

(Thousands of short tons, metal content)

Metal	Change in		
	Mine production	*Net imports*	*Stocks at smelters and refineries*
Aluminium	−31.5[a]	11.6	69.1
Copper	−29.3	−127.1	44.0
Lead	−19.3	63.4	48.7
Tin	−16.0[a]	−23.4	−0.4
Zinc	−22.2	22.6	97.7
Nickel	5.0	−0.7	12.3

Source: United States Bureau of Mines, *Mineral Industry Survey*; American Bureau of Metal Statistics.

[a] Change in smelter production. In the case of aluminium, the decline in the output of domestic ore (bauxite) amounted to 368,000 short tons, dried equivalent.

As in the United States, gross imports of primary commodities into western Europe were well sustained in the second half of 1957. For the year as a whole the value of such imports—excluding fuels—was 5 per cent above the 1956 figure, reductions in cereals, hard fibres and most of the non-ferrous metals having been more than offset by increases in almost all other primary products (see table 71). Among the agricultural commodities particularly large increases occurred in the imports of sugar, tea, fats and oils, cotton and jute. Petroleum imports were more than one-fifth higher and, despite the decline in many prices, the gross value as well as the volume of imports of metals and ores was actually greater in 1957 than in 1956, iron ore, nickel and tin being largely responsible for the increase.

The expansion in tin imports reflects in part the closing of the Longhorn smelter in the United States and the consequent diversion of Bolivian concentrates to western Europe, particularly the United Kingdom. But another, and late in the year the principal, cause of the expansion was the decline in tin prices which brought the buffer stock into the London market as a buyer. The imminence of export restraints—which were in fact imposed in December, setting greatly reduced export quotas for the first half of 1958—caused a marked acceleration in the rate of shipments towards the end of 1957. This is illustrated by imports into the United Kingdom: in the five months ending 28 February 1957 these had amounted to less than 700 tons whereas in the corresponding period in 1957/58 they were almost 13,000 tons.

Tin was not the only commodity whose imports into the United Kingdom were appreciably higher in the period October 1957 to February 1958. There was a general rise in volume of non-ferrous metals and ores—except for aluminium and copper, which were one to 2 per cent lower—increasing the over-all index by about one-fourth. Fuel imports were higher by almost the same proportion, wood and pulp imports by about 3 per cent, agricultural raw materials by just under one per cent and foodstuffs by a small fraction.

While the volume of primary commodity imports into the United Kingdom in this period around the turn of the year was 5 to 6 per cent above the corresponding figure for 1956/57, the c.i.f. value of these imports was about 7 per cent lower. If allowance is made for the element in this change which is accounted for by the decline in freight rates from the peak at which they were at the turn of 1956/57, this disparity between change in volume and change in value is one indication of the extent to which the weakening trend in commodity prices had tended to reduce their unit value as the year progressed. For 1957 as a whole this reduction in unit value is reflected in a further decline in the rate of expansion in the export earnings of the primary exporting countries.

EXPORTS OF THE PRIMARY EXPORTING COUNTRIES

In the aggregate, exports from the primary exporting countries, which increased by almost 5 per cent in value between 1955 and 1956, increased by only 3 per cent between 1956 and 1957. The number of countries that failed to maintain export earnings rose from 30 per cent of the total in 1956—accounting for a fifth of all exports—to 36 per cent in 1957—accounting for a third of all exports (see table 73). These countries were concentrated in two main groups: exporters of metals and ores and exporters of coffee.

Exports from the metal and ore producing countries tended to follow the course of investment in the industrial countries. After rising by 11 per cent between 1954 and 1955 and again between 1955 and 1956, they were 9 per cent lower in 1957: reductions of 12 to 16 per cent in the Belgian Congo, Chile and Rhodesia—

[2] In Congressional hearings in June 1957 the Secretary of the Interior referred to "the further threat to the lead and zinc mining industries posed by the high level of import", and in August the President asked the United States Tariff Commission "to consider the situation for action under the escape clause of the Trade Agreements Extension Act". See *American Metal Market*, 5 June 1957, and United States Bureau of Mines, *Mineral Industry Survey: Mineral Market Report* MMS No. 2738 (Washington, D. C.).

the copper producers—and Bolivia (tin) and southern Korea (tungsten) more than offset expansion in Sierra Leone (iron ore), Surinam (bauxite) and Tunisia.

Table 73. Primary Exporting Countries: Distribution of Change in Value of Exports[a]

Ratio (preceding year = 100)	1956		1957[b]	
	Number of countries	Value of exports	Number of countries	Value of exports
Less than 90.....	11	1,128	14	3,761
90 to 94.9.....	6	2,094	3	1,590
95 to 99.9.....	5	2,142	10	3,432
100 to 104.9.....	14	7,833	12	5,772
105 to 109.9.....	13	4,999	8	3,747
110 to 114.9.....	11	5,887	9	3,365
115 to 119.9.....	9	1,479	2	2,435
120 and over.....	6	494	17	2,707
TOTAL[c]	75	26,056	75	26,809

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

[a] Valued in millions of dollars, f.o.b.

[b] Calendar year in most cases, but October–September in a few of the smaller countries for which final quarter data were not available.

[c] For list of countries see footnotes to table 74.

Among the coffee producers the lower export yields reflected chiefly the decline in price and in the intake of the principal (United States) market; but there were also smaller crops in one or two cases and, later in the year, supplies were withheld by some of the Latin American countries in support of a minimum price. The value of total exports was lower in 1957 than in 1956 not only in the major South American producers, Brazil and Colombia, but also in Guatemala and Haiti and in several African producers, including Kenya, Madagascar and Tanganyika. Though exports were higher in several of the smaller producers—Costa Rica, El Salvador and Uganda, for example—there was a 5 per cent reduction in the group's aggregate earnings—compared with a 6 per cent expansion between 1955 and 1956.

There appears to have been a slight decline—of one per cent or less—in the total export earnings of the cocoa, rice and cotton groups as well. In the case of the cocoa group the lower prices received by Ghana and Nigeria for the 1956/57 crop were partly responsible, and when final figures for the last quarter of 1957 are available they may well show that the higher prices received for the 1957/58 crop actually raised receipts for 1957 as a whole above the 1956 level. In the case of the rice group, a rise in exports from Thailand just failed to offset a decline in exports from Burma whose rice shipments, however, were at approximately 1956 levels.

Exports from the cotton producing countries were affected in the first instance by the massive expansion in disposals from United States cotton stocks: the value of United States cotton exports in 1957 was 45 per cent greater than in 1956. This was enhanced in some cases—Pakistan, for example—by increased domestic consumption, or by the maintenance of unrealistic reserve prices—as in Sudan, where it led to the accumulation of unsold stocks. In some countries—notably Mexico—a decline in the cotton crop was a major factor. Expansion in the exports from Egypt, Turkey, French Equatorial Africa, Mozambique, Peru and Nicaragua—where cotton crops were generally higher in 1956/57—was barely sufficient to compensate for contractions in Mexico, Sudan, Syria, Paraguay and Pakistan, and, in the aggregate, group exports were fractionally lower in 1957 than in 1956.

All the other export groups registered an increase in foreign exchange earnings between 1956 and 1957, ranging from 3 per cent in the case of the rubber exporters to 16 per cent in the case of the sugar exporters (see table 74). Countries with lower exports in these groups were the exceptions in which special forces had limited the output of the principal product or there had been a major decline in the earnings from secondary exports. Among the petroleum exporters, for

Table 74. Primary Exporting Countries: Indices of Change in Foreign Trade

(Preceding year = 100)

Country group exporting mainly	Value of exports[a]		Value of imports[a]	
	1956	1957	1956	1957
Metals and ores[b].....	111	91	105	108
Coffee[c].....	106	96	98	105
Cocoa[d].....	95	99	106	103
Cotton[e].....	104	100	110	106
Rice[f].....	103	100	109	125
Rubber[g].....	97	103	114	103
Petroleum[h].....	106	104	109	122
Tea[i].....	97	106	119	117
Wool[j].....	108	107	95	108
Fruit[k].....	101	113	110	122
Sugar[l].....	110	116	105	116
Total, seventy-five countries	105	103	105	111

Source: International Monetary Fund, *International Financial Statistics.*

[a] Measured in dollars, exports f.o.b., imports c.i.f.

[b] Belgian Congo, Bolivia, Chile, Korea (southern), Morocco, Rhodesia and Nyasaland, Sierra Leone, Surinam and Tunisia.

[c] Angola, Brazil, Colombia, Costa Rica, El Salvador, Ethiopia, French West Africa, Guatemala, Haiti, Kenya, Madagascar, Tanganyika and Uganda.

[d] French Cameroons, Ghana, Nigeria.

[e] Egypt, French Equatorial Africa, Mexico, Mozambique, Nicaragua, Pakistan, Paraguay, Peru, Sudan, Syria and Turkey.

[f] Burma and Thailand.

[g] Cambodia, Indonesia, Malaya and Singapore, North Borneo and Viet-Nam.

[h] Aden, Brunei, Iraq, Netherlands Antilles, Sarawak, Saudi Arabia, Trinidad and Venezuela.

[i] Ceylon and India.

[j] Argentina, Australia, New Zealand, South Africa and Uruguay.

[k] Algeria, Ecuador, Honduras, Israel, Lebanon and Panama.

[l] Barbados, British Guiana, China (Taiwan), Cuba, Dominican Republic, Fiji, Guadeloupe, Jamaica, Mauritius, Philippines and Réunion.

example, Iraq and to some extent Saudi Arabia were unable to maintain exports during the Middle East crisis that closed oil pipelines and the Suez Canal. Among the wool exporters, New Zealand experienced a significant reduction in earnings from dairy products which kept total proceeds at the 1956 level, while in Uruguay exporters held back supplies of wool in expectation of more favourable exchange rates. A decline in exports from Ceylon was mainly the result of smaller shipments of coconut products. In the Philippines, whose sugar was sold to the United States at a stable price rather than on the free market where the price was much higher in the first half of the year, the decline in total export receipts, though somewhat less, was more widely spread.

Offsetting in part the increase in the proportion of countries that failed to maintain the 1956 level of exports was an even larger increase—from 8 per cent to 23 per cent of the total—in the proportion of countries registering an expansion in exports of 20 per cent or more. These were concentrated to some degree in the sugar group—Barbados, China (Taiwan), Cuba, Fiji, Jamaica and the Dominican Republic—but they also included small coffee exporters—Costa Rica and El Salvador—and other small countries such as Viet-Nam and Cambodia (rubber and rice exporters), Sierra Leone and Tunisia (mineral exporters) and Israel and Panama (fruit exporters) as well as Egypt whose cotton exports recovered somewhat in volume from the low level of 1956. Australia, the leading wool exporter and a major trading country, was also among those registering a large increase in 1957—almost 17 per cent above the 1956 figure. As a result, while the proportion of countries whose exports expanded 15 per cent or more rose from a fifth in 1956 to a fourth in 1957, the proportion of total export proceeds accounted for by this group rose from less than 8 per cent to more than 19 per cent.

IMPORTS OF THE PRIMARY EXPORTING COUNTRIES

While the rate of expansion in exports from the primary exporting countries as a whole slackened, the rate of expansion in imports was significantly higher between 1956 and 1957 (over 11 per cent) than between 1955 and 1956 (5 per cent). All groups participated in this increase and the proportion of countries importing less than in the previous year declined from 32 per cent in 1956—accounting for more than one-third of all imports—to 17 per cent in 1957—accounting for less than one-sixth of all imports. At the other end of the scale the proportion whose imports expanded by 15 per cent or more rose from less than 19 per cent—accounting for one-fifth of all imports—to more than 28 per cent—accounting for almost two-fifths of all imports (see table 75).

The largest relative gains were recorded by the rice, fruit and petroleum exporting groups, reflecting in particular the expansion of imports into Burma, Algeria and Venezuela, but there was also a major increase in the tea exporting group (notably India) and the sugar exporting group (notably the Philippines and Cuba). Some of the largest relative increases were registered by countries whose exports actually realized less in 1957 than in 1956—Sudan, for example, and only slightly less markedly, Argentina, Brazil and Chile (all with a rise of more than 15 per cent) and Ceylon, New Zealand and Rhodesia (with a rise of 10 to 12 per cent).

Table 75. Primary Exporting Countries: Distribution of Change in Value of Imports[a]

Ratio (preceding year = 100)	1956		1957[b]	
	Number of countries	Value of imports	Number of countries	Value of imports
Less than 95.....	16	6,692	7	2,027
95 to 99.9.....	8	2,773	6	3,727
100 to 104.9.....	10	3,361	6	752
105 to 109.9.....	12	4,170	20	7,159
110 to 114.9.....	15	5,328	15	5,464
115 to 119.9.....	4	714	10	5,178
120 and over.....	10	4,854	11	6,637
TOTAL[c]	75	27,892	75	30,944

Source: International Monetary Fund, *International Financial Statistics*.

[a] Valued in millions of dollars c.i.f.

[b] Calendar year in most cases, but October–September in a few of the smaller countries for which final quarter data were not available.

[c] For list of countries, see footnotes to table 74.

In part this divergence between import and export trends merely reflects the lag that customarily occurs between changes in export proceeds and the consequent changes in domestic incomes, in the demand for imported goods and in their ultimate arrival and recording. In 1957 this lag was reinforced rather more than usual by other events and policies. Externally, some delay in shipments was caused by the Middle East crisis, as a result of which imports in the early months of 1957 were enlarged somewhat by goods that might otherwise have arrived in 1956. This factor affected chiefly the trade between western Europe and southern and south-eastern Asia and in the aggregate it was not of major significance. The rise in imports in 1957 was to a much greater extent the result of developments within the primary exporting countries.

In some countries local producers were shielded to a large extent from the effects of the decline in commodity prices—as in Brazil in respect of coffee and New Zealand in respect of dairy produce. In others, there was a determination to continue investment programmes that had been started earlier, even when the high import content of some projects involved a severe drain on foreign exchange reserves—as in India and, to a less extent, the Philippines and Rhodesia. In some countries, local inflationary conditions and the associated high levels of expenditure were largely responsible, espe-

cially in countries such as Bolivia and Chile where attempts were under way to dismantle the apparatus of exchange and import control which had previously been relied on to hold down the level of imports. In others, the threat to the balance of payments embodied in the decline in commodity prices and the failure of export earnings to rise was itself a potent cause of higher imports—as in Argentina, Burma, New Zealand and the Philippines, for example, where private imports were expanded in part through speculative action in advance of a possible or probable tightening of import controls.

Though the countries whose imports were less in 1957 than in 1956 were fewer in number and trading size, they were widely distributed among the various export groups. In many cases—Australia, Colombia, Indonesia and Turkey, for example—the reduction reflects a reaction from a particularly high level of imports in previous years induced by measures taken to protect exchange reserves. Balance of payments considerations—though not specifically on trade account—also lay behind a cutback in imports into Egypt and Syria on the one hand and Morocco and Tunisia on the other.

CHANGES IN THE REGIONAL PATTERN OF TRADE[3]

Though the expansion in the value of exports from the primary exporting countries was somewhat smaller

[3] This analysis is based on incomplete data. Trade statistics showing origin and destination for the whole of 1957 were available for one-third only of the primary exporting countries, accounting for rather more than one-half of total trade. As indicated in tables 76 and 77, in most cases figures for shorter periods of six to eleven months have had to be used. The directional breakdown was also incomplete: some 3 per cent of total exports and 2 per cent of total imports—and appreciably larger proportions of the trade of individual countries and groups—could not be allocated regionally. The conclusions expressed in the text are therefore no more than tentative, their validity depending on the extent to which the trade pattern in the final portion of the year conformed to that in the first portion and the extent to which the unallocated trade was distributed in the same way as that whose origin and destination were known.

Table 76. Primary Exporting Countries: Indices of Change between 1956 and 1957 in Exports to Various Destinations

(Corresponding period in 1956 = 100)

Country group exporting mainly	*Total*[a]	*North America*	*Western Europe*	*Japan*	*Centrally planned countries*	*Latin America*	*Middle East*	*Southern and south-eastern Asia*	*Oceania*	*Africa*
Metals and ores[b]	92	85	87	191	43	96	31	144	101	93
Petroleum[c]	111	117	126	140	129	97	101	30	55	112
Rubber[d]	104	95	94	103	142	151	114	116	105	97
Cotton[e]	101	103	93	90	135	101	104	80	139	96
Wool[f]	109	94	107	125	109	112	69	109	123	111
Cocoa[g]	98	79	101	*	389	100	100	*	59	92
Coffee[h]	94	88	97	99	83	142	100	63	88	105
Tea[i]	96	97	89	167	95	100	111	76	96	91
Rice[j]	110	86	87	75	83	50	254	130	175	293
Sugar[k]	115	105	131	112	221	114	115	116	70	185
Fruit[l]	112	105	113	133	126	127	134	100	75	92
TOTAL[m]	105	99	102	111	124	106	103	106	110	106

Source: United Nations, *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development.

Note: Asterisk denotes exports were zero either in 1956 or in 1957.

[a] These indices differ in varying degrees from those presented in table 74 because of differences in country and time coverage.

[b] Belgian Congo (10 months), Bolivia (9 months), Chile (8 months), Korea, southern (10 months), Morocco (9 months), Rhodesia (12 months), Sierra Leone (9 months) and Tunisia (6 months).

[c] Aden (12 months), Netherlands Antilles (9 months), Saudi Arabia (6 months), Trinidad and Tobago (11 months) and Venezuela (6 months).

[d] Cambodia (9 months), Indonesia (11 months), Malaya and Singapore (12 months) and Viet-Nam (12 months).

[e] Egypt (12 months), French Equatorial Africa (11 months), Mexico (11 months), Mozambique (8 months), Nicaragua (12 months), Pakistan (10 months), Paraguay (12 months), Peru (12 months), Sudan (12 months), Syria (9 months) and Turkey (12 months).

[f] Argentina (12 months), Australia (12 months), New Zealand (9 months), South Africa (12 months) and Uruguay (9 months).

[g] Ghana (10 months) and Nigeria (8 months).

[h] Angola (10 months), Brazil (9 months), El Salvador (10 months), Ethiopia (6 months), Guatemala (6 months), Kenya (10 months), Madagascar (10 months), Tanganyika (10 months) and Uganda (10 months).

[i] Ceylon (12 months).

[j] Burma (6 months) and Thailand (10 months).

[k] British Guiana (12 months), China (Taiwan) (12 months), Cuba (11 months), Dominican Republic (8 months), Jamaica (11 months), Mauritius (9 months) and Philippines (12 months).

[l] Algeria (12 months), Ecuador (11 months), Israel (11 months), Lebanon (9 months) and Panama (11 months).

[m] Fifty-nine countries, accounting for about 87 per cent of the exports of the primary exporting countries included in table 74. Because of normal trade lags, there are differences between changes in exports to a given destination and in imports into the countries in question; in particular, the indices of exports to western Europe and North America are not necessarily the same as the indices of imports into these regions from the primary exporting countries.

Time coverage is distributed as follows:

Number of months	*Number of countries*	*Value of exports (millions of dollars)* 1956	1957
6	6	1,691	1,917
8	4	734	730
9	11	3,015	2,923
10	11	1,770	1,768
11	7	1,864	2,123
12	20	9,597	10,121
6–12	59	18,671	19,581

between 1956 and 1957 than between 1955 and 1956, it was rather more general, all major regional destinations participating: 42 per cent of the net increment went to the industrial countries, 21 per cent to the centrally planned countries and 37 per cent to the primary exporting countries themselves. The largest relative increase was in exports to eastern Europe, chiefly from the cotton and sugar exporting groups. Among the principal advances in trade within the primary exporting regions were substantial increases in exports to southern and south-eastern Asia, principally from the rubber, rice and wool groups—and to Latin America, principally from the coffee, wool and rubber groups (see table 76).

Though it accounted for over two-fifths of the absolute increment, the relative expansion in exports to the industrial countries was small, except to Japan which received substantially larger shipments, particularly from the wool, petroleum and sugar groups. The increase in exports to western Europe, though little more than 2 per cent, accounted for almost one-third of the aggregate expansion. This increment also came largely from the wool, petroleum and sugar exporting countries. The petroleum group was responsible for the only significant increase in exports to North America; but even along with gains of the sugar group—and to a much smaller extent the cotton and fruit groups—this was insufficient to offset reductions in exports from other groups, notably the coffee exporters.

The decline in exports from the metal and ore exporting group was concentrated largely in trade with western Europe and North America; there were increases in shipments to Japan and to a smaller extent southern and south-eastern Asia, reflecting in part a greater intake by India. In contrast to this, the decline in exports from the coffee exporting group was spread over all three industrial regions and southern and south-eastern Asia as well; against this there was a slight expansion of exports to other primary producing regions, accounted for largely by a rise in trade within Latin America. Exports of the tea group—represented here by Ceylon only—declined to all destinations except Japan, eastern Europe and the Middle East, the principal reduction being in the value of shipments to western Europe. The cocoa group registered advances in exports to Europe—both western and eastern—but reductions to most other destinations.

Exports of the other groups all rose, though the distribution of gains by destination was by no means uniform. The large increase from the wool group was widely spread; shipments to North America—and on a much smaller scale, the Middle East—were the only ones that were lower in 1957 than in 1956. The petroleum group registered considerable advances in exports to industrial destinations, but little change in shipments to Latin America and the Middle East—that is, largely within the petroleum producing regions themselves—even though these were altered during the first part of the year by transport and refining adjustments necessitated by the Suez crisis. Shipments to southern and south-eastern Asia and Oceania from Aden and Saudi Arabia were smaller, owing in part to the growth of refining facilities in importing countries and the consequent change toward the lower-valued imports of crude petroleum. The index in table 76 is inflated somewhat by the upsurge in exports from Venezuela which were one-fifth higher in the first half of 1957 than in the corresponding period in 1956.

The expansion in exports from the sugar group was spread over all regions except Oceania, with by far the largest increase going to western Europe. The rise in the rubber group's exports, by contrast, was confined largely to the primary exporting regions—notably southern and south-eastern Asia and Latin America—though there was also an increase in shipments to mainland China. Exports of the fruit group were higher to almost all destinations, but by far the largest absolute increase—more than three-fourths of the total—was in shipments to western Europe. The expansion in exports of the rice group, on the other hand, was concentrated largely within the southern and south-eastern Asian region—where several rice importing countries had poorer harvests in 1956/57—though there were also gains in shipments to other primary exporting countries, especially Middle Eastern destinations. Lower 1957/58 crops in Burma and Thailand reduced exports very substantially in the last quarter of 1957, so that for the year as a whole there was very little advance over 1956. Exports from the cotton group to the areas that had expanded their imports of United States cotton in 1957—western Europe, Japan and southern and south-eastern Asia—were significantly smaller than in 1956, but this reduction was offset by a major expansion in shipments to eastern Europe and the Union of Soviet Socialist Republics and a small increase in exports to North America.

On the import side, about 43 per cent of the over-all increase between 1956 and 1957 was drawn from North America. The chief expansion from this source was in the imports of the petroleum and cotton exporting groups, though there was a large increase in the imports of the wool, metal and ore and sugar groups, too, and smaller increases in almost all the other groups (see table 77). In every instance the increment in imports from North America was larger than the increment in exports to that region, the gap being largest in the case of the petroleum, metal and ore, cotton, wool and coffee groups.

Western Europe accounted for about one-third of the aggregate increment; the advances were spread over all the primary exporting groups except the metal and ore and cotton groups, where there was a slight reduction, but were greatest in the case of the fruit and wool groups. The increase in imports from Japan was con-

Table 77. Primary Exporting Countries: Indices of Change between 1956 and 1957 in Imports from Various Sources

(Corresponding period in 1956 = 100)

Importing countries classified by major export	*Total*[a]	*North America*	*Western Europe*	*Japan*	*Centrally planned countries*	*Latin America*	*Middle East*	*Southern and south-eastern Asia*	*Oceania*	*Africa*
Metals and ores[b]	110	124	99	101	59	103	115	71	115	109
Petroleum[c]	129	179	130	126	105	113	105	83	78	102
Rubber[d]	104	99	107	97	105	57	176	102	108	78
Cotton[e]	108	113	100	115	141	129	107	145	168	102
Wool[f]	108	113	108	68	43	112	106	123	134	102
Cocoa[g]	102	139	99	94	128	144	*	78	125	114
Coffee[h]	105	105	107	92	79	104	111	123	93	131
Tea[i]	111	148	104	114	69	*	168	119	116	45
Rice[j]	122	129	122	175	138	186	55	93	137	250
Sugar[k]	118	113	121	120	81	132	150	128	149	149
Fruit[l]	125	113	130	132	139	105	94	105	50	121
TOTAL[m]	111	118	109	103	96	112	113	108	126	108

Source: See table 76.

Note: Asterisk denotes imports were zero either in 1956 or in 1957.

[a] These indices differ in varying degree from those presented in table 74 because of differences in country and time coverage.

[b] Belgian Congo (10 months), Chile (8 months), Korea, southern (10 months), Morocco (9 months), Rhodesia (12 months), Sierra Leone (9 months) and Tunisia (6 months).

[c] Aden (12 months), Iraq (6 months), Netherlands Antilles (9 months), Saudi Arabia (6 months), Trinidad and Tobago (11 months) and Venezuela (6 months).

[d] Cambodia (9 months), Indonesia (11 months), Malaya and Singapore (12 months) and Viet-Nam (12 months).

[e] Egypt (12 months), French Equatorial Africa (11 months), Mexico (11 months), Mozambique (8 months), Nicaragua (12 months), Pakistan (10 months), Paraguay (12 months), Peru (12 months), Sudan (12 months), Syria (9 months) and Turkey (12 months).

[f] Argentina (12 months), Australia (12 months), New Zealand (9 months), South Africa (12 months) and Uruguay (6 months).

[g] Ghana (10 months) and Nigeria (8 months).

[h] Angola (10 months), Brazil (9 months), Colombia (11 months), Costa Rica (10 months), El Salvador (10 months), Ethiopia (6 months), Guatemala (6 months), Kenya (10 months), Madagascar (10 months), Tanganyika (10 months) and Uganda (10 months).

[i] Ceylon (12 months).

[j] Burma (6 months) and Thailand (10 months).

[k] British Guiana (12 months), China (Taiwan) (12 months), Dominican Republic (8 months), Jamaica (11 months), Mauritius (9 months), Philippines (12 months) and Cuba (11 months).

[l] Algeria (12 months), Israel (11 months) and Lebanon (9 months).

[m] Fifty-nine countries, accounting for about 87 per cent of total imports of the primary exporting countries included in table 74.

Time coverage is distributed as follows:

Number of months	*Number of countries*	*Value of exports (millions of dollars)*	
		1956	*1957*
6	7	1,054	1,511
8	4	656	686
9	10	2,972	3,343
10	12	2,092	2,404
11	6	2,303	2,250
12	20	11,297	12,466
6–12	59	20,373	22,658

fined largely to the rice and sugar exporting groups; these were partly offset by contractions in a number of other groups, notably in the imports of the wool group.

The reduction in imports from eastern Europe and the Soviet Union, in the face of a marked rise in the exports of the primary exporting countries to this destination, was largely the result of a decline in the imports of the wool group—especially Argentina—and to a less degree the coffee group from this source. The change in the trade with the cotton exporting group, on the other hand, was more nearly in balance, though exports to eastern Europe and the Soviet Union increased somewhat more than imports from the region and the group's export balance with the region became slightly more active. The cotton and rubber groups were the ones to record significant increases in imports from mainland China.

The increase in imports from southern and south-eastern Asia—accounting for about 7 per cent of the total increment and somewhat more than one-fourth of that coming from the primary exporting sources—is largely accounted for by the wool, cotton and, to a smaller degree, the sugar, rubber and tea groups, reflecting chiefly the movement of petroleum, jute, tea, rubber and rice, particularly to Australia, Singapore, Pakistan and Ceylon and the Philippines. There was a slightly larger increase in imports from Latin America, due mainly to trade within the region: the movement of petroleum from Venezuela to the Netherlands Antilles and the imports of Argentina and Cuba, and to a less extent Brazil and Peru, of regional products. The rubber and wool exporting groups account for most of the increment in imports from the Middle East, notably petroleum. The principal element in the rise in imports from Oceania—as in the case of Latin America—was trade within the region, between Australia and New Zealand in particular. There was also a sizable element of intra-trade in the expansion in imports from Africa: the metal and ore group—chiefly Rhodesia and the Belgian Congo—accounted for much of the increment in imports and the fruit group (chiefly Algeria) for most of the remainder.

The expansion of trade within and among the primary exporting regions played an important role in a

year in which the growth of exports to the industrial regions tended to slow down. Of the increase in exports indicated in table 76, for example, the primary exporting regions themselves accounted for only one-eighth less than the industrial regions. Of the increment in exports to the primary exporting countries, southern and southeastern Asia took just over one-third, Latin America between one-fourth and one-third, Africa one-sixth, Oceania one-seventh and the Middle East the remaining 5 per cent.

The significance of this trade among the primary exporting countries may be illustrated by some examples of its major forms—entrepôt trade, trade in primary consumer commodities, in raw materials and fuels, and in manufactured goods—in 1956 and 1957.

Singapore provides an example of two types of entrepôt trade—the performance of a direct commercial function in the buying and selling of commodities and the importation of raw material for processing prior to re-export. In 1957, over one-third of the rubber exports of Malaya and Singapore consisted of material previously imported—chiefly from Indonesia and Sarawak. Similarly, imports of tin ores and concentrates—chiefly from Thailand, Burma, Viet-Nam and Laos—constituted one-fifth by weight of the exports of tin metal. More important in international trade is the movement of petroleum to and from such territories as Aden and the Netherlands Antilles: it is imported as crude and exported as refined petroleum products. Over 57 per cent of Aden's imports in 1957 came from the Middle East, mostly in the form of crude petroleum, while in the first three quarters of 1957 almost 80 per cent of the $740 million of imports into the Netherlands Antilles came from Latin America and almost three-fourths from Venezuela. With the tendency for petroleum refineries to be located increasingly in consumer countries and metal refineries increasingly at the mine, this type of entrepôt trade seems unlikely to expand as rapidly as other intra-regional trade among primary exporting countries, but at present it accounts for a sizable fraction.

Trade in primary consumer commodities also takes two principal forms. First, there is a considerable trade in staple foods, with tropical countries importing wheat from temperate zone countries, notably Argentina and Australia, and high population density countries importing wheat—as in the case of Egypt—and rice, as in the case of several of the countries of southern and south-eastern Asia, from areas of relatively low population pressure, notably Burma and Thailand, more than half of whose combined exports in 1956 and 1957 were to destinations within their own region. More than one-fifth of Australia's wheat exports in 1957 went to India and Pakistan and more than half of its wheat flour exports to Ceylon, Indonesia and Malaya and Singapore. Similarly wheat from Argentina and Uruguay goes in substantial quantities to Brazil which in 1957 accounted for almost one-third of the exports of Argentina and well over half of those of Uruguay. Though with the progress of agricultural development projects in the food deficit countries this trade may also decline, events in the past few years have shown that for many of these countries self-sufficiency still lies a good way off. With rising incomes the rural areas themselves are absorbing larger quantities of cereals. Moreover, adverse climatic conditions often raise total import requirements, as is illustrated by the expansion in rice trade between 1956 and 1957 over and above grain shipments received from the United States by India and Pakistan, for example.

The second main flow of primary consumer commodities is in one respect a reverse of the first: it is the flow of tropical products—particularly the beverage crops and to a smaller extent spices and selected fruits—to the temperate zone countries. With population growth and rising levels of income, this latter trade has expanded measurably in recent years, though—except in the case of tea—primary exporting countries still account for relatively small proportions of the consumption of these products. In 1957, for example, only about 7 per cent of all coffee exports but almost half the tea exports from Ceylon were directed to other primary exporting countries.

Trade in raw materials and fuels has been expanding rather more rapidly. It is a function of the industrialization process in the primary exporting countries and it involves such products as cotton and rubber, the non-ferrous metals and petroleum. With the growth of the textile industry, automobile assembly and engineering activities in the primary exporting countries, raw material imports, though still small by world standards, have been increasing markedly. New petroleum refineries have been constructed in many of these countries in recent years—Australia, India and South Africa, for example—while imports of petroleum into such countries as Argentina and Brazil account for a sizable proportion of total import expenditure.

Inter-trade in manufactures has also been expanding, though it is still very much in an incipient stage. The principal flows are from Australia to New Zealand, from India and Hong Kong to other countries in the southern and south-eastern Asian region, from South Africa to Rhodesia and other African countries and from Argentina, Brazil and Mexico to other Latin American countries. In 1957 the ratio of exports of manufactured goods (excluding non-ferrous metals) to total exports from these countries ranged from one per cent in Brazil and 4 to 5 per cent in Argentina and Australia to 10 per cent in South Africa and over 40 per cent in India.

While the over-all increase in trade within the primary exporting regions between 1956 and 1957 thus helped to counteract the decline in the rate of expansion in exports to the industrial regions, it did little to reduce the demand for imports from the industrial regions and thereby to reduce the gap that developed

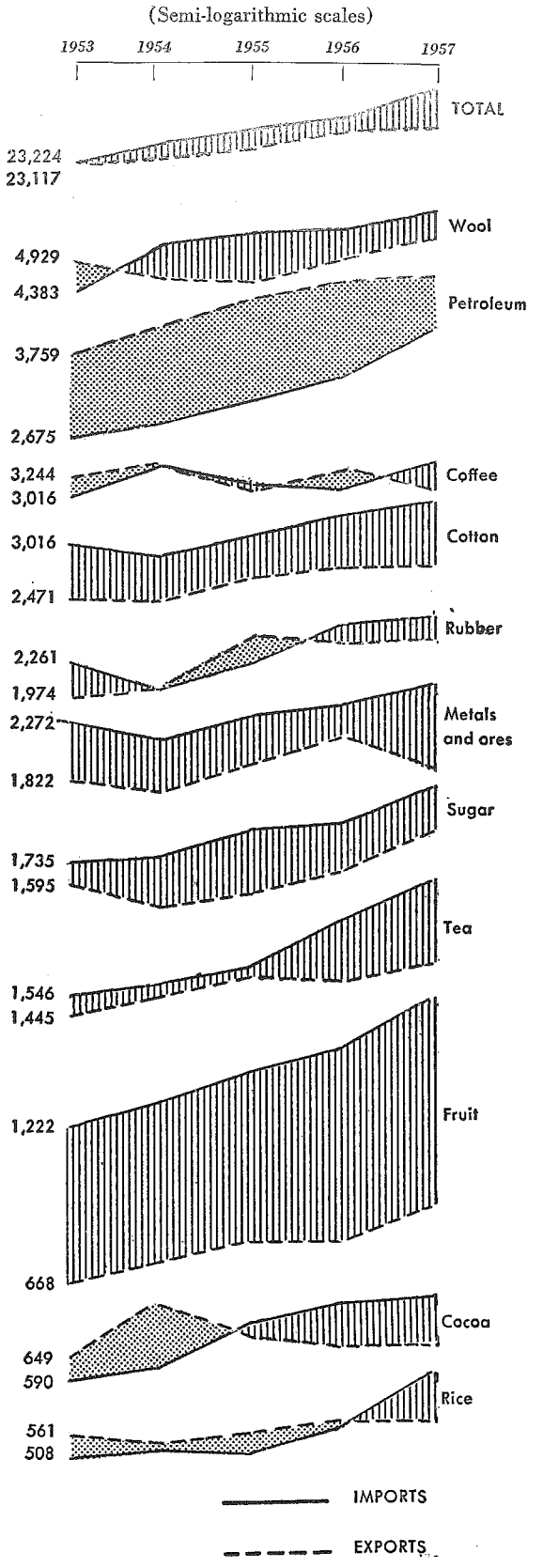
between total exports to and total imports from those regions. Of the net increment in imports into the primary exporting countries between 1956 and 1957, over three-fourths came from the industrial countries; the proportions coming from other regions were all very small: 7 per cent from Latin America, 6 per cent from southern and south-eastern Asia, 5 per cent from the Middle East, 3 per cent from Oceania, 2 per cent from Africa and one per cent from eastern Europe and the Soviet Union.

The ratio of exports of the primary exporting countries to western Europe (measured f.o.b.) to imports from that region (measured c.i.f.) dropped from 102 per cent in 1956 to 97 per cent in 1957. In their trade with North America, the primary exporting countries registered a substantial deficit even in 1956; this increased considerably in 1957, the ratio of exports to imports declining from 83 per cent to 69 per cent. Only in the case of trade with Japan, among the industrial regions, did exports of the primary exporting countries exceed their imports in both years—by 18 per cent in 1956 and 26 per cent in 1957. The significance of the rise in the over-all deficit in the trade with the industrial countries—from 5 per cent in 1956 to 13 per cent in 1957—lies in the probability that the dependence of the primary exporting countries on imports from the industrial countries will continue to increase as development plans proceed.

THE EXTERNAL BALANCE

During the post-Korean cycle the balance of trade of the primary exporting countries has grown progressively more passive, for though the value of total exports has risen steadily the value of total imports has risen more rapidly. This has been the situation not only for these countries in the aggregate but also for most of the export groups taken individually. The principal interruptions in this expansion occurred between 1953 and 1954 when there were a number of reductions in foreign trade, due in part to the United States recession. The two groups not conforming to the pattern were those exporting coffee and cocoa: in neither have exports again realized as much as they did in 1954—the year of boom in beverage crops. While imports into the cocoa group have continued to rise, however—financed in part by the reserves accumulated in earlier post-war years—imports into the coffee group have been under continued restraint because, despite a sizable inflow of capital, reserves have remained inadequate in the face of demand pressures swollen by domestic inflation. Though there were single years of active balance in the rubber and wool groups, two such years for the cocoa group and three in the case of the coffee group, the only group in which export earnings have been consistently above import costs is that exporting petroleum (see chart 14).

Chart 14. Primary Exporting Countries: Value of Imports and Exports[a]



Source: IMF, *International Financial Statistics.*
For country composition of exporting groups see table 74.
[a] In millions of dollars, imports c.i.f., exports f.o.b.

Among individual countries there was a widespread tendency for imports to reflect changes in export earnings in the previous year, the import trend following the export trend, usually with a lag whose length was a function of the country's foreign exchange reserves, its distance from its principal trading partners and the extent to which the government maintained control over imports. Such controls were in continuous effect in countries experiencing chronic inflation, and in these cases the movement of imports tended to be more arbitrary. In countries with major development programmes under way, imports have shown a persistent upward trend quite independent of changes in export proceeds. In some countries imports have been liberated —at least temporarily—from the limits implicit in their own export earnings by an inflow of foreign capital. Though much of this capital has been directed toward export industries—notably petroleum and certain metals and ores—some has gone into import-substituting industries. This has tended to change the composition of imports into many of the primary exporting countries but, in general, not their magnitude: since 1953 they have risen in the aggregate by 31 per cent in value and about 25 per cent in volume. Exports in 1957, however, were only 15 per cent above the 1953 level in over-all value and not more than 11 per cent greater in volume.

There was a marked widening of this gap between imports and exports from 1956 to 1957 for, as pointed out above, in addition to a small increase in the proportion of countries failing to maintain their export earnings in 1957, there was a relatively large decrease in the proportion whose imports were lower than in the preceding year and an increase among those recording a major increase in imports. This situation is analysed further in tables 78 and 79. Of the seventy-five countries on which table 78 is based, 59 per cent continued to show a passive balance of trade and in over two-thirds of these there was a deterioration of the balance between 1956 and 1957. In addition, 11 per cent of all primary exporting countries moved from surplus into deficit on trading account and a further 11 per cent returned a smaller surplus in 1957 than in 1956.

The part played by higher imports in this change is brought out by table 79. In only one group of countries —those exporting chiefly metals and ores—did a decline in export earnings contribute more than the expansion in imports to the worsening of the balance of trade; this reflects principally the decline in copper prices[4] and was concentrated in Rhodesia, the Belgian Congo and Chile. The only other group in which export earnings were, in absolute terms, substantially smaller in 1957 than in 1956 was the one exporting largely coffee and this was in part a result of the withholding of coffee from the world market by Brazil and Colombia in an effort to maintain price.[5]

The rubber group was the only one in which the expansion in imports was more or less paralleled by the expansion in exports. For the rest, the balance of trade showed a marked deterioration, and was passive for all groups except that exporting petroleum, and in this group the rise in imports was great enough to reduce the active balance by more than 40 per cent. The proportion of countries whose ratio of trade balance to

[4] On the London Metal Exchange the average price of standard electrolytic wirebars was 33 per cent lower in 1957 than in 1956, and there was a comparable decline on the New York market.

[5] On the New York market there was a fairly steady decline in coffee prices during the year, and compared with the 1956 average the 1957 average was 2 per cent lower in the case of Brazilian Santos No. 4 and 14 per cent lower in the case of Colombian Manizales (but 5 per cent higher in the case of Angolan Ambriz).

Table 78. Primary Exporting Countries: Distribution of Change in Balance of Trade[a]

Country group exporting mainly[b]	Number of countries in which, in relation to 1956, the balance of trade[a] in 1957					
	Was more active	Moved from passive to active	Was less passive	Was less active	Moved from active to passive	Was more passive
Petroleum	4	—	1	2	—	1
Rubber	1	—	1	1	1	1
Coffee	4	1	1	1	1	5
Rice	—	—	—	—	1	1
Wool	—	1	—	—	2	2
Sugar	1	2	4	—	—	4
Cocoa	—	—	1	—	—	2
Metals and ores	—	—	2	2	1	4
Cotton	—	—	4	1	1	5
Tea	—	—	—	—	1	1
Fruit	1	—	—	1	—	4
Total countries	11	4	14	8	8	30
Total trade in 1956[c]	4,730	6,758	4,769	6,508	9,853	21,331

Source: International Monetary Fund, *International Financial Statistics.*

[a] Exports f.o.b. minus imports c.i.f.

[b] For country composition of these groups see table 74.

[c] Exports f.o.b. plus imports c.i.f. in millions of dollars.

Table 79. Primary Exporting Countries: Changes in the Balance of Trade

Country group exporting mainly[a]	Change between 1956 and 1957 in millions of dollars			Balance of trade as percentage of total trade[c]	
	Exports[b]	Imports[b]	Balance of trade[b]	1956	1957
Petroleum	188	773	−585	17	9
Rubber	77	79	−2	−3	−3
Coffee	−122	165	−287	1	−4
Wool	368	420	−52	−5	−6
Sugar	269	320	−51	−9	−9
Cocoa	−10	24	−34	−7	−9
Rice	−2	138	−140	1	−10
Cotton	−10	210	−220	−10	−13
Metals and ores	−209	206	−415	−6	−14
Tea	103	349	−246	−11	−16
Fruit	106	368	−262	−35	−38
Total and average	758	3,052	−2,294	−3	−7

Source: International Monetary Fund, *International Financial Statistics.*
[a] For country composition of these groups see table 74.
[b] Exports f.o.b., imports c.i.f.
[c] Exports plus imports.

total trade was negative and −11 per cent or more rose from 36 per cent in 1956 (accounting for 30 per cent of total trade) to 47 per cent in 1957 (accounting for 43 per cent of total trade), while at the other end of the scale the proportion in which that ratio was positive and 11 per cent or more dropped from 15 per cent of both countries and trade to 9 per cent of the countries and 11 per cent of the trade (see table 80). There was some tendency for increases in trade surplus to be concentrated on petroleum and coffee exporting countries, but increases in deficit were widely scattered, both geographically and in respect of the principal commodity export.

A major part of the deterioration in the balance of trade of the primary exporting countries—especially in the case of the tea, rubber and cotton exporting groups—was due to a more or less universal rise in average import prices between 1956 and 1957, corresponding in varying degrees to the rise in the index of prices of manufactures entering international trade and in the index of unit value of exports from the industrial countries. This increase was particularly great in the countries of southern and south-eastern Asia which were most affected by the closing of the Suez Canal, but it was also marked in some of the countries in which transport expenses are a significant element in the cost of imports and, because of liner or conference arrangements, did not decline in the course of the year from the higher levels fixed at the time of the Middle East crisis. In several countries—notably Egypt—import prices were affected by changes that occurred in the direction of trade, but in most instances this was accompanied by a corresponding change in export prices offsetting in some degree its effect on the terms of trade. The average increase in the unit value of imports of all primary exporting countries was in the vicinity of 4 per cent.

Table 80. Primary Exporting Countries: Distribution According to Relative Magnitude of Trade Balance

Ratio of balance of trade to total trade[a] (percentage)	1956		1957	
	Number of countries	Total trade (millions of dollars)	Number of countries	Total trade (millions of dollars)
−31 and over	6	1,863	7	3,682
−21 to −30	8	2,301	7	2,347
−11 to −20	13	12,181	21	18,983
−6 to −10	10	7,138	7	2,828
0 to −5	12	9,501	10	10,709
0 to 5	13	9,670	11	6,461
6 to 10	2	3,160	5	6,596
11 to 20	6	2,464	4	4,733
21 and over	5	5,671	3	1,419
TOTAL[b]	75	53,949	75	57,758

Source: International Monetary Fund, *International Financial Statistics.*
[a] Exports f.o.b. minus imports c.i.f. divided by exports plus imports.
[b] For list of countries see footnotes to table 74.

In the aggregate—though not, of course, for individual countries—none of the deterioration in the balance of trade was due to the movement in export unit values; indeed, the index of export unit values of all non-industrial countries averaged about one per cent higher in 1957 than in 1956.[6] Nor was any decline in quantum of exports responsible for the rise in the trade deficit: on the contrary, the export quantum in 1957 was between 2 and 3 per cent above the 1956 level, giving an increase—at 1956 prices—of about $500 million. The principal factor was the increment in import quantum: this was of the order of $1.8 billion at 1956 prices, though at current prices total imports rose by over $3 billion.

[6] As indicated at the beginning of this chapter, the price index of primary commodities in international trade, while declining by 7 per cent between the first and last quarters of 1957, was actually 2 per cent higher on the average than in 1956. Being heavily weighted by petroleum and cereals (which because of special pricing and marketing arrangements, price support programmes and other reasons are not subject to sudden and major price changes) and seriously under-weighted in respect of non-ferrous metals (whose prices are especially volatile in times of change in the level of investment), this index is not a very sensitive measure of the sort of price changes which have characterized the recent boom and current recession. On the other hand, it is probably somewhat less insensitive than an index of unit value of exports averaged over all primary exporting countries, influenced to a greater extent as the latter necessarily is by longer-term contractual arrangements. Such an index of unit value indicates an increase of about one per cent between 1956 and 1957, while a similar index covering only thirty-four countries—but including the major copper exporters and underweighting in varying degrees petroleum, fruit and cocoa exporters—registers no change between 1956 and 1957.

The incidence of price changes and movements in export quantum and in the capacity to import generated by exports varied considerably from one group of countries to another. This is chiefly because there were major divergences in the movement in average export prices (see table 81). At the one extreme are the countries exporting mainly sugar whose terms of trade improved markedly, especially among those that were able to sell on the free market in the first half of the year. At the other extreme are the countries exporting mainly non-ferrous metals—particularly copper—whose terms of trade showed the greatest deterioration. There was also some deterioration—though of smaller dimensions—in the terms of trade of most of the other groups, with the exception of the wool exporters, and the average for all primary exporting countries was about 3 per cent below the 1956 figure.

The rise in the unit value of exports in the sugar group was sufficient to convert a decline in quantum—notably in Cuba and the Philippines—into a rise in total receipts. Conversely, the decline in unit value of exports in the metal and ore group was sufficient to convert a rise in quantum—notably in the copper exporting countries—into a decline in total receipts. Like the sugar group, the coffee group also exported less in 1957 than in 1956; in this case, however, the reduction in quantum was accentuated by a decline in unit value, especially in Colombia and El Salvador.

The cocoa group—represented in table 81 only by Ghana—also experienced a reduction in unit value of

Table 81. Primary Exporting Countries: Indices of Export and Import Value and Quantum and Terms of Trade, 1957

(1956 = 100)

Country group exporting mainly	Exports			Imports			Capacity to import	Terms of trade
	Total value[a]	Quantum	Unit value	Total value[a]	Quantum	Unit value		
Metals and ores[b]	86	106	81	113	110	103	83	79
Tea[c]	106	106	100	117	109	108	98	92
Cocoa[d]	97	103	94	109	107	102	95	92
Rubber[e]	103	103	100	103	96	107	96	93
Coffee[f]	95	98	97	105	104	101	94	96
Rice[g]	100	102	98	125	122	102	98	96
Petroleum[h]	104	105	99	141	137	103	101	96
Cotton[i]	101	99	102	105	100	105	96	97
Fruit[j]	115	112	103	94	91	103	112	100
Wool[k]	108	105	103	105	103	102	106	101
Sugar[l]	113	98	115	116	114	102	111	113
Average, thirty-four countries[m]	103	103	100	111	107	104	99	96
Average, all primary exporting countries	103.5	102.5	101.0	110.9	106.9	103.7	99.8	97.4

Source: United Nations Bureau of Economic Affairs; Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

[a] Because of differences in country coverage, these indices differ in varying degree from those presented in table 74.

[b] Belgian Congo, Bolivia, Chile, Federation of Rhodesia and Nyasaland.

[c] Ceylon, India.

[d] Ghana (9 months only).

[e] Indonesia, Malaya and Singapore, Viet-Nam.

[f] Brazil, Colombia, Costa Rica, El Salvador, Guatemala.

[g] Burma, Thailand.

[h] Iraq, Venezuela.

[i] Egypt, Mexico, Nicaragua, Pakistan, Peru, Turkey.

[j] Ecuador.

[k] Australia, New Zealand, Union of South Africa, Uruguay.

[l] China (Taiwan), Cuba, Dominican Republic, Philippines.

[m] In 1956 these countries accounted for 74 per cent of all exports and 73 per cent of all imports of the seventy-five primary exporting countries represented in table 74.

exports, at least over the first three quarters of the year; since cocoa prices rose fairly steadily after March and the average for 1957 was about 15 per cent above the 1956 figure, the unit value index of exports for the year as a whole was probably appreciably higher than the nine-month average of 94 shown in table 81. The decline in unit value in the petroleum group—represented in table 81 by Iraq and Venezuela—seems to have been the result of a change in the composition of exports: the average price of crude petroleum from Venezuela was about 10 per cent higher in 1957 than in 1956 but the Middle East crisis occasioned a major increase in the volume of crude petroleum exported in the first half of the year, thereby reducing the relative importance of exports of higher value refined products.

The slight decline in the quantum of exports from the cotton group was the result of lower export volume from Mexico and Pakistan. In the case of Pakistan—though not of Mexico—this was offset by a rise in unit value, but the principal gain in unit value in this group was recorded by Egypt, despite the 13 to 15 per cent reduction in the average price of Ashmouni and Karnak cottons on the Liverpool market. This reflects the change in the direction of trade—in favour of eastern Europe and the Soviet Union—but, as indicated above, it was offset to some extent by an increase in import unit values, which helped to reduce the terms of trade index for the cotton group as a whole to 3 per cent below the 1956 level.

In the aggregate it is probable that the primary exporting countries' capacity to import was much the same in 1957 as in 1956: it was appreciably higher for the fruit, sugar and wool groups but appreciably lower for the cotton, rubber, coffee and metal and ore groups. Against this, the actual expansion in imports was both more general and of greater dimensions. This expansion in imports beyond the limits indicated by the movement in capacity to import was met in part by increased foreign borrowing and in part by the running down of exchange reserves.

The part played by reserves

The official gold and foreign exchange holdings of the primary exporting countries—which had increased by more than 2 per cent in 1956—declined by more than 4 per cent during 1957. Venezuela received by far the largest accession to its reserves in both these years; this was due largely to special transactions regarding concessions in petroleum-bearing regions. If Venezuela is omitted from the total, reserves of the remaining primary exporting countries are seen to have declined in both years—by one per cent in 1956 and by 8 per cent in 1957.

The proportion of countries registering a decline in reserves increased from 35 per cent in 1956—representing less than two-fifths of total year-end holdings—to 59 per cent in 1957—representing well over half of aggregate holdings, while the proportion experiencing major losses of reserves—of more than 10 per cent—was almost three times greater in 1957 than in 1956 (see table 82). One result of this was a doubling—from 9 per cent at the end of 1956 to 18 per cent at the end of 1957—of the proportion of countries whose official reserves would finance less than two months' imports at average 1956-1957 rates.

Table 82. Primary Exporting Countries: Distribution According to Change in Official Gold and Foreign Exchange Holdings[a]

Percentage change during the year[b]	*1956*		*1957*	
	Number of countries	*End-of-year holdings (millions of dollars)*	*Number of countries*	*End-of-year holdings (millions of dollars)*
−31 and over	3	23	7	1,220
From −11 to −30	5	2,631	15	3,359
From −1 to −10	8	2,824	5	2,596
From 1 to 10	14	3,367	7	2,298
From 11 to 30	11	3,469	6	509
31 and over	3	1,390	5	3,195
TOTAL[c]	46[d]	13,785	46[e]	13,189

Source: International Monetary Fund, *International Financial Statistics;* Belgian Congo: Banque centrale, *Bulletin de la banque centrale du Congo belge et du Ruanda-Urundi* (Leopoldville); Rhodesia and Nyasaland: Central African Statistical Office, *Monthly Digest of Statistics* (Salisbury); United Kingdom: Colonial Office, *Colonial Digest of Statistics* (London).

[a] Including changes in the net foreign assets of commercial banks in Rhodesia and in the sterling balances of United Kingdom dependencies.

[b] Year ending 31 December in all instances except (in 1957) Mexico, Syria and Uruguay, for which it is the eleven months ending 30 November, and Bolivia and the United Kingdom dependencies, for which it is the year ending 30 June. In total—though not necessarily in respect of any individual regional component—there was very little change in the sterling holdings of these dependencies during the second half of 1957.

[c] In the absence of recent detailed statistics regarding sterling balances, the United Kingdom dependencies have been incorporated on a regional basis instead of as individual territories. Dependencies in the West Indies have been incorporated as a unit in the sugar exporting group, those in West Africa as a unit in the cocoa exporting group, those in East Africa as a unit in the coffee exporting group and Malaya-Singapore-North Borneo as a unit in the rubber exporting group.

[d] Two countries registered no change.

[e] One country registered no change.

The most marked change in the movement of reserves took place in the groups exporting metals and ores (reflecting the decline in copper earnings in the Belgian Congo, Chile and Rhodesia), coffee (as a result of the deteriorating trade balance in Brazil), sugar (largely because of a reversal in the Philippines), cotton (where the reversal affected several countries, including Mexico, Pakistan and Peru) and rice (owing to a rapid rise in imports into Burma). There was a further and larger reduction in reserves in the tea exporters, an expansion in imports being largely responsible in both Ceylon and India. The increase in reserves that took place in the wool exporting group was entirely due to developments in Australia where imports were reduced

slightly in the face of a major rise in export proceeds. The decline in the rate of expansion in reserves of the petroleum exporting group reflects the difficulties of some of the Middle East countries—especially Iraq—which served to offset the gain in Venezuela where, as indicated above, there was a further large inflow of foreign capital (see table 83).

Table 83. Primary Exporting Countries: Changes in Official Gold and Foreign Exchange Holdings

Country group exporting mainly	*Percentage change in official reserves during*		*Official reserves as percentage of average 1956–1957 imports*	
	1956	*1957*	*End 1956*	*End 1957*
Cocoa[a]	−5	−3	196	199
Petroleum[b]	49	28	68	87
Rice[c]	11	−2	68	67
Rubber[d]	−2	−1	58	57
Cotton[e]	3	−12	58	51
Coffee[f]	8	−8	55	51
Sugar[g]	5	−6	51	49
Tea[h]	−21	−33	71	47
Wool[i]	−1	4	37	39
Fruit[j]	2	—	26	26
Metals and ores[k]	18	−30	37	25
TOTAL	3	−4	56	53

Source: See table 82 for source and definitions.
[a] Ghana, Nigeria and Sierra Leone.
[b] Iran, Iraq and Venezuela.
[c] Burma and Thailand.
[d] Indonesia, Malaya-Singapore-North Borneo, and Viet-Nam.
[e] Egypt, Mexico, Nicaragua, Pakistan, Peru, Syria and Turkey.
[f] Brazil, Colombia, Costa Rica, El Salvador, Ethiopia, Guatemala, Kenya, Tanganyika and Uganda.
[g] Barbados, British Guiana, China (Taiwan), Cuba, Dominican Republic, Jamaica, Philippines and Trinidad.
[h] Ceylon and India.
[i] Argentina, Australia, New Zealand, South Africa and Uruguay.
[j] Ecuador, Honduras, Israel, Lebanon and Panama.
[k] Belgian Congo, Bolivia, Chile, southern Korea and Rhodesia.

The part played by capital movements

The over-all strain on the reserves of the primary exporting countries, imposed by the deteriorating trade balances, was mitigated to a considerable extent by an inflow of capital. This inflow appears to have been appreciably larger in 1957 than in 1956 not only in the aggregate but also from each of the principal sources.

The net outflow of capital from the United States to the primary exporting countries was about one-sixth greater in 1957 than in 1956, the movement of long-term capital being almost 30 per cent greater. In addition, there was a 6 per cent increase in unilateral transfers (exclusive of military items). The major component of long-term capital was direct private investment and the net increase in this was more than 40 per cent. Net short-term movements were somewhat smaller than in 1956 and repayments of long-term capital somewhat larger, but the aggregate net outflow of funds, at almost $3.7 billion, was about 10 per cent greater (see table 84).

Latin America was again the chief recipient of United States capital: in 1957 it accounted for about two-thirds of the over-all net movement to primary exporting countries compared with about one-half in 1956. The outflow of long-term capital to Latin America was running at almost double the 1956 rate.[7] This expansion stands in marked contrast to the rate of new investment in other regions: there was a small absolute increase in the movement of long-term capital to western European dependencies, a sizable net repayment of capital

[7] Since the extraordinary concession payments to Venezuela—though well over $300 million in 1957—were on more or less the same scale as in 1956, the increase in the net capital outflow to other Latin American countries was relatively much greater than this.

Table 84. Capital Movements between the United States and the Primary Exporting Regions, 1956 and 1957[a]
(Millions of dollars)

Type of movement	*Total*		*Latin America*		*Independent countries of sterling area*		*Western European dependencies*		*All other primary exporting countries[b]*	
	1956	*1957*	*1956*	*1957*	*1956*	*1957*	*1956*	*1957*	*1956*	*1957*
Private capital, total	1,268	1,586	826	1,299	59	1	36	49	347	237
Direct investments, net	839	1,179	612	1,008	33	7	35	65	159	99
New issues	78	65	—	—	25	13	—	—	53	52
Redemptions	−24	−23	−8	−9	−15	−13	—	—	−1	−1
Other long-term, net	55	128	63	123	15	−17	−7	−13	−16	35
Short-term, net	320	237	159	177	1	11	8	−3	152	52
Government capital, total	543	529	97	145	158	198	−2	−1	290	187
Long-term	408	608	118	301	73	58	[c]	[c]	217	249
Repayments	−178	−432	−126	−155	−21	−171	−1	−1	−30	−105
Short-term, net	313	352	105	−1	106	311	−1	[c]	103	43
Total, net movement	1,811	2,115	923	1,444	217	199	34	48	637	424
Long-term capital	1,178	1,526	659	1,268	110	−112	27	45	382	329
Unilateral transfers[d]	1,464	1,552	121	157	199	176	27	33	1,117	1,186

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), March 1958.
[a] Figures for 1957 are preliminary.
[b] Including Japan.
[c] Less than $500,000.
[d] Excluding military transfers.

by independent sterling countries and a 14 per cent decline in long-term investment in other primary exporting countries. Among the latter, however, were several countries which were again recipients of aid on a large scale: almost $1.2 billion (6 per cent more than in 1956) went to countries in southern and south-eastern Asia and the Middle East.

The net outflow of long-term capital from the United Kingdom was also significantly higher in 1957 than in 1956. The net total in 1957 appears to have been of the order of £260 million compared with £160 million in 1956.[8] Part of this increase is accounted for by the switching from sterling assets to dollar securities by non-residents through the so-called "Kuwait gap", which reached its peak in mid-1957 before being halted by official action. The bulk of the flow, however—and most of the increase—appears to have gone to the primary exporting countries of the sterling area, especially in the form of direct private investment—new stock flotations on the London market having been reduced by local monetary restraint and high rates of interest—or the running down of sterling holdings by one or two countries, notably India. The high rates of interest seem to have been instrumental in attracting to the United Kingdom a reverse flow of short-term funds from various sources, including primary exporting countries. This had the effect of putting upward pressure on interest rates in a number of sterling countries. In South Africa this tendency was resisted in 1956 and again in 1957—when the gap between United Kingdom and local interest rates again widened—by an embargo on short-term capital transfers by residents.

Other western European countries also appear to have invested more abroad in 1957 than in 1956.[9] The outflow of long-term capital from the Federal Republic of Germany, for example, is estimated to have reached the equivalent of $185 million, almost one-half of which seems to have gone to primary exporting countries. There was a similar, if smaller, rise in Belgium where in the first half of the year the movement of private long-term capital was running at the equivalent of $118 million, 15 per cent above the corresponding 1956 rate. Part of this outflow was to the Congo where it helped to offset the depletion of official reserves.

There was also an appreciable volume of lending by Czechoslovakia and the Soviet Union though this was concentrated on a small number of countries: India and Indonesia in 1956 and Egypt, India and Syria in 1957. Along with a small credit to Burma made early in 1958, the 1957 loans appear to have amounted—at the official rate of exchange—to somewhat less than $60

[8] The 1956 figure is net of the £60 million received from the sale of the Trinidad Oil Company, but even if allowance is made for this exceptional transaction the increase in capital outflow between 1956 and 1957 is still quite marked.

[9] For more detailed estimates of the flow of funds to the primary exporting countries, see United Nations, *The International Flow of Private Capital, 1957*.

Table 85. Primary Exporting Countries: Transactions[a] with the International Bank for Reconstruction and Development and the United States Export-Import Bank

(Millions of dollars)

Institution and borrowing region	1956				Amount undisbursed 31 December 1956	1957				Amount undisbursed 31 December 1957
	Loans (net of cancellations)	Disbursements	Repayments	Net outgoings		Loans (net of cancellations)	Disbursements	Repayments	Net outgoings	
IBRD[b]										
Latin America	71.3	95.2	15.6	79.6	210.2	21.4	81.9	21.4	60.5	149.7
Middle East	—	9.2	0.7	8.5	36.9	74.8	61.1	1.4	59.7	50.6
Southern and south-eastern Asia	117.8	55.3	8.1	47.2	196.4	256.9	121.7	8.3	113.4	331.6
Africa	80.0	24.1	11.9	12.2	98.0	84.4	32.0	15.3	16.7	150.4
Oceania	59.2	35.9	3.1	32.8	59.2	—	23.5	8.8	14.7	35.7
TOTAL	328.3	219.7	39.4	180.3	600.7	437.5	320.2	55.2	265.0	718.0
Export-Import Bank										
Latin America	360.8	69.4	113.0	−43.6	673.8	224.6	234.5	124.6	109.9	663.9
Middle East	−0.4	14.8	6.7	8.1	45.4	0.9	6.5	16.5	−10.0	39.7
Southern and south-eastern Asia	64.8	13.8	6.6	7.2	97.9	7.0	4.9	6.7	−1.8	99.8
Africa	−3.8	21.8	10.2	11.6	51.2	−1.9	14.0	13.1	0.9	35.3
Oceania	0.4	13.1	1.5	11.6	3.5	−3.4	—	2.1	−2.1	0.1
TOTAL	421.8	132.9	138.0	−5.1	871.8	227.2	259.9	163.0	96.9	838.8

Source: International Bank for Reconstruction and Development, *Eleventh Annual Report, 1955–1956, Twelfth Annual Report, 1956–1957* and supplements, and press releases; International Monetary Fund, *International Financial Statistics;* United States Export-Import Bank, *Semi-Annual Report to Congress.*

[a] Including participation by other lending institutions, except in the case of Export-Import Bank loans carried by commercial banks at their own risk.

[b] Including loans which have required further action by borrower or guarantor (or both) before becoming effective.

Table 86. Primary Exporting Countries: Transactions with the International Monetary Fund

(Millions of dollars)

Country	1956			1957		
	Gross borrowing	Repayments	Net borrowing[a]	Gross borrowing	Repayments	Net borrowing[a]
Latin America	21.4	28.2	−6.8	204.6	47.2	157.4
Argentina	—	—	—	75.0	—	75.0
Bolivia[b]	3.0	—	3.0	1.0	—	1.0
Brazil	—	28.0	−28.0	37.5	—	37.5
Chile[b]	—	0.2	−0.2	31.1	12.3	18.8
Colombia[b]	—	—	—	5.0	5.0	—
Cuba[b]	12.5	—	12.5	35.0	22.5	12.5
Ecuador	—	—	—	5.0	—	5.0
El Salvador	2.5	—	2.5	—	2.5	−2.5
Haiti	—	—	—	1.0	—	1.0
Honduras	—	—	—	6.2	2.5	3.7
Nicaragua[b]	1.9	—	1.9	3.8	1.9	1.9
Paraguay[b]	1.5	—	1.5	4.0	0.5	3.5
Middle East	34.7	11.9	22.8	32.3	7.0	25.3
Egypt	15.0	—	15.0	15.0	—	15.0
Iran	19.7	11.9	7.8	—	—	—
Israel	—	—	—	3.8	—	3.8
Turkey	—	—	—	13.5	7.0	6.5
Southern and south-eastern Asia	75.0	27.5	47.5	200.0	—	200.0
Burma	15.0	—	15.0	—	—	—
India	—	12.5	−12.5	200.0	—	200.0
Indonesia	55.0	15.0	40.0	—	—	—
Philippines	5.0	—	5.0	—	—	—
Total, primary exporting countries	131.1	67.6	63.5	436.9	54.2	382.7

Source: International Monetary Fund, *International Financial Statistics.*

[a] Minus sign indicates net repayment.

[b] Amounts available from stand-by credit arrangements:

	31 December 1955	31 December 1956	31 December 1957
Bolivia	—	4.5	3.5
Chile	—	35.0	16.2
Colombia	—	—	25.0
Cuba	—	12.5	—
Nicaragua	—	1.9	3.8
Paraguay	—	—	2.0
Peru	12.5	12.5	12.5

million from Czechoslovakia and somewhat more than $300 million from the Soviet Union.

For some of the primary exporting countries there were also significant changes in the state of commercial indebtedness. In the case of Argentina and Colombia, for example, there was probably a net liquidation of arrears on trading accounts in the course of the year. In Brazil, on the other hand, commercial debts seem to have increased in total. This was true in India also where there was a concerted effort to obtain long-term credits from suppliers of capital equipment—particularly in the Federal Republic of Germany and the United Kingdom—as a means of slowing down the rate at which the second five-year plan was exhausting foreign exchange reserves. In Turkey there was actually a gain in official reserves, but this was achieved at the cost of increasing external liabilities, including a deficit of almost $61 million with the European Payments Union.

Two of the principal institutions through which the primary exporting countries are able to borrow dollars and to a less extent other currencies to finance specific investments—the International Bank for Reconstruction and Development (IBRD) and the United States Export-Import Bank—both recorded a sizable increase in their transactions with these countries in 1957. In the case of the IBRD, loans negotiated (minus cancellations) were one-third higher than in 1956, actual disbursements (minus repayments) almost one-half higher, and amounts awaiting disbursement at the end of the year about one-fifth higher. The main expansion in new loans as well as in net disbursements was to Asian and Middle Eastern countries, notably India, Iran and Thailand (see table 85).

Operations of the United States Export-Import Bank in 1957 differed in several respects from those in 1956. In 1957 new loans (minus cancellations) were confined almost exclusively to Latin America whereas in

1956 there had also been a sizable loan to the Philippines. As a result, in 1957 net outgoings were positive for Latin America but negative for most other regions —the reverse of the 1956 situation. While a smaller aggregate sum was negotiated in 1957, actual disbursements (minus repayments), which had been negative in 1956, approached the $100 million mark in 1957.

Symptomatic of the strain developing in the balance of payments of many of the primary exporting countries was a notable expansion in the activities of the International Monetary Fund. The funds made available to these countries in 1957 amounted to more than three times the 1956 figure—excluding stand-by facilities in each case. Since repayments of earlier advances were smaller in 1957, the net amount made available by the Fund—all in United States dollars—was more than six times the 1956 figure (see table 86).

The two most noteworthy features of Fund transactions with the primary exporting countries were the $200 million made available to India and the large increase in the borrowings of Latin America. Notwithstanding the former, official reserves in India declined by more than one-third during the year. Latin America had been a net repayer in 1956 whereas in 1957 it accounted for over 40 per cent of the Fund's net advances, no fewer than ten countries in the region making use of its facilities. Of these, however, only three—Bolivia, Chile and Paraguay—had, by the end of the year, drawn more than their first credit tranche, thus raising the Fund's holdings of their currencies above 125 per cent of their quotas. At this time the Fund's holdings of currencies of primary exporting countries outside Latin America were also in excess of 125 per cent in the case of Burma (175 per cent), India (143 per cent), Iran (147 per cent) and the Philippines (175 per cent).

Production and Use of Resources

Except possibly in the agricultural sector, gains in production in the primary exporting countries appear to have been slightly greater and somewhat more widespread between 1956 and 1957 than between 1955 and 1956. Among the metals, copper output was 2 per cent higher, lead 5 per cent, zinc 8 per cent and iron ore 16 per cent. Tin was the only major item to decline; as the result of lower mine production in Indonesia and Malaya, total output was 2 per cent below the 1956 level. Both coal output and petroleum output were greater in 1957, the former by 6 per cent and the latter by 7 per cent, and there was a 9 per cent over-all expansion in the amount of electricity generated. Cement production—now widespread among the primary exporting countries—was up 9 per cent in the aggregate, while steel production, much more concentrated, was up 12 per cent. To judge by apparent consumption of cotton, there was a 6 per cent expansion in the output of textiles. All these increases were greater than the corresponding changes in the industrial countries.

On the agricultural side, production gains were generally more modest. The 1957 wheat crop in the primary exporting countries was barely up to the 1956 level, increases in most countries in the Middle East (with the exception of Egypt and Jordan) and southern and south-eastern Asia being counter-balanced by reductions in crops in Australia, Algeria, Morocco and South Africa, and Argentina and Brazil. Rice output in 1957 was 3 per cent below the 1956 level, the principal declines occurring in the Asian region, notably India, Thailand, Cambodia, Indonesia and Malaya. Total maize production was reduced by poorer harvests in most of the Central American and Middle Eastern countries, as well as in Morocco and South Africa. Only sugar among the major food crops registered a sizable and widespread advance over 1956 (see table 87).

The cotton crop gathered in the primary exporting countries in the year ending in July 1957 was about one per cent below that of the preceding year; the 1957/58 crop appears to have more than recovered that loss (see table 88). The decline between 1955/56 and 1956/57 was concentrated largely in Latin America —Brazil, Mexico and to a less extent Argentina—but there were also crop reductions in Egypt and the Belgian Congo, Pakistan and southern Korea and a few smaller producers. Except in the case of Brazil and southern Korea, these declines were more than made good in 1957/58; in this season the largest contractions were recorded in the Sudan, Turkey and Uganda.

The 1956/57 wool clip in the primary exporting countries was about 6 per cent above the 1955/56 figure; expansion was general except for Uruguay and some of the smaller producers in Latin America and Africa. The 1957/58 season appears to have brought a reversal, largely because of drought conditions in Australia, which resulted in a 7 per cent reduction in the local clip. There was only an insignificant expansion in the over-all output of natural rubber between 1956 and 1957, a small gain in Malaya being largely offset by a reduction in Cambodia, Viet-Nam and one or two smaller producers. This stands in contrast to a rise of 4 per cent in the output of the synthetic product.

The distribution of changes in a number of key indices of mining and industrial production is set out in table 89. In general, the large increases were confined to small producers but there were notable gains in Indonesia, Iran and Trinidad in the case of petroleum output, in Peru (iron ore, copper, lead and zinc),

Table 87. Indices of Production of Selected Food Crops, 1957[a]

(1956 = 100)

Region	Wheat	Rice (paddy)	Maize	Sugar (centrifugal)
World	98	99	102	108
Primary exporting countries	100	97	...	106
Central America	105	99	89	103
South America	83	102	121	109
Africa	87	108	91	107
Middle East	119	107	89	108
Southern and south-eastern Asia	107	96	...	107
Oceania	73	101	100	108

Source: Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics;* United States Department of Agriculture, *Foreign Crops and Markets: World Summaries—Crops and Livestocks;* United Kingdom, Commonwealth Economic Committee, *Grain Bulletin.*

[a] Data pertain to the crops actually harvested, in full or substantially, in 1957. Since in several cases only first or second forecasts are available, the indices are subject to revision.

Table 88. Indices of Production of Selected Raw Materials

(Preceding year = 100)

Region	Cotton 1956/57	Cotton 1957/58[a]	Wool 1956/57	Wool 1957/58[a]	Rubber 1957
World	97	95	104	99	102[b]
Primary exporting countries	99	103	106	98	101
Central America	84	115	99	105	100
South America	86	102			
Africa	113	87	101	99	107
Middle East	104	107	102	101	[c]
Southern and south-eastern Asia	105	101			100
Oceania	133	75	110	95	[c]

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics;* International Cotton Advisory Committee, *Cotton—World Statistics,* April 1958; United Kingdom, Commonwealth Economic Committee, *Wool Intelligence,* April 1958.

[a] Preliminary.

[b] Excluding the centrally planned countries; including synthetic rubber.

[c] Negligible production.

in the Belgian Congo (zinc), in Venezuela (iron ore and cement), in Australia and Mexico (steel), in Ghana, the Philippines and Turkey (electricity) and in Pakistan and Rhodesia (cement). At the other end of the scale, there were some important producers among those showing significant reductions in output. Brazil, Ceylon, Chile, Iran and the Philippines all produced less cement in 1957, for example; Chile, Cuba and Israel generated less electricity than in 1956, while India and Turkey produced less steel than in 1956. Copper output was lower in the Belgian Congo, Chile, Turkey and South Africa, zinc in Mexico, lead in Rhodesia and petroleum in a number of countries, including Brunei, Iraq and Mexico.

When these data regarding the output of food, raw materials and manufactures are combined with other indicators, it is seen that, like 1956, the year 1957 brought widespread increases in gross domestic product. Expansion was not limited to specific geographic regions or to countries exporting particular commodities. Countries in which there appears to have been an appreciable rise in real per capita output include petroleum exporters (Venezuela and Iran), sugar exporters (Cuba and to a less extent the Philippines), cotton exporters (Syria and to a less extent Turkey), fruit exporters (Israel, Ecuador and to a less extent Lebanon) as well as Rhodesia (a metal exporter) and to a less extent Australia (a wool exporter). Notwithstanding this dispersion of countries with over-average rates of growth, however, there was some concentration—though partly a fortuitous one—of countries in which domestic product was lower in 1957 than in 1956 in south-eastern Asia (Ceylon, Indonesia and

Table 89. Primary Exporting Countries: Distribution of Change in Construction and in the Production of Selected Commodities

Ratio of 1957 production to 1956 production percentage[a]	Construction[b]	Electricity	Steel	Copper	Lead	Tin	Zinc	Petroleum	Cement	Cotton textiles[c]
Less than 90	9	0	0	—	—	5	—	4	5	2
90 to 98	2	2	1	3	1	6	1	4	6	1
99 to 101	0	2	2	1	—	3	—	1	2	11
102 to 104	3	2	0	2	2	1	1	4	2	2
105 to 110	4	15	3	1	2	2	1	3	5	14
111 to 115	1	7	1	1	1	—	—	2	5	8
116 to 120	2	2	0	—	—	1	—	2	6	1
More than 120	3	6	1	1	1	3	2	6	8	8
Number of countries	24	36	8	9	7	21	5	26	39	47

Source: United Nations, *Monthly Bulletin of Statistics;* International Cotton Advisory Committee, *Cotton—World Statistics.*

[a] Based in some instances on less than a full year's output.

[b] Measured variously—and very roughly—by area, number or value of buildings completed or of permits issued.

[c] Based on the apparent consumption of raw cotton in the year ending 31 July.

Thailand) and South America (Argentina and Colombia). These were also the regions in which there were countries that showed no gain in per capita output: Chile on the one hand and Malaya and Singapore and Pakistan on the other (see table 90).

In the Latin American countries the failure of per capita output to grow was partly the result of anti-inflationary domestic policies—by restricting credit and precipitating occasional strikes, for example—though in Chile and to a less extent Colombia a depressing effect

Table 90. Primary Exporting Countries: Indicated Change between 1956 and 1957 in Gross Domestic Product and Expenditure

Country	Gross domestic product	Total consumption	Gross capital formation		Gross domestic expenditure	External account	
			Total fixed investment	Change in stocks		Exports	Imports
Cuba	D	D	D	+	D	B	E
Venezuela	C	C	F	...	E	E	F
Ghana	B	B	A	+	B	D	E
Belgian Congo	B	B	A	−	B	A	B
Ecuador	C	C	B	...	C	D	C
Australia[a]	A	A	−B	−	−B	D	−D
Australia	B	B	B	0	B	D	−B
New Zealand[b]	B	B	−B	−	A	B	−B
New Zealand	B	A	B	+	B	A	B
Philippines	C	B	D	+	C	B	F
Thailand	−B	B	C	−	A	E	C
Syria	C	B	B	+	C	B	−C
Ceylon	−B	A	A	...	A	A	D
Egypt	B	B	−F	...	A	C	−C
South Africa	B	B	A	+	B	C	D
Malaya and Singapore	A	−B	C	+	A	A	B
Puerto Rico[a]	B	−B	E	...	A	D	C
Rhodesia	C	C	A	−	B	C	C
India	B	B	F	+	B	C	E
China (Taiwan)	B	B	C	...	B	F	B
Iran[c]	C	B	F	...	C	−D	B
Iran[d]	C	C	F	...	C	A	F
Israel	C	C	B	...	C	E	B
Burma[e]	C	C	B	+	C	A	F
Lebanon	B	B	B	...	B	−B	A
Mexico	B	B	C	+	B	−B	C
Pakistan	A	B	F	...	B	−E	A
Turkey	B	B	A	+	B	C	−C
Brazil	B	B	E	+	C	−B	F
Colombia	−B	A	−F	...	−B	−C	−F
Chile	A	A	−C	+	A	C	F
Argentina	−B	−B	C	+	A	B	C
Indonesia	−B	−B	B	...	−B	B	A

Source: United Nations Bureau of Economic Affairs. Australia: *National Income and Expenditure 1956–1957* (Canberra, 1957); Burma: Ministry of Finance and Revenue, *Economic Survey of Burma, 1957* (Rangoon, 1957); Iran: an unpublished document of the United States Oversea Mission Program Office in Iran; Puerto Rico: Department of Treasury, *Report on Finances and Economy, 1957* (San Juan, 1957); Ecuador and New Zealand: replies to the United Nations questionnaire of November 1957 on economic trends, problems and policies; other countries: based on indicators derived from official statistics of trade, production and public finance.

The symbols indicate a percentage range of increase or decrease (−): A = −1 to 1; B = 2 to 5; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 and over. The countries are arrayed in ascending order of increase in cost of living index, averaging the change between 1956 and 1957 and the change during 1957.

Where official estimates have been used, they were preliminary figures. Where "indicators" have been used, they were generally estimates of apparent consumption (production minus exports plus imports, with due allowance for inventory changes whenever possible) of major food items, major textile items and major consumer durables—to give a measure of the change in consumption—and of cement, steel, machinery and major producer durables—to give a measure of the change in investment. In some countries an index of construction activity was also used in assessing investment changes. In most cases the "indicators" were computed in real (physical) terms; where values were used, they were reduced to a constant price basis (usually the 1956 level) by means of the most appropriate available deflator. Changes in external accounts were based on balance of payments statements wherever possible, otherwise on merchandise exports and imports adjusted for other current items in the light of 1956 figures, as well as for price changes between 1956 and 1957. Changes in gross domestic product reflect changes in the output of as many items—both agricultural and industrial—as were available in official statistics, combined roughly in accordance with weights derived from national accounts of recent years. In general the indicators were based on a comparison of figures for at least the first three quarters of 1957 with those for the corresponding period in 1956. Agricultural production was measured by the crops harvested entirely or principally in 1957.

[a] Fiscal year ending 30 June 1957 compared with preceding fiscal year.

[b] Fiscal year ending 31 March 1957 compared with preceding fiscal year.

[c] Fiscal year beginning 21 March 1956 compared with preceding fiscal year.

[d] Fiscal year beginning 21 March 1957 compared with preceding fiscal year.

[e] Fiscal year ending 30 September 1957 compared with preceding fiscal year.

was also exerted by the deterioration in the terms of trade which tended to reduce incomes and aggravate shortages of imported goods used by local producers. In Argentina and Colombia a decline in agricultural output in the 1957/58 season was also a significant contributory factor. In the Asian countries where per capita output failed to expand, poorer harvests played an even more important role, but the causes of the agricultural setback were by no means uniform.

As there had been between 1955 and 1956, there was a further and widespread increase in consumption between 1956 and 1957. In general this increase seems to have exceeded the rate of population growth. Where over-all per capita consumption was not maintained, this was due to a number of different factors combined in varying degree: repercussions of government anti-inflationary measures (as in Argentina and Chile and to a less extent New Zealand and Australia), crop failures (as in Ceylon), deterioration in the terms of trade (as in Malaya and Singapore), or special local difficulties (as in Indonesia).

Total consumption was held back by reductions in current public outlay in a number of countries. This was linked to more general anti-inflationary policies in some instances—as in Australia in the 1956/57 fiscal year and in Turkey and to some extent in New Zealand, Pakistan and Indonesia—or was part of a budget which reflected government caution in the light of declining export prices—as in Ghana and Ceylon. Conversely, expansion in current government expenditure served to raise the over-all level of consumption in Burma, Iran, Israel and Lebanon. This appears to have happened in the Belgian Congo and Rhodesia also, notwithstanding attempts to reduce outlays later in the year as the decline in export earnings progressed.

Investment, as usual more volatile than consumption, showed greater movement both upward and downward compared with 1956. In most of the countries for which assessments have been attempted there was an increase, and of considerable dimensions in a number of cases—Venezuela, Iran, India, Brazil, Puerto Rico, Pakistan, Cuba and the Philippines, for example. These were countries with active development plans getting under way or experiencing a significant inflow of foreign capital. An increase in fixed capital formation between 1956 and 1957 was not necessarily associated with high ratios of investment to production. Some countries with high rates of investment to gross national product showed relatively small gains between 1956 and 1957—Australia, Israel, Mexico, Rhodesia and South Africa, for example. Correspondingly, among the countries whose fixed capital formation was lower in 1957 than in 1956, were some with high and others with much lower investment ratios.

In some countries—Chile and Colombia, for example—the anti-inflationary policies that helped to reduce consumption were responsible in large measure for a decline in fixed capital formation as well. Such policies also contributed to a decline in private investment in Turkey, where personal consumption appears to have been maintained, and—in the fiscal year 1956/57—to a reduction in total capital formation in Australia and New Zealand, too. In Australia and New Zealand, however, fixed investment picked up somewhat in the course of 1957—especially in the private sector—and for the calendar year appears to have been fractionally above the 1956 level. In Egypt it was the threat to external accounts in consequence of the Middle East crisis that caused a curtailment of investment, especially in the public sector. In the Belgian Congo the adverse movement of export prices seems to have been the chief reason for reduced investment in the private sector, closely linked as this is to the inflow of foreign funds. In Ceylon, where output was smaller and the terms of trade less favourable, government capital formation was appreciably lower than in 1956. In South Africa, by contrast, a further increase in government investment was accompanied by another cutback in private construction and failed to raise the over-all level of capital formation above the high plateau on which it has remained for the past three years. In Ghana the 1956 decline in cocoa prices which continued until mid-1957 induced caution in both the public and private sectors and the rate of investment appears not to have risen much above the 1956 level. Much the same is true in Rhodesia where the decline in copper prices continued throughout the year, causing some hesitation in what had been a rapidly rising rate of capital formation; with work on major projects continuing, total investment seems to have been maintained more or less at the 1956 level.

Among the countries registering the highest relative advances in the rate of fixed capital formation were Iran and Venezuela, where the main stimulant—directly or indirectly—was the revenue derived from the petroleum industry, and India and Pakistan where official development programmes were largely responsible. There was also a considerable increase in investment in Puerto Rico and to a slightly smaller degree in Cuba and the Philippines; in Cuba this expansion was encouraged by the sugar boom, in Puerto Rico it reflects further industrialization and in the Philippines growth over a wide front, especially in the private sector. Over-average rates of increase in fixed investment were also recorded in Mexico and in China (Taiwan), Malaya and Thailand. In Argentina there was also an appreciable rise in total investment; in part this reflects greater foreign borrowing and in part other changes—actual or expected—in the external sector: there was some accumulation of unsold exports and some stocking up of imported goods in the face of a deterioration in the balance of payments.

In a number of countries inventory changes appear to have been of particular importance in 1957. There

was probably a significant running down of stocks in Australia during the period of more stringent import control in the fiscal year 1956/57. On a smaller scale, some liquidation of stocks also seems to have occurred in the Belgian Congo and Rhodesia. Relatively much greater was the change in inventory position in Thailand where rice stocks were run down: a record harvest at the end of 1956 was followed by a year of slightly higher consumption, much higher exports and much poorer crops at the end of 1957.

Inventory additions constituted an important form of investment in several countries in which unsold export crops accumulated—as in Syria (wheat and cotton) and Turkey (wheat and barley) and in Brazil where coffee supplies were held back in support of prices on oversea markets. There was also some accumulation of stocks of imported goods in countries where imports rose somewhat out of line with current rates of absorption—as in Burma, Ghana, South Africa and to a less extent Chile and Mexico. In some countries—notably Argentina, New Zealand and the Philippines—this process was stimulated by importers' fears of devaluation or restriction as the balance of payments deteriorated. In India it was government policy to build up food stocks to counteract the inflationary impact of the higher money incomes flowing from development expenditure; there also appears to have been some hoarding, though stocks must have been depleted in the case of goods whose importation was restricted early in the year.

INTERNAL BALANCE

On the whole, the incidence and intensity of inflationary forces were much the same in 1957 as they had been in 1956; in so far as any change occurred it appears to have been in the direction of increasing rather than decreasing pressure. The proportion of countries in which the index of retail prices or cost of living rose, exceeded by a slight margin—39 per cent to 36 per cent—the proportion in which it declined. Among the countries with more than a mild rise in prices, the proportion in which that rise was greater in 1957 than in 1956 exceeded the proportion in which it was smaller (see table 91).

The proportion of countries in which the rise in the average level of prices exceeded 10 per cent was slightly less between 1956 and 1957 than it had been between 1955 and 1956—20 per cent as against 24 per cent. On the other hand the proportion of countries in which the price level rose by 10 per cent or more in the course of the year was somewhat higher in 1957 than in 1956—25 per cent as against 20 per cent. At the other end of the scale, however, the evidence is more consistent: in 1957 the proportion of countries with approximate price stability at the retail level (one-fourth) was slightly lower than in 1956 (about one-third) irrespective of whether the comparison is made between annual averages or between movements within each year.

Table 91. Primary Exporting Countries: Distribution According to Intensity of Inflationary Pressure[a] in 1957

Comparison with 1956	*Negligible*[b]	*Mild*[c]	*Moderate*[d]	*Severe*[e]	*Total*
Less	6	5	6	4	21
Unchanged	5	6	2	2	15
Greater	2	7	9	5	23
TOTAL	13	18	17	11	59

Source: United Nations Bureau of Economic Affairs.

[a] Measured by movements in retail prices and cost of living. In general, the groups reflect the relationship between average indices in 1956 and 1957, but adjustments have been made to take account of the movement of the price index during these two years.

[b] A decline or a rise of one per cent or less.

[c] A rise of 2 to 5 per cent.

[d] A rise of 6 to 9 per cent.

[e] A rise of 10 per cent or more.

In one respect the over-all impact of government budgetary operations was not notably different in 1957 from what it had been in 1956: there were as many countries recording an improvement in the government's net cash position as there were countries recording a deterioration. However, less than one-third of the countries for which measurement was possible were in surplus in 1957, while more than one-third registered a greater deficit (see table 92). Changes in the relative movement in government balances were fairly small in many countries—almost 40 per cent of the total changed less than 5 per cent—but there were larger changes in some cases, especially among the countries with increased deficits. As a source of inflationary pressures, therefore, the government sector was—on an over-all view—no less important than it had been in 1956, while in some countries in 1957, it contributed to an appreciably greater extent.

In the private sector, on the other hand, the rate at which the supply of money was expanding seems to have slackened somewhat in 1957: the proportion of countries in which there was a decline increased substantially and the proportion in which there was a major expansion diminished. In about one-fifth of the 36 primary exporting countries on which table 93 is based, the rate of expansion was higher in 1957 than in 1956, in one-fourth there was no significant change, while in the remainder—well over half—there was a measurable deceleration. In a number of countries this was the counterpart of a deteriorating external balance, but the marked reduction in the number of countries in which the volume of money expanded by one-eighth or more—from 52 per cent to 35 per cent of the total—reflects in some degree the outcome of official policies directed at restraint of credit as part of an anti-inflationary programme.

Table 92. Primary Exporting Countries: Distribution of Changes in Government Budgetary Position[a]

Change	Ratio of change in the government balance[a] between 1956 and 1957 to total government expenditure in 1956 (percentage)				
	1 to 5	6 to 10	11 to 15	16 and over	Total
Larger surplus	1	—	—	—	1
Moved from deficit to surplus	1	2	2	1	6
Smaller deficit	2	2	1	1	6
Smaller surplus	1	—	—	—	1
Moved from surplus to deficit	1	1	—	1	3
Larger deficit	4	1	1	3	9
TOTAL	10	6	4	6	26

Source: Statistical Office of the United Nations, *Statistical Yearbook;* United Nations Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East, 1957* (sales number: 1958.II.F.1); International Monetary Fund, *International Financial Statistics.*

[a] As measured by the net change—indebtedness minus deposits—in the government's dealings with the banking system; calendar years, except in a few cases in which the data refer to the year ending in November, October or September.

Table 93. Primary Exporting Countries: Distribution of Change in Money Supply[a]

Index of money supply[b]	Number of countries in	
	1956	1957
100 or less	4	9
101 to 106	6	8
107 to 112	7	6
113 to 118	9	7
119 and over	10	6
TOTAL	36	36

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

[a] In general, business and individual holdings of notes and coin and demand deposits in commercial and central banks.

[b] End of year (latest month in a few cases in 1957), with corresponding month in previous year = 100.

On the whole, the changes in the prices of commodities that were taking place on world markets during 1957 had little direct effect on the domestic price structure in the primary exporting countries. The decline in the price index of commodities entering international trade, for example, was not generally reflected in average wholesale prices for the year as a whole: the distribution of change between 1956 and 1957 was not markedly different from that between 1955 and 1956. There was a rise in the proportion of countries in which the index was more or less stable and also in the proportion in which there was a major increase—of 10 per cent or more—in the wholesale price level. The proportion of countries in which the index declined during the year—about one-fourth—was no greater in 1957 than in 1956.

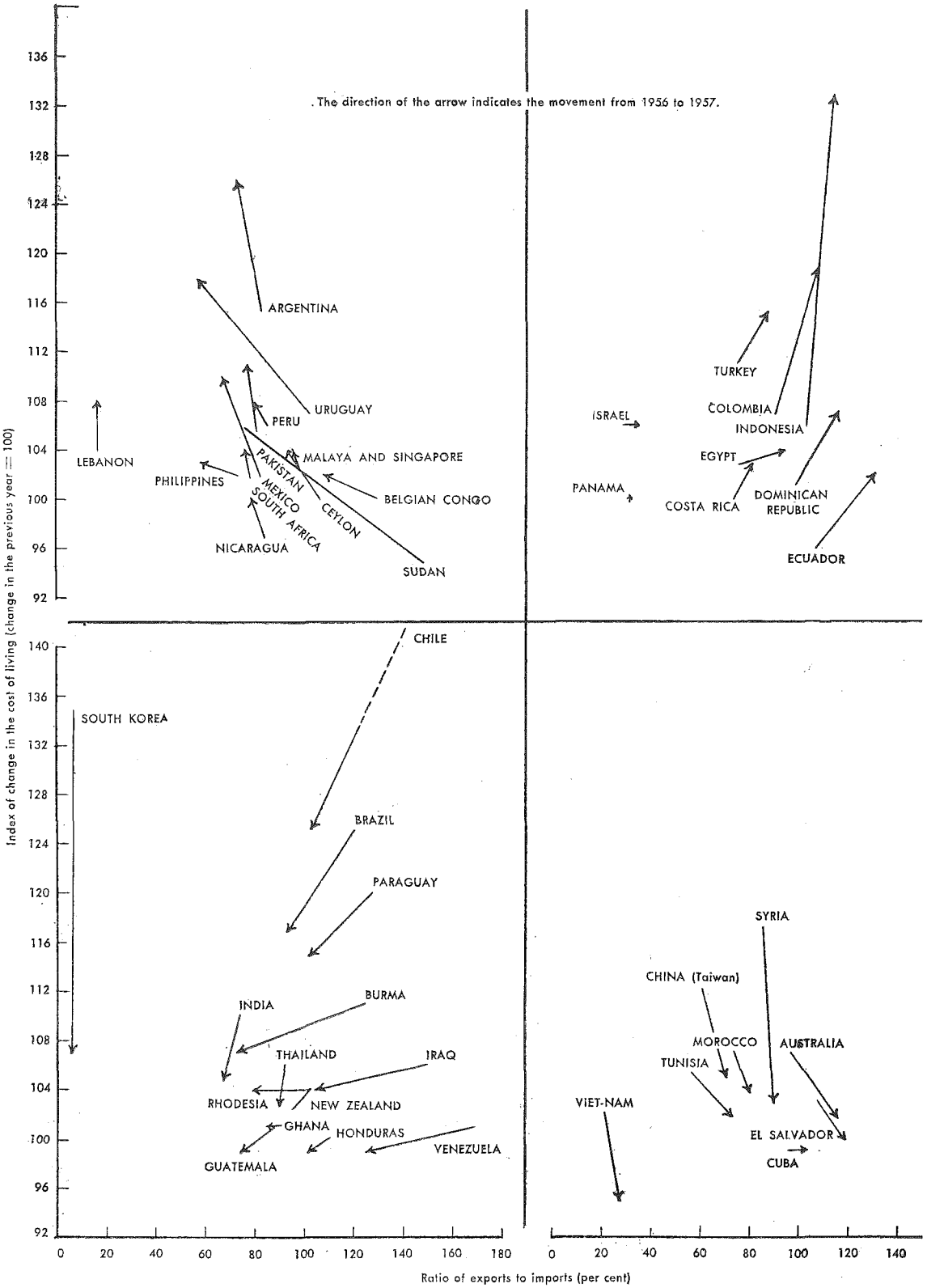
Among the countries in which inflationary pressures appear to have been negligible in 1957, there was in general an expansion of domestic production (as in Cuba and Ecuador, for example) or an appropriate increase in supplementary imports (as in several of the Central American countries) or the growth of supplies from both sources (as in Venezuela). In Ghana a small rise in local output and a larger rise in imports were reinforced by a reduction in the income of cocoa growers, due in part to a 10 per cent cut in the price paid by the government agency for cocoa beans and in part to the relative smallness of the 1957/58 crop, the combined effect of which was to reduce marketing board payments to farmers £10 million below the 1956/57 level. In Guatemala—where exports were lower—there was an increase in the deficit on merchandise account and there was also some worsening in the balance of trade in the Belgian Congo and Nicaragua. It was of minor dimensions in Nicaragua, however, where increased production of export crops slowed down the deflationary trend that had emerged in 1956. The Belgian Congo remained in trade surplus, though at a reduced level despite a sizable rise in imports and a major deterioration in the terms of trade. Increased production which, along with increased imports, helped to reduce domestic prices in El Salvador and Viet-Nam, also resulted in higher exports and an improvement in the trade balance (see chart 15).

A slackening in domestic demand seems to have been the principal factor in reducing the relatively low rate of price increase in such countries as Australia, Morocco, New Zealand and Tunisia. A rising level of imports also contributed in New Zealand, however, and later in the year in Australia, too. In New Zealand the rise in imports resulted in a trade deficit. Here and in Australia the easing of the strain on available resources reflects government policy in the fiscal year 1956/57. In Morocco and Tunisia, on the other hand, it was the continuing outflow of capital that was the major factor behind the low level of domestic investment, while in Morocco domestic incomes were depressed by poorer harvests and a decline in exports.

Egypt and Rhodesia were among the countries in which prices continued to climb slowly. In Egypt, though the public sector continued in deficit, domestic expenditure was held down through some cutback in investment while an increase in total production and a curtailment of imports helped to reduce the trade deficit to relatively small dimensions. In Rhodesia also, over-all production rose to a greater extent than domestic expenditure—but a drastic deterioration in the terms of trade prevented this from being reflected in national income or in the external account which in fact registered an enlarged deficit in current prices.

Almost all the countries which experienced a price increase that, though relatively small, was greater than the one which had occurred between 1955 and 1956, had two characteristics in common: there was a tendency for aggregate expenditure to run ahead of

Chart 15. Primary Exporting Countries: Changes in Internal[a] and External[b] Equilibrium



Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics.*

[a] Measured by the movement of retail price or cost of living indices. The index that is plotted is an average between the change from the preceding year and the change during the year.

[b] Measured by the ratio of exports f.o.b. to imports c.i.f., expressed as a percentage.

domestic production and also a general—and in most cases substantial—expansion in imports. Except in one or two countries—Costa Rica for example—whose exports increased even more, there was thus a deterioration in the external balance—moderate in the case of South Africa, more severe in Ceylon, Malaya and Singapore and the Philippines whose terms of trade had also become less favourable—as well as the slight rise in the rate of increase in internal prices.

In almost all the countries which experienced a greater—but moderate—degree of price inflation in 1957, the basic cause was a more pronounced tendency for gross expenditure to rise more rapidly than domestic production, especially where there was a particularly large increase in investment—India, Iran and Pakistan, for example, and to a less extent Iraq, Mexico and Thailand. In Burma, India, Iraq, Iran and Thailand, expanding imports helped to prevent the gap between effective demand and the supply of goods from widening and thereby to hold down the rate of price increase to the 1956 level. However, this entailed strain on the balance of payments that in all cases was more severe than in 1956.

In China (Taiwan) and Israel the rise in domestic production was less out of line with the rise in expenditure and the expansion of imports was financed in part by higher export earnings and in part by other foreign currency receipts which registered a large gain. In Syria, though export proceeds were lower—because of lower prices—there was a somewhat greater cut in imports and hence a reduction in the trade deficit; and since output had increased to a greater extent than either consumption or fixed investment—to the point, indeed, where there was some involuntary accumulation of stocks of exportable goods—the strain on resources was somewhat less than in 1956.

Though still moderate, there was an accelerated increase in prices in a number of countries, including the Dominican Republic, Lebanon, Mexico, Pakistan, Peru and the Sudan. Except in the Dominican Republic there was a greater expansion in imports and hence a general worsening of the balance of trade, notwithstanding a rise in the value of exports from Lebanon and Peru. In most instances, the increase in imports was geared to investment programmes and heavily weighted by capital equipment, while the incomes generated by the investment tended to run ahead of the growth in output which was relatively small in some countries, particularly Pakistan and Peru where drought and other difficulties held back production in the agricultural sector.

In some of the countries in which inflationary pressures have been not only more severe but also of longer standing, the state of internal disequilibrium was aggravated in 1957 by a failure of domestic production to expand. This was the case in Argentina, Chile, Colombia, for example, and to a less extent in Indonesia. In Chile, Colombia and Turkey, the level of investment was reduced, or at least held down, but except in Chile the effort to bring the demand for resources into line with available supplies was hampered by a curtailment of imports because of balance of payments difficulties. These were enhanced in 1957 by a worsening of the terms of trade which affected not only these three countries but most of the others in which internal prices were rising very rapidly. There was a further increase in the level of fixed capital formation in Argentina, Brazil and Indonesia; in Argentina and Brazil this was supported by a rise in imports, but in Indonesia the low state of exchange reserves precluded such a rise. The countries in which imports were reduced—Colombia, Indonesia and Turkey—were the only ones in this group in which there was not a deterioration in the balance of trade. In Turkey and to a smaller extent in Indonesia a rise in export earnings also helped to improve the external account; Argentina was the only other country in the group to earn more from exports in 1957, but in this case a larger rise in imports resulted in an increased trade deficit. The larger supply of imported goods was a major factor in reducing slightly the rate of price increase in Brazil, Chile and Paraguay. In Argentina on the other hand, where expansion of investment took place in the face of a decline in production—particularly in agriculture—a one-sixth rise in import expenditure, much of it on capital goods, did not prevent a further acceleration in the rate at which prices had been rising; here and in Uruguay both internal and external balance deteriorated.

Problems and Policies

In most of the primary exporting countries the economic problems faced in 1957—though differing from one country to another in their precise nature and intensity—were much the same as those encountered in 1956. These problems for the most part derived from the twin tasks of accelerating the rate of economic growth while at the same time accommodating it to a supply of resources often not much greater—either internally or on external account—than that required to sustain current standards of consumption. While the major concern in most countries continued to be with efforts to restrain inflationary pressures within the domestic economy, there were several instances in which some slackening in the course of production and growth began to give anxiety, and other instances in which external disequilibrium began to assume more urgent importance. The re-emergence of balance of payments difficulties as the area of prime vulnerability was par-

ticularly noticeable towards the close of the year when the decline in commodity prices was beginning to make itself felt in lower export receipts. Hence, if a generalization is to be made—in a field in which the underlying heterogeneity of conditions and events inevitably creates exceptions—it is that 1957 opened with the state of internal equilibrium as the economic matter of principal concern and closed with the threat of external disequilibrium coming increasingly to be regarded as the major immediate problem. This transformation reflects primarily the rise in imports—itself a consequence in many cases of internal inflationary conditions — but the inadequate rise in export earnings also played a part, and a part which became progressively more significant as export unit values declined during the course of the year.

The year began with many countries actively engaged in anti-inflationary domestic programmes. In Bolivia and Chile, and to a less extent Argentina, action was being taken on a fairly broad front to reduce local demand: measures were enacted to freeze or retard the rate of increase of wages, subsidies were reduced on public utilities and various consumer goods, restraints were placed on the volume of bank credit, interest rates raised and an attempt made to hold down public expenditure. Colombia — also beset by domestic inflation —concentrated on control of credit, supplemented later in the year by fiscal action. In Peru the principal measures were also aimed at curtailing credit, and this was also the case in a number of other countries — including Ceylon, Rhodesia, Malaya and Ecuador — in which inflationary forces were at a more incipient stage (see table 94).

Credit control in most instances was implemented directly through restricting the rediscounting facilities of the central bank — as in Colombia, Ecuador, Nicaragua and the Philippines and later in the year Argentina — or raising the reserve requirements of the commercial banks — as in Bolivia, Peru and Viet-Nam and later in the year Indonesia. In some countries — Colombia, Ceylon, Malaya, Rhodesia, Sudan and India, for example — this direct control was preceded or supplemented by requests made to the commercial banks to restrict advances, either proportionately or absolutely. Other forms of credit also came under restraint — as in Rhodesia, for example, where hire-purchase terms were made more stringent.

Manipulation of interest rates is often an ineffectual instrument in primary exporting countries, either because of the rudimentary nature of the money market or because the annual rise in the price level is large enough to reduce rate changes to relative insignificance. Nevertheless, changes in bank rate were made in a number of these countries in 1957, either in support of other anti-inflationary measures — as in Colombia, India and the Philippines and, later in the year, in Argentina, Burma and the Sudan — or as more or less independent restraints — as in Cuba and El Salvador. In some countries — Chile and Syria, for example — there were discriminatory changes in interest rates designed to restrain some types of borrowing relative to others regarded as temporarily more productive. In the first portion of the year there was a general upward adjustment of interest rates in some of the sterling area countries — Malaya and New Zealand, for example — and later in the year in Ceylon.

In the fiscal field, there were changes in indirect taxes in many countries, most of them intended to raise revenue while restraining consumption. While these and other tax measures helped to reduce the over-all deficit in the public sector, cuts in government expenditure were less common. Largely as a result of the tendency for expenditure to increase, the countries in which the budgetary deficit, measured by the Government's net cash position, was lower in 1957 than in 1956 — Bolivia, Cuba, the Dominican Republic, Egypt, Honduras, Israel and southern Korea, for example — were outnumbered by those in which the deficit was greater. Among the latter were countries with long-standing inflationary problems, such as Brazil, Chile, Colombia and Indonesia, as well as some in which internal economic imbalance is a more recent phenomenon, associated in most instances with a high rate of public investment — India, New Zealand, the Philippines and South Africa, for example. In one or two cases — Syria and to a less extent Mexico, for example — a cash deficit was recorded in 1957 where there had been a surplus in 1956.[10]

Though there were some countries in which the government finances moved from deficit to surplus, including Burma, Ecuador, Guatemala, Haiti, Iran, Uruguay and Viet-Nam, for example, and a few—such as El Salvador and Venezuela—in which both 1956 and 1957 were years of cash surplus, fiscal policy in most of the primary exporting countries was geared much more closely to social and economic objectives of an expansionary nature than to the maintenance of internal equilibrium. Indeed in many cases action taken in the monetary and credit field was designed to reduce the inflationary impact of action taken in the fiscal field.

The apparent inconsistency between an expansionary fiscal policy on the one hand and a contractionary monetary and credit policy on the other epitomizes one of the dilemmas facing most of the primary exporting countries. Where resources are scarce, action taken to accelerate the rate of growth tends to be limited by its inherently inflationary potentialities. At the same time anti-inflationary actions intended to reduce the claims on real resources are often inimical to production, an increase in which would in many instances prove to be

[10] In the case of Syria, this 1956 surplus was in part the result of the receipt of a lump sum settlement of earlier oil royalty claims.

Table 94. Primary Exporting Countries: Major Government Measures Directly Affecting the Internal Balance

Country	Changes in Interest Rates		Changes in Credit Volume		Changes in Price and Wage Policy	
	B: *rates affecting borrowing in particular* S: *rates affecting saving in particular* $_c$ = *commercial banks* $_g$ = *general or widespread application* $_r$ = *reserve (or central) bank* $_s$ = *selective or discriminatory*		R: *action through the reserve (or central) bank* C: *action through the commercial banks* O: *action through other credit institutions* $_g$ = *general or widespread application* $_h$ = *hire-purchase facilities* $_r$ = *reserve requirements* $_s$ = *selective or discriminatory* $_v$ = *voluntary restraint (or relaxation)*		P: *action directly affecting prices* S: *Subsidy* T: *tax measure* W: *action directly affecting wages* $_f$ = *freeze* $_g$ = *general or widespread application* $_s$ = *selective or discriminatory*	
	Reductions	*Increases*	*Expansionary*	*Restrictive*	*Tending to reduce prices or raise wages*	*Tending to raise prices or reduce wages*
Viet-Nam	B_r		O_gC_r	C_r		P_g
Guatemala						
Honduras			C_v C_r			
Cuba		S_gB_r B_cB_r			W_s W_s	
Venezuela						
Nicaragua		B_g		C_gR_g		
El Salvador		B_r				
Panama						
Ghana						T_sP_s
Belgian Congo						
Ecuador				R_g		
Tunisia						
Australia			C_v C_r		W_s T_g	
New Zealand		S_gB_g B_c	C_hO_h		T_g W_g	
Philippines		B_r B_rS_g	C_s	R_gC_s $C_{rs}C_g$		
Thailand						
Costa Rica						
Syria	B_rB_{cs}	B_{cs}	O_gC_s	C_s		T_s T_g
Ceylon		S_c B_c	R_sO_s	C_v	S_s	T_g
Egypt			R_g C_r	C_r	S_s	
Morocco						P_g P_g
Union of South Africa			O_gC_g O_h			P_sT_s
Malaya		B_g		C_v		
Rhodesia				C_vC_h C_r	W_s W_s	P_s P_sT_g
India		$B_gS_gB_r$		C_v C_gO_g	P_f	T_g
China (Taiwan)	B_c					
Iran						
Sudan		B_rB_c		C_s		P_s
Israel		B_g			S_s	W_g
Burma		B_r		C_r		T_g
Dominican Republic						
Haiti			R_g	C_r		
Iraq						
Korea, southern						
Lebanon						
Peru		S_g		C_r C_vC_r	W_s W_s	P_s
Mexico			C_r		W_s	P_s
Pakistan				C_g	T_g	P_s
Paraguay			O_s		W_g	P_gP_s
Turkey					P_f	P_g
Brazil					W_sS_s W_s	P_s
Uruguay			O_gR_s C_s		W_s	
Colombia		B_r	O_sR_s	C_vR_s R_sC_rC	W_gP_f	P_s T_g
Chile		B_sB_r S_c	C_sR_s	C_g C_g	$W_gP_gW_s$	$T_gP_sS_s$ T_sP_s
Argentina		B_r		R_g	$P_sP_gW_s$ P_gW_s	$W_fS_sP_s$
Indonesia				C_r	W_g	
Bolivia				C_r		W_f

Source: United Nations Bureau of Economic Affairs.

Note: Countries are arrayed in ascending order of inflationary pressure as measured by changes in the retail price or cost of living index between 1956 and 1957 and in the course of 1957. Within each column measures are indicated in accordance with whether they were enacted in the first or second half of the year. Where, in any country, similar action was taken more than once within the half-year, the symbol has not been repeated.

more effectively anti-inflationary. This is the reason underlying the enactment in various countries of measures in apparent conflict with the declared objective of restraint. Thus a general policy of credit curtailment was accompanied in a number of cases — in Ceylon, the Philippines and Syria, for example, and even in some of the more inflation-beset economies such as Chile, Colombia and Uruguay — by selective reductions in interest rates, selective easing of restrictions on bank advances or the creation of special facilities for in-

creased lending for selected purposes — agriculture, housing, or approved industries, for example. In a few countries — including Haiti, Honduras, Mexico and Viet-Nam — there was a more general relaxation, in the interest of production, of an over-all policy of credit restraint. In one or two other countries — Egypt and New Zealand, for example — temporary easing of credit restrictions was associated chiefly with the seasonal needs of the economy or the financing of specific crops. In yet others — notably Australia and to a less extent China (Taiwan), South Africa and Iran — the relaxation was in respect of restraints that, having been placed on the economy in the previous year, seemed to be less necessary in 1957 in a situation that called for renewed expansion.

The apparent conflict with the overriding need to expand production was even more in evidence in many instances in the case of wage and price policies, especially in the countries where inflationary pressures were powerful and of long standing. Declared policy in most of these countries was to reduce total demand, but where wages were frozen — as in Argentina and Bolivia, for example — or subsidies on consumer goods and services curtailed or withdrawn — as in Bolivia and Chile, for example — there was resistance in the form of strikes, civil disturbances and other reactions detrimental to production. As long as prices are rising rapidly, a freeze of wage rates can hardly be more than temporary. Generally a rise in prices consequent upon a reduction in subsidies or a modification of official price control tends to be reflected less in a curtailment of consumption than in a corresponding upward pressure on wages and hence in an acceleration in the inflationary spiral. Thus while in some countries a rise in prices was intended to cut back consumption, in other countries a partial or general freeze on prices — as in Colombia, India and Turkey — or an increase in subsidies — as in Ceylon, Egypt and Israel — was intended to hold down prices and therefore the price-wage spiral.

As a result of these variations in price and wage policy and the divergences that emerged between fiscal action and action in the monetary and credit field, the strength and spread of inflationary pressures in the primary exporting countries is not reflected very accurately in the distribution of official economic measures. Nevertheless the fact that, as indicated in the preceding section, the distribution of price increases in 1957 did not differ markedly from 1956 is *prima facie* evidence that on an over-all view they had not abated to any significant extent.

While the state of internal equilibrium was thus, in general, much the same in 1957 as in 1956, there was a definite deterioration in the state of external equilibrium. As the year progressed the increasing import balance was aggravated by declining commodity prices and a retardation in the rate of increase of export earnings, and with balance of payments difficulties threatening, the emphasis of government action moved steadily in the direction of import curbs.

Few countries limited their action to duties and the import tariff. During 1957 changes in these were many and widespread but more often occasioned by the need for revenue or for the protection of local industries than by balance of payments difficulties. Financial restraint was placed on importers in many countries, either by limiting access to credit for that purpose — as in Indonesia and the Sudan — or by requiring the deposit of some fraction (or multiple) of the cost of the goods in advance of their importation — as in Ecuador and Pakistan. In some countries — Argentina and the Philippines, for example — both constraints were put into effect (see table 95).

Although multiple currency systems are less prevalent than they were two or three years ago, a major deterrent to imports in a number of countries, especially in Latin America in 1957, was a selective devaluation which raised the local currency cost of specific categories of goods. A general devaluation was resorted to by a few countries, including Bolivia at the beginning of the year, as part of a broad-based stabilization programme, and Paraguay later in the year, while in Indonesia a comprehensive modification in the exchange rate system was intended to achieve similar results.

More widespread than these financial and price deterrents was the physical limitation of imports by the licensing of foreign exchange or of specific commodities. In a few cases the imposition of quotas or a ban on the importation of specific classes of goods was intended explicitly for the protection of some local industry — as in southern Korea, the Philippines, Thailand and Viet-Nam, for example—but in general this type of action was taken in defence of the balance of payments.

Among the countries in which import controls were newly imposed or made more stringent during the second half of 1957, were members of most of the various commodity exporting groups. In Burma a lower 1957/58 rice crop reduced exports considerably in the last quarter, aggravating the deterioration that higher imports had been causing in the trade balance. In Colombia a further decline in coffee prices and the withholding of exportable supplies in support of those prices made it necessary to cut back imports again, below the reduced rate which earlier restrictions had occasioned. Among the cotton exporters Egypt, Pakistan and Sudan all tightened control over imports: difficulties were arising in disposing of the 1957/58 crop but only Sudan had suffered a major worsening of external balance in 1957. Iraq's difficulties stemmed from the curtailment of petroleum exports during the Middle East crisis, but in addition barley exports were moving very slowly and

Table 95. Primary Exporting Countries: Major Government Measures Directly Affecting the External Balance

Country	*Measures affecting imports* B: *borrowing to finance trade* D: *advance (prior) deposits* Q: *quantitative control affecting all or many classes of goods* R: *rate of exchange* T: *taxes and duties* $_s$ = *selective or discriminatory*				*Measures affecting exports* B: *borrowing to finance trade* Q: *quantitative control over a specific commodity* R: *rate of exchange* S: *subsidy* T: *taxes and duties* $_r$ = *exchange retention rights* $_s$ = *selective or discriminatory*				*Measures affecting other receipts and payments* A: *agreements concerning non-trade matters* C: *capital movements* L: *Licensing or other control* P: *Payments and transfers other than for current trade* R: *rate of exchange* $_f$ = *fiscal action* $_s$ = *selective or discriminatory*			
	Liberalizing		*Restrictive*		*Promotional*		*Restrictive*		*Expansive*		*Contractive*	
Cambodia	Q		D	T	R_r					C_f		
Ecuador	DQ		TDR		R_s							
Egypt			QTR$_s$	R$_s$Q	R$_s$	S	QT					
Tunisia												
Dominican Republic	T		T									
Australia	QT	Q$_s$TQ		T	ST			Q		L		
Iran	Q	Q	T	T								
Colombia	Q	D	DR$_s$TQ	TRQD	R$_s$	RT	QT		A	P		
Uganda					T		T	Q				
Turkey			T		S			S				
El Salvador												
Indonesia	Q		BQ	TRQ	T	RT			C			
Morocco	T	T	T	T								
China (Taiwan)						R$_r$B						R$_s$
Costa Rica	T		T	T								
Cuba	T		Q$_s$									
Syria	T		T	T			Q	T				
Saudi Arabia	Q	Q	TQ									
Nigeria	Q$_s$T											
Thailand		Q	Q	Q	T	T		Q				P
Israel	T	Q		T								
Union of South Africa	Q	QT	T	T					C			C
Malaya			Q$_s$T				Q			P$_s$		
Pakistan		Q	T	QD	Q							
Honduras	T		T									
Peru	QT		T	R		TR			A	A		
Lebanon	T		TQ	Q	Q			Q				
French West Africa	TQ		T									
Nicaragua	T							R$_s$				
New Zealand	QT	T	T	Q		Q$_s$			C$_f$	P		
Ghana		Q$_s$										
India	T		TQ	TQ	TQ	T	TQ		C$_f$		PC	L
Ceylon	T	T		T			T					C
Argentina	QT	QT	Q$_s$R$_s$ BDT	QR	SRR$_r$	R$_s$Q				AP		
Mexico	T		TQ	T	T	T	T	T				
Guatemala		TQ	Q									
Belgian Congo	T				T	T			C$_f$			
Bolivia	T	T	R	T	T$_r$	T			AP			P
Paraguay		T	DT	DR	R$_s$R$_r$	R$_s$R		T		A		
Venezuela												
Brazil	T	S	QR$_s$	T	S	S		S				
Rhodesia	QT	Q$_s$Q	T	T								
Philippines	QT		Q$_s$Q	DQB	R$_r$				C	C	C	P
Viet-Nam	D		DRT	TQ	R$_r$R	R$_r$			C$_f$			
Korea, southern			TD	Q			Q					
Iraq				Q		ST						
Chile	TQD	T	QDT	TD				Q		P		
Uruguay	TD		Q	D	R$_s$R$_r$	R$_s$						
Burma	Q			TQ								
Sudan				BQ		T	T					

Source: United Nations Bureau of Economic Affairs.

Note: Countries are arrayed according to change in balance of trade between 1956 and 1957 from the greatest improvement to the greatest deterioration. Within each column measures are indicated in accordance with whether they were enacted in the first or second half of the year. Where, in any country, similar action was taken more than once within the half-year, the symbol has not been repeated.

the expanded development programme had given rise to appreciably greater imports. Development expenditures lie at the root of India's balance of payments problems, too, and less essential imports were cut back

progressively during the year. In the Philippines, imports were flowing in at a high rate for most of 1957; mild restraints applied earlier were greatly intensified towards the end of the year when in the face of a slight decline in export receipts exchange reserves had been reduced to a low level. High rates of imports were also placed under restraint in Indonesia, a rubber exporter, and Lebanon, a fruit exporter, as well as in the wool exporting countries Argentina, New Zealand and Uruguay.

The only groups not represented among those discussed above are those exporting cocoa and those exporting metals. The cocoa exporters, enjoying a rise in the unit value of their exports, were alone in not being subjected to increasing balance of payments pressure as the year advanced. The metal exporters on the other hand were the countries that suffered the greatest decline in terms of trade in 1957. Among them Bolivia and Chile had recently embarked on a regime of freer trade at more realistic rates of exchange than had previously been maintained for official transactions. Depreciation of these rates — by 11 per cent in Bolivia and 27 per cent in Chile in the course of the year — was one reflection of the deteriorating balance, but even with foreign borrowing and a 40 per cent drop in official reserves, Chile was unable to avoid various restraints on imports, including the prohibition of certain items, such as motor cars. In the Belgian Congo and Rhodesia domestic retrenchment was used to reduce the propensity to import, reserves were allowed to fall and borrowing from abroad was increased and at least up to the end of 1957 physical control over imports had been avoided.

Most of the dependent territories ended 1957 without import control. In Australia and South Africa the liberalizing measures introduced earlier in the year remained in force notwithstanding the subsequent decline in wool and metal prices and, in the case of South Africa, a further outflow of private capital and a severe reduction in gold and foreign exchange holdings.

Export policy in 1957 was strongly influenced by the decline in prices that took place in the course of the year. In the face of weakening oversea markets, measures affecting exports were almost all aimed at promoting increased volume or improving the local currency return to exporters. There were relatively few cases in which export duties were increased — mostly among the cotton exporters, Egypt, Mexico, Paraguay and Syria — or export premiums reduced — as in Brazil and Turkey. There were even fewer in which some physical limitation was placed on the amount exported — as in Syria, in respect of meat, and in Chile in respect of a number of agricultural products; this action was usually taken in order to maintain local supplies of the commodity in question. High reserve prices tended to hold back sales of cotton from the Sudan and there was some concerted withholding of coffee from export markets by Latin American producers, notably Brazil. But by far the most frequent measures were reduction in export duties — as effected on numerous occasions in the Belgian Congo and India, for example — and the raising of local currency returns accruing to particular groups of exporters. The latter form of incentive was achieved in some cases by means of partial or selective devaluation — as in Egypt and in several Latin American countries including Argentina, Colombia, Ecuador, Paraguay and Uruguay. In other cases — Cambodia, China (Taiwan), the Philippines and Viet-Nam, for example — arrangements were made whereby the exporter was permitted to retain a portion of his foreign exchange earnings for disposal at "free" rates more favourable than the official figure or for use in the importation of goods not otherwise permitted. In a few instances the receipts of selected exporters were augmented by the payment of direct subsidy — as in Australia, Brazil, Iraq and Turkey.

Among the other measures used to encourage the expansion of exports was the inauguration of a system of credit insurance covering export shipments — as in India and South Africa — the refund of excise taxes and duties paid on material subsequently incorporated in goods that are exported — as in Australia and Thailand — and the conclusion of agreements to promote the flow of trade between particular countries — as between Australia and Japan and between Tunisia and several countries with which bilateral arrangements outside the franc zone were negotiated for the first time.

Also affecting and affected by the balance of payments were measures regulating the movement of capital and other non-trade items. There were fiscal measures designed to stimulate the inflow of capital — as in Cambodia, India and New Zealand — as well as agreements relating to the repayment of commercial indebtedness and the transmittal of profits — as in Argentina and Colombia. With external imbalance growing, however, there were also restraints on the movement of funds — from Ceylon, the Philippines and Thailand, for example.

Outlook[11]

The dominant factor shaping the course of economic developments in the primary exporting countries in 1958 is the weakening of commodity markets which has proceeded continuously — though at a slackening pace — since early in 1957. Over the year as a whole imports

[11] This section has been based in part on the replies of Governments to the United Nations questionnaire of November 1957 on economic trends, problems and policies.

were not held back by the deteriorating prospects for export receipts and in the aggregate were substantially greater than in 1956. The impact of this on payments balances was relatively mild in 1957, partly because at the outset many commodity prices were at a somewhat inflated level in the wake of the Middle East crisis, partly because there was an expansion in the quantum of exports from the primary exporting countries and partly because there was a compensating inflow of capital from the industrial countries appreciably greater than in the previous year. There was, however, a certain drain on reserves which reduced the ability of the primary exporting countries to stand up to balance of payments strains arising in 1958.

That such strains would emerge was becoming increasingly clear towards the end of 1957. And when most commodity price indices continued to move downward in the early months of 1958, a decline in the unit value of exports of the primary exporting countries became almost inevitable and a reduction in total export earnings — in relation to the 1957 figure — very probable.

In general the only countries that are expecting to earn more from their exports in 1958 than they did in 1957 are those in which special factors operated to restrain exports in 1957, those in which the price of the major export commodity has been moving upward, counter to the general trend, and a few of those whose major exports have special demand characteristics.

Among the last-mentioned are some of the fruit exporters — Ecuador, for example — and South Africa, an expansion in whose earnings from gold and uranium is expected to compensate for lower prices realized by wool and metal and ore exports. A further expansion may also be registered by some of the petroleum exporters — Iran and Venezuela, for example — though in the aggregate for the petroleum group as a whole this will probably be very small. In the period 1953-1957 the rate of expansion in their export earnings has been getting progressively smaller — 13 per cent, 10 per cent, 6 per cent and 4 per cent in successive years. With the slowing down of the rate of growth in the industrial countries and the possible curtailment of imports into the United States, a further reduction in this rate of increase may be expected, especially in view of the fact that, with stocks at a high level, prices have tended to drop below the increased figures posted in the first quarter of 1957.

The only major commodity whose price has recently moved against the trend is cocoa. Here the rise in prices has been such that the cocoa exporters — particularly Ghana and Nigeria — are likely to realize more from the smaller 1957/58 crop than they did from that of 1956/57; whether this will raise export proceeds for 1958 as a whole depends in large measure on the 1958/59 crop whose size will be the chief determinant of whether the higher prices of the first half of 1958 continue into the fourth quarter of the year when the new season sales commence.

In some of the countries in which special circumstances or policies reduced exports in 1957 to an abnormally low level — Iraq, Sudan and Uruguay, for example — 1958 may well bring an expansion. This could also be the case in some of the other countries in which stocks of export commodities tended to accumulate in 1957 — Syria, for example.

In this connexion, another factor which should help to sustain the level of exports from the primary exporting countries — at least of a number of agricultural commodities — is the probability that, in line with smaller commitments, disposals from United States surpluses will be on a much reduced scale in 1958. This should improve the competitive position of exporters of cotton, cereals and vegetable seeds and oils in particular. Cotton exporters should gain not only from the lower level of United States commitments to sell in 1958, but also from the fact that the superior qualities in Commodity Credit Corporation stocks are reported to have been largely disposed of in earlier shipments. In the case of Egypt, two additional factors may speed up the movement of the larger 1957/58 cotton crop: bilateral agreements will ensure sales to some of the centrally planned countries, while export premiums have been raised in order to stimulate sales to western Europe and elsewhere.

The prospect for greater receipts from coffee exports is much less promising: with a large 1957/58 crop and a large unsold carry-over from earlier crops still in the exporting countries — much of it in government hands — there is a strong downward pressure on prices, except perhaps for the soluble robusta types for which demand appears still to be expanding.

In 1957 the notable rise in export earnings of the sugar group was a major factor in increasing the total receipts of the primary exporting countries. This is unlikely to be the case in 1958: not only are export prices on the free market back to the average 1956 level but the European beet harvest is reported to be a good one and the high prices ruling in the first half of 1957 stimulated production in a number of cane-growing countries. Though countries exporting under agreement to the United Kingdom and the United States are to receive somewhat higher prices for their 1957/58 shipments, total exports of sugar may well be smaller in volume as well as lower in unit value in 1958 than in 1957.

For cereal exporters—as for sugar exporters—market trends depend greatly on harvests in the principal deficit countries. In western Europe, grain crops appear to be very favourable and smaller imports are indicated. In southern and south-eastern Asia, on the other hand, over-all rice import requirements are likely to be

at least at 1957 levels, again compensating for poorer local crops—as in Ceylon, Indonesia and Pakistan—or in furtherance of stockpiling policies, as in India. Japan's import programme for the fiscal year beginning 1 April 1958 includes rice imports of almost a million tons, nearly double the 1957 intake. Against this, both 1957/58 crop and 1958 carry-over are below the previous year's level in the principal exporting countries, Burma and Thailand. Exportable supplies are also reported to be lower in southern Korea and Viet-Nam. Given the region's low propensity to substitute other food grains for rice, some hardening of prices may result—Burmese quotations for government to government transactions were raised by 6 to 12 per cent in April—and export earnings should benefit.

A greatly reduced grain harvest has been reaped in Australia, too, but more serious from the point of view of export earnings is the marked decline in the 1957/58 wool clip. With world wool consumption running well below the level of the preceding year, the decline in the volume of exports in the 1957/58 season has aggravated the effects of the decline in price. In Argentina, the 1957/58 wheat crop is about one-fourth below the 1956/57 level, but the effect of this on export earnings seems likely to be offset to some extent by a larger maize crop.

The market for ores and metals and rubber is in large measure a function of the demand for durable goods, including motor cars. This seems unlikely to be much above the 1957 level in the aggregate. In the United States, producer stocks of both non-ferrous metals and manufactured durable goods are high and though there is still some uncertainty as to whether protection of domestic mining will take the form of quotas or duties on imports or of "equalization payments" to high cost local mines, the volume—and even more the over-all value—of non-ferrous metal imports seems likely to decline below the 1957 rate. The slackening of investment rates in other industrial countries points to the probability of lower imports into western Europe also. The result is likely to be a smaller output of non-ferrous metals in the primary exporting countries. This already seems assured in the case of tin and copper: under the international agreement, exports of tin will be appreciably lower in 1958 than in 1957, and there has also been a widespread curtailment of copper production, affecting not only United States mines but also those of the Belgian Congo, Chile and Rhodesia.

By early 1958 the price of natural rubber had declined more or less to the level of that of the synthetic product. At this figure some marginal suppliers—especially among the Indonesian smallholders, whose output tends to be more sensitive to price movements—may withdraw from the market. Total consumption in 1957 was sustained more or less at the 1956 level; from what is known of the course of industrial activity in the first part of the year, world rubber consumption is more likely to be lower than higher in 1958. Hence, whether because of lower average price or smaller production or both, the earnings of rubber exporters are likely to be smaller in 1958 than in 1957.

The conclusion that emerges at this stage is that while a number of countries may be able to raise their 1958 export earnings above the 1957 level and others more or less to sustain them at that level, there is unlikely to be any over-all increase in exports from the primary exporting countries. Indeed, with the demand for their export commodities likely on the whole to be smaller than in 1957 and the average unit value of their exports lower, the total value of exports will probably register a decline—the first decline since the post-Korean readjustment.

The combination of these generally unfavourable prospects for export earnings and the high level of imports in 1957—along with the balance of payments strain that this imposed—seems almost certain to reduce the rate of expansion in imports in 1958. Indeed in a number of cases steps were taken to restrain imports before the end of 1957, not only in countries in which there had been a substantial expansion—Argentina, New Zealand, the Philippines and the Sudan, for example—but also in some of the countries in which imports had been running below the 1956 rate—Colombia and Indonesia, for example.

In the case of India, despite the progressive tightening of controls, imports in 1957 were 18 per cent above the 1956 level. A further increase of this magnitude is unlikely in 1958; though the development plan which is going into its third year still entails major imports of capital equipment, two years of rapidly rising imports and a rigid control over consumer items point to some slackening in the rate of increase, if not some degree of contraction. Imports totalled $1.7 billion in 1956 and $2.0 billion in 1957; import commitments for future delivery are estimated—by the Reserve Bank of India—to have declined from $2.1 billion in September 1957 to $1.8 billion in March 1958, while licences issued in this six-month period aggregated $628 million—13 per cent below the rate for the first three quarters of 1957 and less than half the rate for the second half of 1956.

In some of the countries in which exports were lower in 1957 than in 1956, imports in 1958 may be automatically curtailed through the direct link that exists between export receipts, local incomes and import demand, as in Burma, Ceylon and Nigeria, for example. This direct effect has been reinforced in some instances by domestic retrenchment—as in Rhodesia, for example, where cuts in public expenditure have been made and tighter controls placed on credit, especially in sectors with a high propensity to import. Similar measures to reduce the demand for imports have been adopted in the Sudan and on a much broader front in South

Africa; in the latter a continued fall in exchange reserves in the first four months of 1958 has been countered, not by a return to stricter direct controls over imports, but by a series of monetary measures—including restraint on bank credit and higher interest rates—tighter control over the use of export proceeds and over foreign transactions of a non-commercial nature, and by oversea borrowing both on the open market and from the International Monetary Fund.

Australia has also sought to avoid a return to the stringent import controls of 1956, and though some restriction has been placed on textile imports, a steady decline in foreign exchange holdings appears likely, at least until the 1958/59 wool sales commence in September. Bolivia, Chile and Peru, where freer trade régimes have only recently been introduced, have also tried to avoid the reimposition of blanket controls: anti-inflationary policies have been pursued in the domestic economy while the deterioration in external balance has been countered by running down reserves, borrowing abroad and letting the rate of exchange depreciate. By May, notwithstanding the use of International Monetary Fund stand-by facilities, the decline in Chilean reserves had reached a point where drastic action was deemed necessary: all imports were brought to a virtual, if temporary, halt by a decree raising prior deposits to be paid by importers to one hundred times the peso value of the goods in question.

The fact that control over imports—whether direct and quantitative or indirect, through local demand—has been so widely imposed and that so many countries are aiming at an import bill less than that of 1957 is likely to mean that in the aggregate imports into the primary exporting countries will expand little if at all. If export earnings decline, even the maintenance of the 1957 level of imports will involve an appreciable drain on reserves, except in the unlikely contingency of a considerable increase in the inflow of capital from the industrial countries.

A decline in foreign trade will have universally adverse effects on the internal balance in primary exporting countries. In some it is likely to be a deflationary effect: where local incomes are directly and largely dependent upon activities in the export sector, there will be a tendency for equilibrium to be re-established at a lower level of expenditure. In most cases, however, the effect is more likely to be inflationary: where it is chiefly the income of government (and foreign-owned companies) that is reduced by a curtailment of international trade, the result is likely to be the appearance or enhancement of a budgetary deficit alongside a diminution in the supply of imported goods. The strain on the budget depends on the one hand on the extent to which the government is committed to maintaining incomes or supporting prices in the depressed export sector—as in the case of coffee in Brazil and butter and cheese in New Zealand—and on the other hand on the government's dependence for revenue on the flow and price of exports and imports or on the profits of the export industries. This dependence is often very great and the threat to government revenue may prejudice public investment plans—as in Rhodesia where a major railway electrification scheme has had to be postponed—or newly adopted stabilization measures—as in Bolivia and Chile, where reduction in the deficit and an adequate supply of imported goods have been integral parts of the anti-inflationary programme.

Even more important to the state of internal equilibrium, however, is the course of domestic production, and in this regard most countries are expecting a further expansion in 1958. In South Africa this is again expected to be at a lower rate than in the preceding interval, while in Australia lower earnings in primary (export) activities appear to be inducing some slackening in the growth of demand which may affect the output of the industrial sector into which a large proportion of recent investment has gone. A decline in the export sector—particularly in mining and smelting activity—is also expected to reduce the rate of expansion in the Belgian Congo. In Morocco a better harvest in 1958 as well as increased activity in newly protected secondary industries are expected to raise the domestic product above the lower level to which poor crops and a decline in construction had reduced it in 1957. In Laos some growth in real product is expected, accompanied by a more or less comparable decline in prices.

Viet-Nam is looking forward to a continuation of the previous expansion of about 3 per cent a year—reflecting colonization of new land, the settlement of refugees and the development of irrigation, as well as a certain amount of industrial investment. In southern Korea a 4 per cent increase is envisaged, though shortage of imported raw materials may handicap some industries. The probable rise in real gross national product in Lebanon is estimated at a further 5 to 6 per cent between 1957 and 1958 and in Ecuador at almost 7 per cent. In the Dominican Republic an even higher rate of growth—about 10 per cent—is predicted, while in China (Taiwan) the influence of a high rate of increase in industrial output—reflecting the fruition of earlier investments—is likely to be lessened by the merely nominal increase that is expected in agriculture.

In the Central American countries agricultural output is actually expected to decline as a result of widespread drought, Nicaragua and Panama being the most severely affected; along with the curtailment of coffee exports under the Mexican Convention this may have a depressing impact on the domestic economy. Expansion in India will be affected by "a more difficult food situation" and the inhibiting effect of import restrictions which may reduce supplies of some raw materials. This is possible in the Philippines also, where an "austerity programme" was adopted late in 1957 because of the serious deterioration which had occurred in internal as well as external balance.

On the whole the deterioration in external accounts is likely to exert a restraining effect upon the course of fixed capital formation in 1958, especially in those countries in which domestic equilibrium was also adversely affected in 1957. In Burma, where an expansion in public investment was largely responsible for the rise in imports and in inflationary pressures in 1957, bank credit has been curtailed and the Government has indicated that development expenditures will be cut—even though capital provisions in the 1957/58 budget were higher. In Rhodesia an economy drive in government expenditure and a contraction of credit available to the private sector are direct outgrowths of the deterioration in terms of trade. Deterioration in terms of trade is a key factor in Ceylon also and, irrespective of the movement of production in real terms, further worsening is considered likely to bring about a reduction in both consumption and investment. In India it was the rapid decline in exchange reserves that took place in 1957 that necessitated some pruning and some postponement in the investment associated with the second five-year plan: some slackening in the pace of total new capital formation is expected even though public investment will again increase. New and higher taxes will at the same time restrain any expansion in private consumption; in this way—with the help of imports—it is hoped to contain the inflationary forces generated by expenditure under the plan.

In French Equatorial Africa, government development expenditure is expected to be at a lower level in 1958, but the decline may be offset to some extent by an expansion in private capital formation, particularly in the field of mining. Mining and smelting facilities—with their associated power supply—are also being developed on an increased scale in French West Africa, but here public investment is expected to be maintained at the 1957 level. In the Sudan the large trade deficit incurred in 1957 is not expected to stand in the way of the greatly expanded development programme contemplated in the 1957/58 budget, but, taken in conjunction with the cut in imports made at the end of 1957, this investment may have a severe inflationary impact. Difficulties of a similar nature have arisen in Turkey where rigid import controls are combined with a further instalment of an investment programme which necessarily has a high import content. In Chile, also, where during the past two years there has been an appreciable degree of underemployment of resources in the building and construction sector, government policies are moving toward increased investment notwithstanding the difficulties on external account occasioned by the decline in copper prices. The development programme is also going ahead in Iraq.

Though domestic investment will probably be adversely affected in the process, improvement in the external balance is the major objective in New Zealand where, in addition to quantitative import controls, severe restrictions have been imposed on the volume of credit by means of a major increase in the reserve ratios of commercial banks. In Ghana, on the other hand, the more favourable terms of trade recorded in the second half of 1957 may be reflected in higher public investment: the rise in the cocoa price on the world market was not followed by an increase in the price paid to growers; as a result imports—at least of consumer goods—may be at a somewhat lower level in 1958 and the external balance should benefit.

In a few countries the action taken to protect exchange reserves may stimulate higher output, either in export activities or in industries producing substitutes for imports that have been curtailed. However, in view of the insensitivity of demand to price changes in the case of many primary commodities and the fact that in some instances it was the rise in production in 1956 and 1957 that underlay the weakness in world markets, expansion of exportable supplies seems unlikely to increase incomes. Indeed several groups of countries—including those producing mainly sugar or tin as well as the major coffee producers—are already embarked on policies of restricting exports or production in the belief that, by sustaining prices, this will help reduce the loss of income.

The stimulus to import substituting industries is likely to be more decisive. However, investments made under the influence of import curbs imposed temporarily in defence of shrinking reserves may not always be in the best long-run interests of development in the primary exporting countries: since the stringency of such curbs almost inevitably tends to vary inversely with the essentiality of the item in question, resources tend to be attracted into temporarily profitable activities that might otherwise be expected to have a low priority in the normal pattern of economic growth. In consequence, the advantage accruing to domestic production in these countries from the protection afforded by emergency import controls may not always compensate for difficulties experienced in balancing external accounts. In most primary exporting countries these difficulties are enhanced by the importance of international trade not only for supplies of capital goods, raw materials and fuels but also as a source of incomes and government revenue. On the whole, a flourishing external sector is more likely to lead to balanced economic growth than is restrictive action impelled by a deteriorating balance of payments. It is the threat of such restrictive action on a wide scale that dims the prospects of 1958.

Chapter 6

RECENT TRENDS IN CENTRALLY PLANNED ECONOMIES

Domestic Economic Activity

Industrial production

Industrial production continued to rise in the centrally planned economies in 1957 but the rate of increase in aggregate output for the group was somewhat lower than in 1956 (see table 96). This slowing down was due mainly to an extremely sharp decline in the rate of expansion in mainland China from 31 per cent in 1956 to 7 per cent in 1957, a rate slightly below that of 1955. The minor decline in the rate of increase in the Soviet Union also had a significant effect, owing to its large weight in the total group output.

In contrast to developments in mainland China and the Soviet Union, aggregate output of the other centrally planned economies increased at a higher rate than in 1956. This acceleration reflected in part the unusual circumstances in Hungary, where output recovered from the disruption of economic activity during and after the events of October 1956. Industrial production also increased at a higher rate in Czechoslovakia, Eastern Germany and Poland, while in Bulgaria, the rate achieved in 1956 was maintained in 1957. Only in Romania did industrial production increase at a slower rate than in the preceding year.

Table 96. Indices of Industrial Production, by Country

(Preceding year = 100)

Country	*1955*	*1956*	*1957*
Centrally planned economies, total	111	112	110
USSR	112	111	110
China, mainland	108	131	107
Other eastern European countries, total	110	107	110
Bulgaria	108	115	115
Czechoslovakia	111	109	110
Eastern Germany	108	106	108
Hungary	108	89	117
Poland	111	109	110
Romania	114	110	109

Source: Reports on fulfilment of plans and statistical yearbooks; *Hsin Hua Semi-monthly* (Peking). Group indices are weighted averages of country indices. The weights used were the averages of the ratios of output of electric energy and of industrial employment in each country to the totals of the group. These indices should be considered only as broad approximations of the changes in aggregate output.

In all countries the targets set for industrial production for 1957 were exceeded, and in some countries by substantial amounts. This overfulfilment of plans is partly explained by the fact that the targets for 1957 were set at rather moderate levels in order to permit elimination of the bottlenecks which had been present in earlier years. The ability to exceed planned output seems to indicate, however, that unexpected improvements were achieved in the supply of raw materials and the utilization of capacity. It is possible that one of the factors which contributed to these improvements was the relaxation of controls over individual enterprises, associated with the decentralization in planning and management; greater scope may thus have been given to individual enterprises to plan the composition of

Table 97. Indices of Output of Producer and Consumer Goods, by Country

(Preceding year = 100)

Country and item	*1955*	*1956*	*1957*
Bulgaria			
Producer goods	106.8	116.7	109
Consumer goods	108.6	113.3	118
China, mainland			
Producer goods	117.1	141.8	112
Consumer goods	101.1	121.9	103
Czechoslovakia			
Producer goods	108.8	110.9	109.7
Consumer goods	113.1	108.1	110.9
Eastern Germany			
Producer goods[a]	108.7	108.5	107.1[b]
Consumer goods[c]	106.4	103.1	108.3[b]
Hungary[d]			
Producer goods[a]	108	93	109
Consumer goods[c]	109	88	115
Poland			
Producer goods	111.2	110.6	109.2
Consumer goods	111.8	107.2	110.0
Romania			
Producer goods	120.2	113.2	111.0
Consumer goods	105.6	107.1	105.1
USSR			
Producer goods	114.7	111.4	111
Consumer goods	108.2	109.5	108

Source: Reports on fulfilment of plans; statistical yearbooks; *Vierteljahreshefte zur Statistik*, No. 4, 1957 (Berlin), and *Hsin Hua Semi-monthly*.

[a] Heavy industry.
[b] Estimated on basis of nine months.
[c] Light industry and food industries.
[d] Industry under jurisdiction of central ministries only.

their output and their purchases of raw materials in a more efficient way. In addition, the greater independence and encouragement given to local industries, co-operatives and handicrafts resulted in a much better utilization of local resources; in several countries the output of these enterprises consequently increased at a higher rate than that of large-scale industry.[1] It should be added that in Poland and Bulgaria, the stimulus given to handicrafts and co-operatives was partly motivated by the need to find work for unemployed persons lacking the requisite skills for employment in industry.

Output of consumer goods increased more than that of producer goods in all centrally planned economies, except the Soviet Union, Romania and mainland China; for the third consecutive year the rate of increase in the output of producer goods in these three countries exceeded that of consumer goods (see table 97). The difference between the respective rates of increase in the two sectors was very marked in mainland China and Romania, two countries where the share of producer goods in total industrial production is much smaller than in most other centrally planned economies.

It is significant that in all countries where industrial production increased at a higher rate than, or at the same rate as, in 1956, this was accounted for exclusively by the acceleration of growth in consumer goods industries. While this relationship may have been due to various causes, it seems that an important factor in the acceleration was the availability of unused resources—both plant and manpower—in the consumer goods sector; improvement in the supply of raw materials in 1957, permitted the greater utilization of those resources, thus accelerating the over-all rate of growth in industrial production.

Within the producer goods sector, output of electricity, coal, crude oil and ferrous metals rose in most instances at a lower rate than in 1956.[2] In the Soviet Union, the total output of fuel and power expanded at a somewhat higher rate than during the preceding year, the slackening in the rate of increase in production of coal and crude oil being somewhat more than offset by an acceleration in the output of natural gas, peat and hydroelectric power (table 98).

The effect of these changes on the supply of fuels and metals was modified in several countries by changes in foreign trade, and although output of fuel and power in eastern Europe, excepting the Soviet Union, increased less than in 1956, apparent consumption rose slightly faster (see table 99). This improvement was, however, entirely due to changes in Bulgaria, Eastern Germany and Hungary. Only in Bulgaria did the supply of fuel and power rise more rapidly in relation to industrial production than in 1956. In all the eastern European countries excepting Hungary, the supply of rolled steel also rose less in relation to industrial production than during the preceding year. Steel supply in fact, increased at a slower rate than in 1956.

[1] In Bulgaria, total industrial production increased by 15 per cent, exceeding the planned target by 7 per cent. Output of handworkers' co-operatives rose by 32 per cent, or 12 per cent in excess of planned output, and industries under local administration increased their output by 26 per cent. Similarly, in Czechoslovakia the plan for total industrial output was exceeded by 2 per cent while output of co-operatives exceeded the targets by 5 per cent. In Poland, targets set for industry were exceeded by 6 per cent and those for co-operatives by 15 per cent.

[2] In mainland China, however, the rate of increase in coal exceeded—and that of crude oil production probably exceeded—the rate of the preceding year; in Hungary, production of metals, power and fuel (except crude oil) increased in 1957 as compared with a decline in 1956; and in Bulgaria and Eastern Germany, as a result of recent large investment in coal mining, the output of brown coal increased at an accelerated rate. Despite the rise in the rate of expansion in these three eastern European countries, the aggregate output of fuel and power in the European centrally planned economies, excluding the Soviet Union, increased at a slower rate than in 1956.

Table 98. Indices of Output of Fuel, Power and Selected Basic Materials

(Preceding year = 100)

Item	USSR		Other eastern European countries		China mainland	
	1956	1957	1956	1957	1956	1957
Primary fuel and power[a]	111.4	112.3	102.9	101.9	...	...
Coal[b]	109.7	107.9	103.1	103.0	113.2	117.2
Hard coal	109.8	107.9	101.4	99.8	...	...
Brown coal and lignite	109.5	107.7	103.8	104.4	...	...
Crude oil	118.4	117.3	100.5	98.2	120.0	140.0[c]
Electric energy	112.8	109.1	108.9	106.4	135.1	114.4
Pig iron	107.5	103.4	107.2	106.7	125.9	122.6
Rolled steel	107.1	106.3	108.2	107.6	157.0	114.2[c]
Cement	110.6	116.2	106.1	109.8	142.0	104.7
Bricks	102.9	112.1	103.9	109.8	...	...

Source: Reports on fulfilment of plans; statistical yearbooks; data on primary fuel and power from United Nations, *Economic Survey of Europe in 1957* (sales number: 58.II.E.1); *Hsin Hua Semi-monthly* and estimates of the Secretariat.

[a] Coal, oil, natural gas, oil shale, peat and hydroelectric power, in terms of heat value.

[b] On ton per ton basis.

[c] Planned.

Table 99. Selected Indices of Production and Apparent Consumption of Basic Materials
(Preceding year = 100)

Country	1956 Industrial production	1956 Apparent consumption: Primary fuel and power	1956 Apparent consumption: Rolled steel	1956 Production of electric energy	1957 Industrial production	1957 Apparent consumption: Primary fuel and power	1957 Apparent consumption: Rolled steel	1957 Production of electric energy
Bulgaria	114.9	106.7	121.0[a]	115.4	115	113.4	105.8[a]	110.9
Czechoslovakia	109.4	108.0	109.8	110.5	110.2	105.7	106.8	107.1
Eastern Germany	106.3	102.2	110.1	108.7	107.6	103.6	109.1	104.9
Hungary	88.5	94.9	88.2	95.8	117.0	116.6	124.4	104.8
Poland	109.0	108.0	107.9	109.8	109.6	107.0	103.6[a]	108.5
Romania	110.4	111.0	...	113.6	108.5	100.9	...	...
Total, above countries	106.9	105.5	...	108.9	109.7	106.0	...	106.4[b]

Source: See sources to tables 96 and 98.
[a] Production.
[b] Excluding Romania.

In spite of the slower increase in the supply of metals, fuel and power in relation to industrial production, there seems to have been, at least in some countries, a certain easing of supply difficulties. This improvement was probably the result of shifts towards consumption goods in aggregate output and of the general slowing down in rates of growth in output of heavy machinery and armaments. In Eastern Germany and Czechoslovakia, however, deficiencies in supplies of special steels were a factor preventing the fulfilment of the plan for production of heavy machinery, and in Poland the shortages of steel plates and of non-ferrous metals prevented the achievement of plans in several branches of engineering.

The highest rates of increase in the producer goods sector were achieved in the chemical industries and in the output of building materials. Output of cement and bricks was stepped up in most countries in connexion with expanded programmes of housing construction; this output substantially exceeded the rates of increase achieved in 1956.

The expansion in the output of consumer goods was facilitated in several countries both by an increase in

Table 100. Indices of Industrial Production of Selected Consumer Goods
(Preceding year = 100)

Country and year	Cotton fabrics	Woollen fabrics	Silk and artificial fabrics	Leather shoes	Meat	Butter	Vegetable oils[a]	Sugar
Bulgaria								
1956	107.7	118.7	139.4	112.8	114.0	128.4	112.8	169.8
1957	106.1	104.7	120.0	130.0	106.3	115.0	113.3	109.3
Czechoslovakia								
1956	102.8	93.4	97.8	96.4	111.6	113.7	110.0	90.0
1957	101.1	103.8	104.0	128.4	107.2	105.9	99.5	133.6
Eastern Germany								
1956	106.1	82.0	94.0	97.7	106.2	97.6	105.6[b]	85.7
1957	104.2	108.3	...	102.7	106.7	107.0	92.2	...
Hungary								
1956	77.4	75.9	84.6	82.3	110.2	111.2	78.7[c]	87.2
1957	114.9	122.1	114.1	128.9	102.3	96.4	105.6	139.0
Poland								
1956	99.3	100.7	105.2	112.1	121.7	101.6	104.9	79.3
1957	100.9	100.3	106.5	107.8	114.1	126.3	89.7	136.2
USSR								
1956	92.3	106.1	143.4	105.7	105.4	119.9	130.6	127.3
1957	102.7	105.3	106.7	108.7	116.5	111.9	108.8	103.1

Source: Reports on fulfilment of plans and statistical yearbooks.
[a] Excluding oil for industrial purposes.
[b] Margarine only.
[c] Sunflower oil only.

the supply of domestic raw materials allocated to the consumer sector and by an increase in imports. Production of consumer durables, in particular of passenger cars and of furniture, was accelerated in most countries. The expansion of output of semi-durables such as textiles, clothing and shoes, was primarily the result of substantial increases in imports of cotton, silk, artificial fibre, hides and wool by several eastern European countries[3] (table 100).

Within the food processing sector, the expansion of the most important branches was somewhat less extensive than in 1956 when the rates of increase were generally very high. Output of meat rose less than in 1956 in all countries except the Soviet Union and Eastern Germany, but the increases in these two countries were sufficiently important to raise the aggregate rate of increase from 9 per cent in 1956 to 14 per cent in 1957.[4] Output of butter also increased less than during the preceding year in all countries except Eastern Germany and Poland.[5] The increase in aggregate output of edible oils and of sugar in eastern Europe was much less than in 1956; for sugar, this was mainly because of a decline in the rate of increase in the Soviet Union, and for edible oils it was because of a reduction in the rate of increase in some countries and an absolute fall in others.

Except in Bulgaria, where output per man showed no increase, the rise in industrial production was, as in the preceding year, achieved mainly through an increase in output per man rather than through higher employment (see table 101). The rate of increase in output per man slackened, however, in all countries with the exceptions of Poland and Hungary. The slackening was due in part to the fact that in several countries the work week was shortened in 1956 and still further reduced in 1957. Employment increased at an accelerated rate only in Bulgaria, Czechoslovakia and Eastern Germany.

It may be of interest to note that the three countries where employment increased more rapidly than in 1956 were also those which experienced the most significant acceleration in the output of consumer goods and the greatest deceleration in the rate of increase of output per man. Both the slackening of the rate of increase of output per man and the acceleration in the rate of growth of employment may thus be due to the generally higher labour requirements per unit of output in consumer goods industries. It should be added that a similar shift in Poland and Hungary did not result in any deceleration in the rate of increase of output per man. In Hungary this was due to the fact that the decline in output in 1956 had not been accompanied by a reduction in the number of workers on the payrolls. The recovery in output per man in 1957 had still not carried it to the level prevailing before the October disturbances. In Poland the existence of "hidden unemployment" in industry was probably an important factor accounting for the rise in output per man.[6]

As was noted in the *World Economic Survey, 1956*, a problem of unemployment had been encountered in Bulgaria, Hungary and Poland during 1956. Although conclusive data are not available, it appears that this situation improved in 1957. The two factors which

[3] The aggregate output of leather shoes in eastern Europe increased as much as 16 per cent in 1957 compared with only 3 per cent in 1956; aggregate output of textiles recovered from its 1956 fall and in 1957 somewhat exceeded the 1955 level.

[4] In eastern Europe, exclusive of the Soviet Union, the aggregate output of meat increased by 14 per cent in 1956 and 9 per cent in 1957.

[5] Aggregate production of eastern Europe increased by 12 per cent in 1957 as against 14 per cent in 1956; exclusive of the Soviet Union, the corresponding figures were 2 per cent in 1956 and 11 per cent in 1957.

[6] It was officially stated that even with existing techniques a substantial proportion of labour employed could be dispensed with, without reducing industrial production. Although it is probable that "hidden unemployment" exists also in other countries, apparently the problem is of greater importance in Poland.

Table 101. Indices of Employment and Output per Man in Industry
(Preceding year = 100)

Country	1955		1956		1957	
	Number of wage earners	*Output per wage earner*	*Number of wage earners*	*Output per wage earner*	*Number of wage earners*	*Output per wage earner*
Bulgaria	103.1	104.6	107.8	107.0	114.7	99.8
China, mainland	101	109.6	113	120	...	...
Czechoslovakia	102.2	107.9	102.4	106.8	104.1	105.9
Eastern Germany	100.3	107.5	96.2	110.5	102.4	1056[c]
Hungary [a]	100.7	106.1	101.7	89.8[b]	100.8	110.
Poland	104.6	106.5	104.2	104.6	103.4	106
Romania	104.0	109.3	101.6	108.7	100.2	108.3
USSR	104	108	104	107	103	106.5

Source: Reports on fulfilment of plans; statistical yearbooks; *Statisticheski Izvestia*, No. 1, 1958 (Sofia) and *Statisztikai Havi Közlemenyek*, No. 12, 1957 (Budapest).

[a] Industry under central administration.
[b] Average January–September: 102.5.
[c] 96.3 in relation to the average of January–September 1956.

helped to absorb at least part of the unemployed labour force were, on the one hand, the expansion of handicrafts and small-scale industry and of service establishments in both the socialized and private sectors of the economies and, on the other, an outflow of labour to the countryside. Whereas in Poland these were probably the most important factors, in Bulgaria the situation was also improved by the emigration of about 13,000 workers to the Soviet Union and Czechoslovakia. In Hungary, which had also encountered a problem of unemployment during 1956 and in the early months of 1957, the recovery of industrial production and the emigration which followed the events of October, together with the return of some workers to the countryside, resulted in a substantial reduction in the number of unemployed.

AGRICULTURAL PRODUCTION

Weather conditions in 1957 contributed to a substantial increase in agricultural output in some countries, while in others they had an adverse effect. In Bulgaria, mainland China, Hungary, Poland and Romania, the grain harvest exceeded that of 1956 and was substantially above the 1953-1955 average. For the group as a whole, however, total output fell short of 1956 because of a 12 per cent decline in the grain harvest in the Soviet Union caused by a severe drought in Kazakhstan, the southern Urals and the Volga region (see table 102). The area affected by the drought includes about 70 per cent of the land brought under cultivation during the past three years, and the increase in output of other areas was not sufficient to offset the decline. In this respect the situation differed from that of 1955 and 1956: in 1955, Kazakhstan and the eastern region had a poor harvest, but the other areas achieved excellent results and total output of grain was increased by some 25 per cent; and in 1956, though output fell in the Ukraine as a result of frost, a good harvest in the newly cultivated areas of Kazakhstan and the eastern regions raised the total grain output by 20 per cent above the level of 1955.

Among the other major crops, output of sugar-beets was exceptionally good in all countries, and production for the area as a whole was the highest ever recorded. The potato harvest, however, in three major producing countries, namely, the Soviet Union, Poland and Czechoslovakia, was lower than the very good crop of 1956. In the Soviet Union the output of cotton was also lower than in 1956 but it was the highest on record in mainland China.[7]

Total crop production was lower than in 1956 in the Soviet Union and Czechoslovakia. In the Soviet Union the decline came after two successive years of substantial increases, and the absolute level of output remained higher than in any year except 1956. However, the rise in livestock numbers increased fodder requirements, and the 40 per cent decline in production of maize and the decline in output of other fodder grains during 1957 may be of consequence for the much stressed development of livestock. In Czechoslovakia, total crop production declined for the second consecutive year by about one per cent in 1956 and 4 per cent in 1957, but in spite of this it was still substantially above the average of the last five years. In all other countries over-all crop production was higher than in 1956.

[7] The figures on cotton production in these two countries are as follows (in millions of tons):

	1952–1954 average	*1955*	*1956*	*1957*
China, mainland....	1.18	1.52	1.45	1.64
USSR.....	4.05	4.00	4.50	4.40

Table 102. Output of Major Crops
(Millions of metric tons)

Country	*Grain*			*Sugar-beets*			*Potatoes*		
	1953–1955 average	*1956*	*1957*	*1953–1955 average*	*1956*	*1957*	*1953–1955 average*	*1956*	*1957*
Bulgaria.....	3.9	3.4	4.7	.7	.9	1.4	.3	.2	.3
China, mainland.....	146.5	160.7	163.0	7.4[b]	8.6[b]	12.3[b]	17.5	21.8	...
Czechoslovakia.....	4.8	5.4	5.2	5.8	4.6	6.8	8.6	9.6	8.8
Eastern Germany.....	5.6	5.3	5.4	6.6	4.9	6.8	14.3	14.8	15.9
Hungary.....	6.1	5.2	7.0	2.2	1.9	2.4	2.1	2.1	2.9
Poland.....	11.2	12.1	13.6	7.0	6.4	7.6	31.4	38.1	35.0
Romania.....	8.8	7.1	11.4	1.6	1.5	2.1	2.4	2.7	...
USSR.....	89.3	123.7	109.5	24.7	32.5	39.4	...	96.0	87.2

Source: Reports on fulfilment of plans; statistical yearbooks; United Nations, *Economic Survey of Europe in 1957*; *Hsin Hua Semi-monthly*; USSR grain output estimated on basis of the planned targets for 1960, indices of grain output for 1950–1956, reported percentage increase 1953–1957, and a statement in *Planovoe Khozyaistvo*, No. 2, 1956 (Moscow): "Gross output of grain in the Kazakh SSR in 1960 will increase compared with 1955, five times, and the relative share of the Republic in the output of grain in the country will increase to 12.9 per cent instead of 4.5 per cent in 1955." Since these target increases are expressed in rounded figures, the estimates given in the table may understate or overstate actual output.

[a] Wheat, rye, barley, oats, maize for grain, and paddy in mainland China.

[b] Including sugar-cane converted into beet equivalent by applying approximate average rates of sugar extraction from beets and from cane.

In Poland and mainland China[8] the percentage increases in output were small, but in Bulgaria, Hungary and Romania, which had suffered from bad harvests in 1956, crop output increased substantially.

The changes in output of animal husbandry in 1957 were in most countries closely related to the preceding year's fodder crops. In Romania, which had suffered from a poor harvest in 1956, both live stock numbers and production of meat appear to have declined in 1957. Livestock numbers also declined substantially in Hungary, although output of meat increased slightly because of a higher rate of slaughtering. In Bulgaria—another country which had a bad harvest in 1956—the situation in 1957 was only slightly better.[9] In Czechoslovakia and Eastern Germany, where the decline in fodder crops was less marked than in the other countries affected by bad harvests in 1956, output of meat and milk increased slightly in 1957; their livestock population, however, remained practically unchanged. By contrast, in Poland, the relatively good harvest of 1956 contributed to a substantial increase in livestock numbers and in output of milk and meat (see table 103).

In the Soviet Union livestock numbers increased substantially between 1 January 1957 and 1 January 1958, although it is possible that this increase was largely the result of a reduction in the rate of slaughtering during the last three months of 1957. Output of meat, especially of pork, also increased in 1957, but its rate of increase cannot be determined for lack of conclusive information.[10]

Despite the divergences in the movement of crop and of livestock production, the increase in over-all agricultural output in Bulgaria, Hungary and Romania was sufficient to wipe out the losses of 1956 (see table 104). In Eastern Germany, there was a further substantial increase above the post-war peak of 1956, mainly as a result of an increase in fodder crops. Similarly, a post-war peak was reached in mainland China and Poland, although in these countries the rate of increase was lower than that of 1956. Finally, in the Soviet Union and Czechoslovakia, total agricultural production declined after having reached a post-war peak in the previous year. In the Soviet Union the decline may have been of the order of 5 per cent;[11] it was, however, only slight in Czechoslovakia.

Government policies towards agriculture in 1957 tended to further the expansion of agriculture in all the countries of the group; the general tendency was to continue the policy introduced in 1956 of placing

[8] In Poland the 9 per cent decline in potato crops and poor results for some other crops partly offset the effect of the 12 per cent increase in output of grain and as a result total output of crops increased by only 2.5 per cent. In mainland China industrial crops increased more than grain output and the crop of soya beans was lower than in 1956. Total crop production increased by approximately 3 per cent.

[9] In Bulgaria, production of milk increased but output of meat apparently remained at its 1956 level; the number of sheep seems to have declined and output of wool fell by 5 per cent.

[10] The report on fulfilment of the plan for 1957 confines itself to the following statement regarding meat: "In 1957, output of meat, especially pork, increased." But *Pravda*, of 28 February 1958, announced that "taking into account the increase in livestock, output of meat rose by 38 per cent from 1953 to 1957". The report on fulfilment of the plan for 1956 indicated that between 1953 and 1956 output of meat rose by 11 per cent. Since it is not clear whether the latter figure relates to slaughtering of livestock or whether it also takes into account the increase in livestock population, no conclusion can be drawn with respect to the output of meat in 1957.

[11] Assuming that the output of animal husbandry (which in 1957 represented 37 per cent of total output of agriculture) increased at the rate indicated for livestock numbers. This conclusion is partly substantiated by the fact that whereas industrial production rose by 10 per cent in 1957, national product rose by only 6 per cent. In addition, the planned rate of increase in agricultural output for 1958 was set at 17 per cent; as this is much higher than the rates in 1955 and 1956, it suggests, in part, an anticipated recovery from a fall in output in 1957.

Table 103. Livestock Numbers and Production of Animal Husbandry, 1957[a]

(Preceding year = 100)

Country	Number of			Production		
	Cattle[b]	Pigs	Sheep	Meat	Milk	Eggs
Bulgaria	...	...	...	...	111.0	100.7
Czechoslovakia	99.0	101.2	93.0	104.9	100.7	107.6
Eastern Germany	100.3	98.2	105.1	106.5	105.1	...
Hungary	91.4	91.0	...	...	...	...
Poland	99.0	107.0	95.6	108.5	106.2	99.1
USSR	108.6	108.6	111.1	...	111.4	110.0

Source: Reports on fulfilment of plans; statistical yearbooks; *Statistische Praxis*, No. 3, 1958 (Berlin); *Statisztikai Havi Közlemenyek*, Nos. 3, 5 and 12, 1957; *Voprosy Ekonomiki*, No. 3, 1958 (Moscow).

[a] Livestock data based on livestock counts during the following months: Czechoslovakia: December; Eastern Germany: September; Hungary: October; Poland: June; USSR: January.

[b] Changes in the number of cows differ in some cases substantially from those in the total number of cattle. The comparable figures are: for Czechoslovakia, 99.8; Eastern Germany, 99.7; Hungary, 97.6; Poland, 103; and USSR, 108.3.

Table 104. Indices of Agricultural Production
(Preceding year = 100)

Country	1955	1956	1957
Bulgaria[a]	110.3	93.3	108.6
China, mainland	107.7	104.6	104
Czechoslovakia	110.5	102.0	99.4
Eastern Germany	101.3	101.2	111
Hungary	112	88	112
Poland	102.5	107.6	104
Romania	118.9	79.6	...

Source: Reports on fulfilment of plans; statistical yearbooks of Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland and Romania; data communicated to the United Nations Secretariat by the Governments; *Hsin Hua Semi-monthly*, and *Nepgazdasagi Merlegek, Realjovedelmek*, 1956 (Budapest).

[a] In 1955 prices, as indicated in the reply of the Government of Bulgaria to the United Nations questionnaire of November 1957 on economic trends, problems and policies, 1957–1958. The report on fulfilment of the plan for 1957 gives a 16 per cent increase for that year. This is probably derived from an index calculated in 1939 prices. In some of the preceding years the differences between the two indices were quite considerable. Thus, the increase in 1955, in 1939 prices, was 18 per cent, compared with the 10 per cent increase shown in the table.

greater reliance on peasants' initiative by measures including, in addition to an increase in agricultural prices, the reduction or abolition of compulsory deliveries and a lessening of the role of central authorities in the planning and management of individual farms. In Hungary, where the co-operative sector of agriculture was reduced from 21 per cent of the sown area in June 1956 to 12 per cent in December 1957.[12] the abolition of compulsory deliveries in 1956 was followed by other measures tending to encourage private farming; these included the removal of some restrictions on the sale and renting of land and the guarantee of tenure to private owners. In 1957, for the first time, the Government abstained from regulating the area to be sown under various crops.[13] In Poland, the reforms initiated in 1957 were followed by a further reduction in compulsory delivery quotas and a virtual elimination of collective farming.[14] The supply of equipment and fertilizers to private farms was increased substantially. The effect of this policy was a considerable improvement in the efficiency of private farming. This resulted in a rise of 2.5 per cent in the area under grain and it probably also contributed to the increase in yields. Similarly, in Romania, governmental control over agriculture was considerably reduced through the abolition of compulsory deliveries.

The relaxation of governmental controls, together with the changes in output, had a considerable influence on the procurement of agricultural produce by government agencies. In Hungary and Poland, where compulsory deliveries were either entirely abolished or greatly reduced, centralized purchases of grain were lower than in 1956 (see table 105). Not all of the decline, however, was due to the reduction of obligatory deliveries, since in Poland even the planned quotas were not achieved. The reduction in centralized acquisition of grain did not have an adverse effect on supplies to the urban population; in Poland it was balanced by an increase of peasants' sales on the free market and in Hungary, in addition, by a reduction of rural purchases from central stocks. In Hungary these factors, together with large imports, enabled the Government to build up central grain stocks in order to provide for a normal bread supply until the next harvest. In contrast to procurement of grain, governmental purchases of livestock products rose considerably in Poland, despite the decline in compulsory deliveries; this resulted from the increase in free sales brought about by substantial increases in prices paid to the peasants. In Hungary, procurement of livestock products was generally also more successful than that of grain, partly because of relatively more favourable prices.

[12] In December 1956, it fell to 9 per cent but subsequently it increased slightly.

[13] Under the prevailing price structure, this resulted in a shift towards fodder crops, thus improving the prospects for an increase in livestock production.

[14] On the other hand, in Bulgaria and in Czechoslovakia, the relaxation of governmental controls over the composition and disposal of agricultural produce was accompanied by a further extension of the collective farm sector. The drive towards further collectivization, which in the earlier period had weakened the incentive to greater production among the peasants in most of the centrally planned economies, does not seem to have affected output in Bulgaria and Czechoslovakia in 1957.

Table 105. Procurement of Major Agricultural Products, by Country
(Thousands of metric tons)

Country	Grain		Meat[a]		Milk		Eggs	
	1956	1957	1956	1957	1956	1957	1956	1957
Bulgaria	...	...	204	211	283	329	473	447
Eastern Germany	...	...	866	926	3,302	3,586	1,172	1,491
Hungary	1,506	1,373	426	434	529	511	430	370
Poland	2,353	2,143	1,094	1,225	2,514	3,046	1,646	1,658
USSR	54,123	37,300	4,449	5,000	17,337	20,500	3,272	4,250

Source: Statisticheski Izvestia, No. 1, 1958; *Statistische Praxis*, No. 3, 1958; *Statisztikai Havi Közlemenyek*, No. 12, 1957; *Rocznik Statistyczny*, 1957 (Warsaw); *Biuletyn Statystyczny*, No. 2, 1958 (Warsaw); *Dostizhenia Sovetskoi Vlasti za 40 Let*, 1957 (Moscow); *Zasedania Verkhovnogo Soveta SSSR*, (Devyataya Sessia); *Pravda* (Moscow), 27 January 1958; *Vestnik Statistiki*, No. 6, 1957 (Moscow).

[a] Live weight. [b] Million.

In Eastern Germany, where there was little change in compulsory delivery quotas, a rise in prices for both compulsory deliveries and free sales to the Government resulted in an increase of procurement in relation to output.[15]

In the Soviet Union, a sharp decline in procurement of grain was entirely due to the fall in output. State procurement declined by about one-third from the extremely high level of 1956 but remained only slightly below the 1955 level, as shown by the following figures (in millions of tons):

	1954	1955	1956	1957
Output	84	103	124	110
Procurement	35	38	54	37
Other	49	65	70	73

Source: For output see table 102. Procurement data derived from *Pravda*, 6 February 1957, reports on fulfilment of plans in 1955, 1956 and 1957, and *Zasedania Verkhovnogo Soveta SSSR* (Devyataya Sessia), 19–21 December 1957 (Moscow, 1958).

The amount of grain left at the disposal of the farms, however, increased by about 7 per cent in 1957. This change in the distribution of current output was made possible by the very great accumulation of grain stocks out of the 1956 harvest; and despite the decline in procurements in 1956, the existing stocks were officially considered as sufficient to meet current needs. Procurement of livestock products in the Soviet Union, on the other hand, increased considerably above 1956, permitting a continued improvement in supply of meat, milk and eggs to the urban population. A substantial improvement also occurred in the procurement of fruit and vegetables. These changes to a large extent reflected the response of the peasants to the increases in prices paid for some agricultural produce which, in the case of fruit, were associated with the complete abolition of compulsory deliveries.

[15] This can be seen from the following percentage increases over 1956:

	Output	Procurement
Grain	1	5
Potatoes	7	10
Milk	5	9
Meat	6.5	6.9

ALLOCATION OF NATIONAL PRODUCT AND PRESSURE OF DEMAND

In the Soviet Union and mainland China, the rate of growth in national product was very much lower than in the preceding year. Some deceleration in the rate of expansion also took place in Poland. In several countries of the group, however, national product increased more rapidly in 1957 than in 1956 (see table 106).

In most countries the changes in the rate of expansion of national product reflected fluctuations in agricultural production. The impact of these fluctuations was most significant in the Soviet Union, where the decline in the rate of growth, from 12 per cent in 1956 to 6 per cent in 1957, was almost entirely due to changes in agricultural output. Similarly, in Poland the slackening of the rate of growth of national product was the result of the slower growth in agricultural output. In mainland China, however, where the rate of expansion in national product also slowed down, the deceleration was exclusively due to the sharp decline in the rate of increase in industrial production.

Amongst the countries where national product rose more than during the preceding year, only in Czechoslovakia was the acceleration entirely due to a higher rate of increase in industrial production. In Hungary, recovery of both industry and agriculture from the 1956 decline contributed to the rise in national product which, in 1957, approximately regained the level established in 1955. In all the other countries the rise in agricultural output played a significant role in raising the over-all rate of expansion of national product in 1957. In Bulgaria, where industrial production increased in 1957 at approximately the same rate as

Table 106. Indices of National Product, Investment and Retail Sales

(Preceding year = 100)

Country	Net national product[a]			Gross fixed investment[b]			Retail sales		
	1955	1956	1957	1955	1956	1957	1955	1956	1957
Bulgaria	110	105	108	109	101	82	112	115	110
China, mainland	107	112	105	115	163	89	102	119	109
Czechoslovakia	109	105	107	109	122	108	110	109	108
Eastern Germany[c]	105	103	107	111	131	109	106	104	107
Hungary	109	89	110[d]	95	89	85	105	111	105
Poland	108	108	107	104	103	104	111	115	114
Romania	...	...	...	111	112	91	110	113	114
USSR	112	112	106	110	117	112	105	109	114

Source: Statistical yearbooks; reports on fulfilment of plans; *Hsin Hua Semi-monthly*.

[a] For China, mainland: net value of industrial and agricultural output estimated on the basis of gross value data adjusted by the 1956 ratio of net output to gross output for each component.

[b] Bulgaria: centrally controlled investment only; Romania: State and co-operative sector; USSR: State and co-operative sector exclusive of co-operative farms. For all the other countries, total fixed investment.

[c] All data in current prices.

[d] Estimated: see footnote 18 to this chapter.

during the preceding year, it was the substantial rise in agricultural output in 1957—following the 1956 decline—that was chiefly responsible for the accelerated growth of national product. Similarly, in Romania the recovery of agricultural production from its fall in 1956 seems to have offset the effect of the deceleration in the rate of growth of industry and to have raised the rate of expansion of national product above that achieved in 1956. Even in Eastern Germany, where the rate of growth of national product more than doubled, the increase in agricultural output was of decisive influence.

A significant feature of the economic situation in 1957 was a general slowing down in investment activities as compared with 1956. Poland was the only country where gross fixed investment increased at a slightly higher rate than during the preceding year. In the Soviet Union the rate of increase fell from 17 per cent in 1956 to 12 per cent in 1957 and in Czechoslovakia and Eastern Germany the deceleration was much sharper, the decline being from 22 and 31 per cent respectively in 1956, to 8 and 9 per cent in 1957. In all other centrally planned economies, State fixed investment declined in absolute terms. The most significant change took place in mainland China where the 63 per cent increase in 1956 was followed by an 11 per cent decline in 1957. In Bulgaria, Hungary and Romania, investment fell by 18, 15 and 9 per cent respectively. In Hungary this was the third year of decline and it exceeded the percentage reductions of the two preceding years. It should be added that the plans for 1957 in all centrally planned economies provided for a slowing down of the rate of increase or for an absolute decline in State expenditure on fixed investment. In Hungary, the actual decline in State fixed investment was in fact smaller than planned. In Bulgaria, the absolute decline and in Czechoslovakia and Eastern Germany the deceleration in the rate of increase were greater than planned. In the Soviet Union and Poland the actual rate of increase exceeded the planned rate.

The available information on the distribution of State investment by sectors indicates that the share of total investment allocated to industry generally increased, but that it fell in Hungary (see table 107). The share of State investment devoted to agriculture declined in Bulgaria, Hungary and Poland. In the two latter countries this decline reflected—at least in part—the reduction of the State and collective farm sector in agriculture and a greater reliance on private farming. Private investment in agriculture, partly financed by State credits, increased substantially in these two countries. In the Soviet Union the investment of collective farms increased much less than State investment and its share in total investment seems to have declined for the second consecutive year. The share of State investment in housing increased in several countries of the group, especially in Poland, Hungary and the Soviet Union. In addition, private investment in housing rose considerably in several countries.

Table 107. Changes in the Allocation of State Fixed Investment, Selected Countries

(Percentage of total)

Country and year	Industry	Agriculture	Transport and communications	Housing
Bulgaria				
1955	54	14	10	...
1956	54	16	10	...
1957	62	10	11	...
Czechoslovakia				
1955	47	8	13	16
1956	49	8	12	14
1957	52	8	12	14
Eastern Germany				
1955	46	...	...	...
1956	51	...	...	...
1957	53	...	...	...
Hungary				
1955	42	24	9	10
1956	47	16	9	12
1957	42	9	6	22
Poland				
1955	45	10	11	13
1956	46	11	10	13
1957	47	10	10	16

Source: Statistical yearbooks and reports on fulfilment of plans.

The rates of increase in retail sales were higher than planned in almost all centrally planned economies, but only in a few instances, notably in Eastern Germany and the Soviet Union, were they above the rates achieved in 1956. In mainland China there was a very sharp decline in the rate of growth of retail sales from 20 per cent in 1956 to 9 per cent in 1957.

The foregoing review of changes in national product, fixed investment and retail sales does not by itself yield any conclusive information on the changes in the overall allocation of resources between end uses because it does not take account of changes in peasants' consumption out of their own output, changes in inventories or changes in foreign trade. Although, for most countries of the group, data on the allocation of national product are not available for 1957, the existing qualitative information and quantitative data on specific components of national expenditure, together with the indices reproduced in table 106, provide some broad indications of the changes which occurred.

The most striking change in the allocation of resources took place in the Soviet Union, signifying a reversal of the pattern of the two preceding years. In 1955 and 1956 fixed investment rose more than national product and retail sales rose less, indicating a shift in the allocation of resources away from personal consumption. In 1957, however, national product rose

by 6 per cent while retail sales increased by 14 per cent. Although State fixed investment increased by 12 per cent, the effect of this increase on the share of total net investment in national product seems to have been largely offset by the decumulation of agricultural stocks that had been built up in 1956 but were reduced in 1957 as a result of the poor harvest. The rise in the share of consumption in national product was only partly due to a smaller than anticipated rise in national product; in fact, retail sales and probably total consumption increased more than planned.[16]

In Poland and Hungary, the changes in the allocation of resources were significantly influenced by the emergence of very large import surpluses and by the urgent need to replenish the stocks which, in 1956, had fallen relatively to national product in Poland and had declined sharply in absolute terms in Hungary. In Poland the situation was characterized by a simultaneous increase in total investment and in consumption relative to national product. This unusual pattern of change reflected a very steep increase in net imports which, as shown in the table below, rose by 15 billion zlotys, an amount which corresponded to almost 6 per cent of the national product of 1956.

	1955	1956	1957	1957 (1956=100)
	(Billions of zlotys; 1956 prices)			
National product	237	257	276	107
Consumption	184	203	227	112
Personal	171	189	212	112
Social	13	13	15	112
Accumulation	53	51	61	119
Fixed investment	36	37	39	106
Changes in inventories	16	14	22	152
Net foreign trade balance[a]	...	+3	−12	—

Source: Report on fulfilment of plan and *Rocznik Statystyczny* (Warsaw, 1957).

[a] This item includes also inventory losses incurred in storage, transportation and others.

It was this increase in net imports which made it possible to raise consumption by 24 billion zlotys and accumulation by 10 billion while national product increased by only 19 billion zlotys. Personal consumption rose by 12 per cent and its share in national product increased from 70 per cent in 1955 and 74 per cent in 1956 to 77 per cent in 1957.[17] Net fixed investment rose somewhat less than national product but the net increase in inventories, which was reduced in 1956, rose in 1957 by more than 50 per cent, thus raising the total accumulation by 19 per cent and its share in national product to 22 per cent as against 20 per cent in 1956.

In Hungary, the pattern of change in the allocation of national resources was in some respects similar to that in Poland. As in the latter country, total expenditure increased more than national product; the rise in the share of accumulation in national product was the result of a steep increase in inventories, and the net import balance increased considerably in relation to national product. But apart from these similarities, there were considerable differences between the changes in the two countries during 1957. National product in Hungary increased by about 10 per cent, but personal consumption rose by only about 6 per cent, and consequently, its share in national product declined.[18] The very sharp increase in net imports in Hungary was entirely absorbed by the exceptionally large increase in accumulation which rose about four times over 1956. Net fixed investment declined considerably in 1957 and the rise in accumulation was exclusively due to the replenishment of inventories which had declined sharply in absolute terms during 1956. In fact, the ratio of inventory accumulation to national product seems to have been higher in 1957 than in 1955, probably as a result of an increase in agricultural stocks based upon a better harvest. In this connexion it should be recalled that the rise in the share of personal consumption in national product in 1956 largely reflected a decline in output and was made possible only by decumulation of stocks. In 1957, on the other hand, the rise in consumption was associated with an increase in total output and with the accumulation of stocks. Even though the share of consumption in national product was lower than in 1956, it was still considerably above that of 1955.

The changes in the allocation of resources in other countries of the group are more difficult to assess, owing to lack of adequate information on the movements of various components of national expenditure. In Czecho-

[16] Retail sales increased by 14 per cent instead of a planned 10 per cent.

[17] The share of social consumption increased slightly and was about 5 per cent of national product in 1957.

[18] The changes in the allocation of national product are shown by the following indices (expressed in constant prices):

	1955	1956	1957
	(National product in 1955 = 100)		
National product	100	89	98
Consumption	79	84	86
Personal	69	75	79
Accumulation	20	4	16
Change in inventories	+10	−7	+10
Net foreign trade balance	+2	+2	−4

Indices for 1955 and 1956 are based on official statistics given in *Nepgazdasagi Merlegek, Realjovedelmek* (Budapest, 1956). Indices for 1957 are very rough estimates and may contain a substantial margin of error; they should therefore be considered only as providing a general indication of the direction and the magnitude of change. National product in 1957 was estimated from data on industrial and agricultural production and on statistics of gross national output in current prices given in the reply of the Government of Hungary to the United Nations questionnaire of November 1957 on economic trends, problems and policies, 1957-1958. Data on changes in inventories were drawn from the same source. Consumption was estimated from data on retail sales and the net foreign balance from trade statistics in foreign trade prices which were adjusted to domestic prices. The data on changes in inventories refer to stocks of goods and exclude the increase in unfinished construction usually included in this component in Hungarian statistics. The adjustment was made in order to render the 1957 data comparable with the statistics for the preceding year. Net foreign balance includes losses incurred in storage, transportation and others, which in 1956 were considerable, because of destruction of stocks during the October uprising. The sum of components does not add to the total because of rounding. All data were adjusted for price changes.

slovakia, the official index of personal consumption indicates a 7 per cent per annum increase in both 1956 and 1957. Comparison of these data with indices of national product—which rose by 5 and 7 per cent respectively in these two years—indicates that whereas in 1956 the share of consumption in national product increased, there was no further change in the allocation of resources in 1957.

In Eastern Germany during 1957 national product and retail sales increased by about 7 per cent and gross fixed investment by 9 per cent.[19] At the same time the export surplus increased substantially. In addition, there appears to have been an increase in the ratio of stock formation as a result of the considerable increase in agricultural production, which in 1956 had remained almost unchanged. Although no definite conclusion can be derived from this information, it seems that the share of consumption in national product either remained unchanged or was somewhat lower than in 1956.

In Bulgaria, the data in table 106 would appear to suggest an increase in the share of consumption in national product, and a reported decline in the export surplus points in the same direction. However, while centrally allocated investment declined, investment in private housing rose by about 20 per cent and investment of the collective farms probably also increased.[20] But the main factor which tended to offset the effect of the fall in State fixed investment was the increase in agricultural stocks that followed an 8 per cent rise in agricultural production in 1957, compared with a 7 per cent decline in 1956. For lack of data, the total effect of all these changes cannot be assessed with any degree of precision. However, according to an official statement, the share of accumulation was equal to 15 per cent of national product in 1957.[21] Since in 1956 accumulation represented 14 per cent of national product, this would indicate that either the share of consumption declined in 1957 or remained at its 1956 level.[22]

In Romania, as in Bulgaria, the effect of the decline in State fixed investment was at least partly offset by a rise in agricultural stocks that ensued from an increase in agricultural output in 1957 as against a decline in 1956. However, the rise in peasants' consumption out of their own output resulting from the elimination of compulsory deliveries seems to indicate that the effect of the 14 per cent increase in retail sales was not offset by countervailing changes; and it is, therefore, probable that the share of consumption in national product increased in 1957.

[19] All data in current prices.

[20] Centralized investment represented about 75 per cent of total fixed investment in 1956.

[21] Report on fulfilment of the five-year plan, 1953-1957, *Otechestven Front* (Sofia), 16 March 1958.

[22] The data on the share of accumulation in 1957 are derived from the report on the fulfilment of the plan and the data for 1956 from the statistical yearbook of Bulgaria. It is not certain whether they are expressed in the same prices and to what extent the difference may be due to rounding.

In mainland China also, State fixed investment fell while retail sales rose more than national product. This would appear to suggest a shift in the allocation of resources towards consumption, but since the share of retail sales in total consumption is relatively small, the increase of 9 per cent in retail sales may have been associated with a much smaller increase in total consumption. In addition, no information is available for 1957 on non-centralized fixed investment and on changes in inventories. Since State fixed investment rose by 62 per cent in 1956 but declined in 1957, however, the shift towards accumulation, if any, was probably much less significant than in 1956; in that year, the share of accumulation had risen to about 23 per cent of national product as compared with about 20 per cent in 1955.

These shifts in the allocation of resources were not the only determinants of changes in the balance between supply and demand for consumer goods. The supply-demand situation was even more influenced in several countries by changes in money incomes in relation to output. In fact, the effect of measures adopted at the end of 1956 and in the course of 1957 was generally to increase income payments to the population substantially. In some countries the effect of this redistribution of income in favour of consumers on the pressure of demand was offset by a commensurate rise in supply, but in others, supply did not increase sufficiently to maintain the balance. Money income of the population seems to have increased more than output in all countries of the group except Czechoslovakia. In some countries this rise was due to considerable increases in money wage rates, which exceeded those of output per man by substantial margins. In several countries, peasants' incomes rose sharply because of the reduction or complete elimination of compulsory deliveries and an increase in prices paid to the peasants. In almost all countries, pensions and other transfer payments were substantially increased and, together with some reductions in income taxes and in subscriptions to the State loans, contributed significantly to the rise in disposable money incomes.

Average worker's earnings increased less than output per man only in Czechoslovakia and Eastern Germany (see table 108). Among other countries the greatest increases in wage earnings per worker in relation to output took place in Hungary and in Poland—two countries where peasants' incomes also rose much faster than output.

The effect of these changes on the balance between supply and demand varied from country to country according to each country's ability to raise the supply of consumer goods sufficiently through an increase in output of consumer goods, withdrawals from stocks or increased imports. Although for several countries the available information is scarce, it seems that only in Czechoslovakia and the Soviet Union was the rise

Table 108. Indices of Output per Man, Money and Real Wages in Industry[a]

(Preceding year = 100)

	Gross output per man	Wages		Gross output per man	Wages		Gross output per man	Wages	
		Money	Real		Money	Real		Money	Real
	1955			1956			1957		
Bulgaria	104.6	105.0	111.4	107.0	102.0	110.9	99.8	104.8	104.0
China, mainland	109.6	103.9	102.5	120.0	113.5	113.2	...	104.0	...
Czechoslovakia	107.9	101.2	103.9[b]	106.8	102.8	105.7[b]	105.9	100.4	102.4
Eastern Germany[c]	107.5	103.1	105.9	110.5	103.3	103.7	105.0	104.0	104.0
Hungary[d]	106.1	104.7	105.6	89.8	105.0	107.2	110.6	121.0	115.0
Poland[c]	106.5	103.9	106.5	104.6	110.7	111.8	106.0	116.4	111.0
Romania	109.3	108.5	...	108.7	109.3	112.2	108.3	110.0	110.0
USSR	108.0	103.0	103.0	107.0	103.0	104.0	106.5	107.0	107.0

Source: Reports on fulfilment of plans, statistical yearbooks, *Statisticheski Izvestia*, No. 1, 1958, *Hsin Hua Semi-monthly;* and sources for table 41, chapter 3.

[a] For Poland, Romania and the USSR wages represent averages for the entire economy. Real wages were either derived directly from national statistics or obtained by the use of cost of living indices. For Bulgaria the index of retail prices in State and co-operative trade was used.

[b] The data differ somewhat from those in table 41, chapter 3, which for reasons stated in the source to that table were based on cost of living in April of each year.

[c] Wage and salary earners.

[d] Industry under the jurisdiction of central ministries only.

Table 109. Indices of Money Incomes of the Population, Retail Sales and Prices, 1956–1957

(Preceding year = 100)

Country and year	Total money income[a]	Wage bill[b]	Peasants'[a] money income	Volume of retail sales	Value of retail sales	Implied price index	Retail sales[c] (billions of national currency units, in current prices)
Bulgaria							
1956	106.0	105.9	...	114.5	105.4	92.8	15.2
1957	110.6	110.6	...	109.3	110.2	100.8	16.7
Czechoslovakia							
1956	106.4	106.8	...	109.3	106.7	97.6	84.8
1957	107.2	105.4	...	107.9	105.0	97.3	89.0
Eastern Germany							
1956	...	102.6	...	103.8	103.5	99.7	32.6
1957	...	105.7	...	106.7	106.7	100.0	34.8
Hungary							
1956	108.8	108.8	100.8	111.3	109.7	98.6	48.3
1957	116.2	113.7	126.8	105.0[d]	109.4	104.2[e]	52.8
Poland							
1956	118.1	115.6	116.8	115.2	115.1	99.9	147.7
1957	121.0	119.6	123.0	114.5	121.9	106.4	180.1
Romania							
1956	...	...	...	113.0	110.1	97.4	30.6
1957	...	...	...	113.9	113.9	100.0	34.8
USSR							
1956	...	107.0	...	108.8	108.8	100.0	540.8
1957	...	111.0	106.0	114	114	100.0	616.5

Source: Reports on fulfilment of plans, statistical yearbooks, data communicated to the Secretariat by Governments; *Statisztikai Havi Közlemenyek*, No. 12, 1957; *Statisticheski Izvestia*, No. 1, 1958; *Statisticki Obzor*, No. 2, 1958 (Prague), and United Nations, *Economic Survey of Europe in 1957.*

[a] For Czechoslovakia total money income, for other countries income payments from the State funds.

[b] Increases in the wage bill for Bulgaria and the Soviet Union based on indices of employment and of average money wages.

[c] Data on retail sales do not include sales on farm markets. For the Soviet Union they do not include commission sales and for Romania and Poland private urban trade, which in the latter country amounted in 1957 to about 7 billion zlotys.

[d] The volume of retail sales was obtained by deflating the value of sales by the index of cost of living.

[e] Cost of living index as implied in data on money and real wages given in the report on the fulfilment of the plan for 1957.

in supply sufficient to meet the expanding demand (see table 109). In Poland and Hungary the pressure of demand upon supply increased appreciably. To a much lesser extent, this also appears to have been true of Eastern Germany and Romania. Savings deposits increased in several countries but their effect on the supply-demand situation cannot be assessed since in some countries they reflected to a greater or lesser extent a shift from cash hoarding to deposits rather than an increase in total personal savings. Although changes in savings and taxation and in some cases an increase in investment financed out of private incomes might have some effect on the share of gross money incomes of the population devoted to consumption, it seems that in general the increase of demand corresponded approximately to the rise in money payments to the population out of State funds.

In the Soviet Union the rise in demand was influenced on the one hand by the increase in the wage bill and in peasants' incomes from sales, and on the other hand, by a very steep increase in pensions and a reduction in loan subscription and taxes. Whereas in 1955 and in 1956 the money income of the population seems to have increased less than national product, in 1957 the reverse was true. The wage bill rose by 11 per cent, mainly owing to a 7 per cent increase in earnings per worker, and peasants' money earnings increased by some 6 per cent; the aggregate increase of money incomes from these sources was of the order of 10 per cent. In addition, the rise in disposable income was considerably accelerated by an increase in pensions from 36.5 billion roubles in 1956 to 57.9 billion in 1957, by a decline in subscriptions to the State loan by 14.4 billion, and by a tax reduction of about 2.5 billion. The effect of these changes was partly offset by a decline in the redemption of State loans and loan services owing to the twenty-year moratorium announced in April 1957; but even allowing for this, the rise in disposable income due to the above changes in pensions and taxation seems to have amounted to some 30 billion roubles, a sum which corresponded to about 40 per cent of the increment in retail sales in State and co-operative trade in 1957. While the data used for the estimates given above disregard the changes in other revenue and expenditure of the population, it appears that the other changes had no countervailing influence on demand. In fact, the net increment to incomes originating in higher pensions and in the decline in loan subscriptions accounts largely for the difference between the rise in the wage bill and money incomes of the peasants on the one hand, and the much greater increase in State and co-operative retail sales on the other. The effect of the rise in savings deposits which in 1956 increased by 10 billion roubles and in 1957 by 16.8 billion, seems to have been offset by changes in other components of money income and outlays of the population. It should be added that the rise in total payments to the population out of State funds considerably exceeded the planned rates with respect to the wage bill and especially with respect to pensions.[23] However, the existence of stocks of consumer goods, together with an increase in output in excess of that planned, made it possible to raise the supply by 14 per cent instead of the planned 10 per cent. This was about 21 billion roubles more than planned; as a consequence the balance between demand and supply was maintained.

Czechoslovakia was the only country in the group where the supply-demand situation improved sufficiently to enable the Government to reduce prices of consumer goods. This change took place despite the fact that the share of consumption in national product remained unchanged. Income of the population in fact increased less than national product mainly because earnings per worker increased by less than 2 per cent while output per man increased by almost 6 per cent during the year. The rise in pensions, transfers and other income payments substantially exceeded the increase in the wage bill, which amounted to some 5 per cent. Total money income of the population both before and after taxes rose by some 7 per cent while the volume of retail sales increased by about 8 per cent. Retail prices declined by almost 3 per cent.

In Bulgaria, money payments, which in 1956 had increased less than retail sales, rose more than sales in 1957. Retail prices increased somewhat in 1957 whereas during the preceding year they had declined substantially. Similarly, in Romania, money incomes seem to have increased more than retail sales in 1957.[24] An important factor underlying these increases was the almost complete elimination of compulsory deliveries which resulted in a substantial rise in peasants' income from sales. As a consequence, at least during part of the year, shortages of several consumer goods became apparent.

Little information is available on changes in the demand-supply situation in mainland China. The pressure of demand upon supply which developed during 1955 and 1956 was at least partly the result of the fact that the wage bill increased at a higher rate than retail sales. The plan for 1957 provided for a 2 per cent increase in total purchasing power of the popu-

[23] According to the Minister of Finance of the USSR, Mr. Zverev, "The additional expenses connected with the introduction of the new law on pensions were higher than planned. This was due to the fact that the actual number of pensioners and the average level of pensions proved to be higher than was assumed in the calculations for the setting up of the budget." *Zasedenia Verkhovnogo Soveta SSSR* (Devyataya Sessia) (Moscow, 1958).

[24] No data are available on the total income of the population in Romania. According to a statement by the Prime Minister, Mr. Stoica, money payments inclusive of wages, pensions and peasants' money receipts increased in 1957 by 4.8 billion lei, corresponding to about 16 per cent of the value of retail sales in 1956. Retail sales in State and co-operative trade increased from 30.8 billion lei in 1956 to 34.8 billion lei in 1957, that is, by 13 per cent.

lation and a 9 per cent increase in retail sales. This rise in supply in relation to incomes was not, however, considered sufficient to eliminate entirely the gap between effective demand and supply of consumer goods. In 1957 the wage bill appears to have increased in line with retail sales but the lack of data on changes in other income payments precludes any definite conclusion with respect to the over-all change in the balance between supply and demand. It may be noted, however, that several commodities such as food grains, edible oil and cotton cloth continued to be in short supply and rationing of these products was retained in 1957.

In Eastern Germany, the demand for consumer goods was influenced in 1957 by an increase in income payments to the population of 3.6 billion marks.[25] It is not known what proportion this increase bears to the level of income payments in 1956; the increase represented about 11 per cent of the value of retail sales in 1956, however, and retail sales in 1957 increased by about 7 per cent. By contrast, in 1956 the increment in income payments was approximately equal to the increment in value of retail sales. The difference between the changes in income payments and in supply during these two years indicates an increase in demand in relation to supply of consumer goods in 1957. This was reflected in increased shortages of industrially produced consumer goods and in some hidden price increases; the latter occurred through the withdrawal of lower priced goods from trade, through deteriorations in quality and through rebranding of less expensive goods for sale at higher prices. In these circumstances, the monetary reform of October 1957 tended to exert a moderating influence upon the pressure of demand, although, according to official statements, the primary purpose of the reform was to eliminate speculation and the smuggling of goods between Eastern Germany and the Federal Republic of Germany.

The reform required the exchange of the old currency into new marks at par, provided that the holders of cash could prove that their holdings were not derived from illicit operations. At the same time, however, all cash in excess of 300 marks had to be deposited in savings banks in freely disposable accounts. The immediate effect of the reform was a sharp decline in the notes in circulation. Whereas in 1955 and 1956 the note circulation had remained roughly stable, it fell from 5.7 billion marks to 3.5 billion between September and December 1957. Only a relatively small proportion of cash was cancelled—estimated at some 600 million marks—the largest part being converted into savings deposits which increased during the same period by 2.5 billion marks. It seems, therefore, that in addition to the cancellation of a part of the cash held by the population within the country or abroad, another result of the reform was a sharp, although probably only temporary, increase in savings deposits. While part of this increase simply represented a compulsory shift from private hoards to savings deposits, it is probable that its effect was to discourage or slow down the withdrawal of money for consumption or speculative purposes, thus relieving the pressure of demand upon supply.

Hungary and Poland were the two countries of the group where the pressure of demand upon supply increased substantially in 1957. In Hungary the share of consumption in national product declined and in Poland it increased substantially, but in both countries money income of the population rose much more than national product and the supply of consumer goods. In Hungary, the volume of retail sales rose during the year by some 5 per cent while money income of the population increased by about 16 per cent as a result of a 13 per cent increase in the wage bill and a 27 per cent rise in money payments to the peasants. In Poland, where the volume of retail sales increased by 14 per cent, the wage bill rose by about 20 per cent, peasants' incomes by 23 per cent and total disposable income of the population by 21 per cent. The increases both in peasants' incomes and in wages substantially exceeded the rise in productivity; in Poland, average workers' earnings increased by 16 per cent, whereas output per man rose by only 6 per cent, and in Hungary the respective rates were 21 and 11 per cent. In both countries the rise in the wage bill considerably exceeded the planned increases, in part because the effect of the revision of wage scales was not correctly estimated, but also because of workers' pressure for wage increases. Peasants' incomes rose substantially because of both the elimination of compulsory deliveries in Hungary and a sharp reduction in delivery quotas in Poland, and because of an increase in prices paid to peasants in both countries. In Poland, peasants' incomes increased more than anticipated, partly because the reduced delivery quotas were not met and the State had to purchase a larger proportion of agricultural produce at free prices that were considerably higher than the prices paid for compulsory deliveries. However, not all of the increment in money of the population was used for purchases of consumer goods. In both countries, peasants' investment increased and saving deposits rose substantially, although part of the increase may not have represented a rise in total savings but only a fall in cash holdings. Furthermore, in both countries part of the losses incurred by the Government through the increase in payments for agricultural purchases were recovered through price increases for some investment goods purchased by the peasants. Thus, in Poland it was estimated that out of the 9.6 billion zlotys representing the increment of peasants' income in 1957, 5 billion were recovered through price increases of goods sold by the State to the rural population.

In both countries the rise in the pressure of demand resulted in an increase in cost of living of about 5 per-

[25] Of which 1.15 billion represented pension payments and 1.5 billion wage payments.

cent.[26] In Poland, prices of consumer goods in State and co-operative trade increased by less, and prices in private trade by much more, than the average. As in 1956, the discrepancy between these prices resulted in an increase in speculative purchases from State trading agencies for resale at higher prices. Several goods, including some food, durables and semi-durables, were in short supply.[27] In Hungary, State prices of consumer durables and of agricultural implements, as well as prices in restaurants and factory canteens, were raised in May 1957 and were soon followed by increases in tuition fees and entertainment prices. Despite the rise in the cost of living, real wages increased in 1957 in both countries, by 12 per cent in Poland and by 14 to 16 per cent in Hungary.

PLANS FOR 1958

In all the centrally planned economies, except mainland China, the plans for 1958 provide for a deceleration in growth of industrial production, although the rates set for 1958 are higher than the rates planned for 1957. The exceptionally sharp deceleration planned by Hungary, from 17 per cent in 1957 to 7 per cent in 1958, obviously reflects the transition from the period of recovery to an actual expansion of output (see table 110).

Output of producer goods is planned to increase at a somewhat higher rate than that of consumer goods in most countries. In mainland China, the target set for producer goods is considerably higher than that for consumer goods. In Poland, however, output of consumer goods is planned to increase at a higher rate than that of producer goods. Within the producer goods sector significant changes in the relative rates of increase for various industries are planned in the Soviet Union, where mining and chemicals industries are given the highest priority. In particular, a considerable acceleration is planned for the production of plastics, artificial fibres, natural gas and minerals in conformity with the newly elaborated plans for 1959-1965, which place special emphasis on the development of these industries.

Agricultural production is planned to increase at a higher rate than in 1957 in Bulgaria and mainland China, at about the same rate in Poland and at a much reduced rate in Hungary. In Czechoslovakia and the Soviet Union, where agricultural output fell in 1957, the plan for 1958 provides for increases of 11 and 17 per cent respectively. Except for these two countries the rates of increase planned for agricultural production are substantially below those planned for industry.

Table 110. Planned Targets for 1958
(1957 = 100)

Item	*Bulgaria*	*China mainland*	*Czecho-slovakia*	*Eastern Germany*	*Hungary*	*Poland*	*Romania*	*USSR*
Net national product	109	...	109	...	104	106	...	108
Gross fixed investment	115[a]	118	111[b]	113	108	107	98	107
Retail sales	110	107	104	106	106	108	...	107
Personal consumption	...	...	105	...	105	106	...	...
Industrial production	111	115[c]	108	107	107[d]	107	108	108
Producer goods	112	119	108	107	...	106	...	108
Consumer goods	111	110	108	107	...	108	...	106
Industrial employment	104	...	103	...	...	103	...	102
Output per man in industry	107	...	105	106	106	103	...	105
Agricultural production	109	106	112	...	105	104	...	117
Money income of the population	108	104	105	...	...	107	...	...

Source: Plans for 1958, data communicated to the Secretariat by the Governments, and *Hsin Hua Semi-monthly*.

[a] Centrally controlled investment only.

[b] State only.

[c] According to information available in April, the planned target for total industrial production for 1958 has been revised upward to 133.

[d] Industry under jurisdiction of central ministries.

National product is planned to increase at an accelerated rate in Bulgaria, Czechoslovakia, the Soviet Union and mainland China and at a slower rate than in 1957 in the other countries. In the first three countries the increase in the planned rate of growth is chiefly accounted for by anticipated increases in agricultural production, while in mainland China the main factor of acceleration is the stepping up of industrial production. In most countries where the over-all rate of expansion is planned to be lower than last year, the deceleration reflects the slowing down of expansion in both industry and agriculture. An exception is Poland where agricultural output is scheduled to rise at the same rate as in 1957.

State fixed investment, which in 1957 either declined or increased at a slower rate than in 1956, is planned to increase at an accelerated rate in most countries. Thus, Bulgaria, mainland China and Hungary, which

[26] For Hungary this is implied in the statement in the report on fulfilment of the plan for 1957 indicating a 20 per cent increase in money wages and a 14 to 16 per cent increase in real wages.

[27] In Poland, food prices in State trade rose by 2 per cent and prices of investment goods sold to peasants through the retail trade network rose by 10 per cent. The index of retail prices implied in the trade figures in current and constant prices increased by more than 7 per cent.

in 1957 reduced their investment by 15, 18 and 8 per cent respectively, plan to increase it by 18, 11 and 15 per cent in 1958. In Czechoslovakia, Eastern Germany and Poland fixed investment is scheduled to increase at faster rates than last year.[28] Only Romania plans a further slight reduction in fixed investment in 1957, and in the Soviet Union a fall in the rate of increase in State fixed investment from 12 per cent in 1957 to 7 per cent in 1958 is projected.

The effect of these changes on total investment may be considerably altered by changes in the rate of stock formation. In Poland, the net increase in inventories is planned to be much smaller than in 1957 and total accumulation is accordingly scheduled to increase by only 3 per cent. In Hungary no significant increase in inventories is anticipated and therefore total accumulation may increase much less than in 1957, or even decline.[29] In the other countries, where the rise in agricultural production resulted in a substantial increase in inventory accumulation during 1957, no such increase can be anticipated for 1958 and therefore the decline in the rate of stock formation may also result in a much smaller increase in total than in fixed investment.[30] In the Soviet Union, on the other hand, a considerable decumulation of stock seems to have occurred in 1957 and if the expectation of a sharp rise in agricultural output materializes, stock formation may increase substantially, raising the rate of increase in total accumulation above the rate scheduled for fixed investment.

An important feature of the 1958 plans is that, except in mainland China and perhaps Romania, the planned rate of increase in money payments to the population from centralized State funds is much smaller than that realized in 1957. Retail sales are planned to increase at a higher rate than in 1957 only in Bulgaria and Hungary. But in all countries except Czechoslovakia the planned rate of increase in retail sales is higher than that of money incomes. This seems to indicate that the plans are intended to reduce the pressure of demand upon supply in most countries of the group. In mainland China, which has announced estimates of total "purchasing power" and of the supply of consumer goods, the plan for 1958 provides for an increase in supply in relation to demand at a rate designed to be sufficiently high to eliminate the inflationary gap which developed during recent years.[31] However, in Hungary and Poland, where, despite the rise in prices, the balance between demand and supply remained precarious in 1957, the increase in supply in relation to money incomes may not be sufficient to eliminate shortages.

Foreign Trade

The total foreign trade of the centrally planned economies increased at a higher rate than their production. Whereas aggregate output increased by no more than 7 per cent and industrial production by some 9 per cent in 1957, the value of foreign trade increased by 12 per cent; this compares with a rise of 8 per cent in 1956 (see table 111). The acceleration in the growth of foreign trade was most significant in Eastern Germany where the rate of increase was twice as high as during the preceding year. For Hungary and Romania, whose total trade turnover declined in 1956, the rates of increase achieved in 1957 were 21 and 7 per cent respectively. The very high rates of expansion achieved by Czechoslovakia and Bulgaria in 1956 were not maintained in 1957, although the latter country increased its trade by 20 per cent. The only country where the value of foreign trade seems to have declined in 1957 was mainland China. A significant feature of these developments was the fact that in most of the centrally planned economies the expansion of total trade turnover was mainly due to a considerable increase in imports (see table 112). Thus, the 21 per cent increase in the trade of Hungary was entirely the result of a 43 per cent increase in imports, exports having remained practically unchanged. A similar change took place in Poland where the 11 per cent increase in total trade was due to a 22 per cent increase in imports; exports, in fact, declined slightly. Exports increased by 11 per cent in Bulgaria and declined somewhat in Czechoslovakia. Imports, however, increased substantially in both countries, the increases amounting to 33 and 17 per cent respectively. Only in Easter Germany did exports increase much more than imports. In mainland China, which was the only country that planned and achieved a reduction in both imports and exports, the latter fell less than the former. This disparity between changes in exports and imports resulted in a deterioration in the trade balances of several countries. In Poland and Hungary, the import surpluses amounted to 12 and 14 per cent respectively of total turnover in 1957, whereas in 1956, Poland had an import surplus of about 2 per cent and Hungary an export surplus of 3 per cent. In Czechoslovakia an export surplus corresponding to 8 per cent of total turnover in 1956 gave way to a deficit of about one per cent in 1957, and in Bulgaria the export surplus fell from 15 per cent in 1956 to 6 per cent in 1957. By contrast, in Eastern Germany and mainland China net exports increased

[28] In 1958, Czechoslovakia by 11 per cent, Eastern Germany by 13 per cent and Poland by 7 per cent; the respective rates in 1957 being 8, 9 and 4 per cent.

[29] In 1957 inventories increased by 13 billion forints in current prices and planned inventory accumulation for 1958 seems to represent only a fraction of that amount. Fixed investment is scheduled to increase in 1958 by 950 billion forints.

[30] This may not hold for Czechoslovakia, where agricultural output declined in 1957.

[31] The plan for 1957 estimated the purchasing power at 47.3 billion yuan and the supply of consumer goods at 46.3; the planned figures for 1958 were: purchasing power, 49.4 billion yuan and supply of consumer goods, 50 billion yuan.

Table 111. Indices of Trade Turnover,[a] and the Value of Trade, by Country

(Preceding year = 100)

Country	1955	1956	1957	1957 Value of trade (millions of roubles)[b]
Bulgaria	99	139	120	2,835
Czechoslovakia	116	115	107	11,049
Eastern Germany	103	112	125[c]	13,698[c]
Hungary	110	84	121	4,634
Poland[d]	104	109	111	8,906
Romania[e]	113	96	107[c]	3,197[c]
USSR	104	112	113	33,000
Total, above countries	106	109	114	77,319
China, mainland	130	99	92[f]	10,358[f]

Source: Statistical yearbooks; reports on fulfilment of plans; *Statisticheski Izvestia*, No. 1, 1958; *Statisticke Zpravy*, No. 2, 1958 (Prague); *Statisztikai Havi Kozlemenyek*, No. 12, 1957; *Dostizhenia Sovetskoy Vlasti za 40 Let v Tsifrakh*, 1957 (Moscow); and United Nations, *Economic Survey of Asia and the Far East, 1957* (sales number: 58.II.F.1).

[a] Exports plus imports. The indices for 1955 and 1956 differ from those in the *World Economic Survey, 1956* because of revision of data.

[b] Converted into roubles at official rates of exchange.

[c] Estimate based on data for 1956 and the percentage increases in 1957, as indicated in the reports on fulfilment of plans.

[d] Data for 1956 and 1957, inclusive of "internal export", which in 1956 amounted to about 40 million roubles.

[e] Data for 1955 and 1956, estimated by the secretariat of the Economic Commission for Europe in *Economic Survey of Europe in 1957*.

[f] Ten months. The total trade of mainland China was planned at 9.96 billion yuan for 1957. It was officially stated that this target was fulfilled during the first ten months of the year. The conversion into roubles was made at the rate derived from the following data. According to *Ta Kung Pao* (Peking), 1 January, 1958: total trade of mainland China with the Soviet Union amounted in 1956 to 5,989 billion roubles and represented 53 per cent of total trade of mainland China. Total trade of mainland China in 1956 was equal to 10.87 billion yuan and therefore its trade with the Soviet Union amounted to 5.76 billion yuan. The rate of exchange implied in these data is equal to 1.04 roubles to one yuan. This rate was used in this table and in table 112 for conversion purposes.

substantially both in absolute terms and in relation to the total trade turnover. The large deficits incurred by Hungary and Poland were mainly covered by credits from the Soviet Union, but also by credits from Eastern Germany and other countries; in particular, Poland also received credits from the United States.

Data on changes in the geographical distribution of trade are available for only four countries, the trade of which accounts for about 45 per cent of total trade of the centrally planned economies (see table 113).[32] These countries increased their trade with the Soviet Union much more than with the other centrally planned economies. The share of trade with the rest of the world declined sharply in Czechoslovakia and Hungary, remained unchanged in Eastern Germany and increased considerably in Poland. Poland expanded its trade with the rest of the world by 21 per cent as against a 6 per cent increase in trade with other centrally planned economies. Taken together, the four countries recorded a 17 per cent increase in their trade with other centrally planned economies, and a 13 per cent increase in their trade with the rest of the world. Despite the lack of data on the geographical distribution of trade of the other countries, certain general conclusions can be drawn from a comparison of indices of total trade of the centrally planned economies with data on east-west trade derived from the statistics of western countries, as shown in table 114. This comparison suggests that, whereas in 1956, trade of the centrally planned economies with the rest of the world increased at a much higher rate than their total trade—the respective rates

[32] For changes in geographical distribution and commodity composition of trade of the centrally planned economies between 1948 and 1956, see "Developments in the Foreign Trade of Eastern Europe and the Soviet Union" in United Nations, *Economic Survey of Europe in 1957*.

Table 112. Exports and Imports, by Country

(Millions of roubles)[a]

Country	1955	1956	1957
Bulgaria			
Exports	920	1,361	1,505
Imports	781	997	1,330
Balance	139	364	175
Czechoslovakia			
Exports	4,742	5,593	5,466
Imports	4,244	4,781	5,583
Balance	498	812	−117
Eastern Germany			
Exports	5,113	5,629	7,252[b]
Imports	4,691	5,335	6,446[b]
Balance	422	294	806
Hungary			
Exports	2,430	1,975	1,982
Imports	2,133	1,861	2,652
Balance	297	114	−670
Poland[c]			
Exports	3,654	3,939	3,900
Imports	3,727	4,087	5,006
Balance	−73	−148	−1,106
Romania[d]			
Exports	1,564	1,580	...
Imports	1,536	1,408	...
Balance	28	172	...
USSR			
Exports	13,874	14,677	...
Imports	12,242	14,452	...
Balance	1,632	225	...
China, mainland			
Exports	5,106	5,793	5,408
Imports	6,312	5,512	4,950
Balance	−1,206	281	458

Source: Statistical yearbooks; reports on fulfilment of plans; *Statisticheski Izvestia*, No. 1, 1958; *Statisticke Zpravy* No. 2, 1958; *Statisztikai Havi Kozlemenyek*, No. 12, 1957; *Biuletyn Statystyczny* No. 2, 1958; *Dostizhenia Sovetskoy Vlasti za 40 Let v Tsifrakh*, 1957.

[a] Based on data in roubles for Eastern Germany and for other countries in national currencies; conversion into roubles at official rates of exchange.

[b] Estimate based on annual percentage changes indicated in the report on the fulfilment of the 1957 plan for Eastern Germany.

[c] See footnote *d* to table 111. [d] See footnote *e* to table 111.

Table 113. Geographical Distribution of Trade of Centrally Planned Economies
(Exports plus imports in millions of roubles)

Country and year	Centrally planned economies				Rest of the world
	Total	USSR	Other eastern Europe	China and other Asia	
Czechoslovakia					
1956	6,740	3,299	2,815	626	3,634
1957	7,373	3,758	2,898	717	3,676
Eastern Germany[a]					
1956	7,996	4,505	2,707	784	2,968
1957	10,028	6,172	3,040	816	3,670
Hungary					
1956	2,304	911	1,155	238	1,532
1957	3,084	1,368	1,487	229	1,550
Poland					
1956	4,966	2,459	2,092	415	3,021
1957	5,249	2,692	2,185	372	3,657
Total of the above countries					
1956	22,006	11,174	8,769	2,063	11,155
1957	25,734	13,990	9,610	2,134	12,553
Bulgaria					
1956	1,995	1,096	841	58	363
China, mainland[b]					
1956	8,479	5,989	1,930	560	2,826
USSR					
1956	21,625	—	14,353	7,272	7,504

Source: Source for table 97, and *Vneshnyaya Torgovlya*, No. 11, 1957 (Moscow).

[a] Based on data for 1956 from the *Statistisches Jahrbuch, 1956* (Berlin), and on percentage increases of trade by areas as reported in *Neues Deutschland* (Berlin), 3 March 1958. Data for "other eastern Europe" and Asia partly estimated.

[b] Data for trade with the rest of the world based on official estimate indicating that this trade represents 25 per cent of total. Trade with "other eastern Europe" and Asia partly estimated.

being about 20 and 9 per cent[33]—in 1957, east-west trade increased by about 15 per cent whereas total trade of the centrally planned economies increased by about 12 per cent.

Though the shift in favour of east-west trade in 1957 was not of much significance, the level of this trade continued to expand at a considerably higher rate than total world trade. The increase was largely accounted for by a rise of 27 per cent in the trade of the Soviet Union with the rest of the world; the corresponding trade of other eastern European countries and of mainland China increased by only 9 per cent. For the group as a whole, exports to the rest of the world increased less than imports and the export surplus of about 160 million dollars earned in 1956 was replaced by a deficit of more than 115 million in 1957. This change in the over-all balance resulted from the emergence of a deficit of about 150 million dollars in the trade of the European centrally planned economies other than the Soviet Union—as against an export surplus of about 40 million in 1956—and from a decline in net exports of mainland China from about 165 million in 1956 to over 60 million in 1957. The deficit incurred by the European centrally planned economies was mainly accounted for by an import surplus of almost 50 million dollars in their trade with Canada and the United States and by a change in their balance with western Europe from a surplus of more than 30 million dollars in 1956 to a deficit of 90 million in 1957. The sharp decline in the export surplus of mainland China ensued mainly from a rise in net imports from western Europe to over 100 million dollars in 1957 as against less than 40 million in 1956, and from a decline in net exports to Asia and the Far East from about 190 million in 1956 to nearly 170 million in 1957.

The expansion of trade with the rest of the world in 1957 was associated with some changes in its geographical distribution. The most significant changes were the steep increase in trade with the Middle East and the sharp decline in trade with Latin America; both of these developments represented continuations of trends evident in 1956.

Trade with the Middle East, which had increased by almost 40 per cent in 1956, rose by a further 57 per cent in 1957; this raised its share of total trade between the centrally planned economies and the rest of the world from 6 per cent in 1956 to 9 per cent in 1957. Net imports of the centrally planned economies in trade with the Middle East doubled, increasing from about 40 million dollars in 1956 to about 80 million in 1957.

[33] Similar results were obtained from data derived from the statistics of the centrally planned economies for 1956.

Table 114. Trade of Centrally Planned Economies with Rest of World[a]

(Millions of dollars; f.o.b.)

Area and period	USSR		Other eastern European countries[b]		Mainland China		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Canada and United States								
1955	17.7	3.0	43.0	14.8	3.4	1.0	64.1	18.8
1956	25.7	28.7	50.2	45.0	6.0	2.5	81.9	76.2
1957	19.4	15.5	52.1	100.2	5.7	1.5	77.2	117.2
Latin America								
1955	35.7	72.6	110.6	100.7	1.7	5.9	148.0	179.2
1956	27.3	31.3	93.7	73.5	2.6	3.5	123.6	108.3
1957	4.7	57.8	56.8	54.0	0.8	0.6	62.3	112.4
Middle East								
1955	30.5	40.9	56.9	74.5	12.6	26.0	100.0	141.4
1956	38.7	35.3	78.7	123.6	28.2	28.3	145.6	187.2
1957	76.6	118.6	100.6	129.1	42.6	54.2	219.8	301.9
Western Europe[b c]								
1955	396.1	270.1	765.1	777.8	116.9	99.0	1,278.1	1,146.9
1956	443.5	429.0	905.5	872.6	144.8	182.3	1,493.8	1,483.9
1957	575.8	449.4	906.0	995.7	124.3	227.4	1,606.1	1,672.5
Finland								
1955	79.2	137.9	106.4	52.6	3.7	12.5	189.3	203.0
1956	99.6	148.5	97.6	54.5	2.3	7.5	199.5	210.5
1957	143.1	163.0	104.7	72.3	5.6	6.3	253.4	241.6
Yugoslavia								
1955	13.1	17.9	16.8	17.6	—	—	29.9	35.5
1956	64.2	42.2	31.6	31.7	3.7	4.4	99.5	78.3
1957	62.6	49.7	67.2	54.9	7.5	4.1	137.3	108.7
Asia and the Far East								
1955	24.1	29.2	49.3	67.2	293.7	160.5	367.1	256.9
1956	51.2	57.3	58.0	63.8	377.2	189.5	486.4	310.6
1957	81.9	87.0	60.2	60.5	378.7	210.9	520.8	358.4
Australia and New Zealand								
1955	2.2	6.4	9.0	44.5	5.3	6.3	16.5	57.2
1956	1.3	5.7	8.9	41.9	5.5	10.1	15.7	57.7
1957	0.6	8.3	6.9	63.8	7.0	20.5	14.5	92.6
Africa								
1955	0.6	27.9	27.1	14.9	21.4	0.2	49.1	43.0
1956	1.1	12.5	31.7	12.2	22.3	0.6	55.1	25.4
1957	1.8	42.8	32.5	9.2	16.8	0.7	51.1	52.7
Total								
1955	599.2	605.9	1,184.2	1,164.6	458.7	311.4	2,242.1	2,081.9
1956	752.6	790.6	1,355.9	1,318.8	592.6	428.7	2,701.1	2,538.1
1957	966.5	992.1	1,387.0	1,539.7	589.0	526.2	2,942.5	3,058.0

Source: United Nations, *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development; supplemented by estimates of the Bureau of Economic Affairs and of the Statistical Office of the United Nations; Statistisches Bundesamt, *Wirtschaft und Statistik*, No. 2, 1958 (Stuttgart).

[a] Data as recorded by the trading partners of the centrally planned economies.

[b] Including trade between Eastern Germany and the Federal Republic of Germany.

[c] Metropolitan countries in the Organisation for European Economic Co-operation.

It should be added that data reproduced in the table represent only commercial transactions and do not include shipments of armaments to the Middle East. A considerable part, if not all, of the net imports of the centrally planned economies with the Middle East seems to correspond to partial repayment for armaments purchases and for extinction of earlier commitments.

By contrast, trade with Latin America fell for the second consecutive year by more than 25 per cent, and the area's share of total trade between the centrally planned economies and the rest of the world thus declined to 3 per cent in 1957 compared with 4 per cent in 1956 and 7 per cent in 1955. This decline was almost entirely due to a fall of about 50 per cent in exports of the centrally planned economies, since their imports from Latin America increased slightly. The resulting import balance of the centrally planned economies as a whole, amounting to some 50 million dollars, was largely the outcome of the import balance sustained by

the Soviet Union consequent upon its purchases of sugar from Cuba.

Although western Europe retained its leading position, its share in east-west trade declined from 57 per cent in 1956 to 55 per cent in 1957, trade between western Europe and the centrally planned economies having increased by only 10 per cent in 1957 as compared with a 23 per cent increase in 1956. Since imports from western Europe increased more than exports to that area, the export surplus of 10 million dollars earned by the centrally planned economies in 1956 was replaced by an import surplus of about 65 million in 1957. This change in the balance mainly reflected the changes in the trade of mainland China and of eastern Europe exclusive of the Soviet Union that were noted above. The Soviet Union, however, increased its net exports from 15 million dollars in 1956 to 126 million in 1957.

Trade with Yugoslavia, which had increased in 1956 by about two and three-quarter times over 1955, rose by another 38 per cent in 1957. As during the preceding year, exports increased more than imports and the export surplus increased slightly. Trade of the centrally planned economies with Finland also increased more than total trade with the rest of the world.

Trade with the United States and Canada also expanded at a higher rate than the average. This was entirely as a result of an increase in imports of more

Table 115. Composition of Trade of Centrally Planned Economies with Rest of World[a]
(Millions of dollars)

Item and period[b]	USSR		Other eastern European countries		Mainland China		Total	
	Export	Import	Export	Import	Export	Import	Export	Import
Foodstuffs								
1955	57.9	33.8	125.9	151.0	35.4	0.4	219.2	185.2
1956	72.1	54.2	178.9	186.9	40.3	3.8	291.3	244.9
1957	90.3	58.8	145.2	152.4	47.8	3.0	283.3	214.2
Oils and fats								
1955	0.3	9.7	2.7	10.0	5.1	3.7	8.1	23.4
1956	1.3	13.3	2.2	13.4	10.5	0.1	14.0	26.8
1957	1.0	13.9	2.4	18.2	7.4	0.8	10.9	32.8
Raw materials								
1955	152.5	32.5	74.1	137.3	53.7	16.5	280.3	186.3
1956	173.5	50.1	76.0	152.7	66.0	24.6	315.5	227.4
1957	194.1	46.7	88.6	196.2	60.0	35.7	342.8	278.6
Mineral fuels and lubricants								
1955	56.7	—	142.6	5.8	—	0.1	199.3	5.9
1956	90.7	—	175.3	6.3	0.1	0.1	266.1	6.4
1957	178.3	—	173.9	4.6	0.1	0.2	352.2	4.9
Chemicals								
1955	9.5	3.3	41.1	42.0	6.9	42.0	57.5	87.3
1956	14.9	8.2	47.6	50.4	9.1	56.7	71.6	115.4
1957	15.1	14.7	53.3	66.6	9.7	56.7	78.1	138.0
Machinery and transport equipment								
1955	9.3	104.6	50.5	42.0	0.3	7.2	60.1	153.8
1956	10.8	143.3	66.3	53.6	0.4	9.4	77.5	206.3
1957	22.1	143.4	92.5	92.5	0.3	45.9	114.9	281.7
Other manufactured goods								
1955	61.1	64.8	139.5	121.4	13.3	7.7	213.9	193.9
1956	72.5	126.8	166.8	169.7	18.8	20.2	258.1	316.6
1957	102.6	170.1	160.8	199.9	27.4	37.1	290.8	407.1
Total[c]								
1955	347.3	248.7	576.4	509.5	114.7	77.6	1,038.4	835.8
1956	435.8	395.9	713.1	633.0	145.2	114.9	1,294.1	1,143.8
1957	603.5	447.6	716.7	730.4	152.7	179.4	1,473.0	1,357.3

Source: United Nations, *Commodity Trade Statistics*. Data as recorded by the trading partners of the centrally planned economies. Re-exports of the reporting areas are excluded. Grouping as in Standard International Trade Classification: foodstuffs, section 0, 1; oils and fats, 4; raw materials, 2; mineral fuels and lubricants, 3; chemicals, 5; machinery and transport equipment, 7; other manufactured goods, 6 and 8.

[a] Countries in the Organisation for European Economic Co-operation, except Switzerland and Iceland; Australia, Canada, Malaya, Netherlands Antilles, Finland, El Salvador, United States and Yugoslavia; figures for 1956 and 1955 adjusted for Australian exports of wool not shown by the *Commodity Trade Statistics* for the comparable period. The share of the above countries is estimated at 66 per cent of total east-west trade.

[b] First nine months of each year.

[c] Total of items listed in the table.

than 50 per cent; exports of the centrally planned economies, in fact, declined. The increase in imports was accounted for by the eastern European countries other than the Soviet Union. These countries incurred a deficit of about 50 million dollars, in 1957, which was only partly offset by the net export balances of the Soviet Union and mainland China. The rise in imports was mainly the result of food shipments to eastern Europe during the second half of 1957 and was entirely due to a sharp increase in imports from the United States. Imports from Canada declined substantially. Considerable increases also took place in trade with Africa and with Australia and New Zealand; these were almost entirely due to sharp increases in imports.[34]

Trade with Asia and the Far East increased at a much reduced rate, mainly because of the stagnation in exports from mainland China, which represent nearly 75 per cent of total exports of the centrally planned economies to this area. Trade of the Soviet Union with Asia and the Far East, however, increased substantially, exports increasing by 60 per cent and imports by more than 50 per cent.

Changes in the commodity composition of trade of the centrally planned economies with the rest of the world were characterized by a reduction in the share of foodstuffs and an increase in the share of machinery, equipment, raw materials and mineral fuels (see table 115).[35] Both exports and imports of food declined in 1957, whereas exports of machinery and equipment increased by 48 per cent and imports by 37 per cent. As a result, the share of machinery and equipment increased from 12 per cent in 1956 to 14 per cent in 1957, whereas the share of foodstuffs declined from 22 per cent to about 18 per cent.[36] The decline in the share of foodstuffs was accounted for by the absolute fall in exports and imports of eastern Europe; the trade of the Soviet Union and of mainland China, on the other hand, continued to expand in 1957.

As during previous years, the centrally planned economies remained net importers of chemicals, machinery, equipment and other manufactured goods, and net exporters of mineral fuels, raw materials and foodstuffs. In 1957, however, imports of raw materials increased much more than exports and net exports declined by 25 million dollars or, in other words, by almost one-third. Another significant change during 1957 was a very steep increase in net imports of manufactured goods, which, because of an increase in imports, was twice as high as in 1956.[37]

Economic Situation in Yugoslavia

The economic expansion which came to a standstill in 1956 under the impact of a sharp decline in agricultural production resumed its upward movement in 1957. National income which had fallen by some 2 per cent in 1956 increased in 1957 by more than 20 per cent in real terms (see table 116). This steep increase was due mainly to an excellent harvest, which exceeded that of 1956 as well as the average of 1951-1955 by almost 50 per cent. Livestock breeding also improved substantially and the total output of agriculture, which fell by some 12 per cent in 1956, increased by 35 per cent in 1957, exceeding the 1955 levels by more than 18 per cent. Industrial production also expanded at a very high rate, the increase being 17 per cent as against the 10 per cent achieved in 1956. Within the industrial sector, output of consumer goods increased by 21 per cent, which was almost twice as much as in 1956 and represented a much greater rate of increase than output of producer goods. In contrast to the previous four years, the increase in industrial production in 1957 was achieved largely through an increase in output per man, which rose by 9 per cent as against 3 per cent in 1956. Industrial employment increased during the past two years at the rate of 7 per cent per annum.

Gross national product in current prices increased in

Table 116. Yugoslavia: Selected Economic Indices
(Preceding year = 100)

Item	*1955*	*1956*	*1957*	*1958 (planned)*
National income[a]	110	98	122	104
Agricultural production	116	88	135	86
Industrial production	116	110	117	111
Producer goods	115	106	116	...
Semi-manufactured goods	118	112	114	...
Consumer goods	112	111	121	111
Electric power	126	116	124	...
Coal	115	111	104	...
Employment in industry	112	107	107	...
Output per man in industry	103	103	109	107
Real earnings per worker	92	103	114	...
Cost of living	113	105	102	...
Consumption	109	100	113	...
Volume of retail sales	108	105	122	...

Source: Indeks, No. 3, 1958 (Belgrade); *Statisticki Godisnjak FNRJ* (Belgrade, 1957); reply of the Government of Yugoslavia to the United Nations questionnaire of November 1957 on economic trends, problems and policies, 1957–1958.

[a] Constant prices.

[34] Increased imports from Australia and New Zealand mainly reflected larger wool shipments to Poland and Czechoslovakia. The expansion of trade with Africa was mainly due to Soviet imports from Ghana and the Union of South Africa.

[35] The sharp increase in exports of mineral fuels was entirely due to the rise in the value of oil shipments from the Soviet Union to western Europe, partly as a consequence of the temporary closure of the Suez Canal.

[36] In 1957 the share of foodstuffs in imports was 16 per cent and in exports 19 per cent; the share of machinery and equipment represented 21 per cent of imports and 8 per cent of exports.

[37] Exports of manufactured goods from eastern Europe, however, declined in absolute terms; this resulted in an increase in its net imports from $3 million in 1956 to $40 million in 1957.

1957 by about 24 per cent while personal consumption increased by 13 per cent and its share in gross national product fell from 53 per cent in 1956 to 48 per cent in 1957 (see table 117). Gross investment and social consumption increased, however, by 34 per cent, raising their share of gross national product from 50 to 54 per cent. Total national expenditure again increased more than gross national product and the net import balance increased from 39 billion dinars in 1956 to 45 billion in 1957; however, it fell slightly in relation to gross national product. The shifts in the allocation of resources in favour of investment and social consumption did not result in any significant increase in the pressures of demand upon supply. The cost of living increased by about 2 per cent as compared with an increase of 5 per cent in 1956 and 13 per cent in 1955. Real earnings per industrial worker, which fell by 5 per cent in 1955 and rose by about 3 per cent in 1956, increased by 14 per cent in 1957.

The plan for 1958 provides for a considerable slowing down of the rate of expansion, chiefly because of an anticipated decline of 14 per cent in agricultural production from the exceptionally high level reached in 1957. Industrial production is also planned to expand more slowly than in 1957, by 11 per cent as against 17 per cent achieved during the preceding year. Gross national product is expected to increase by about 4 per cent and personal consumption by 8 per cent.

The rise in consumption in relation to national product is to be achieved through a decumulation of stocks of agricultural products carried over from the 1957 harvest and through an increase in imports of consumer goods. Public investment in fixed capital is planned to increase from 435 billion dinars in 1957 to 465 billion in 1958, that is, by about 11 per cent. The largest expansion is planned for agriculture, where fixed investment is to increase by more than 50 per cent, thus raising its share of total fixed investment from 12 per cent in 1957 to 16 per cent in 1958. Investment in industry and mining is scheduled to increase by only 6 per cent and its share of the total to be reduced from 48 to 46 per cent. As during previous years, total domestic expenditure is scheduled to increase at a higher rate than gross national product. The net import balance is expected to be slightly higher than in 1957 but its share in total expenditure will decline. It should be noted, however, that the net import balance as presented in national income statistics is expressed in domestic prices which are at considerable variance with prices used in foreign trade transactions. Expressed in actual prices paid for exports and received for imports at the official rate of exchange, the net import balance—which amounted to 33 billion dinars in 1956 and to 61 billion in 1957—is scheduled to fall to about 41 billion in 1958, thus reducing the dependence of Yugoslavia on foreign credits.

Table 117. Yugoslavia: Gross National Product

(Billions of dinars; current prices)

Item	*1955*	*1956*	*1957*	*1958 (planned)*
Gross investment	449	430	1,069	1,077
Social consumption	341	377		
Net foreign trade	−50	−39	−45	−46
Total	740	768	1,024	1,031
Personal consumption	812	855	981	1,065
Gross national product	1,552	1,623	2,005	2,096
Less depreciation	−154	−180	−213	−235
National income	1,398	1,443	1,792	1,861
Ratio of personal consumption to:				
Gross national product	52	53	48	50
National income	58	59	54	56

Source: Reply of the Government of Yugoslavia to the United Nations questionnaire of November 1957 on economic trends, problems and policies, 1957–1958; *Statisticki Godisnjak FNRJ*, 1957; *Sluzbeni List* (Belgrade), 28 December 1957.

1955 and 1956 in current prices, 1957 and 1958 in 1956 prices. Data for 1956 are official estimates communicated to the Secretaria by the Government of the Federal People's Republic of Yugoslavia. The figures for 1957 and 1958 are provisional estimates based on data for specific components indicated in the reply of the Government of Yugoslavia to the United Nations questionnaire of November 1957 on economic trends, problems and policies, 1957–1958. In order to make the data comparable, maintenance expenses—which from 1957 on are not included in depreciation—were added to depreciation for 1957 and 1958. For the definition of the concept of gross national product see United Nations, *World Economic Survey, 1956*, page 253.

SALES AGENTS FOR UNITED NATIONS PUBLICATIONS

ARGENTINA
Editorial Sudamericana S.A., Alsina 500, Buenos Aires.

AUSTRALIA
H. A. Goddard, A.M.P. Bldg., 50 Miller St., North Sydney; and 90 Queens St., Melbourne.
Melbourne University Press, 369/71 Lonsdale Street, Melbourne C.1.

AUSTRIA
Gerold & Co., Graben 31, Wien, 1.
B. Wüllerstorff, Markus Sittikusstrasse 10, Salzburg.

BELGIUM
Agence et Messageries de la Presse S.A., 14-22 rue du Persil, Bruxelles.
W. H. Smith & Son, 71-75, boulevard Adolphe-Max, Bruxelles.

BOLIVIA
Librería Selecciones, Casilla 972, La Paz.

BRAZIL
Livraria Agir, Rua Mexico 98-B, Caixa Postal 3291, Rio de Janeiro

BURMA
Curator, Govt. Book Depot, Rangoon

CAMBODIA
Papeterie-Librairie Xuân Thu, 14, Avenue Boulloche, Pnom-Penh.

CANADA
Ryerson Press, 299 Queen St. West, Toronto.

CEYLON
Lake House Bookshop, Assoc. Newspapers of Ceylon, P.O. Box 244, Colombo.

CHILE
Editorial del Pacífico, Ahumada 57, Santiago.
Librería Ivens, Casilla 205, Santiago.

CHINA
The World Book Co., Ltd., 99 Chung King Road, 1st Section, Taipeh, Taiwan.
The Commercial Press, Ltd., 211 Honan Rd., Shanghai.

COLOMBIA
Librería América, Medellín.
Librería Buchholz Galería, Bogotá.
Librería Nacional Ltda., Barranquilla.

COSTA RICA
Trejos Hermanos, Apartado 1313, San José.

CUBA
La Casa Belga, O'Reilly 455, La Habana.

CZECHOSLOVAKIA
Ceskoslovensky Spisovatel, Národní Trída 9, Praha 1.

DENMARK
Einar Munksgaard, Ltd., Norregade 6, Kobenhavn, K.

DOMINICAN REPUBLIC
Librería Dominicana, Mercedes 49, Ciudad Trujillo.

ECUADOR
Librería Científica, Guayaquil and Quito.

EL SALVADOR
Manuel Navas y Cía., 1a. Avenida sur 37, San Salvador.

ETHIOPIA
International Press Agency, P.O. Box 120, Addis Ababa.

FINLAND
Akateeminen Kirjakauppo, 2 Keskuskatu, Helsinki.

FRANCE
Editions A. Pédone, 13, rue Soufflot, Paris V.

GERMANY
R. Eisenschmidt, Kaiserstrasse 49, Frankfurt/Main.
Elwert & Meurer, Hauptstrasse 101, Berlin-Schöneberg.
Alexander Horn, Spiegelgasse 9, Wiesbaden.
W. E. Saarbach, Gereonstrasse 25-29, Köln (22c).

GREECE
Kauffmann Bookshop, 28 Stadion Street, Athènes.

GUATEMALA
Sociedad Económica Financiera, 6a Av. 14-33, Guatemala City.

HAITI
Librairie "A la Caravelle", Port-au-Prince.

HONDURAS
Librería Panamericana, Tegucigalpa.

HONG KONG
The Swindon Book Co., 25 Nathan Road, Kowloon.

ICELAND
Bokaverzlun Sigfusar Eymundssonar H. F., Austurstraetl 18, Reykjavik.

INDIA
Orient Longmans, Calcutta, Bombay, Madras and New Delhi.
Oxford Book & Stationery Co., New Delhi and Calcutta.
P. Varadachary & Co., Madras.

INDONESIA
Pembangunan, Ltd., Gunung Sahari 84, Djakarta.

IRAN
"Guity", 482 Ferdowsi Avenue, Teheran.

IRAQ
Mackenzie's Bookshop, Baghdad.

IRELAND
Stationery Office, Dublin.

ISRAEL
Blumstein's Bookstores Ltd., 35 Allenby Road, Tel-Aviv.

ITALY
Librería Commissionaria Sansoni, Via Gino Capponi 26, Firenze and Roma.

JAPAN
Maruzen Company, Ltd., 6 Tori-Nichome, Nihonbashi, Tokyo.

JORDAN
Joseph I. Bahous & Co., Dar-Ul-Kutub, Box 66, Amman.

KOREA
Eul-Yoo Publishing Co. Ltd., 5, 2-KA, Chongno, Seoul.

LEBANON
Librairie Universelle, Beyrouth

LIBERIA
J. Momolu Kamara, Monrovia.

LUXEMBOURG
Librairie J. Schummer, Luxembourg.

MEXICO
Editorial Hermes S.A., Ignacio Mariscal 41, México, D.F.

NETHERLANDS
N.V. Martinus Nijhoff, Lange Voorhout 9, 's-Gravenhage.

NEW ZEALAND
United Nations Association of New Zealand, C.P.O. 1011, Wellington.

NORWAY
Johan Grundt Tonum Forlag, Kr. Augustsgt. 7A, Oslo.

PAKISTAN
The Pakistan Co-operative Book Society, Dacca, East Pakistan.
Publishers United Ltd., Lahore.
Thomas & Thomas, Karachi, 3.

PANAMA
José Menéndez, Plaza de Arango, Panamá.

PARAGUAY
Agencia de Librerías de Salvador Nizza, Calle Pte. Franco No. 39-43, Asunción.

PERU
Librería Internacional del Perú, S.A., Lima and Arequipa.

PHILIPPINES
Alemar's Book Store, 749 Rizal Avenue, Manila.

PORTUGAL
Livraria Rodrigues, 186 Rua Aurea, Lisboa

SINGAPORE
The City Book Store, Ltd., Collyer Quay.

SPAIN
Librería Bosch, 11 Ronda Universidad, Barcelona.
Librería Mundi-Prensa, Lagasca 38, Madrid.

SWEDEN
C. E. Fritze's Kungl. Hovbokhandel A-B, Fredsgatan 2, Stockholm.

SWITZERLAND
Librairie Payot S.A., Lausanne, Genève.
Hans Raunhardt, Kirchgasse 17, Zurich 1.

THAILAND
Pramuan Mit Ltd., 55 Chakrawat Road, Wat Tuk, Bangkok.

TURKEY
Librairie Hachette, 469 Istiklal Caddesi, Beyoglu, Istanbul.

UNION OF SOUTH AFRICA
Van Schaik's Bookstore (Pty.), Ltd., Box 724, Pretoria.

UNITED ARAB REPUBLIC
Librairie "La Renaissance d'Egypte", 9 Sh. Adly Pasha, Cairo.
Librairie Universelle, Damas.

UNITED KINGDOM
H. M. Stationery Office, P.O. Box 569, London, S.E.1.

UNITED STATES OF AMERICA
International Documents Service, Columbia University Press, 2960 Broadway, New York 27, N. Y.

URUGUAY
Representación de Editoriales, Prof. H. D'Elía, Plaza Cagancha 1342-1° Piso, Montevideo.

VENEZUELA
Librería del Este, Av. Miranda, No. 52, Edf. Golipán, Caracas.

VIET-NAM
Papeterie-Librairie Xuân Thu, Boite Postale 283, Saigon.

YUGOSLAVIA
Cankarjeva Zalozba, Ljubljana, Slovenia.
Drzavno Preduzece, Jugoslovenska Knjiga, Terazije 27/11, Beograd.
Prosvjeta, 5, Trg. Bratstva i Jedinstva, Zagreb.

[58E2]

Orders and inquiries from countries where sales agents have not yet been appointed may be sent to: Sales and Circulation Section, United Nations, New York, U.S.A.; or Sales Section, United Nations, Palais des Nations, Geneva, Switzerland.

Printed in U.S.A.
10540—June 1958—5,000

Price: $U.S. 2.50; 18/- stg.; Sw. fr. 10.50
(or equivalent in other currencies)

United Nations publication
Sales No.: 58.II.C.1
E/3110
ST/ECA/53