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NOTE

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FOREWORD

Part II of the *World Economic Survey, 1964* consists of four chapters. Chapter 1 provides an over-all view of salient changes in world production and trade between 1963 and 1964. Chapter 2 describes the principal developments in the industrially advanced private enterprise economies and goes on to examine two important current problems—the use of incomes policies for internal stabilization and the difficulties facing the international monetary system in the light of the payments imbalances of the reserve currency countries. Chapter 3 analyses the economic changes that occurred in the developing countries between 1963 and 1964, and takes a closer look at the problem of agricultural lag and food supply and at the difficulties some countries have experienced in maintaining internal balance. Chapter 4 deals with recent trends in the centrally planned countries, highlighting changes that are now under way in the internal mechanisms of economic management and externally in the problems of economic integration among the countries of the Council of Mutual Economic Assistance.

For purposes of this report, the developed market economies comprise North America, western Europe, Oceania, Japan and South Africa; the centrally planned economies comprise eastern Europe, the Union of Soviet Socialist Republics and mainland China, and the developing countries comprise Latin America, the West Indies, Africa, West Asia and southern and south-eastern Asia. Where, because of statistical exigencies, it has been necessary to depart from these definitions of coverage, the nature of the deviation has been noted.

The period dealt with in this report is essentially the calendar year 1964 and the data for this year have been recorded as accurately as was possible in April 1965. At that stage virtually all 1964 statistics were preliminary or provisional, and in some cases estimates have had to be made for the year as a whole on the basis of less than twelve months' returns. Though the weight of the *Survey* is on economic developments in 1964, events occurring in 1965—up to about mid-May—have been taken into account as far as possible. And in many instances it has been thought desirable to provide background material from earlier years.

The *Survey* has been prepared in the Bureau of General Economic Research and Policies of the Department of Economic and Social Affairs.

EXPLANATORY NOTES

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

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

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

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

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

A full stop (.) is used to indicate decimals

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

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

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

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

The term "billion" signifies a thousand million.

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

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

The following abbreviations have been used:

ADELA	Atlantic Community Development Group for Latin America
CMEA	Council of Mutual Economic Assistance
EDF	European Development Fund
EEC	European Economic Community
EFTA	European Free Trade Association
FAO	Food and Agriculture Organization of the United Nations
GAB	General Arrangements to Borrow
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
OPEC	Organization of Petroleum Exporting Countries
SITC	Standard International Trade Classification
UNESCO	United Nations Educational, Scientific and Cultural Organization

"Rhodesia and Nyasaland" stands for the former Federation of Rhodesia and Nyasaland. The term "Tanzania" has been used in tables to refer to the United

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

The *Survey* is generally based on information available to the Secretariat as of May 1965.

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

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Chapter 1

RECENT TRENDS IN THE WORLD ECONOMY

Viewed from the middle of 1965, world economic trends in the past eighteen months present something of a paradox. On the one hand, the period has been one of rapid growth of production and trade, well sustained and widespread to an extraordinary degree. On the other hand, it has seen many manifestations of acute economic disequilibrium, in some cases of potentially critical dimensions.

In the developed market economies, the upswing in economic activity which began in 1958 in western Europe and in 1961 in North America continued with surprising vigour in 1964 and, though it began to falter in parts of western Europe and Japan in the second half of the year, or in the early months of 1965, it was sustained by the high and steady rate of growth in the United States, nurtured by a judicious use of fiscal stimuli.

In the centrally planned economies, too, growth has been vigorous. There was a sharp recovery in Czechoslovakia in 1964 and some quickening in the rate of expansion in mainland China, Eastern Germany and the Union of Soviet Socialist Republics. The downward drift in the rate of growth in the combined national products of eastern Europe and the Soviet Union that had marked the earlier years of the nineteen sixties was sharply reversed in 1964.

In the developing countries—with harvests generally somewhat better, export prices fractionally higher and various earlier investments coming to fruition—economic growth was also significantly better than in the immediately preceding years. The improvement in external liquidity that had taken place in 1963 made possible the largest increase in imports since 1960, and this helped to bring supplies into closer balance with demand in many countries.

Notwithstanding these considerable and widespread gains, the world economy has been showing many signs of imbalance and strain. Much of the strain is of long standing and many of the imbalances are a by-product of the process of growth. Indeed, the problems that became critical in 1964 were chiefly those that arose from disparities in growth—most frequently a lagging export sector or a lagging food sector—or from the inadequacies of earlier efforts to sustain or stimulate growth in economies in various stages of economic evolution.

In some of the developed market economies, the most recent phase of the long upswing in economic activity has been marked by disproportionate increases in demand, especially where growth in manpower and in essential skills has been relatively low. In a number of western European countries even the absorption, on an unprecedented scale, of migrants from the Mediterranean area and even further afield has not prevented money wages from rising more rapidly than total output. Efforts to dampen the resultant pressures have not met with unequivocal success. Disinflationary monetary policies and fiscal restraint have in most cases affected not only the demand side of the balance but also the supply side. Thus, a diminution of price pressures has not always been achieved, and when achieved it has sometimes been at the cost of a slackening in the expansion of production. In France and Italy, indeed, industrial output has actually fallen below the corresponding levels of the previous year.

One result of this re-emergence of the problem of reconciling growth and stability has been a revival in interest in so-called "incomes policies". The main object of these policies is to keep money incomes in line with available output or, more specifically, to hold year-to-year increments in incomes within the limits set by gains in productivity. Such a policy, while simple enough in the abstract, involves many difficult practical problems in actual formulation and implementation. These range from the making of accurate forecasts of future gains in productivity over the period for which wage contracts are negotiated to the usually more onerous task of ensuring that the distribution of increases in income will not adversely affect over-all productivity or accentuate unduly the inequities in *per capita* income which are the legacy of history and the fruit of existing institutional arrangements as well as of current changes in demand and technology.

Merely to indicate the criteria of effectiveness is to suggest how formidable are the difficulties confronting an incomes policy in an economy based on free bargaining over wages and prices. In the last analysis its success is likely to depend on the extent to which participants in this bargaining process are convinced that it is in the general interest for incomes to be kept in line with production and for the price level to be held as stable as possible, and that the norms prescribed for forthcoming wage increments are both equitable in relation to other incomes and equitably applied among the diverse wage earning groups. To create such a conviction will require a good deal of experimentation in the practice of incomes policies.[1]

In most of the developed market economies the strains that have emerged in the most recent stages of the upswing have been primarily internal, but in some—notably Italy and Japan—it was the deterioration of the external balance as a result of the rise in domestic demand that necessitated prompt remedial action. Even more serious, because of the international status and functions of the currencies concerned, has been the deterioration of the external balance of the United Kingdom and the United States. While the payments problem of the United Kingdom in 1964 was in large measure the consequence of the rise in domestic demand, which induced an upsurge in imports unaccompanied by a comparable increase in exports, it was aggravated by an expansion in the outflow of capital. And in the United States the payments problem has been almost entirely a matter of expanding capital outflow. These movements of capital have been stimulated to a degree by the process of economic integration under way in the European Economic Community (EEC), with its common external tariff around a major and rapidly growing industrial complex. But they also reflect significant differences in the speed and conditions of growth, particularly between the United States on the one hand and continental western Europe on the other. Until recently economic growth in the United States has been appreciably slower, while resource limitations have continued to be conspicuously less restraining.

While in these circumstances a cutback of domestic liquidity and other efforts to restrict demand have not been regarded as an appropriate policy for the United States to follow, yet the persistent payments deficit has become less and less tolerable and the measures adopted to protect the dollar by stemming the outflow of capital have become progressively more strenuous and wide-ranging. The balance of payments crisis in the United Kingdom in 1964 has triggered even more stringent measures to protect the pound; these were aimed at both imports and exports, to improve the current account, and also at a reduction in the outflow of capital.

[1] *See* chapter 2 for a discussion of recent experience in the formulation and implementation of incomes policies.

These simultaneous efforts to reduce the external deficits of the reserve currency countries have focused increased attention on the role that these deficits—and particularly that of the dollar in recent years—have played in providing international liquidity. This has served to impart a new urgency to the debate that has been under way in a variety of forums with regard to the future shape of the whole international monetary system. The realization that the counterpart of any reduction in the deficits of the reserve currency countries is the drying up of a major source of international liquidity has prompted a spate of proposals for monetary reform, ranging over the whole spectrum of possibilities from the restoration of the gold standard to the establishment of a world, credit creating, central bank. Whatever modifications in the monetary system are in fact worked out, they are almost bound to be influenced by the close and continuous co-operation among banking authorities and national treasuries that has been characteristic of recent years, culminating in the rapid and massive mobilization of support for sterling in the last quarter of 1964.[2]

Among the less developed market economies, 1964 was a year of generally improving balance. The supply situation was more comfortable than in the earlier years of the Development Decade, partly because of the better outturn of domestic industry and agriculture and partly because this was supplemented by imports to a substantially greater extent than in the three preceding years. And in a number of countries the growth of demand was tempered by a rather more cautious fiscal policy. The result was discernible in some diminution of inflationary pressures.

Partly as a consequence of this general improvement, cases of acute imbalance tended to stand out in rather sharper contrast. The two most serious manifestations of imbalance in 1964 were food shortages and rapid price inflation—phenomena not entirely unrelated and by no means new to the developing countries.

The food problem in the developing countries has its roots in the fact that while, under the influence of improvements in sanitation, in dealing with certain disease vectors and in remedial drugs, population growth has been steadily accelerating, agricultural production has often tended to lag. Because of the generally low level of nutrition in the developing countries, moreover, and the high proportion of income normally spent on food, develop-

[2] The interrelation of the balance of payments deficit of the reserve currency countries and the international gold exchange monetary system is explored in chapter 2.

ment itself adds rapidly to the total demand for food-stuffs: townward migration and rising incomes both add to the effect of population increase on total demand for food.

For a host of reasons, differing in relative importance from one country to another, agriculture has not been able to respond with a comparable acceleration of output. In some countries, climate and topography and high population densities make it difficult to extend the arable acreage; the problem is one of raising productivity, and in this, shortages of capital—for increasing farm inputs by irrigation, fertilizer and mechanization—deficiencies in knowledge among the peasants, subdivision of the land and other physical, legal and institutional tenure problems all exercise an inhibiting influence. In some cases these difficulties are accentuated by lack of means to move food readily from one part of the country to another.

What cannot be produced at home has to be imported, and food imports have sometimes to be given higher priority than capital equipment urgently needed for carrying out the increased investment on which economic development largely depends. In these circumstances, food aid from abroad can be of considerable developmental importance, freeing scarce foreign exchange for other purposes. The flow of food from the industrial countries to the developing countries, and particularly from the United States since the enactment of Public Law 480 in 1954, must be regarded in part in this light, and given the recalcitrant nature of both the population problem and the agricultural problem, it is difficult to foresee an early end to this need for imports.

While this might represent a rational division of labour on a global basis, its implications have to be examined against a background not only of world food policy but also of development policy in the developing countries. The most awkward fact in the situation is that in almost all the developing countries agriculture is the largest contributor to the gross domestic product and by far the largest employer of manpower. In sheer arithmetic it is difficult to conceive of a raising of the rate of growth of total production to an adequate level without a more or less comparable growth in agriculture. For, if this were to be achieved, it would imply not only an extremely rapid rate of industrialization but also a great upsurge in the exports of manufactured goods to pay for the requisite imports of food. On the whole, it seems more realistic, whatever the imperatives of the immediate situation, to prepare for a longer-term effort to overcome the difficulties surrounding agriculture in so many developing countries and to aim at meeting more and more of internal food needs from domestic resources.[3]

One of the consequences of food shortages in developing countries is the impetus they tend to give to the inflationary process. Because of the high proportion of income normally spent on food, a rise in food prices has an immediate and full impact on the cost of living and—given the generally low level of income—a fairly direct and corresponding impact on wage rates and, hence, on costs of production. This price-wage-cost-price spiral is the essence of the inflationary process in the handful of developing countries in which there was a further deterioration of internal balance in 1964. While food difficulties have contributed to this lack of balance, the main stimulus has continued in most cases to be a monetary one—the expansion of credit to either the public or private sector (and sometimes both) without the necessary counterpart in the form of saving or of the timely production of goods and services.

Where the inflationary spiral has become established it is often extremely difficult to break. Measures that cut demand may on the one hand be politically and socially impractical (because the real incomes of many people are already so low), and on the other hand have an offsetting negative impact on production (if entrepreneurs are denied essential credit, for example, or workers feel compelled to withdraw their labour in protest).

Such domestic imbalances were eased most, in 1964, where the state of external balance had improved most in 1963, and the resultant gains in liquidity made it possible to augment domestic production by a sizable expansion in imports. The number of countries able to make full use of this possibility was limited by a reversal early in 1964 of the rise in commodity prices that had transformed the external balance in 1963. During 1964 the terms of trade ceased improving for the developing countries as a group and by the first quarter of 1965 the average price of the primary commodities they export had dropped about 7 per cent below the corresponding 1964 level.[4] Since 1964/65 crops are likely to have yielded rather less of an increment in total agricultural output than the 1963/64 crops did, it may be concluded that the stabilization policies put into effect in the course of 1964 will have to operate in less favourable supply conditions in 1965.[5]

In the centrally planned economies, as in the developing countries, 1964 saw a considerable improve-

[3] Some of the problems of food supply in the developing countries are discussed in chapter 3.

[4] If non-ferrous metals are included in the export basket, the decline was only half that, namely, just over 3 per cent.

[5] The nature of these stabilization policies and the inflationary pressures with which they have to deal is discussed in chapter 3.

ment in economic performance compared with the two preceding years. Nevertheless, many of the difficulties that lay behind the deceleration in growth rates in 1962 or 1963 were still the subject of concern and action in 1964.

One set of problems relates to agriculture, in which efforts continue to be made to eliminate organizational weaknesses, improve poor technical practices and reduce the sector's vulnerability to the vagaries of nature. There was a widespread tendency to raise the official prices paid for agricultural produce, and in some countries social security payments were extended to farm workers. And, in most of the centrally planned countries, the share of national investment allocated to agriculture was higher in 1964 than in previous years. In general, there was a certain shift in the distribution of income in favour of the rural population, reflecting the policy of providing greater incentives to expand production.

The need to speed up the improvement in productivity extended to other sectors of the economy. It stemmed from a variety of sources, including the growing complexity of the centrally planned economies, the rise in incomes and the expansion in consumer choice, and the evidence of the inadequacy of earlier methods of planning and organizing production. The result has been a considerable amount of re-evaluation and adjustment of procedures and much experimentation with new systems of planning and of management and decision making.

The general direction in which this process of adaptation has moved has been towards decentralization of economic controls and increases in the degree of autonomy exercised by individual enterprises. This is being achieved through a reduction in the role played by administrative directives and by increasing reliance on indirect methods of influencing enterprises to act in conformity with the general interest as reflected in the national plan. These changes imply an enlargement of the role of the market mechanism in the achievement of targets, which in turn involves greater use of prices and profits as well as of credit and fiscal policies in guiding economic activities in the centrally planned economies. It is hoped by this transformation to create a much closer identity between the interests and goals of particular enterprises and the more general interests and targets of the economy as a whole.[6]

[6] These problems were discussed in United Nations, *World Economic Survey, 1963, II. Current Economic Developments* (Sales No.: 64.II.C.3), pages 85 to 100. They are taken up again, in the light of more recent developments, in chapter 4.

This re-examination of the techniques of planning and management has extended beyond the domestic economy to international economic relations. Through the Council of Mutual Economic Assistance (CMEA), attempts have been made, ever since 1956, to introduce a measure of co-ordination of national plans, a greater amount of deliberate geographical specialization, more joint financing of common enterprises and a higher degree of multilateralism of intra-regional trade. The recent drive to raise operating efficiencies within member countries has lent new urgency to these attempts.

A general framework of "principles of international socialist division of labour" was adopted by the CMEA in 1962, but up to the present only a few specific measures of practical implementation have been carried through. These have related chiefly to long-term foreign trade agreements, to specialization agreements relating to production of specific goods (mainly in engineering industries) and to some joint investment projects. The co-ordination of national economic plans, investment decisions concerning the development of specific industries in various countries, arrangements for the movement of capital and labour, reciprocal opening of markets to enterprises of other countries of the group and other measures of closer economic integration have been more difficult to put into operation. The disparities in levels of economic development have precluded the use of the present comparative advantages as the basis of regional division of labour on the grounds that it might slow down the progress of the least diversified countries. Efforts are now being made to evolve economic criteria and methods of co-ordination that would ensure that specialization schemes commended as favourable for the region as a whole would not adversely affect individual member countries, especially the less economically advanced among them. The solution of these problems is being sought by means of a confrontation procedure for the preliminary drafts of national plans (which are based on the long-term interests of individual countries) followed by the adjustment necessary to achieve the most efficient pattern of growth for the region as a whole. The realistic nature of this approach and the recognition of the need for compensation in cases where specific specialization schemes devised in the interest of the area as a whole may have an adverse effect on the development of individual countries are expected to reduce potential conflict of interest and thus facilitate the setting up of regional plans that are in harmony with the interests of individual countries.[7]

[7] Some of the problems facing closer economic integration of the centrally planned economies are discussed in chapter 4.

Salient features of world production

World economic growth between 1963 and 1964 was distinguished less by its magnitude than by its universality. In the aggregate, world production increased by at least 5 per cent. Maintaining the momentum of the current upswing, the combined gross national product of the developed market economies was about 5 per cent above the 1963 level in real terms. Recovering sharply from the declining trend of recent years, the combined real national income of the centrally planned economies was between 6 and 7 per cent above the 1963 level.[8] And the developing countries, also registering a marked improvement over the results of the earlier years of this decade, increased their combined gross domestic product by about 5 per cent. (*See* table 1-1.)

Table 1-1. Agricultural and Industrial Production, by Region, 1960-1964

(Percentage change from preceding year)

Region and item	*1961*	*1962*	*1963*	*1964*[a]
Developed market economies[b]				
Gross domestic product....	4	5	4	5
Agriculture	—	5	3	2
Industry	4	7	5	7
Centrally planned economies[c]				
National income	7	5	4	6
Agriculture[d]	3	—1	—4	9
Industry	10	9	8	(8)[e]
Developing countries[f]				
Gross domestic product.....	4	4	4	5
Agriculture	3	2	2	3
Industry	9	7	6	7

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics* and *Yearbook of National Accounts Statistics*; Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome); United States Department of Agriculture, *The 1964-1965 World Agricultural Situation* (Washington, D.C., 1965); replies of Governments to the United Nations questionnaire of November 1964 on economic trends, problems and policies; reports on fulfilment of plans by eastern European countries and the Soviet Union.

[a] Preliminary.

[b] North America, western Europe, Japan, Oceania and South Africa.

[c] Eastern Europe and the Soviet Union.

[d] Estimated. The weights used for the calculation of the regional index were derived from data on the relative volumes of agricultural output in the various centrally planned economies given in A. Bodnar, *Gospodarka Europejskich Krajow Socialistycznych* (Warsaw, 1962), page 238.

[e] Provisional estimate.

[f] Latin America, Africa, West Asia and southern and south-eastern Asia.

In the developed market economies the continued expansion in output was broadly based, though there was little advance in residential construction in North America. In eastern Europe and mainland China the increase in production was also fairly general. Elsewhere, the principal factor in the acceleration of growth rates between 1963 and 1964 was agriculture. Poor harvests played a major role in holding down total production in 1963 in the Soviet Union and in a number of the developing countries, and the better harvests of 1964 contributed much of the increment in total output. Larger crops also helped to raise total production in western Europe and Japan.

One of the causes of the poor harvests of 1963 was the severe weather experienced in Europe in the early months of the year, and this also played a part in magnifying the subsequent expansion in industrial production. The largest increases between 1963 and 1964 were recorded in the first quarter of the year and reflect the relatively depressed level of output in the winter of 1963. In western Europe, for example, the rate of expansion in the second half of 1964 was less than half of that registered in the first quarter—measuring in each case from the corresponding period in 1963. A similar effect was experienced in parts of eastern Europe where construction, power and transport had all been affected by the severity of the weather in the early months of 1963. In some western European countries a further factor came into play during the year in the shape of credit restraints and other disinflationary measures designed to hold down demand pressures in the interest of stability. In these cases the result was a marked deceleration in the rate of expansion.

AGRICULTURE

Though the over-all advance in world agricultural production was quite modest in 1964, it was distributed in a way that tended to magnify its economic impact.[9] Some of the major increases were in areas in which agriculture bulks large in total produc-

[8] Based on data for the Soviet Union and the countries of eastern Europe. Though official statistics are not available, it is probable that mainland China also achieved a higher rate of growth between 1963 and 1964: industrial production was up 15 per cent and most crops were above the 1963 level.

[9] Calculations of total increase range from less than one per cent to about 3 per cent, depending on the precise periods and crops being compared, on the weighting system adopted and on the estimates made for countries and products not officially measured or reported. In general, the increase between 1962/63 and 1963/64 seems to have been greater than that between 1963/64 and 1964/65, but the latter contains more estimates and preliminary figures. Attempts to add crops on a calendar year basis — which, for the northern hemisphere, means adding the winter and spring crops of the 1963/64 year to the autumn crops of the 1964/65 year, and conversely for the southern hemisphere—give a somewhat greater increase between 1963 and 1964 than indicated by either of the crop year comparisons.

tion—as in the case of gains in Oceania and some of the developing countries, and the sharp recovery in the Soviet Union. Others were in crops for which the world market was particularly sensitive in 1964, most notably sugar and cocoa. Conversely, some of the principal reductions in output were in countries or in crops where they exerted very little effect on total domestic production. This was the case with coarse grains (the decline being concentrated in the United States) and with coffee (the decline being almost entirely in Brazil), stocks of which were large enough to absorb such reductions without affecting marketable supply.

For the rest, most major crops registered over-all gains more or less in line with population growth. This was true of rice, tea and milk, of fats and oils (at least in the aggregate), of tobacco, rubber and all the principal natural fibres, and probably of bananas and citrus fruits. The most significant exceptions were jute (whose 1964/65 crop dropped back to the 1962/63 level, well below the record 1961/62 crop) and meat (whose production receded in 1964 in the wake of fodder shortage and abnormally high slaughtering in parts of Europe and the Soviet Union in 1963, and a decline in output in Argentina).

Among the most important developments in 1964 was the agricultural recovery in the Soviet Union whose gross production, after keeping just ahead of population in 1960-1962, had fallen away very sharply in 1963.[10] One consequence of the poor 1963 season was a decline in livestock numbers—relatively small in the case of cattle (about 2 per cent) and sheep and goats (about 5 per cent), but very large in the case of pigs (over 40 per cent). The cattle loss was made good in 1964, but at the end of the year the pig population was still one-fourth below the 1962 level and 10 per cent below the 1960 level, and the sheep and goat population was further reduced —to over 10 per cent below the 1962 peak and 7 per cent below the 1960 level (*see* annex table 1A-1). This reduction in livestock numbers resulted in a further decline in the output of animal products (*see* annex table 1A-2). Meat production, which was a record 10 million tons (slaughter weight) in 1963, when fodder shortages necessitated increased slaughtering, dropped back to little more than 8 million tons—the lowest for six years.

Despite this failure in the livestock sector, Soviet arable production recovered so strongly in 1964 that over-all agricultural output for the year was almost one-eighth above the 1963 level. All the other centrally planned economies increased their total agricultural output in 1964 also, though in some cases —notably in Czechoslovakia, Poland and Romania— the gains were only fractional. In mainland China there was a particularly large increase in cotton production, and the grain crop—of over 190 million tons—exceeded the 1957 peak for the first time.

Some of the wide swings in individual crops had a marked effect on the volume and pattern of international trade in 1963 and 1964, particularly during the last quarter of 1963 and the first half of 1964. In the Soviet Union the wheat output swung from 71 million tons in 1962 to less than 50 million tons in 1963 and back to over 74 million tons in 1964; rye production dropped from 17 to 12 million tons and then rose to between 13 and 14 million tons in 1964; maize production reached a peak of 17 million tons in 1961, declined to 11 million tons in 1963 and then recovered to about 13 million tons in 1964; the output of sugar-beets declined from a peak of 58 million tons in 1960 to 44 million tons in 1963, and then rose steeply to over 80 million tons in 1964; the output of potatoes dropped from 87 million tons in 1958 and 1959 to less than 70 million tons in 1962, rising again to 93 million tons in 1964.

The effect of some of these changes was accentuated by simultaneous, though generally more moderate, swings in other parts of Europe. In the case of wheat, for example, western European production fell from almost 48 million tons in 1962/63 to between 41 and 42 million tons in 1963/64, and much of the latter crop was of relatively poor quality, usable chiefly as feed. In the case of sugar-beets, eastern European production declined from almost 34 million tons in 1960 to less than 27 million tons in 1962, at a time when western European output was also sharply down. And accompanying the 20 per cent reduction in Soviet meat output in 1964 was a 6 per cent drop in western European beef and veal, not fully offset by increases in the production of other forms of meat.

The impact of these fluctuations in output on the world market differed significantly from product to product. In the case of meat, additional supplies were not readily forthcoming: in the Soviet Union, meat sales were 2 per cent below the 1963 level, intra-European trade was substantially lower and an increase in shipments from Australia and New Zealand compensated only in part for a sharp decline in supplies from Argentina and Uruguay, and the result was a sizable rise in world prices. On the average, 1964 prices were up about 6 per cent for bacon, about one eighth for mutton and lamb, and between one fourth and one third for beef.

Similarly in the case of sugar, supplies were not available to meet the European shortfall, Cuban production having also declined steeply in 1962 and

[10] The nature of this decline was discussed in *World Economic Survey, 1963, II. Current Economic Developments*, page 60.

1963. World trade slipped from over 20 million tons in 1961/62 to about 19 million tons in 1962/63, and prices surged upwards. Then, with better harvests in the net importing countries, trade dropped sharply to 17.5 million tons in 1963/64 and prices on the free market slid from 11.5 cents a pound at the end of 1963 to 2.7 cents a pound a year later.

In the case of wheat, on the other hand, ample stocks were available to cushion the impact of the poor crops. Though shipments from France declined by one-eighth between 1962/63 and 1963/64 and shipments from the centrally planned economies dropped by almost one-half, world trade expanded by almost one-third to a record 57 million tons, with prices showing little material change. With Argentina exporting a million tons more than in 1962/63, Australia 3 million tons more and Canada and the United States each 6 million tons more, there was a considerable expansion in the demand for shipping. This was forthcoming, but not without a sharp rise in freight rates: grain charter rates in the middle of the 1963/64 season were up to 50 per cent higher than in 1962.

The existence of stocks did not prevent the reduction in the world coffee crop between 1963/64 and 1964/65 from causing a sharp rise in price. The crop failure was in Brazil and it brought world production down from over 4 million tons in the earlier years of the decade to a little over 3 million tons in 1964/65. Though Brazilian stocks in mid-1964 were equivalent to about one year's world crop, and trade was fully maintained in 1964—world imports were just short of 3 million tons—prices, which began rising towards the end of 1963, remained at a substantially higher level in 1964. Averaged over the year as a whole, *robusta* and mild *arabica* prices were about one-fourth above the 1963 level, and for hard *arabicas,* such as those produced in Brazil, the increase was even greater. The most notable gains accrued to African producers who shipped a record volume of coffee in 1964—almost 900,000 tons, more or less equalling Brazil for the first time.

Another change in agricultural production that had widespread effects in 1964 was the expansion in the out-turn of cocoa beans. Rising slowly to about 1.2 million tons in 1962 and 1963, cocoa production exceeded 1.4 million tons in 1964/65, with the bulk of the increase occurring in West Africa. Cocoa prices, which had weakened appreciably towards the end of 1963, remained fairly steady at the lower level during 1964, supported by efforts of the major producers to regulate the amount marketed. On the average, prices in 1964 were about 10 per cent below the 1963 level and exports were maintained at just over one million tons. As the full size of the 1964/65 crop became known, however, the market rapidly weakened and between December 1964 and April 1965 the average monthly price fell by as much as one-third to the lowest level since the early post-war period.

On the whole, food production changes in 1964 swung back in favour of the more developed countries: against a further rise in North American output and the sharp recovery in Europe and the Soviet Union, results in the developing countries were rather mixed. The most notable gains—in wheat in Latin America and rice in southern and south-eastern Asia—were offset in part by lags in other crops and in other areas. Even in the case of sugar, the rise of 7 per cent in cane production was much smaller than the rise in the beet output of the northern hemisphere.

Support for domestic agriculture was fully sustained in the developed countries in 1964: the changes that occurred were generally in the nature of a further strengthening of protection. Domestic producers were given a somewhat larger share of the United States market for sugar. The United Kingdom continued its market sharing arrangements for butter and bacon, and began to implement its new policy of minimum import prices: by the end of the year, twenty-one countries were co-operating in respect of cereals. In the European Economic Community, the "common agricultural policy" previously agreed to went into effect in the case of rice, beef and veal and dairy products, and agreement was reached on common producer prices for grains, to be adopted in mid-1967; these measures harmonize internal production and price policies and create a common relationship to supplies from outside. As indicated above, the Soviet Union and to a less extent the countries of eastern Europe renewed their efforts to raise productivity and improve the organization of their agriculture: these efforts included a stepping up of investment, increased mechanization, the provision of considerably more fertilizers, and changes in price relationships and in other economic and technical aspects of farming practice.[11]

INDUSTRY

World industrial output in 1964 was between 7 and 8 per cent above the 1963 level. The year-to-year rate of growth was somewhat higher than in the earlier part of the decade in the developed market economies, about the same in the developing countries and slightly less in the centrally planned economies (*see* table 1-1).

Though the over-all annual averages were unusually uniform among the major regions, there

[11] *See* chapter 4 for a discussion of the broad framework of these reforms.

were a number of significant differences in performance, by country, by product and over time.

Among the developed market economies the rate of increase in industrial production ranged from a mere one per cent in Italy (where severe disinflationary measures had been adopted in order to reduce the demand for imports and correct the external imbalance) to over 12 per cent in some of the less industrialized countries such as Greece, Japan, South Africa and Spain. Similarly, among the centrally planned economies, gross industrial output increased by 4 per cent in Czechoslovakia (where the expansion in available manpower was relatively small—less than one per cent—and organizational and other problems still beset the complex industrial structure)[12] but by over 11 per cent in some of the less developed countries such as Bulgaria, mainland China and Romania. There was also a considerable range among the developing countries: manufacturing production rose by a modest 5-6 per cent in Chile and Guatemala (where disinflationary restraints were in operation) but by 16-17 per cent in Argentina and El Salvador (recovering from a decline or slowdown in 1963) and by even more in China (Taiwan), where an improvement in internal balance made it possible to relax credit conditions and where the preceding sugar boom had provided additional resources.

The world output of the major sources of energy rose again between 1963 and 1964 but not quite as vigorously as in the previous interval. The principal lag was in coal, production of which had increased at an exceptionally high rate in 1963 under the influence of the severe European winter. Output in 1964 was actually below the 1963 level in a number of countries—including Belgium, Japan, the Netherlands, Spain and the United Kingdom among the developed market economies, and India among the developing countries—and although the rate of increase was maintained at just under 4 per cent in the centrally planned economies it dropped back to about 2.3 per cent for the world as a whole, about half the rate recorded in 1963.

There was also some deceleration in the growth of natural gas production, though only slight—from rather more than 9 per cent between 1962 and 1963 to rather less than 9 per cent between 1963 and 1964. The slackening was concentrated in the United States—from 6 per cent to 4 per cent—though there was also a marginal decline in the high rate of increase currently under way in the Soviet Union. There was a sharp and general rise in production in the developing countries but their total output remains miniscule in relation both to their own potential and to the actual output in the rest of the world (*see* table 1-2).

In the case of petroleum, on the other hand, the developing countries not only produce the largest share but in 1964 registered the highest rate of increase. Expansion was almost universal in 1964—the only exceptions being one or two of the very smallest producers—with particularly large increases occurring in Libya and Trucial Oman, both of which have become major exporters within the past three years. With the rate of growth fully maintained in the developed market economies—principally the United States—and stepped up in the developing countries, world production rose by rather more than 8 per cent, as against well below 8 per cent in 1963.

More of these primary fuels went into electricity than ever before: the total output generated increased by over 8 per cent between 1963 and 1964, compared with 7 per cent in the previous interval. There was an almost universal expansion in the amount of current generated in 1964. In the developed market economies the gentle acceleration that had characterized the earlier years of the decade continued while in the rest of the world there was a sharp recovery after the dip that had occurred in 1963: averaged over the four years of the decade, electricity production has increased at rather more than 10 per cent *per annum* in both the centrally planned region (other than mainland China for which data are not available) and the developing regions.

There was also a marked acceleration in the output of base metals. World production of pig-iron and crude steel increased by about one-eighth between 1963 and 1964, almost twice as much as in the preceding interval. Very few countries failed to participate in the expansion; most notable among them was Italy where there was a sharp cutback in the iron and steel industry. There was also a reduction in iron output in Spain and, on a smaller scale, in the iron and steel output of the Republic of Korea. Working to plant capacity, there was no advance on the 1963 level of steel production in Hungary or of iron production in India. Elsewhere, expansion was exceptionally vigorous, especially among the major producers in the developed market economies where the rapid growth in demand for durable goods induced a corresponding acceleration in iron and steel production during 1963 and 1964. In the United States, steel production increased by about 30 per cent between 1962 and 1964 while Japan doubled its pig-iron output between 1960 and 1964, emerging as the world's third largest steel producer (40 million tons) after the United States (115 million tons) and the Soviet Union (85 million tons).

In the developing countries the slowdown in India reduced the rate of increase in iron and steel produc-

[12] Some of these problems are discussed in chapter 4.

Table 1-2. Industrial Materials: Production by Major Region, 1960-1964

Product and region	*Output in 1960 (millions of tons)*	*Percentage change from preceding year*			
		1961	*1962*	*1963*	*1964*[a]
Coal					
Developed market economies	1,100	—1	3	3	3
Centrally planned economies	1,010	2	3	4	4
Developing countries	72	6	10	10	—2
Petroleum, crude					
Developed market economies	388	3	3	3	3
Centrally planned economies	162	12	11	10	8
Developing countries	496	7	12	9	11
Natural gas (billions of cubic metres)					
Developed market economies	388	5	7	7	6
Centrally planned economies	56	26	23	20	19
Developing countries	23	9	7	8	19
Electricity (billions of kilowatts)					
Developed market economies	1,680	6	7	7	8
Centrally planned economies	417	10	12	5	16
Developing countries	92	10	10	9	14
Pig-iron					
Developed market economies	161	2	1	5	16
Centrally planned economies	61	8	9	5	7
Developing countries	5	20	14	12	1
Steel, crude					
Developed market economies	214	2	—	8	16
Centrally planned economies	88	8	8	4	7
Developing countries	6	20	23	15	8
Cement					
Developed market economies	188	7	7	4	11
Centrally planned economies	71	10	10	6	7
Developing countries	36	7	7	6	10

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

[a] Preliminary; for some countries, based on data for less than twelve months.

tion to far below earlier figures in the decade; nevertheless, production in 1964 was more than double the 1959 level—and India, with a 6 million-ton steel capacity, was the largest producer by a considerable margin. In earlier years in the decade the developing countries had been raising their combined share of world output, but it fell back in 1964, to about 3 per cent. The developing countries' share of the underlying production of iron ore continued to increase, however, notwithstanding a sharp rise in North America, a small recovery in western Europe and a further gain in eastern Europe and the Soviet Union. This reflects the fact that, though greater than in 1963, iron ore production in Japan and the United States in 1964 was still well below the 1960 level.

The course of production of the major non-ferrous metals was rather mixed in 1964. Aluminium output continued to expand the most rapidly: outside mainland China and the Soviet Union (for which no data are available) it again increased by about 10 per cent, with virtually all producers participating in the expansion. Zinc output also increased sharply, in response to a rise in demand and in price: outside mainland China and the Soviet Union it increased by 8 per cent between 1963 and 1964, more than twice as much as in the previous interval. Similarly, copper production was also stimulated by an increase in consumption and in price: the expansion was fairly general, and outside mainland China and the Soviet Union it averaged almost 5 per cent —over three times the 1962-1963 figure.

In the case of lead, on the other hand, reductions outnumbered the advances, and in spite of expansion in such important producers as France, Japan, Peru and the United States, the over-all increase was smaller in 1964 (between 3 and 4 per cent, outside mainland China and the Soviet Union) than in 1963 (almost 5 per cent). Lead ore production, moreover, was actually lower in 1964 than in 1963 in western Europe, Australia, Latin America and Africa, and although more was produced in North America, eastern Europe and Asia, the net result was a decline. Tin production, which had slipped fractionally in 1963, dropped somewhat further in 1964, despite some improvement at the mining stage—notably in Bolivia and Indonesia—and in the face of record prices. The fact that about 5 per cent more ore was produced in 1964 suggests that some improvement in metal supply may be forthcoming in 1965.

There was a widespread acceleration in the rate of increase in cement production, following the slow-down that had occurred in all the major regions in 1963. There was a notable expansion in Europe where the deceleration had been most marked in 1963, partly because of the interruption of construction work during the severe winter. As a result, the developed market economies registered the greatest increase in 1964—substantially more than in earlier years or than in the other regions. Though the increase in the developing countries (10 per cent) was well above earlier rates of growth—almost twice as fast as in the previous period—their share of world cement output dropped back slightly to below one-eighth.

Implicit in this gain is a steep rise in building and construction activity. There was an even steeper rise in shipyard activity: the total of merchant vessels launched (outside mainland China and the Soviet Union for which data are lacking) was a record of well over 10 million tons, more than one-fifth above the 1963 level. This increase was highly concentrated in Japan; elsewhere, indeed, the declines—in Belgium, Denmark, the Federal Republic of Germany, Italy, the Netherlands, Turkey, the United States and Yugoslavia—totalled as much as the increases. In 1964, Japan accounted for over 40 per cent of the new tonnage launched, and the upsurge has continued: at the end of March there was a record volume of 3 million tons of shipping under construction in Japanese yards—30 per cent of the world total (again excluding mainland China and the Soviet Union) and twice as much as in any other country.

There were also some marked differences in the course of world motor-car production. The main upsurge took place in 1963 when the output of passenger vehicles rose by one-seventh over that of the previous year and the output of commercial vehicles by one-tenth. There was a marked slowing down in 1964, especially in the case of passenger cars whose expansion rate dropped below 6 per cent, absolute reductions being registered by a number of countries, including Austria, Czechoslovakia, France, Italy and the United Arab Republic. This slackening trend seems to have continued into 1965: output in the first quarter was below the corresponding 1964 level not only in Austria, France and Italy but also in the United Kingdom. In sharp contrast, production in the United States continued the upward movement that had started at the end of 1961: output in the first quarter of 1965—at the annual rate of over 10 million cars—was about one-fifth higher than the corresponding 1964 figure.

Because of the buoyancy of demand for other durable goods, the slackening in the output of motor vehicles in western Europe did not show up in the production index for the engineering and metal products industries: this rose to a much greater extent between 1963 and 1964 than in the previous interval, even more than in North America. In the aggregate, production of the metal products industries in the market economies rose by almost 8 per cent in 1964 compared with slightly over 4 per cent in 1963 (*see* table 1-3).

Acceleration was general among the various industries in the market economies: it was least in the case of the lighter industries, particularly food-stuffs and greatest in the case of the basic metal and mineral industries, which expanded twice as much—10 per cent and 13 per cent, respectively—between 1963 and 1964 as between 1962 and 1963. The heavier industries experienced not only the greatest acceleration but also the highest rates of growth in this period. And these tendencies obtained not only in the industrial countries but also in the countries that are less highly industrialized. They were also in evidence among the centrally planned economies (*see* annex table 1A-3) though there was some slowing down in the rate of expansion in light industry in Bulgaria, in heavy industry in Eastern Germany (where the growth of engineering output dropped from 10 per cent in 1962 to 7 per cent in 1963 and 4 per cent in 1964) and in both consumer and producer goods sectors in the Soviet Union (where there has been some tapering off in the engineering industry—to a gain of 9 per cent between 1963 and 1964—and a rather steep decline in the food industry—to about 2 per cent in 1964). As in the market economies, the centrally planned economies continued to register a high rate of increase in the chemical industry—averaging around an annual 15 per cent in recent years in Hungary, Poland and the Soviet Union, and even higher in Bulgaria and Romania.

While year-to-year comparisons show 1964 to have been a year of accelerated industrial growth in most regions and for the world as a whole, the trend during 1964 itself was much less decisively upward. Though there has been a slight deceleration in Canada, remarkably steady growth in the United

States has kept up the rate of expansion in North American industry. In Europe, however, a weakening tendency is discernible (*see* table 1-4 and annex table 1A-4).

Table 1-3. Market Economies: Changes in Industrial Production, 1960-1964

Region[a] and year	Percentage change from preceding year										
	Mining	Manufacturing			Food	Textiles	Paper	Chemicals	Non-metallic minerals	Basic metals	Metal products
		Total	Light	Heavy							
All market economies											
1961	4	4	3	3	5	3	5	7	3	2	3
1962	5	7	4	9	3	4	5	9	6	2	9
1963	3	5	5	6	4	3	6	9	5	6	4
1964	5	7	6	8	4	5	7	10	10	13	8
Industrial countries											
1961	2	3	3	3	4	2	5	7	3	—	2
1962	3	7	4	8	4	4	4	10	6	3	10
1963	2	5	4	6	3	3	6	9	5	6	5
1964	4	8	6	8	4	5	8	10	10	13	7
Less industrialized countries											
1961	12	9	7	9	8	4	13	8	6	7	11
1962	10	5	3	7	1	3	9	8	5	8	7
1963	7	7	6	6	6	5	10	7	7	7	6
1964	8	7	7	8	6	6	11	10	12	9	...

Source: United Nations, *Monthly Bulletin of Statistics*, May 1965.

[a] The regional divisions are those made in the source. The classification of countries as "industrial" or "less industrialized" is made according to whether *per capita* value added in manufacturing during 1958 was above or below $125. The regions correspond broadly to those used elsewhere in this *Survey*: "industrial countries" comprise all the countries classified as developed market economies, plus Israel, minus Greece, Portugal, Spain and Turkey. Correspondingly, "less industrialized countries" comprise all the countries classified as developing market economies, plus Greece, Portugal, Spain, Turkey and Yugoslavia, minus Israel.

Table 1-4. Manufacturing Production: Recent Growth in the Developed Market Economies, 1960-1964

(Percentage change from corresponding period in preceding year)

Period	Western Europe[a]					North America				
	All manufacturing	Food	Textiles	Chemicals	Metal products	All manufacturing	Food	Textiles	Chemicals	Metal products
1961	6	5	—	8	7	1	4	4	5	—2
1962	4	4	2	9	4	9	3	7	10	13
1963	4	5	4	9	3	5	4	2	8	5
1964	8	6	2	12	6	7	3	5	6	6
1963:										
First quarter	2	3	4	7	1	4	4	—	7	7
Second quarter	5	6	5	9	4	5	3	—	8	5
Third quarter	6	7	4	8	4	6	2	4	9	5
Fourth quarter	6	5	4	11	2	6	4	5	10	6
1964:										
First quarter	10	8	6	14	9	6	3	5	9	6
Second quarter	7	5	3	13	6	7	3	5	7	8
Third quarter	5	6	—	12	2	7	2	5	5	7
Fourth quarter	6	5	—1	10	7	7	3	7	6	5

Source: United Nations, *Monthly Bulletin of Statistics*, May 1965.

[a] Including Yugoslavia.

In part, this weakening in the pace of industrial growth reflects the high rate of increase generally recorded between the first quarter of 1963—when the weather exercised a strongly depressing influence on several industries—and the first quarter of 1964. This pace was not maintained in subsequent quarters: in some industries—notably textiles, chemicals and some durable goods—normal cyclical factors made for contraction or at least reduced rates of expansion, while others were affected by the cutbacks in demand that were induced by official measures of a disinflationary nature.[13] The result was a perceptible decline in the rate of increase in a number of industries and in total industrial production in a number of countries. In western Europe, textile output had actually dropped below the corresponding 1963 level by the last quarter of 1964. In Italy total industrial production had fallen below 1963 rates by the middle of 1964 and it had not recovered by the first quarter of 1965. By this time French industrial output was also below the corresponding level of a year earlier. And distinct downward trends were in evidence in many European countries and also in Japan. Thus, world industrial production began 1965 with a significantly diminished rate of growth.

[13] These are discussed in some detail in chapter 2.

Salient features of international trade

Trade continued to be a dynamic element in the world economy in 1964. During the current upswing in total activity, indeed, the rate of growth in world exports has accelerated steadily from just over 4 per cent between 1960 and 1961 to over 11 per cent between 1963 and 1964.[14]

In most of these years the expansion has been led, in both absolute and relative terms, by the developed market economies. This was particularly evident in 1964 when the rate of growth in exports accelerated to 13 per cent in the case of the developed market economies and decelerated slightly to between 7 and 8 per cent in the centrally planned economies and in the developing countries (*see* table 1-5).

Most of the exports of the developed market economies move to destinations within the region and this tendency has been steadily strengthened in recent years: intra-trade accounted for 69 per cent of the total exports of the developed market economies in 1960, and the proportion rose by one per cent a year to reach 73 per cent in 1964. Well over three-fourths of the increment of $13 billion in exports from the developed market economies between 1963 and 1964 was accounted for by this intra-trade. All major flows among the three regions constituting the developed market economies—North America, western Europe and other industrial countries—increased relatively more than the world average and more than in the preceding interval. The only exception to this generalization was the flow of goods from western Europe to North America: though this accelerated sharply from the 1962-1963 increase,

[14] Since the United States "special category" exports declined between 1962 and 1964, the rate of growth of regular commercial exports whose destination was reported was even greater than this: it was 5.2 per cent between 1960 and 1961 and 12.5 per cent between 1963 and 1964.

Table 1-5. Value of World[a] Trade: Year-to-year Rates of Growth, by Major Region, 1960-1964

Exports from:	*Exports to:* Developed market economies[b]	Centrally planned economies[c]	Developing market economies[d]	World
Developed market economies[b]				
1961	7	10	2	6
1962	7	3	—2	5
1963	11	10	5	9
1964	14	20	10	13
Centrally planned economies[c]				
1961	5	—1	5	4
1962	5	9	16	11
1963	12	7	16	7
1964	6	7	7	7
Developing market economies[d]				
1961	—	19	1	1
1962	5	7	3	5
1963	10	7	5	9
1964	8	9	5	8
World				
1961	5	3	3	4
1962	7	7	—	6
1963	11	8	6	9
1964	12	10	9	11

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

[a] Excluding trade among mainland China, Mongolia, North Korea and North Viet-Nam. Special category exports from the United States are included in exports to the world but not in exports to any of the regions.

[b] North America, western Europe (excluding Yugoslavia), Australia, New Zealand, South Africa and Japan.

[c] Soviet Union, eastern Europe (including Yugoslavia), mainland China, Mongolia, North Korea and North Viet-Nam.

[d] Rest of the world.

at 10 per cent it was slightly below the over-all growth of world trade (*see* annex table 1A-5).

Exports from North America increased vigorously to all major destinations in 1964. The only region to which North American exports rose less than the world average was southern and south-eastern Asia, to which there had been a particularly large expansion in 1963. There was a notable increase—of over one-sixth—in shipments to Latin America and the Middle East, with which regions trade had been virtually static in 1963. Exports to eastern Europe and the Soviet Union, which had doubled between 1962 and 1963, more than doubled in 1964, reaching almost $0.8 billion. This expansion is very largely the counterpart to the crop failures of 1963; as indicated earlier in this chapter, it involved exports not only from Canada and the United States but also from Argentina and Australia (*see* table 1-6).

Table 1-6. Exports of Wheat from Selected Countries to the Centrally Planned Economies, 1962-1964

(*Thousands of long tons*)

Exports from:	*Exports to:* Eastern Europe[a] 1962	Eastern Europe[a] 1963	Eastern Europe[a] 1964[b]	USSR 1962	USSR 1963	USSR 1964[b]	Mainland China 1962	Mainland China 1963	Mainland China 1964[b]
Argentina	—	24	99[c]	—	—	10[c]	191	35	997[c]
Australia	—	60	—	1	257	1,264	1,164	3,085	2,001
Canada	419	600	1,834	—	1,920	3,215	1,778	1,448	1,575
France	266	650	573	—	—	—	356	800	341
United States	1,124	1,902	1,643	—	—	1,661	—	—	—
Total, above	1,809	3,236	4,149	1	2,177	6,150	3,489	5,368	4,914

Source: Commonwealth Economic Committee, *Grain Bulletin* (London), March 1963, 1964 and 1965; national trade statistics.

[a] Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland and Yugoslavia.
[b] Provisional.
[c] January-November 1964.

Exports of North America to the developing countries rose by over $1 billion in 1964, to almost $9 billion. Exports to the developing countries from western Europe, though larger in total, rose much less—by just over $0.6 billion to reach about $12 billion. Increases to the various developing regions were around 6 per cent—appreciably less in the case of Africa. Exports to Latin America did not fully recover from the setback in 1963. Though exports to other industrial regions rose considerably, the main weight of expansion was in trade within the region: this increased by about $5.5 billion, almost 14 per cent. Nearly half of this increment was in trade among the member countries of the EEC.

Exports from the other industrial countries—Australia, Japan, New Zealand and South Africa—also rose vigorously, and more rapidly than in the previous year, to most destinations. The principal exception was the relatively small flow to mainland China: this had practically doubled between 1962 and 1963 and it increased by a further 14 per cent in 1964. Also decelerated—though only slightly—was the flow to southern and south-eastern Asia. The main component of this—from Japan—again rose by 10 per cent, but there was a sharp drop in the rate of increase in grain shipments from Australia. There was also a smaller relative growth in trade between Australia and New Zealand and in exports of those countries to Japan, flows which had expanded very greatly in 1963.

Exports from centrally planned economies rose by about 7 per cent in 1964, fractionally less than in 1963. This reflects a virtual halving of the high 1963 rates of growth of shipments both to the industrial regions (from almost 12 per cent in 1963 to not much more than 6 per cent in 1964) and to the developing regions (from over 16 per cent to less than 7 per cent). Notwithstanding a further reduction in trade between mainland China and eastern Europe and between mainland China and the Soviet Union, total trade within the area increased by about $0.9 billion, much the same as in the two previous years. And despite the decline in the participation of mainland China in this intra-trade, the Soviet Union remained mainland China's chief trading partner. In the aggregate, exports from mainland China (other than to Mongolia, North Korea and North Viet-Nam) increased by about 7 per cent between 1963 and 1964. The principal components of this increase were in the flows to southern and south-eastern Asia, to western Europe and to Japan.

The deceleration in the growth of exports from eastern Europe and the Soviet Union to the rest of the world was fairly widely distributed among the major destinations. Apart from the decline in exports to mainland China, there was also a decline in shipments to Latin America and a lower rate of increase to each of the other developing regions and—quantitatively more significant—to western Europe also. With imports tending to accelerate and exports to decelerate, there was some deterioration in the merchandise balances of countries in the region: there was an increase in the deficit in Bulgaria, Hungary and Yugoslavia, a reduction in the surplus in Czechoslovakia and a swing from surplus to deficit in the Soviet Union. This corresponds with some relaxation in the credit conditions on which western European countries were prepared to sell goods. The only eastern European country to improve its balance of trade in 1964 was Poland: it sold less coal than in 1963 but more food-stuffs and capital goods, especially to other centrally planned economies.

In absolute terms, most eastern European countries increased their total trade (exports plus imports) more with other centrally planned economies than with the rest of the world, and intra-regional trade continued to account for the bulk of the exports of eastern Europe and the Soviet Union—almost two-thirds in 1964. Through the Council of Mutual Economic Assistance, the member countries have arranged to provide for one another's needs for many items including, in particular, petroleum and coal and their products, iron ore, and equipment for the power, chemical and transport sectors. The planning agencies of the countries concerned have cleared the ground for long-term trade agreements for the period 1966-1970, to be concluded during 1965.[15]

The developing countries exported about 9 per cent more to the centrally planned economies in 1964 than in 1963. This was the highest increase since 1960-1961 but, as the absolute volume of this trade is small, its growth did not prevent a reduction in the over-all rate of increase in exports from the developing countries. The main determinant of the latter is trade with the developed market economies: this increased by about $1.8 billion between 1963 and 1964, compared with $2 billion in the preceding interval, and $1 billion in 1962.

Among the developing regions the deceleration in exports was concentrated in southern and south-eastern Asia where the rate of growth declined from 10 per cent in 1963 to 3 per cent. This decline was in turn concentrated largely in the intra-trade of the region which, after rising by over 10 per cent between 1962 and 1963, dropped back 6 per cent in 1964. The contraction was almost entirely the result of the cutting back of trade between Indonesia and Malaysia; other trade flows within the region were generally higher, though Burma and the Republic of Viet-Nam had less rice to export.

Though southern and south-eastern Asia exported substantially more to North America in 1964 than in 1963, its shipments to the industrial countries as a group also showed a marked deceleration. Its exports to the EEC were actually below the 1963 level and shipments to Japan rose only slightly after the stock-building upsurge that had characterized 1963. In the other regions there was some acceleration in growth: exports increased by 7 per cent in Latin America, 14 per cent in Africa and almost 16 per cent in the Middle East.[16] In Latin America and Africa—in contrast to southern and south-eastern Asia—there were important gains in intra-trade: in Latin America this rose by almost one-third to reach about $1 billion or about 10 per cent of total exports; in Africa it rose by one-eighth and remained at about 5 per cent of total exports. Trade among the Middle Eastern countries rose by a further 5 per cent—appreciably less than total exports—and its share of the total slipped back to about 8 per cent.

Apart from the expansion of intra-trade, perhaps the most important tendency in Latin America was the slackening in exports to the industrial countries: shipments to North America were only one per cent above the 1963 level and there was a perceptible deceleration in the growth in exports to western Europe. Between them, however, these two flows still accounted for 70 per cent of Latin American exports. There was a further reduction in exports to the Soviet Union but it was more than offset by an increase in exports to mainland China. Quantitatively more important was a $100 million expansion in exports to Japan.

There was also a sharp contraction in exports from Africa to the Soviet Union, and to eastern Europe as well, most of it accounted for by smaller shipments from the United Arab Republic. The outstanding development in the case of African trade, however, was the expansion in exports to the more advanced market economies—by one-seventh to western Europe, by more than one-fourth to North America and by one-fifth to other industrial countries, principally Japan. In 1964, thus, western

[15] The problems and implications of these intra-regional arrangements are discussed in chapter 4.

[16] These figures differ slightly from those presented in chapter 3. The differences reflect statistical exigencies in identifying the destination of exports. There are also some minor differences in country coverage of the various regions. Here, Latin America comprises the twenty republics (excluding the West Indies), Africa refers to the continent other than South Africa, Middle East refers to West Asia plus Ethiopia, Libya, the Sudan and the United Arab Republic (which are also included in Africa). Import data implicit in annex table 1A-5 also differ from actual import data reported in chapter 3, partly because of the time lag between the recording of exports and the recording of imports and partly because the exports are valued f.o.b., the imports c.i.f.

Europe continued to absorb about 70 per cent of Africa's exports.

The flow of goods from the Middle East also continued to be largely—over 50 per cent—to western Europe. But the most rapid increase in recent years has been in exports to Japan: these increased by nearly 40 per cent between 1963 and 1964 to about $750 million, reflecting, as in the case of trade with western Europe, the continuing upsurge in the movement of petroleum.

This review of world exports and their distribution has been made in terms of current prices. Actually, price movements contributed somewhat more to the growth of trade values in 1964 than in 1963: averaged over the year, the price index of primary commodities in world trade was 3 per cent higher, and the unit value of manufactured goods gained another one per cent. In the aggregate, therefore, price changes accounted for almost 2 per cent of the increase in 1964, compared with about one per cent in 1963. In terms of quantum, the expansion between 1963 and 1964 was 10 per cent for total trade, about 12 per cent for manufactures.

Efforts to sustain the high rate of growth of international trade were renewed during the year on several fronts. One was the United Nations Conference on Trade and Development which provided an opportunity, unique in scope, for reviewing all the factors influencing the course of trade of the developing countries, and their implications for the process of economic development itself.[17]

The problem facing the developing countries in trying to expand their trade lies partly in the composition of their exports: being mostly primary commodities, these tend to be relatively unstable in price and value in the short run and, in the long run, not very responsive to increases in income in the industrial countries that are their main trading partners. And against this probably slow growth of export earnings, the need for a rapid increase in imports, especially of capital equipment, to sustain an adequate rate of economic development, stands in marked contrast.

The Conference explored ways and means of expanding the export earnings of the developing countries—by widening their access to markets for primary products in the developed market economies and the centrally planned economies, by increasing intra-trade, by offering them special tariff preferences in respect of their exports of manufactured goods, by the provision of export finance, and by means of arrangements for stabilizing prices or furnishing compensation for price declines. It also dealt with other means by which the developing countries might expand their foreign exchange receipts, including the development of tourism and shipping and other forms of "invisible" exports and arrangements for increasing the flow of capital put at their disposal in various forms.

The outcome was a lengthy series of recommendations regarding action that might be taken, policies that might be adopted and studies that should be made, as well as the setting up of permanent follow-up machinery—including a Board of Trade and Development within the United Nations—to review implementation of the Conference recommendations and the future course of world trade as it affects the developing countries. The first meeting of the new Board was held in April 1965.

Another major trade promoting effort was the so-called Kennedy round of tariff negotiations. This had begun in the spring of 1963 on United States initiative on the basis of powers provided by Congress under the Trade Expansion Act of 1962, which permitted the President to offer reciprocal cuts in practically all industrial tariffs of as much as 50 per cent. The negotiations were aimed at obtaining across-the-board "linear" cuts in tariffs rather than item-by-item concessions. Once the magnitude of the linear cut—50 per cent in the case of manufactured goods—was agreed to, the extent of the liberalization depended on the participants' willingness to reduce to a minimum the number of items for which exemption was required. In November 1964 the major trading countries—with the six member States of the European Economic Community acting as an entity—tabled their industrial "exception lists", that is, schedules of items which each country wished to withhold from the offer to cut tariffs by 50 per cent. Negotiations then took the form of multilateral examination of these exception lists in a process of "confrontation and justification".

Though the length and significance of these lists is reported to vary a good deal from country to country—some countries being willing to grant cuts on all industrial products, others having reservations about numerous categories—official statements concerning the negotiations must on the whole be construed as hopeful. For manufactured goods, the outlook for significant tariff reductions—and hence for a further impetus to trade—thus seems to be fairly bright.

This is not the case with agricultural products. Notwithstanding United States efforts to link concessions on industrial goods to concessions in the agricultural field, the problems seem to have proved much more recalcitrant. So far, countries have been

[17] Many of these factors were discussed in *World Economic Survey, 1963, I. Trade and Development: Trends, Needs and Policies* (Sales No.: 64.II.C.1), which contains some of the basic papers prepared for consideration by the Conference.

able to agree to no more than some of the rules to govern negotiating procedures and to time-tables for presenting proposals for grains, meat and dairy products and certain other items. One difficulty has been the formative state in which agricultural policy still remains within the EEC. But that there are many other difficulties holding back the rate of growth of trade in agricultural products—and in primary commodities in general—was brought out very clearly at the United Nations Conference on Trade and Development.

In the meantime, the problems facing the developing countries in the trade field had been receiving increasing attention within the framework of the General Agreement on Tariffs and Trade (GATT), and at the twenty-first session of the Contracting Parties in March 1964 it was decided that a new chapter to the General Agreement should be drafted, dealing specifically with questions of trade and development and their inter-relationship. Such a chapter was submitted to a special session of the Contracting Parties in November 1964; it was adopted and sent to governments for approval. The action culminated in another special session in February 1965 at which it was agreed formally to add a part IV to the General Agreement, setting forth trading principles more or less consonant with the recommendations of the United Nations Conference on Trade and Development. It was agreed to begin the *de facto* implementation of the new chapter immediately, and a new Committee on Trade and Development was set up. At the twenty-second regular session, this Committee established a work programme incorporating a number of problems of special concern to the developing countries, including such questions as preferences for their manufactures in the markets of more advanced countries, access to those markets for other products, the relaxation of certain GATT rules for the benefit of developing countries and the relation between the latter's trade prospects and their development plans.

While the actual expansion of world trade has been as vigorous as ever and activity designed to give additional stimulus in the longer run has been particularly intensive, the immediate outlook is distinctly less promising. The gross domestic product forecasts of many of the major trading countries suggest that the over-all demand for imports is likely to slacken as the year advances.[18] The demand for a number of agricultural imports will almost certainly be lower in 1965 in the wake of the improved domestic harvests of wheat, barley and sugar-beets in Europe and a recovery in the output of livestock products. The demand for inventories may also fall away, not only because of a possible slackening in industrial absorption and in the wake of a somewhat larger build-up in 1964 but also because primary product prices have been slipping downwards. The price index of all primary commodities entering international trade was 5 per cent lower in the first quarter of 1965 than in the corresponding period in 1964, and to judge by past experience there may be some tendency to run down stocks in anticipation of a further decline.

Apart from the widespread expectation of deceleration in growth—associated in many countries with official efforts to maintain or improve the state of internal balance—there is also a possibility that the external imbalances that emerged or intensified in 1964 will have a negative effect on trade in 1965. Most important in this context is the payments disequilibrium of the reserve currency countries. Though this reflects difficulties in the capital account rather than in the current account—entirely so in the United States, partly so in the United Kingdom—the urgent need to take action to reduce the external deficit will almost inevitably have unfavourable repercussions on trade. The most obvious of the effects will be those of the surcharge on imports imposed in the United Kingdom and those of the efforts of the United States to reduce the outflow of dollars in government and tourist purchases.[19] But restraints on capital outflows and on overseas activities of corporations will also probably tend to inhibit the trade that has often been closely associated with such outflows.

Payments difficulties may also bring about some deceleration in the rise in imports into the primary exporting countries in the course of 1965. Though liquidity increased substantially between 1962 and 1964 as the upswing in export earnings ran ahead of the response of imports, it is likely to be reduced again in 1965 as export earnings slow down and imports overtake them. Restraints on imports are likely to become more common as the year progresses and indeed some of the developing countries—Colombia, Ghana, India, Indonesia, Iran, Morocco, Pakistan, Syria and Tunisia, for example—have already taken defensive action which will tend to inhibit the expansion of trade.

That trade is likely to be less buoyant in 1965 than in 1964 has already been foreshadowed by the results for the first quarter of the year. Almost all regions registered a substantially smaller growth in exports in the first quarter of 1965 than in the first quarter

[18] *See* chapter 2 for a more detailed examination of the outlook for 1965 in the developed market economies.

[19] Action taken by the United Kingdom and the United States to strengthen their current accounts is discussed in chapter 2.

of 1964—relative in each case to the corresponding portion of the preceding year. The most dramatic change was in North America, where 1964 shipments were swelled by the grain sales referred to earlier in this chapter and 1965 shipments were adversely affected by dock strikes. But the exports of the other industrial countries also registered an appreciably smaller increase in 1965 and, to judge by a much less adequate coverage of developing countries, exports from Latin America were down in value, more or less offsetting gains in Asia and Africa. These changes are confirmed by a comparable deceleration on the import side: imports into the developed market economies rose by about 7 per cent in the first quarter of 1965 compared with 19 per cent in the first quarter of 1964, and the rate of increase in imports into the developing countries also fell off—from 8 per cent to somewhere around 6 per cent.[20] (*See* table 1-7.)

This impending deceleration in the growth of world trade threatens to remove one of the most dynamic elements of demand in recent years. This possibility lends new importance to the Kennedy round negotiations and to actions that might be taken to ease some of the problems on the agenda of the United Nations Conference on Trade and Development. It also serves to emphasize the interdependence of the world trading community and the international significance of maintaining domestic demand in the major trading countries.

[20] These comparisons are made on the basis of preliminary trade statistics. The coverage is comprehensive for the developed market economies but only partial for the developing countries: fifty-one countries are included, accounting in 1964 for about 70 per cent of the total trade of the developing countries.

Table 1-7. World Trade: Indices of Recent Changes, First Quarter of 1964 and 1965

(*Corresponding quarter of preceding year = 100*)

Region	*Exports*		*Imports*	
	1964	*1965*[a]	*1964*	*1965*[a]
World	117	105	116	106
North America	122	93	112	107
Western Europe	117	112	120	107
Other industrial countries[b]	120	115	127	107
Latin America[c]	111 (118)	96	104 (97)	105
Africa[d]	124 (127)	101	110 (118)	107
Asia[e]	107 (113)	106	109 (111)	106

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

[a] Preliminary; based, in several regions, on partial returns.

[b] Australia, Japan, New Zealand and South Africa.

[c] Including West Indies (seventeen countries covered; the 1964 index for these countries is given in parenthesis).

[d] Excluding South Africa (eighteen countries covered; the 1964 index for these countries is given in parenthesis).

[e] Excluding mainland China, Japan, Mongolia, North Korea and North Viet-Nam (sixteen countries covered; the 1964 index for these countries is given in parenthesis).

Annex

Table 1A-1. Centrally Planned Economies: Livestock Numbers, 1960-1964

(Thousands, at end of year)

Country and livestock	*1960*	*1961*	*1962*	*1963*	*1964*
Bulgaria					
Cattle	1,452	1,582	1,582	1,492	1,390
Pigs	2,553	2,331	2,066	2,097	2,130
Sheep	9,333	10,161	10,107	10,308	10,500
Czechoslovakia					
Cattle	4,387	4,518	4,507	4,480	4,436
Pigs	5,692	5,895	6,633	5,845	6,139
Sheep	646	603	529	527	568
Eastern Germany					
Cattle	4,675	4,548	4,508	4,614	4,682
Pigs	8,316	8,864	8,045	9,289	8,759
Sheep	2,015	1,930	1,792	1,889	1,972
Hungary					
Cattle	1,971	1,957	1,987	1,906	1,883
Pigs	5,356	5,921	6,409	5,428	6,358
Sheep	2,381	2,643	2,850	3,043	3,305
Poland					
Cattle	8,695	9,168	9,590	9,841	9,940
Pigs	12,615	13,434	13,617	11,653	12,823
Sheep	3,662	3,494	3,251	3,056	2,912
Romania					
Cattle	4,450	4,530	4,707	4,566	4,637
Pigs	4,300	4,300	4,665	4,518	4,658
Sheep	11,200	11,500	12,285	12,168	12,400
USSR					
Cattle	75,800	82,100	87,000	85,500	87,100
Pigs	58,700	66,700	70,000	40,900	52,800
Sheep and goats	140,300	144,500	146,400	139,500	130,600

Source: National statistical yearbooks and plan fulfilment reports.

Table 1A-2. Centrally Planned Economies: Changes in Gross Agricultural Output, 1960-1964

(Percentage change from preceding year)

Country and item	*1960*	*1961*	*1962*	*1963*	*1964*
Bulgaria					
Total	3.5	—3.5	4.2	2.6	8.6
Crops	1.8	—9.3	8.8	4.6	7.2
Animal products	6.4	8.4	—3.7	—1.1	11.4
Czechoslovakia					
Total	5.4	—	—7.6	7.3	0.6
Crops	9.6	—2.9	—12.0	15.0	—4.4
Animal products	1.6	2.9	—3.2	0.4	5.7
Eastern Germany					
Total[a]	6.3	—1.5	—2.5	1.0	3.5
Hungary					
Total	—4.9	0.7	1.6	5.8	2.0
Crops	—6.1	—3.9	3.9	8.0	...
Animal products	—5.1	6.4	—0.3	1.8	...
Poland					
Total	5.4	10.4	—8.3	3.8	0.7
Crops	7.9	11.6	—14.3	11.3	—0.2
Animal products	1.9	8.6	0.9	—6.1	2.3
Romania					
Total	1.6	8.0	—9.0	3.3	0.2[b]
Crops	—1.7	3.4	—10.0	10.0	...
Animal products	9.4	18.7	—8.1	—7.5	...
USSR					
Total	2.3	2.6	1.3	—7.5	12.0
Crops	3.6	2.0	—	—8.9	27.2
Animal products	—1.0	4.5	2.5	—6.1	—6.5
Yugoslavia					
Total	—10.1	—2.8	2.9	10.3	4.0
Animal products	—0.9	—0.9	—3.6	6.5	3.0

Source: National statistical yearbooks and plan fulfilment reports.

[a] In current prices, except the 1963 figure which is based on official statements concerning the plan and its fulfilment, and the 1964 figure which has been estimated from the physical output of basic commodities.

[b] Estimated on the basis of statements concerning the average increase during 1960-1964 over the preceding five years, and of data for 1960-1963.

Table 1A-3. Centrally Planned Economies: Changes in Industrial Production, 1961-1964

(Percentage change from preceding year)

Country and industry[a]	*1961*	*1962*	*1963*	*1964*
Bulgaria				
Total	12	11	10	11
Light	14	9	9	6
Heavy	8	15	12	19
Czechoslovakia				
Total	9	6	—1	4
Light	7	4	—	2
Heavy	10	7	—1	5
Eastern Germany				
Total	6	6	5	7
Light	4	2	1	...
Heavy	7	8	6	...
Hungary				
Total	11	8	7	9
Light	10	7	8	10
Heavy	12	9	7	8
Poland				
Total	10	8	6	9
Light	7	4	1	7
Heavy	13	12	8	11
Consumer goods	8	6	2	8
Producer goods	12	10	8	10
Romania				
Total	15	15	13	14
Light	12	10	8	11
Heavy	18	16	14	16
Consumer goods	14	10	10	11
Producer goods	16	18	15	16
USSR				
Total	9	10	8	7
Consumer goods	7	7	5	4
Producer goods	11	11	9	8
Yugoslavia				
Total	7	7	15	16

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national statistical yearbooks and plan fulfilment reports.

[a] Light industry includes food-stuffs.

Table 1A-4. Changes in Industrial Production in Selected Countries, 1964-1965

(Percentage change from corresponding quarter in preceding year)

Country	1964				1965, First quarter
	First quarter	Second quarter	Third quarter	Fourth quarter	
Austria[a]	10	8	8	7	5
Bulgaria[b]	15	12	10	10	8
Canada	10	9	8	8	7
Eastern Germany[c]	8	4	5	4	7
Finland	7	9	9	7	8
France	14	7	4	1	—1
Germany (Federal Republic)	11	7	8	7	8
Greece	12	13	10	9	11
Hungary	12	9	8	7	6
Israel[d]	12	17	14	12	12
Italy	8	—	—2	—3	—2
Japan	21	20	16	12	8
Luxembourg	10	12	9	10	5
Netherlands	11	8	6	10	7
Norway	5	14	7	7	12
Poland	10	7	9	10	12
Republic of Korea[e]	3	10	8	12	13
Rhodesia	9	8	10	11	8
Romania	17	15	15	13	14
South Africa[f]	19	19	15	11	4
Sweden[d]	9	5	6	5	4
USSR[g]	8	8	8	7	9
United Kingdom[h]	11	9	6	6	5
United States	5	7	6	6	9
Yugoslavia	19	16	13	14	13

Source: United Nations, *Monthly Bulletin of Statistics*, September 1964 and June 1965.

[a] Excluding gas.

[b] Including logging; excluding publishing.

[c] Including fishing.

[d] Excluding electricity and manufactured gas.

[e] Excluding manufactured gas.

[f] Manufacturing only.

[g] Including fishing, logging and waterworks; excluding publishing.

[h] Including construction.

Table 1A-5. World Exports, by Provenance and Destination: Value, 1962 and Percentage Change, 1963 and 1964

(Value in millions of dollars; percentage)

Exporting region and item	*World*[a]	*North America*	*Western Europe*[b]	*Other developed market economies*[c]	*USSR and eastern Europe*[b]	*China (mainland)*	*Latin America*	*Africa*[d]	*Middle East*[e]	*Southern and south-eastern Asia*
World[a]										
Value in 1962	140,860	21,380	61,330	8,570	15,240	1,350	8,100	6,160	4,630	9,930
Percentage change from previous year:										
1963	8.9	5.1	11.3	20.1	7.3	4.4	—1.4	7.8	6.7	12.0
1964	11.3	10.2	12.7	17.5	9.4	12.1	13.4	7.8	10.3	4.2
North America										
Value in 1962	27,350	7,260	7,760	2,451	168	140	3,370	774	903	2,239
Percentage change from previous year:										
1963	8.1	5.8	8.9	20.8	107.8	—32.1	0.6	5.7	—5.0	18.6
1964	14.7	14.1	15.7	19.8	126.1	32.6	17.1	30.8	17.1	4.3
Western Europe[b]										
Value in 1962	57,950	5,360	35,990	2,650	2,530	155	2,640	3,675	2,130	2,450
Percentage change from previous year:										
1963	9.2	3.4	12.2	14.7	0.4	12.9	—8.0	9.9	9.4	4.5
1964	11.8	9.9	13.5	14.1	8.7	17.1	6.6	1.7	5.6	5.9
Other developed market economies[c]										
Value in 1962	9,280	2,227	2,770	942	239	148	344	467	250	1,720
Percentage change from previous year:										
1963	12.4	8.4	8.1	24.2	18.0	98.6	4.4	21.6	16.8	10.6
1964	15.9	13.9	14.5	16.3	39.4	13.9	20.3	22.0	24.0	9.6
USSR and eastern Europe[b]										
Value in 1962	15,750	96	2,650	140	10,170	630	585	345	400	430
Percentage change from previous year:										
1963	7.8	12.5	10.2	16.4	8.8	—7.9	11.1	22.6	15.0	30.2
1964	6.8	16.7	7.5	32.5	7.4	—6.9	—4.6	11.8	8.7	5.4
China (mainland):										
Value in 1962	1,640	8	170	66	850		100	39	34	390
Percentage change from previous year:										
1963	2.4	12.5	2.9	54.5	—11.8		—10.0	10.3	29.4	23.1
1964	7.1	33.3	42.9	36.3	—10.7		—	—	25.0	16.7

Latin America										
Value in 1962	9,150	3,570	3,010	369	495	120	660	59	29	50
Percentage change from previous year:										
1963	6.3	3.1	10.3	22.5	—6.1	—33.3	13.6	44.1	51.7	30.0
1964	7.1	1.1	6.9	25.0	—4.3	100.0	30.7	36.4	—	—7.7
Africa[d]										
Value in 1962	5,500	488	3,900	170	288	41	38	285	127	140
Percentage change from previous year:										
1963	13.3	6.8	11.8	35.3	21.9	43.9	—7.9	—	10.2	15.7
1964	14.3	27.8	14.0	20.0	—15.4	18.6	25.7	12.3	21.4	20.4
Middle East[e]										
Value in 1962	5,770	500	2,840	680	260	37	100	250	560	420
Percentage change from previous year:										
1963	12.5	4.0	17.3	19.1	28.8	48.6	—10.0	—12.0	5.4	7.1
1964	15.7	—	14.4	25.9	1.5	5.5	—	2.3	5.1	6.8
Southern and south-eastern Asia										
Value in 1962	7,660	1,320	2,030	1,040	330	170	135	240	260	2,120
Percentage change from previous year:										
1963	10.2	6.8	7.9	26.9	45.5	—41.2	—7.4	—4.2	—	10.4
1964	3.3	10.6	3.2	5.7	5.2	15.0	4.0	10.9	15.4	—6.1

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics*, June 1965.

[a] World totals contain some exports which could not be distributed by region of destination.

[b] Yugoslavia is included in western Europe.

[c] Australia, Japan, New Zealand and South Africa.

[d] Continent and associated islands; excluding South Africa.

[e] West Asia plus Ethiopia, Libya, the Sudan and the United Arab Republic.

Chapter 2

RECENT TRENDS IN DEVELOPED MARKET ECONOMIES

The phase of the current economic upswing that began in 1961 has been distinguished not only by its duration and steadiness but also by its inclusiveness. In 1964 and the first half of 1965, the expansion continued to be widely based both in terms of the countries involved and in terms of the various components of demand and production.

Virtually all the leading industrial countries registered a greater increase in industrial production and in total output between 1963 and 1964 than in the previous interval. The result was a remarkably uniform expansion in real gross national product of between 5 per cent and 6 per cent in each of the principal regions (*see* table 2-1 and annex table 2A-1).

In the case of the major components of demand, there was a somewhat greater diversity, but almost everywhere fixed capital formation and exports registered a greater increase than between 1962 and 1963, and public consumption a smaller increase. In the aggregate, exports were up by about 10 per cent in volume in 1964 and fixed investment by about 8 per cent, while the rate of growth in public consumption again declined (see table 2-2 and annex table 2A-2).

Table 2-1. Developed Market Economies: Industrial Production and Gross National Product, by Region, 1962-1964

(Percentage change from preceding year)

Region[a]	*Percentage share in combined 1963 gross national product*	*Industrial production*			*Gross national product*[b]		
		1962	*1963*	*1964*	*1962*	*1963*	*1964*
Developed market economies ..	100	6	6	7	5	4	5
North America	55	7	5	6	6	3	5
European Economic Community	22	6	5	7	5	4	5
European Free Trade Association	12	1	4	8	2	4	6
Other western Europe	3	7	8	12	7	9	6
Japan[c]	5	4	16	15	5	12	9
Oceania[d] and South Africa..	3	2	11	10	3	6	6

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Yearbook of National Accounts Statistics;* Organisation for Economic Co-operation and Development, *General Statistical Bulletin* (Paris), and official national sources.

[a] For country coverage, *see* annex table 2A-1.

[b] At constant prices and 1963 exchange rates.

[c] Fiscal years starting on 1 April of years indicated.

[d] For Australia, fiscal years ending on 30 June and for New Zealand, fiscal years starting on 1 April of years indicated.

In a number of countries, imbalances of varying degrees of seriousness developed in the course of 1963 or 1964, but in most cases drastic curbs on demand were avoided. The continued high rate of expansion in demand for exports generally helped to prevent deterioration in the external balance. Nevertheless, various signs of strain emerged, notably in the supply of skilled labour and in capacity in the construction industry in western Europe where, partly as a result of these supply bottle-necks and partly in response to official disinflationary measures, there was a marked deceleration in the rise in industrial production and a falling off in the rate of capacity utilization in the course of 1964 (*see* chart 2-1).

Table 2-2. Developed Market Economies: Gross National Product and its Main Components, by Region, 1962-1964

(At constant prices and 1963 exchange rates; percentage change from preceding year)

Region and year[a]	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services: Exports	Foreign trade in goods and services: Imports	Change in inventories[b]
Developed market economies							
1962	5	5	6	6	6	7	1.2
1963	4	5	4	5	7	9	1.0
1964	5	5	2	8	10	9	1.1
North America							
1962	6	5	6	7	6	7	1.1
1963	3	4	3	4	6	5	0.7
1964	5	5	1	7	13	8	0.6
European Economic Community							
1962	5	6	7	6	5	11	1.2
1963	4	6	5	4	8	11	0.9
1964	5	5	3	5	10	9	1.4
European Free Trade Association							
1962	2	3	4	2	5	5	0.9
1963	4	4	4	3	6	5	0.4
1964	6	4	3	13	6	9	1.4
Other western Europe							
1962	7	5	12	15	8	12	1.2
1963	9	9	10	8	7	7	1.6
1964	6	8	3	5	12	9	...
Japan[c]							
1962	5	8	10	7	16	—1	3.0
1963	12	9	11	12	9	24	6.1
1964	9	8	9	16	20	8	3.8
Oceania[d] and South Africa							
1962	3	4	8	—1	8	—8	—0.4
1963	6	7	7	8	2	20	2.0
1964	6	7	5	12	10	16	1.4

Source: Statistical Office of the United Nations, *Yearbook of National Accounts Statistics*, and official national sources.

[a] For country coverage, *see* annex table 2A-2.

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

[c] Fiscal years starting on 1 April of years indicated.

[d] For Australia, fiscal years ending on 30 June and for New Zealand, fiscal years starting on 1 April of years indicated.

The most serious of these imbalances was in the United Kingdom where a levelling off in industrial output was accompanied by a steep rise in imports and a decline in the rate of increase in exports and a resultant deterioration in the external payments position so sharp as to bring on a grave sterling crisis. This was met with the aid of massive financial support from outside and severe restraining measures inside. But its effect spilled over to the other reserve currency, and a large outflow of dollars in the last quarter of 1964 exacerbated the longer-term balance of payments problem of the United States and set in motion strenuous new efforts to curb the outflow of capital.

Internally, the expansion in the United States was accomplished with singularly little strain. Indeed, a major concern remained the high rate of unemployment—affected only slightly by the extraordinary duration of the upswing. This absence of constraints on the supply side enabled the Government to apply considerable fiscal stimulus to the economy which served to keep personal consumption and private fixed investment rising steadily.

The expansion in 1964

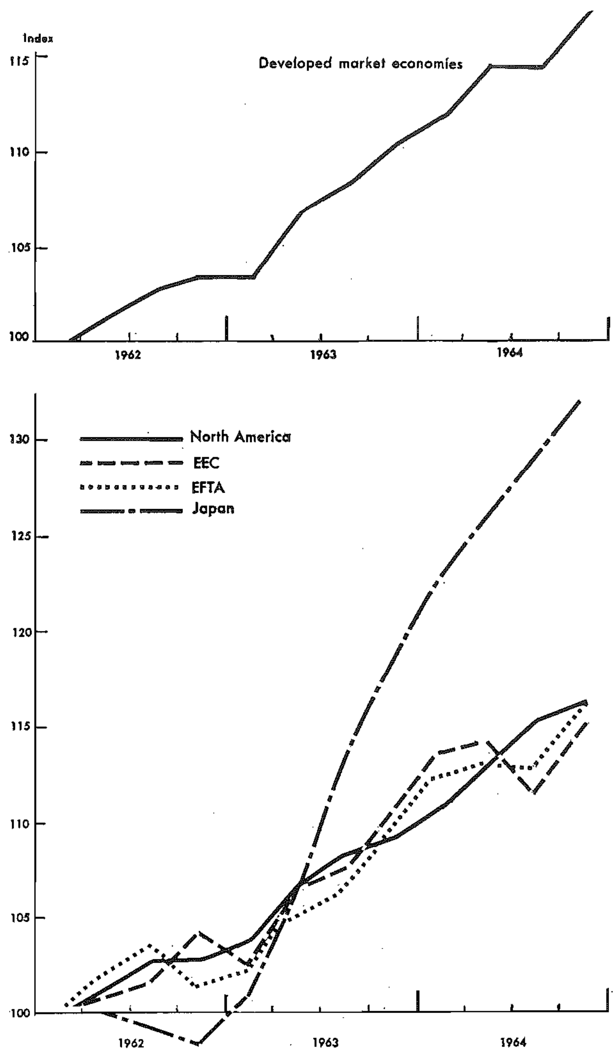
DEVELOPMENTS IN DEMAND AND PRODUCTION

North America

In 1964, the level of aggregate production in North America responded to the continuing increase in demand. Reserves of both labour and product capacity remained adequate to accommodate this increase with little change in prices. The absence of supply bottle-necks was again an important factor in sustaining growth, as it has been throughout the present upswing.

Chart 2-1. Developed Market Economies: Quarterly Indices of Industrial Production, by Region, 1962-1964[a]

(Seasonally adjusted; first quarter 1962 = 100)



SOURCE: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Organisation for Economic Co-operation and Development, *General Statistical Bulletin*, and official national sources.

[a] For country coverage, *see* annex table 2A-1.

In the United States, real gross national product increased by about 5 per cent from 1963 to 1964, significantly more than between 1962 and 1963 (*see* annex table 2A-1. As in preceding years, the advance in output was broadly based, though its precise shape was strongly influenced by government policy.

The public sector played a dominant part in halting the recession in the United States in the first quarter of 1961, and it provided the main driving force behind the expansion of production in the early stages of the upswing.[1] More recently its role has been more subtle, depending less on increases in public consumption—which were quite small in 1963 and 1964 (*see* annex table 2A-2)—than on more general developments in public finance and on shifts in the allocation of outlays. Thus, although the Federal Government provided little direct stimulus through its purchases of goods and services in the years 1962-1964, it made a major contribution to the expansion through reductions in the federal tax liabilities of private persons and corporations.

The tax reduction proposed in 1962 was signed into law in February 1964, retroactive to the beginning of the year. Personal income-tax liabilities were cut by $6.7 billion and corporate profits tax liabilities by $1.7 billion. With further reductions in rates in 1965, the cut in liabilities will amount to an annual $11 billion for individuals and $3 billion for corporations. Though the legislation called for a two-step reduction in taxes on wages and salaries, withholding rates were actually reduced by the full amount in 1964—from 18 per cent to the 1965 rate of 14 per cent. This meant that most of the tax reduction was reflected immediately in consumers' disposable income.

Investment has likewise been stimulated by a considerable decline in the proportion of corporate receipts paid out in federal income-taxes. New guidelines for depreciation and a tax credit for investment outlays became effective in 1962.[2] In 1964, these measures were supplemented by a revision of the corporate income-tax rate, involving chiefly a reduction in the maximum rate, effective in two equal steps at the beginning of 1964 and at the beginning of 1965. As a result of the initial cut, tax liabilities declined in the first quarter of 1964 even though profits before taxes rose by 4 per cent, producing a net effect of a 10 per cent increase in income after taxes.

[1] For an analysis of the role of the public sector in the 1960-1961 recession and subsequent recovery, *see* United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1), pages 125 to 127.

[2] See *World Economic Survey, 1963, II. Current Economic Developments* (Sales No.: 64.II.C.3), page 13.

The combined effect of the 1962 and 1964 changes in taxation was a sharp rise in the earnings left at the disposal of corporations. Between the fourth quarter of 1961 and the third quarter of 1964, profits before taxes increased by about a sixth, whereas profits after taxes increased by nearly a third. The increase in corporate liquidity resulting from these tax measures has been an important factor in the steady growth of business fixed capital formation during the current upswing.

The tax measures resulted in considerable shifts in the balance of federal receipts and expenditures. Largely as a result of the depreciation guide-lines and the investment incentive legislation adopted in 1962, the budget deficit (measured on a national income account basis) remained at the high 1961 level of more than $4 billion, despite a levelling off in the rate of increase in expenditures. By the latter half of 1963, receipts and expenditures had reached an approximate balance, and the deficit for the whole year fell to $1.5 billion. With the tax cut in 1964, the deficit rose sharply to an annual rate of nearly $8 billion in the second quarter and an average of more than $5 billion for the year as a whole.

That tax rates were cut in 1964 at a time of rising demand and output reflects a growing awareness of the gap between potential and actual production implicit in the continued high level of unemployment and of certain defects in the fiscal structure which, because of its so-called "built-in stabilizers", tended to exert a progressively severe drag on the economy as activity and incomes rose. The tax cut, though enlarging the deficit at the existing rate of resource utilization, was designed to bring the economy nearer to a state of full employment which, if attained, would actually yield a fiscal surplus.[3]

Since 1962, expenditures by the Federal Government have represented a decreasing proportion of total public consumption. The growth in public outlays for non-military purposes has been greater at the state and local level than at the federal level: of the $6 billion rise in non-military public consumption between 1963 and 1964 only about $1 billion is attributable to the Federal Government.

In 1964, personal consumption continued to be the mainstay of the economic upswing.[4] Personal income was substantially above the 1963 level and, in the wake of the tax cut, disposable income increased even more sharply. Although there was a considerable rise in the ratio of personal saving to disposable income following the tax cut, the rate of increase in consumption was higher between 1963 and 1964 than in the previous interval.

The rise in consumer demand was broadly based and this contributed to price stability. The largest percentage increase was in household durables (*see* annex table 2A-3). But for the third consecutive year there was a major expansion in automobile purchases: notwithstanding the fact that output was curtailed by strikes towards the end of the year, total new car sales passed the 8-million mark for the first time.

A steady rise in fixed investment in 1964 extended the duration of the current investment expansion to three and one-half years, and to judge by planned capital outlays, a further increase appears assured up to the end of 1965. The annual rate of increase in fixed investment has not been as spectacular in any single year of the present upswing as it was in 1955 or in 1959, but the current advance has been much better sustained (*see* chart 2-2). Because of the orderly growth of investment, supply conditions in capital goods industries have remained relatively easy and since early 1961 capital goods prices have increased at an average rate of only one per cent a year, thus avoiding one of the upward pressures on costs which characterized the upswing of the mid-nineteen fifties.

The growth in fixed investment was confined mainly to manufacturing (*see* annex table 2A-4), but the transportation sector, particularly rail transport, showed even higher rates of increase. New residential construction changed little in volume from 1963 to 1964. During the period 1961-1964, housing starts totalled about 6 million, almost twice as many as the net gain in households; hence, despite a relatively high rate of demolition and easy mortgage conditions, it is probable that vacancies increased significantly, leaving the housing sector rather a drag on the economy. Notwithstanding the favourable effect that the growth of demand and production exerted on capital utilization ratios and profitability in a number of industries, there were few instances of strain and for the economy as a whole the expansion of 1964 still left a fair margin of capacity over requirements.

Inventory accumulation was moderate in 1964, as in the preceding year. In the final quarter, however, it accelerated slightly, reflecting, in part, some precautionary stockpiling of steel against a possible strike in the spring of 1965. Moderation in inventory investment has contributed significantly to the balance and duration of the current expansion. It has fluctuated less violently and with less perverse tim-

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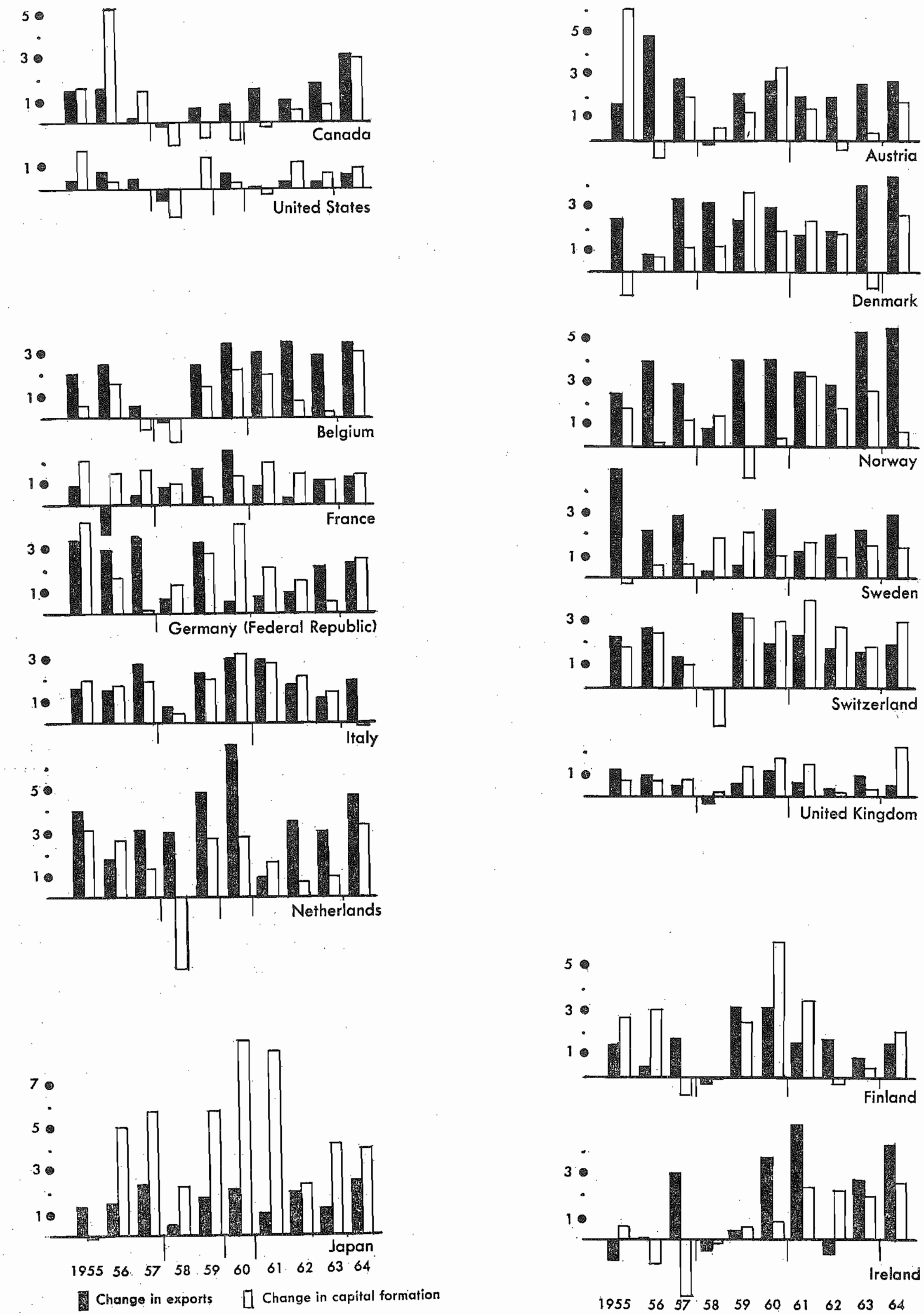
[3] For a detailed discussion of the concept of "fiscal drag" and "full employment surplus" in connexion with United States fiscal policy, see *Economic Report of the President* (Washington, D.C.), January 1962, pages 78 to 84, and *Economic Report of the President*, January 1965, pages 62 to 66.

[4] For a discussion of the nature of the expansion in earlier years, see *World Economic Survey, 1963, II. Current Economic Developments*, pages 14 and 15.

Chart 2-2. Developed Market Economies: Change in Exports of Goods and Services and in Gross Domestic Fixed Capital Formation, 1955-1964

(Percentage of gross national product in preceding year)

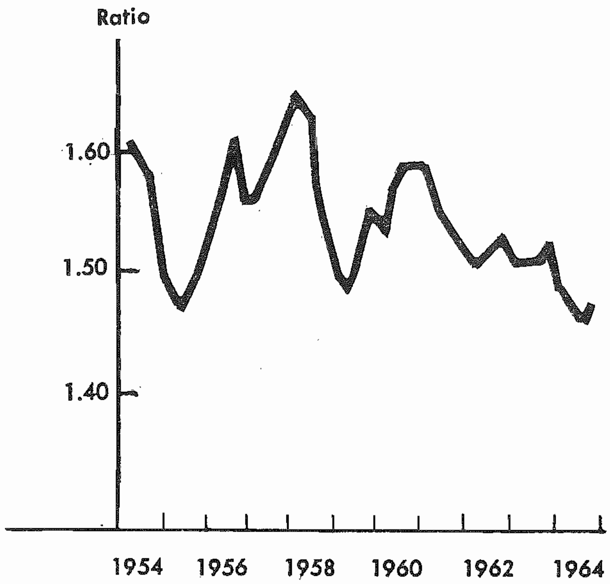


SOURCE: See table 2-2.

ing than in earlier post-war expansions. Even the accumulation of steel in anticipation of a strike was less than in 1959 in similar conditions. In contrast to developments in previous upswings, manufacturers' stocks have not increased as fast as their sales (*see* chart 2-3). This reflects the existence of ample capacity (maintaining generally prompt deliveries), relatively stable commodity prices (militating against precautionary or speculative stock building) and improvements in inventory management.

Chart 2-3. United States: Ratio of Inventories to Sales in Manufacturing and Trade, 1954-1964

(Quarterly; inventories at end of quarter divided by sales during quarter)



SOURCE: United States Department of Commerce, *Survey of Current Business* (Washington, D.C.).

Benefiting from a remarkable stability of prices, United States merchandise exports have risen briskly during the current expansion, and considerably more than imports. In 1964, they rose by no less than 13 per cent in value, while imports of goods increased by only 9 per cent. The resulting export surplus of $8 billion, the highest since the early post-war years, corresponds to one-fifth of the rise in gross national product between 1963 and 1964. However, as part of the increase stemmed from extraordinary wheat sales to Europe, drawn largely from stocks, its impact on the economy was rather less expansive. Except in the case of food-stuffs—purchases of which increased very little—the rise in exports and imports was fairly well distributed, both geographically and among commodity groups.

Notwithstanding their magnitude and their increase, the surpluses on merchandise trade account in recent years have not been sufficient to improve substantially the over-all balance of payments position of the United States. The external deficit remained a major problem for economic policy at the beginning of 1965.[5]

As in the United States, the current expansion in Canada went into its fifth year in the first quarter of 1965 and thus surpassed in duration earlier post-war upswings. Following a year of slower growth, the pace of advance accelerated in the middle of 1963 and production increased vigorously in the early months of 1964. The acceleration was closely related to developments in the United States, but larger wheat sales to the centrally planned economies were also of importance. Between 1963 and 1964, gross national product increased by 6 per cent, about as much as in 1962, the first full year of the expansion.

The major feature of demand in 1964 was a sharp increase in fixed investment. About two-fifths of this increase took place in manufacturing enterprises, a much higher proportion than during the 1954-1957 expansion. Personal consumption increased less than disposable personal income, probably because a high proportion of the increase went to farmers who tend to save more of their income than do wage and salary earners. As in the two preceding years, public consumption increased little in 1964.

Canadian exports, benefiting from the devaluation of 1962 and the subsequent price stability, have developed favourably in recent years. This has permitted a gradual narrowing of the large balance of payments deficit on current account which was a feature of the late nineteen fifties. In 1964, merchandise exports at about $8.2 billion were 16 per cent above the 1963 level and $700 million above the current rate of imports.

Western Europe

Though there were some sharp contrasts among the countries of western Europe both in respect to over-all and sectoral rates of growth and in respect to the state of balance between aggregate demand and supply, yet there was a fairly widespread tendency for developments during 1964 to be rather less favourable than might be inferred from a comparison between averages for 1963 and 1964. Growth rates tended to slacken as efforts were made to prevent imbalances from widening.

The European Economic Community (EEC) as a whole experienced a significantly faster growth of industrial production between 1963 and 1964 than in the two preceding intervals (*see* table 2-1). On the supply side the acceleration was in part a result

[5] The implications of this for the international monetary system are discussed in the final two sections of this chapter.

of fortuitous circumstances: in 1963 the generally bad weather during the first quarter and the poor harvests had depressed production and thus provided a misleadingly low base for comparison with 1964 when the winter was milder and the harvests considerably better. As can be seen from table 2-2, internal demand in the Community expanded between 1963 and 1964 at roughly the same rate as between 1962 and 1963 but somewhat less than between 1961 and 1962, whereas external demand accelerated from one interval to the next. Indeed, along with fixed capital formation, exports of goods and services provided the main stimulus for expansion in 1964.

In the course of the year the EEC moved somewhat closer to both external and internal equilibrium. The balance of trade in goods and services with the rest of the world was about the same as in 1963; as a result of disinflationary measures to counteract the exchange crisis of early 1963 there was a dramatic improvement in Italy; in the Netherlands, however, the balance deteriorated sharply. Prices continued to rise but at a somewhat slower pace than earlier. Despite the improvement, the primary objective of short-run economic policy in all member countries continued to be the maintenance of balance between supply and demand.

Both industrial production and gross national product increased more rapidly between 1963 and 1964 in all member countries except Italy, where the balance of payments situation forced the Government to pursue a policy of retrenchment. The gain in output was particularly sharp in Luxembourg and the Federal Republic of Germany (*see* annex table 2A-1(. In most countries the pattern of growth during the year was one of rapid expansion in the first half, followed by some levelling off in the second half.

During the past few years, anti-inflationary policies in most EEC countries have been concerned with limitations in potential supplies as well as with increases in demand pressures. None the less, demand has tended to exercise a more decisive influence on production than it did during the upswing in the mid-nineteen fifties and to some extent in 1960 and 1961 also. Following high rates of growth in fixed capital formation and the augmentation of labour by migration, shortages of labour and productive capacity have become less serious. Despite certain local bottle-necks in some industries and generally low rates of unemployment, production has been surprisingly elastic, particularly in the Federal Republic of Germany and the Netherlands.

The large increase in EEC exports reflects higher sales to industrial countries, particularly the United Kingdom and the United States; shipments to developing areas, including associated overseas countries and territories, rose relatively little. On the import side, by contrast, the largest increases were from developing countries, in the wake of an increase in demand for raw materials and a slowing down in the rate of growth in the Community's demand for manufactured imports. EEC intra-trade rose by 15 per cent in value between 1963 and 1964 compared with 17 per cent in the previous period, still at a much faster rate than exports to non-member countries. The rise in the share of EEC producers in the supply of industrial goods within the area is indicative of easier internal supply conditions as well as increasing tariff discrimination against outsiders.

The more rapid increase in fixed investment between 1963 and 1964 was concentrated in Belgium, the Federal Republic of Germany and the Netherlands and, to a less extent, in Luxembourg. In these countries better capacity utilization, scarcity of labour and a large inflow of foreign funds all helped to stimulate fixed capital formation. Elsewhere, disinflationary policies held down the rate of expansion: in France, fixed investment increased to much the same extent as between 1962 and 1963, while in Italy there was a sizable absolute decline.

These year-to-year rates of change need to be interpreted carefully: a small percentage rise from a high level of investment may indicate a more favourable development than a large percentage increase from a state of low investment. It has been estimated that in the Federal Republic of Germany, for example, an unchanged absolute level of gross investment in industry in 1963—that is, a zero rate of growth between 1962 and 1963—would have resulted in an addition to productive capacity of 6 to 7 per cent. After the very high rates of fixed capital formation in the EEC in the years 1959-1961, even the declining rates of growth involved sizable increments in capacity. Nevertheless, with investment making smaller and smaller contributions to aggregate demand, exports of goods and services became the main driving force of the expansion in this period (*see* chart 2-2). Only in Italy did exports constitute a declining share of gross national product.

Between 1963 and 1964 investment in housing and other construction works—which had been particularly affected by the bad weather of the first quarter of 1963—increased relatively more than aggregate fixed investment (*see* annex table 2A-4). Government outlays on equipment increased notably in Belgium and the Federal Republic of Germany and also in the Netherlands where exploitation of natural gas deposits gave rise to important primary and secondary investment projects. In France, where stabilization measures were adopted by the authorities in September 1963, the rate of growth in productive investments by private industry has been declining since 1962, and, according to surveys of investment plans, may drop further in 1965. The mildly deflationary effect of the stabilization programme as a whole has made for lower than preferred rates of capacity utilization in some industries, especially those producing automobiles and textiles. With wages and salaries still rising rapidly, costs per unit of output have tended to increase but a series of measures to prevent the rise in producer prices and retail margins have inhibited price increases. While the means for self-financing have thus been constricted, credit restraints have lessened the availability of borrowed funds.[6]

Inventory accumulation tended to accelerate in all member countries in the course of 1964. In part, the faster rise in stocks was a result of a higher rate of increase in final demand in the first half of the year, but in Italy there was also fairly widespread involuntary accumulation in the wake of declining demand for many industrial products. In Belgium and the Federal Republic of Germany, pithead stocks of coal rose considerably, while in most countries the sharp improvement in harvests resulted in a larger than normal increase in agricultural stocks in the summer and autumn.

Compared with 1962 and 1963, when it increased at least as fast as gross national product in all EEC countries, personal consumption advanced quite moderately in 1964. There was a fall in its rate of increase in France and Italy—where the stabilization measures curbed spending on consumer durables—and also in the Netherlands, while in the Federal Republic of Germany and Luxembourg, where the 1963 gain was smallest, it rose less than total production. Nevertheless, household incomes generally advanced almost as fast as before and, in absolute terms, *per capita* levels of consumption rose materially in all countries and particularly in the Netherlands (*see* annex table 2A-3).

Largely as a result of the commitment of Governments to hold the growth of official spending below 5 per cent a year—one element of the ten-point programme to halt inflation, adopted in April 1964—public consumption rose very moderately in all EEC member countries.

In most countries of the European Free Trade Association (EFTA), the growth of production between 1963 and 1964 exceeded predictions at the beginning of the year. Fixed investment was generally the most important force behind the expansion, but exports also made an important contribution in all countries except the United Kingdom (*see* annex table 2A-2).

The most recent upswing in the United Kingdom started in the second quarter of 1963: personal consumption was stimulated by tax reductions, and increased public investment more than compensated for a decline in private capital expenditure. While the slack that had developed earlier was being taken up, supply conditions were easy. Fairly soon, however, constraints developed, mainly in the availability of additional labour. The initial upswing in total demand and production was followed by a sizable increase in stock building. This began late in 1963 and as a large percentage of stocks in the United Kingdom consists of imported raw materials and semi-manufactures, accumulation in the early stage of the expansion began to strain the balance of payments. When exports failed to pick up momentum in 1964, the country's current account balance deteriorated sharply, foreign confidence in the pound weakened and in the last quarter of the year there were large speculative and precautionary capital outflows from London. As an emergency means of correcting the imbalance, a 15 per cent surcharge on imports of most manufactured goods was imposed at the end of October. One month later, continued speculation against the pound forced the Government to raise the bank rate to the crisis level of 7 per cent.[7]

The low rate of growth in industrial production during 1964 was not the result of insufficient demand, nor did it reflect marked international price differences. Domestic investment was substantially above the 1963 level and unfilled export orders for engineering products were increasing throughout the year. Although prices of manufactures have been rising faster in the United Kingdom than in the United States, they have risen even more rapidly in continental Europe. The failure to profit fully from the favourable developments in demand seems to have been associated with delivery difficulties arising from increasing strain on capacity and lack of labour in a number of industries. This seems to emphasize the significance of the slow rate of growth in fixed investment in recent years. It also points to the low level of external reserves which made it impossible to supplement domestic production with imports long enough to allow domestic supply to catch up with demand in an orderly fashion. On this analysis the vigorous and continuing rise in industrial fixed investment in 1964 and early 1965, while aggravating the current imbalances, should contribute to the longer-run improvement in both internal and external equilibrium.

In Denmark, after a period of disinflationary policy and slow growth, production expanded sharply in

[6] On the stabilization plan adopted in September 1963, see *World Economic Survey, 1963; II. Current Economic Developments*, page 21.

[7] The implications of these developments for sterling and for the international monetary system are discussed in a later section.

the latter half of 1963 and the first half of 1964 in response to a rapid increase in fixed investment. Partly because of a restrictive incomes policy in 1963—only the lowest paid were granted increases in the March 1963 general agreement on wages, salaries and other incomes—and partly because of keener competition in the wake of a substantial increase in imports, labour costs rose little in this period. Between 1963 and 1964 merchandise imports rose about 20 per cent by volume—twice as much as exports. The resultant turnabout in the balance of payments—which had shown a small surplus in 1963—induced a corrective restraint on credit. Wage settlements in March-April 1964 generally involved pay increases of only about 2 per cent. Around the middle of 1964, however, labour shortages began to emerge and the combination of demand and supply restrictions resulted in a lower rate of growth in economic activity in the second half of 1964.

In Norway and Sweden, aggregate production rose vigorously between 1963 and 1964, and here, too, most of the gains were in the first half of 1964. In both countries a continuously high rate of growth in exports of goods and services was the main expansionary force, while most other sectors contributed more moderately to the increase in demand. The influence of developments in the United Kingdom economy was particularly important: there was a vigorous upswing in exports to that country in the third quarter of 1964 and a levelling off in the fourth quarter and in the early months of 1965. In Sweden, an increasing tightness in the labour market (*see* annex table 2A-5) and a continuing lag in industrial investment (*see* annex table 2A-4) tended to intensify the strain on supply, causing the Government to follow a steadily more stringent monetary and credit policy.

In Austria, the upswing in economic activity which had begun in mid-1963 grew steeper in 1964 under the influence of sharp increases in fixed investment and to a somewhat less extent in exports of goods and services. In Switzerland the rise in real gross national product was slightly higher from 1963 to 1964 than in the preceding interval, despite a slowdown in the growth of employment, attributable to measures to curb the immigration of foreign workers. These measures were intended to reduce the need for infra-structure investment associated with immigrants and as part of a continuing and general disinflationary policy. Notwithstanding some further tightening of restraints on building and on capital markets in 1964, fixed investment again constituted a major dynamic element in economic growth.

Among the less industrialized countries of Europe, there was a general tendency for the gross national product to increase somewhat more between 1963 and 1964 than in the preceding interval. In most cases the dynamic elements were manufacturing and exports. In Finland the production of investment goods rose to a much greater extent than that of consumer goods, as a major part of the increase in consumer demand was directed towards imports. In Ireland there was a sharp rise in capital formation—both fixed investment and inventory—and a somewhat smaller gain in exports. In Portugal, by contrast, export earnings in 1964 were no less than a fourth above the 1963 level. In Greece a significant advance in agriculture also helped to boost total production, whereas in Spain a 10 per cent decline in agricultural output seriously reduced the over-all rate of growth. In Turkey, developments in 1964 were adversely affected by the poor harvests of 1963: the resultant reduction in rural incomes and demand was partly responsible for the failure of total output to increase as much as had been planned for 1964.

Other developed market economies

Despite the imposition of various restraints in an effort to improve the country's external balance, there was a further vigorous expansion in demand and production in Japan in 1964 (*see* table 2-1 and chart 2-1). The principal impact of a tighter monetary policy—notably the raising of deposit reserve requirements of commercial banks in December 1963 and of the official discount rate in March 1964—seems to have been on the stock market and on business failures, especially among small and medium-sized enterprises. But it also helped to reverse the effects of the large expansion of imports in 1963. The decline in the rate of accumulation of inventories from 1963/64 to 1964/65 accounted for a cut of more than 2 per cent in gross national product.

In 1964, exports constituted a major expansionary force and the consequent easing of balance of payments pressure made it possible, towards the end of the year, to begin relaxing the monetary restraints. These had had little effect on investment; indeed, fixed capital formation—especially in manufacturing and housing—was also a leading stimulus of activity in 1964 and, in the aggregate, fixed investment actually expanded more vigorously than in either of the preceding years (*see* annex table 2A-4).

Australia, New Zealand and South Africa all registered further sizable gains in 1964. The principal expansionary force was investment, but Australia and New Zealand also received a notable stimulus from a further rise in export volume and prices. In all three countries resources began showing signs of strain and bottle-necks began to appear in various sectors, particularly in the construction industry and more generally in the supply of skilled labour.

DEVELOPMENTS IN EMPLOYMENT, WAGES AND PRICES

In most developed market economies the increase in production between 1963 and 1964 was accompanied by a rise in employment. In general, however, the former exceeded the latter, reflecting a significant advance in productivity. Differences among countries in the rate of increase in total civilian employment stemmed mainly from differences in the supply of labour. Where manpower was under-utilized or the growth in labour force relatively fast—as in North America and Oceania, for example—employment increased markedly in response to higher demand, and the rate of unemployment contracted correspondingly. In western Europe and in Japan, movements in employment and unemployment were generally smaller, in line with the low rate of increase in working-age population (*see* annex table 2A-5).

The Benelux countries experienced a decline in the average rate of unemployment in 1964, whereas in Italy the restrictive economic policy led to a slight rise in the rate. Immigration of workers continued to play a vital role in supplementing the small annual increment in domestic labour in the Benelux area, the Federal Republic of Germany and France. In the Federal Republic of Germany, the number of foreign workers—continuing to come less and less from Italy and increasingly from other parts of southern Europe and the Near East—reached one million, or approximately 4 per cent of the total civilian labour force. In France, the Federal Republic of Germany and Italy, the supply of industrial labour was once again supplemented by movement from the agricultural sector.

In virtually all EFTA countries unemployment declined between 1963 and 1964. The reduction was quite large in the United Kingdom, bringing the year-end unemployment rate to the lowest level since the early post-war years. The limited rise in total civilian employment in these countries, despite the brisk demand for labour, reflects both demographic factors and the reluctance of married women and other population groups with a low labour force participation rate to seek gainful employment. In Sweden there was a fall in unemployment and considerable net immigration of labour, but this was barely enough to avoid a reduction in the labour force. In Switzerland, where foreign workers—permanent and temporary—number almost a million and constitute about one-fourth of the labour force, difficulties in providing housing and social services induced the authorities to limit the inflow of manpower from abroad.

Notwithstanding the notable improvement in the employment situation in North America, the rate of unemployment remained obstinately around the 5 per cent level, substantially greater than in any other industrial region. The sharp contrast between North America and western Europe in respect of labour supply is likely to persist. Labour force projections show considerably higher rates of increase for Canada and the United States than for any major western European country. Sustained growth at a high rate is therefore less likely to run into manpower constraints in North America than in western Europe.

Earnings continued to increase in almost all developed market economies in 1964 at approximately the average rates registered in the years 1960-1963. As before, the advance in 1964 was much more moderate in North America than in other regions. Changes in wages and prices in the course of the current expansion reveal a strong interdependence, recognition of which lies behind a renewed interest in the formulation of incomes policies.[8]

Changes in prices have generally been reinforced by shifts in the expectation of price movements, and in this respect there has been a marked difference in timing between the two principal regions. In North America the expectation of continued inflation that prevailed during the first decade after the war subsided towards the end of the nineteen fifties in the face of flagging output and employment. In the subsequent upswing, the absence of strains on resources facilitated the continued maintenance of cost and price stability, which in turn helped to prolong the expansion. In western Europe, by contrast, most countries reached a relatively high level of labour and capacity utilization soon after the upswing got under way in 1958. This made it increasingly easy for workers to secure wage increases, both contractual and unofficial, from employers competing for the available labour and in a position to pay more. While the resulting increase in labour cost could be absorbed for a few years by corresponding improvements in productivity or reductions in profit margins, this became more difficult as the expansion went on: more and more frequently cost increases have tended to spill over into price increases. Thus, in 1964, as in the immediately preceding years, prices were relatively stable in North America and subject to a steady or even accelerating increase in most other countries (*see* annex table 2A-6).

In Canada and the United States, only import prices edged upwards significantly, mainly because of an upsurge in the prices of non-ferrous base metals. There was also a small increase in consumer prices in both countries, reflecting for the most part the secular rise in the prices of food products and services. By contrast, in virtually all western European countries relatively high rates of increase were registered between 1963 and 1964 in most prices. Although a rise in the average price of imported goods was a contributing factor, the main increases were of internal origin. Fortuitous events played

[8] *See* below for a discussion of these policies.

some part in this: in the first half of 1964 the relatively poor harvests of the year before began exerting some upward pressure on food prices, though in the second half of the year the improved agricultural outcome had a stabilizing effect both on food prices and on the rate of growth in the general price level. But in most countries the main pressure on prices came either from the strains of increasing demand or from upward adjustments in costs.

In the European Economic Community, the only countries that achieved some deceleration in the advance of prices in 1964 were France and Italy. This reflects both general deflationary policies and specific price controls, imposed to alleviate the strains that had become apparent in the previous year. The slowing down of the price rise and, in the case of Italy, the improvement in the trade balance, were achieved partly at the expense of growth, and the marked slackening in industrial investment caused attention to be shifted in the course of the year away from attempts to reduce demand and towards the problem of containing costs.[9]

In Belgium and the Netherlands, the authorities also intervened directly in price formation in 1964 and, in order to curb consumer demand, the minimum hire-purchase terms were stiffened. Policies here, however, were generally less stringent and there were very large increases in wage rates and industrial earnings. As a result, the rise in most price indices was appreciably greater than in 1963.

[9] As the price indices still reflect the incidence of direct controls, it is impossible to measure the real extent of the improvement in balancing demand and supply.

The deterioration in internal economic stability was significantly less in the Federal Republic of Germany. Here, mildly restrictive credit and fiscal policies were followed and some restraints laid on the inflow of capital; and on the average the rise in prices was much the same in 1964 as in 1963.

In most members of EFTA the rate of increase in prices was higher between 1963 and 1964 than between 1962 and 1963. Only Denmark and Switzerland succeeded in reducing the high rates of increase registered in the earlier interval. In Norway and the United Kingdom there was a marked acceleration in several price indices, reflecting in part the supply difficulties stemming from the high level of capacity utilization.

At the beginning of the current expansion, foreign trade acted on the whole as a stabilizer of prices: import prices of raw materials and semi-manufactures were falling, and the vigorous increase in trade in industrial goods helped to counteract local tendencies towards higher prices. In 1963 and 1964, however, the movement in import prices was much less of a restraining influence: between the second half of 1962 and the first half of 1964, primary commodity prices recovered sharply and the rise in industrial prices became so widespread that it affected many export quotations. In a broad sense, foreign trade may continue to exert a dampening effect on prices by increasing competition and since commodity prices began receding again in the second half of 1964, imports may well resume their stabilizing role in 1965.

Current situation and outlook[10]

The expansion of demand and production in the developed market economies has continued into the early months of 1965, and most Governments expect the advance to be maintained throughout the year. Despite some serious international and domestic imbalances, the prospects for sustained growth in this group of countries as a whole remain encouraging.

The need to correct imbalances in international payments will undoubtedly exert a restraining influence on the countries concerned; indeed, some of the restrictive measures taken earlier have already begun to show their effects, while more recent measures to curb the outflow of capital from the reserve currency countries may well have a marked impact on what has been an important source of expansion in international liquidity. Furthermore, should the payments difficulties of leading trading countries prove to be more intractable than originally envisaged, more stringent restrictions would become likely.[11]

As indicated above, domestic imbalances induced several of the industrial countries to adopt measures to restrain demand in the course of 1964. While these measures did help to slow down the rise in prices, they also tended to hold back the growth of production—particularly in France and Italy. In most of the western European countries, as well as in Japan, Oceania and South Africa, the tendency for costs and prices to increase more rapidly than output remained a major problem, and in the early months of 1965 Governments continued to be extremely cautious in permitting any general easing of existing demand restrictions. This has served to stimulate the search for non-deflationary methods with which to curb excessive increases in prices and costs, especially

[10] Based in part on replies of Governments to the United Nations questionnaire of December 1964 on economic trends, problems and policies.

[11] Some of the problems of the reserve currencies are discussed later in this chapter.

in countries with under-utilized productive capacity. The need to reconcile the often apparently conflicting objectives of growth and price stability is the reason for the current interest in incomes policies, one of the principal aims of which is to keep the rise in average remuneration within the limits set by the rise in over-all productivity.[12]

In most of the developed market economies gross national product is expected to increase at a slightly lower rate between 1964 and 1965 than in the preceding interval (*see* table 2A-2).

In the United States, despite uncertainty about the easing of external payments pressures and signs that internal prices and costs may not be quite as stable as hitherto, the generally expansionist policy is unlikely to be reversed. Indeed, the Government has introduced legislation for substantial reduction in excise taxes to sustain the current expansion.

It is more difficult to deduce from current prospects the economic policies likely to be pursued in western European countries in the course of 1965. However, notwithstanding the lowering of the bank rate from 7 per cent to 6 per cent at the beginning of June, the United Kingdom is almost certain to continue the restrictive policy adopted towards the end of 1964 and reinforced in the April 1965 budget: the balance of payments situation leaves little scope for bold expansionary measures, and the low reserves of capacity and labour also limit the possibilities of growth. The French and Italian Governments have given a high priority to stabilization measures and even if this policy is modified because of its drag on growth, it is uncertain whether expansion will resume in time to avoid the widening of the gap between potential and realized output. In most of the other western European countries—and particularly in the Federal Republic of Germany—the extent of expansion in 1965 is likely to be decided primarily by available productive capacity and less by the extent to which their economic policies may be aimed at containing increases in costs and prices.

In Japan, the Government expects a slightly lower rate of economic growth between the 1964 and 1965 fiscal years than in the preceding interval: not only is official policy still aimed at stabilizing prices and improving the balance of payments, but the rate of growth in foreign demand is likely to be lower. In Australia, New Zealand and South Africa, also, over-all production is unlikely to expand as rapidly as it did in the two preceding years: full utilization of skilled manpower and productive capacity has placed a resource limitation on the rate of growth and official policy has become steadily more restrictive of demand in recent months.

[12] The current status of incomes policies is discussed below.

NORTH AMERICA

At the beginning of 1965 conditions in North America were favourable for further steady expansion. Capacity utilization was still below preferred levels in most industries and there was no general shortage of manpower. The business sector's expenditures on fixed investments and inventories were in balance with developments in consumer and export demand, displaying few symptoms of the over-expansion characteristic of the later stages of previous upswings. On the other hand, unemployment was still high, representing a continuing gap between current and potential output. In this situation, the economic policy of the North American Governments is likely to remain expansionary. Not only is it intended to support the current forces of expansion by means of both general and specific stimulatory measures, but in the United States steps have been taken to enable the Government to introduce necessary legislation and to implement it quickly should an unexpected recession occur.

In the United States gross national product is expected to rise by about 6 per cent (at current prices—slightly less at constant prices) in 1965, which is almost as much as it did between 1963 and 1964. As in preceding years, the advance seems likely to be broadly based. Thus, the pattern of balanced growth which has characterized the expansion so far will probably be maintained in 1965.

Federal purchases of goods and services are planned to be only slightly higher than in 1964. State and local government expenditures, benefiting from further increases in federal grants-in-aid, are certain to continue their steady rise, probably exceeding those of the federal authorities for the first time since 1950.

Business investment in new plant and equipment is again expected to provide an important source of increased demand: aggregate outlays are scheduled to advance by 12 per cent in value,[13] but in view of the vigorous expansion in demand and production during the first quarter of 1965 it is possible that the projected level of private fixed investment for the year as a whole will be surpassed. In each of the official quarterly surveys of investment plans conducted in 1964, businessmen reported that they had spent more than previously planned and that they were revising

[13] According to a survey of investment plans conducted jointly by the Department of Commerce and the Securities and Exchange Commission in February 1965. *See* United States Department of Commerce, *Survey of Current Business*, March 1965. A similar survey conducted in April 1965 indicated a slight upward revision in investment plans, compared with the results of the February survey.

upwards their estimates for coming quarters. The result of these successive expansions in programmes was a 14 per cent rise in actual expenditure between 1963 and 1964, in contrast to the 10 per cent rise that had been planned at the beginning of 1964. However, the difference between intended and actual outlays has become progressively smaller, and the tendency to surpass planned targets may soon have spent itself.

Expenditure on new private residential construction in 1965 is expected to show little change from the 1964 level. Housing starts in the final quarter of 1964 were below the annual average, and there were signs of overbuilding of apartments in some localities.

With a rise in demand and output in prospect and with inventories still low in relation to sales, a continued accumulation of stocks appears likely during 1965. Because of the threat of a steel strike in May 1965, a rapid rise in steel stocks took place in the first quarter. The postponement to 1 September of the deadline for a new labour contract will probably cause continued precautionary stockpiling. A settlement, however, will almost certainly be followed by reductions in stocks of steel.

Personal consumption expenditures are expected to rise almost as much as in 1964 and slightly more rapidly than disposable personal income. In 1964 the latter was augmented by the tax cut. In 1965, less fiscal stimulus is in prospect, but full adjustment to the tax cut should bring down the saving ratio from the high figure registered in 1964 and increase consumption outlays accordingly. A factor which might tend to restrain consumption expenditures is the unprecedentedly high ratio of outstanding instalment credit to disposable income. In earlier years a ratio of 13 per cent was considered by lenders as the upper limit for such credit. In 1964 the ratio was around 14 per cent and in the first two months of 1965 it was even higher. This may affect further growth in sales of new cars and home appliances, although current indications of credit availability and consumer intentions continue to be favourable.

The outlook for continued price stability is generally good. Pressure on supply capabilities is not likely to be unduly intensified in the course of 1965: the available plant capacity and labour force—plus probable further gains in productivity—should prove adequate in most industries to meet the prospective increase in demand. And the Government's wage-price guide-lines should continue to exert a restraining influence on costs.

Though the average operating rate in manufacturing rose from 85 per cent at the end of 1963 to 88 per cent at the end of 1964, this was still well below the preferred operating rate of 92 per cent. By December 1964 only the rubber and textile industries had exceeded their preferred operating rates. Moreover, most industries have been steadily increasing capacity, and the planned levels of manufacturing investment for 1965 point to further rapid expansion. As a result, available capacity should be sufficient to produce the expected gains in output without significant increases in operating rates. The ease with which manufacturing industries have been meeting rising demands is borne out by the relatively mild rise in the ratio of order backlogs to shipments from December 1963 to December 1964. Following declines during 1962 and 1963, this rise left the relationship between over-all manufacturing backlogs and current shipments at much the same level as it was at the end of 1961. On the basis of the prospects of gross national product, backlogs are not expected to grow significantly in most industries during 1965.[14]

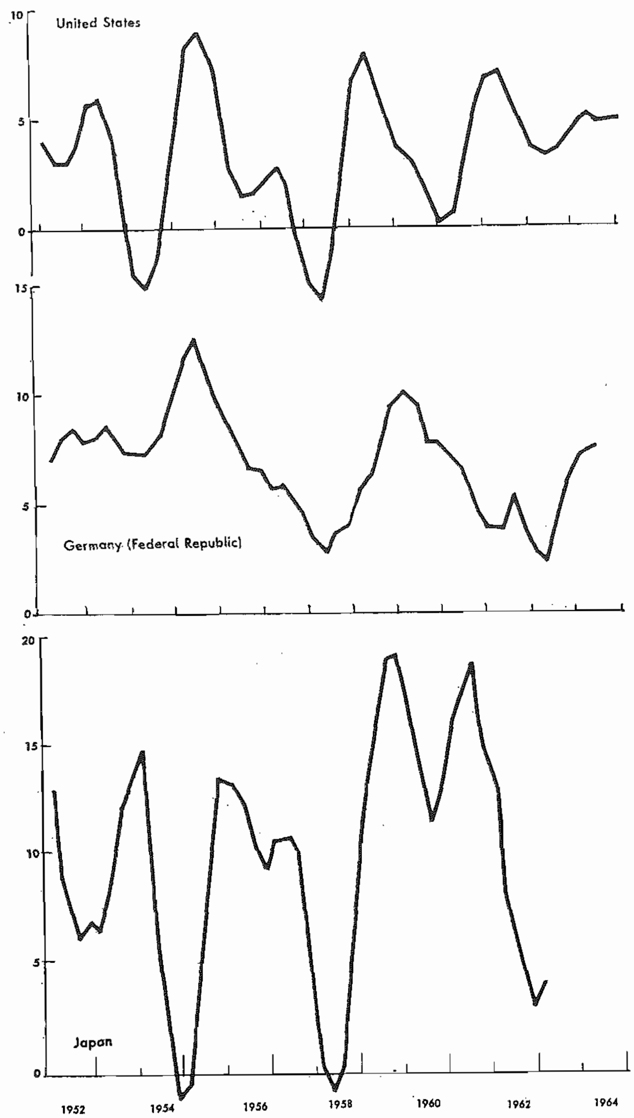
Though the unemployment rate has declined to the lowest level since 1957, labour supplies remain ample; this should prevent any general tightness in the labour market as well as exert a restraining influence on wage settlements. Furthermore, relative stability in prices during 1965 will be benefited by federal fiscal measures to cut excise taxes and increase the after-tax cash flow in enterprises. It has been estimated that during 1964 the tax cut contributed to the cash flow in the steel industry, for example, as much as a 3 per cent increase in steel prices.[15] Tax rates on corporate profits are to be reduced a further 2 percentage points in 1965, thus continuing to strengthen the financial position of corporations and lessening the need to raise prices.

The forecast of growth with reasonably stable prices in 1965 is thus not expected to come about entirely without government action. In addition to the measures already enacted, the President has declared his intention to propose to Congress legislation aimed at counteracting any slackening in the rate of growth before a recession develops. This is in keeping with the lesson implicit in a comparison of recent fluctuations in United States growth rates with those of the more dynamic economies of the Federal Republic of Germany and Japan (*see* chart 2-4). Such a comparison suggests that the problem in the post-war period has not lain in the amplitude or frequency of the swings in United States growth rates—these have not been significantly different from those experienced by the Federal Republic of Germany and Japan—but rather in the fact that declines have not been reversed in time to prevent growth rates from becoming negative. The maintenance of a positive rate of growth makes it much easier for the economy to effect the adjustments necessitated by changing market conditions.

[14] *Economic Report of the President*, January 1965, pages 89 and 90.
[15] *Ibid.*, page 91.

Chart 2-4. United States, Federal Republic of Germany and Japan: Change in Quarterly Gross National Product, 1952-1964

(At constant prices; percentage change from corresponding quarter in the preceding year; three-quarter moving averages)



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

The need to reconcile the Government's full employment objective with conditions of price stability and improved external balance has dictated the use of an intricate mix of policy measures for 1965. In accordance with the Revenue Act of 1964, tax rates on 1965 incomes are lower than those on 1964 incomes. However, as mentioned earlier, withholding rates were actually reduced to the 1965 level when the tax cut became effective in March 1964. Hence the second stage of the personal income-tax cut will provide little fresh stimulus: it is estimated that only one-fourth of the full annual consumption effect of the tax cut remains to be felt in 1965. Further stimulus is to be provided through three new expansionary measures. First, an excise tax reduction of $1.75 billion has been proposed, to take effect on 1 July 1965, with another $1.75 billion reduction to follow on 1 January 1966 and smaller cuts in succeeding years. Second, liberalization in social security benefits, amounting to more than $1.25 billion a year, is to be enacted by mid-year but made effective retroactively to January 1965. The effect of this liberalization is likely to be largely a short-term one, as a rise in payroll tax and a revision in the tax base are scheduled for 1 January 1966 in order to ensure adequate long-term financing of the social security trust funds. Finally, over and above the social insurance liberalization, federal outlays are due to rise by $3.5 billion in 1965. Most of the increase will be in the form of larger transfer payments and grants-in-aid to state and local governments rather than in direct purchases of goods and services.

Expansionary government policies are dictated not only by current needs but also by developments expected in the labour force and in productivity. In recent years a growth rate of real gross national product of somewhat more than 3.5 per cent has been required to prevent a rise in the unemployment rate. The labour force is expected to grow much more rapidly during the remainder of the current decade than hitherto. On the assumption of unchanged participation rates, the annual increase from 1964 to 1970 will probably average 1.7 per cent, well above the 1.2 per cent recorded in the preceding nine years. Productivity increases may also have been accelerating. The high level of investment, embodying the latest technology, has probably increased the quality as well as the quantity of productive capital. The prospects for growth in labour force and productivity suggest that the increase in potential gross national product in 1965-1970 will exceed the 3.5 per cent annual rate of the 1955-1962 period. It seems likely to average about 4 per cent a year, a rate approaching that of the early post-war years.[16]

A number of administration proposals for 1965 aim at improving the scope of timely anti-recession action. Bills to strengthen the unemployment compensation system are to be submitted to Congress in the course of the year. As an initial step in a concerted effort to avoid recessions, not only in 1965 but also in future years, the possibility of speeding up congressional action on proposals for cutting taxes or increasing spending will be reviewed.

During most of the current upswing, monetary policy has been limited by efforts to correct the balance of payments deficit. In 1965, fiscal policy must

[16] *Ibid.*, pages 91 and 92.

again make the main contribution to the growth of demand: monetary policy can at most play a supporting role through a variety of carefully chosen techniques. The importance of monetary management, however, is greater than its passive role would suggest. The fact that internal monetary and credit markets have remained relatively easy during more than four years of expansion is in itself remarkable and has been an important contributing factor to the general expansion. This policy of providing adequate supply of money and credit to accommodate the economic expansion is expected to be continued in 1965.

Canada also expects a continued advance in demand and production. Gross national product at current prices is predicted to increase by rather more than 7 per cent from 1964 to 1965, compared with a gain of almost 9 per cent between 1963 and 1964. Government action is expected to be a strong expansionary factor in 1965. In April, the Government proposed a 10 per cent cut in personal income-taxes, effective 1 July 1965, for the fiscal year that began 1 April 1965. The consequent net reduction in tax liabilities is estimated at Can $175 million. As a result of the tax cut and increased expenditure for social purposes, the total deficit for the fiscal year is expected to be Can $300 million, compared to an estimated deficit of Can $83 million in the preceding fiscal year.

Western Europe

In the EEC as a whole the rate of expansion in aggregate production between 1964 and 1965 is expected to be slightly lower than that recorded in the preceding interval. Although this also applies to member countries individually, with the possible exception of Italy, developments in demand and supply conditions are likely to show considerable diversity. For the EEC as a whole, personal and public consumption are expected to maintain the rate of growth registered between 1963 and 1964, while other components of demand are likely to increase somewhat less. High levels of capacity utilization in several industries and a chronic shortage of labour are expected to be the main factors holding back the rate of advance in the Federal Republic of Germany, the Netherlands and, to some extent, Belgium. In France, the Government's determination to continue the policy of stabilization is expected to result not only in a lower rate of growth but also in a widening of the gap between potential and actual output. Italy expects an economic revival in 1965, but uncertainty as to when it will set in has enhanced the difficulty of forecasting the level of production for the full year. The very limited increase in output that is foreseen for Luxembourg reflects fears of a weakening in the external demand for steel products.

As a slightly lower rate of expansion is expected in other industrial countries, their demand for goods and services from the EEC is likely to increase less between 1964 and 1965 than in the previous interval. There may be little in the way of a compensating acceleration in shipments to less developed areas, for although their import capacity increased further in 1964, the rise in foreign exchange holdings was comparatively small in Africa, where the EEC share in total trade is largest.

The growth of domestic fixed capital formation is also expected to decelerate slightly from the high 1964 rate. The exception is Italy where the sharp decline in fixed investment that occurred between 1963 and 1964 is likely to be followed by a moderate advance.

In contrast to the other countries in the Community, the Federal Republic of Germany and France expect fixed investment to advance more than gross national product in 1965 as it did in 1964. In the Federal Republic of Germany demand for capital goods will be stimulated by high capacity utilization, improved profitability and a relatively ample supply of credit. Despite idle capacity in important industries, profit margins are also expected to improve in France, for on the one hand as wages and salaries are likely to rise less than output, costs per unit of output should recede, while in addition the Government has lowered corporate taxes in a way intended to improve the after-tax return on investments. In view of the need to hold back the rise in costs and the relatively low level of capacity utilization in most industries, it is probable that industrial investment in France will be oriented towards rationalization rather than enlargement of production potential. Housing construction, however, is likely to be one of the few sectors in which the rate of expansion in 1965 will be determined mainly by available manpower and capacity.

In Belgium and the Netherlands, total domestic fixed capital formation increased more than the Community average between 1963 and 1964; in 1965, by contrast, the increase is expected to be well below the average. The reasons for this include the emergence of strong downward pressure on profit margins exerted by rising labour costs, the introduction of monetary and credit restrictions to counteract the overloading of the economy, and, in the Netherlands, direct intervention by the authorities to stem the rise in prices. Notwithstanding the probable slowdown in most areas of investment, outlays on equipment may continue to expand at a brisk pace because of nearly full utilization of capacity in a large number of industries. In Luxembourg, however, the volume of fixed investment is almost certain to decrease during 1965: the steel industry expects to invest approximately as much as in 1964, but the completion of important projects in other industries will mean a decline in their capital formation.

In Italy, circumstances are favourable for a vigorous recovery in fixed investment in the course of 1965, but as it may begin rather late, the outcome for the full year is expected to exceed that for 1964 only moderately. Favouring an increase in capital formation are good prospects for increasing exports, the necessity of rationalization to cut costs and the declared intention of the Government to stimulate investment. The deflationary policy pursued by the authorities after the 1963 foreign exchange crisis has continued to inhibit investment in industry; financing difficulties have prevented various important projects from being undertaken. The course of industrial investment in 1965 will thus depend to a great extent on the ability of the authorities to combine the general policy of restraint with selective stimuli for expanding investment. In the housing and public works sectors, which are more directly under official influence, the Government's efforts to spur activity began yielding results early in 1965.

In all EEC countries, except the Federal Republic of Germany, a sharp reduction in the rate of growth in inventories is expected to contribute to the slight slowing down of expansion in 1965. Stocks of raw materials are generally ample for the current level of activity, and the weakening in the prices of foods and fibres may be an incentive for destocking. Past experience shows that when the rate of increase in final demand and output slackens, the pace of inventory accumulation usually slows down more than in proportion. Furthermore, the large increases in agricultural stocks resulting from the good 1964 harvest are not likely to be repeated.

As was the case in 1964, public consumption in 1965 is expected to increase less than gross national product in all EEC countries, except Italy. Great efforts were made during 1964 to curb the expansion of public consumption expenditures, and a continuation of this policy was reflected in the 1965 budgets of all member countries. However, as the rate of increase in wages and salaries paid by the authorities is not likely to subside—particularly in Belgium, the Federal Republic of Germany and France—no further slackening in the advance of public consumption is expected.

Personal consumption expenditures are predicted to increase somewhat less between 1964 and 1965 than in the preceding interval in the EEC as a whole. However, if the rise in prices slows down as expected, real consumption may again advance by about 5 per cent and thus exceed slightly the rate of growth in real product. An acceleration in the Federal Republic of Germany—which accounts for more than a third of personal consumption in the Community—is expected to offset a slight deceleration in other members. In the Federal Republic of Germany, personal consumption will be stimulated not only by the expected high rate of increase in production and incomes but also by a reduction in income-tax on 1 January 1965, amounting to the equivalent of almost $500 million a year. In France and the Netherlands, tax cuts are also expected to stimulate consumption, but not until the latter half of 1965.

The growth of internal supply of goods and services between 1964 and 1965 is almost certain to be somewhat lower than in the 1963-1964 interval. The reduction in the rate of increase in demand that is expected in most EEC countries during 1965 will ease the pressure on prices and weaken incentives to expand output. In certain sectors, however, output may be limited by supply bottle-necks rather than by decelerating demand. Production difficulties are likely to be most frequent in the Federal Republic of Germany, where economic activity is expected to accelerate in the course of the year, but they may also occur to some extent in Belgium and the Netherlands, while in France, as indicated above, building output is likely to be determined largely by the availability of labour and productive capacity. In the manufacturing sector, the rate of expansion in investment goods industries is expected to be much the same as in the previous interval, whereas in consumer goods industries, and even more in those producing basic materials, output is expected to increase less than between 1963 and 1964. In France a fairly high level of inventories of finished goods at the beginning of 1965 was available to meet part of the expected expansion in final demand and production. Because agricultural production increased more than usual between 1963 and 1964, the rise between 1964 and 1965 is likely to be smaller. EEC imports from non-member countries are generally expected to develop along the same lines as total demand and internal supply, registering lower rates of growth in 1964 and reflecting lower inventory requirements as well as the good harvest of 1964. Italy, however, is again a possible exception, for here the running down of raw material stocks in 1964 may be followed by a vigorous expansion in imports.

The strains in the labour market of the EEC are likely to continue in varying degree during 1965. Some easing in the demand for labour may take place in Belgium, France and the Netherlands, but no signs of better balance are discernible in the Federal Republic of Germany where the labour force is undergoing an absolute decline. In Italy, where there was a contraction in the total number of hours worked during part of 1964, the prospective increase in activity is likely to improve the employment situation.

The tendency for the rise in prices to decelerate, evident in 1964, seems likely to continue in 1965, except perhaps in the Federal Republic of Germany where the rates of increase in 1963 and 1964 were substantially below those registered in most other EEC countries. The prospects for greater price stability in 1965 depend largely on developments in earnings, and it is uncertain whether the decline in the rate of increase in earnings that is predicted for 1965 will be sufficient to effect a slowdown in the rise in unit labour costs. The only EEC country in which the rise in wage and salary earnings between 1964 and 1965 is almost certain to be significantly lower than it was between 1963 and 1964 is the Netherlands, but even there a larger average increase than suggested by the authorities had already been negotiated before the end of 1964.

Government policies for holding down increases in prices and incomes in 1965 are based on principles adopted by the EEC Council of Ministers in April 1964,[17] reaffirmed towards the end of 1964 and again—though with some modifications—in April 1965. In most of the EEC countries the current upswing started in 1958 and in recent years there has been mounting evidence of cost pressures. This explains why one of the chief economic objectives in 1965 is to limit the growth of domestic demand, particularly in Belgium, the Federal Republic of Germany and the Netherlands, where a restrictive policy is likely to be pursued quite vigorously. In Italy, however, where growth faltered seriously in 1964, the need to avoid a general expansion of internal demand is tempered by the Government's intention to intensify the selective stimulation of economic activity through measures designed to favour productive investments and exports. In France, too, where important sectors of production registered a rather weak performance in the early months of 1965, authorities are likely to embark on a cautiously expansionary policy. Here, price controls were imposed earlier and may now be losing some of their dampening effect, while a further widening of the gap between demand and resources, caused by the restrictive policy as a whole, might seriously set back the long-run growth of the economy.

[17] The Governments then committed themselves to stabilizing prices and production costs without limiting the freedom of foreign trade. They agreed to hold the growth of public spending to not more than 5 per cent a year and to finance any increase exceeding 5 per cent by higher taxes. They undertook to restrain the demand for building and to maintain or tighten the restrictions on credit then in being and seek the co-operation of labour and management in holding wage increases within the limits of productivity growth. This short-term programme was supplemented by a number of long-term measures designed to strengthen monetary and financial co-operation among member countries. *See* European Economic Community Commission, *European Community*, No. 71, May 1964 (Washington, D.C.).

The scope for a rather more restrictive monetary policy in the EEC has been extended somewhat—and the unsettling effect of such a policy on partner countries somewhat reduced—by the curbs that have been laid on the movement of capital: both inflow into the EEC and outflow from the United Kingdom and the United States are being actively discouraged.

Economic expansion is likely to continue through 1965 in virtually all EFTA countries, but the rate of increase in total production is expected to be lower between 1964 and 1965 than it was between 1963 and 1964. Nearly full utilization of manpower and productive capacity was achieved in most member countries in 1964, narrowing the scope for further advance, though in some of the smaller countries a slight easing of aggregate demand became apparent in the latter half of 1964.

In the United Kingdom, perhaps the most significant development in 1964 was a disappointing export performance. Despite the consequent disturbance of external equilibrium, production and employment developed favourably in 1964, and with a further but slower fall in unemployment, activity continued to rise in the early months of 1965. As appears to have been the case in 1964, the course of expansion in the rest of 1965 is likely to be determined largely by available capacity. The 1965/66 budget, introduced in April, proclaimed as an immediate aim a rise in the value of exports of 5 per cent a year. Given the relatively high ratio of exports to total product in the United Kingdom and the short-run prospects for investment, public expenditure and personal consumption, it was considered that the country's resources could not be expected to meet the demand implicit in such an expansion of exports. The Government therefore decided to reduce the pressure on domestic resources—chiefly through an increase in taxation—by the equivalent of £250 million a year. In addition to a rise in personal income-tax rates already provided in the November 1964 budget, a new 30 per cent capital gains tax was introduced, accompanied by sharply higher levies on selected consumer goods—chiefly alcoholic beverages, tobacco and automobiles. A new corporation tax was also introduced: it will replace the income and profits taxes levied on companies and is designed to encourage the reinvestment of profits.

The budget also contained measures for reducing the outflow of long-term capital—by an intended £100 million. These include tighter exchange controls and new rules affecting the sale of portfolio assets. In addition, the new corporation tax will embody provisions designed to reduce the incentive to invest abroad.

Real gross domestic product is expected to rise in line with the increase in manpower and capacity—

by slightly less than 4 per cent between 1964 and 1965 as against rather more than 5.5 per cent between 1963 and 1964. There are indications that fixed investment will continue to rise, but at a diminishing rate: in the private industrial sector, enterprises plan to increase their spending less than in 1964 and, because of capacity limitations, housing investment is also expected to grow more slowly. The average of a number of forecasts suggests a rate of expansion in exports of goods and services between 1964 and 1965 of around 2 per cent in volume. Public consumption seems likely to continue to rise at the relatively low rate characteristic of recent years. Personal consumption is likely to increase somewhat less than between 1963 and 1964, reflecting increases in taxes mentioned earlier. In general, given full employment and rising consumer prices, hourly wage rates may be expected to continue to increase as much as in 1964, and earnings perhaps even more.

Inventory accumulation, on the other hand, is expected to be low in 1965 despite the below average stock-output ratio at the beginning of the year. The import surcharge will probably lead to a substantial running down of various imported stocks in the first half, and this tendency should be reinforced by credit stringency and by the expectation of a further fall in the prices of imported foods and fibres. The effect of low stockbuilding and reduced current consumption in the wake of the surcharge should be an insignificant increase in the volume of imports between 1964 and 1965.

Most prices and costs are expected to develop somewhat more favourably in 1965 than in 1964. A fall in import prices of foods is expected more than to compensate for an acceleration in the rate of increase in other consumer prices. Similarly, an expected decline in import prices of basic materials may offset a rise in the labour cost per unit of output that is likely to be greater than that which occurred between 1963 and 1964.

Along with measures to improve the short-term outlook for the economy, the United Kingdom Government has embarked on certain policies of a longer-term nature. These include the elaboration of an incomes policy and machinery to implement it, a drive for the modernization and technical improvement of industry and the preparation of an economic plan covering the period 1964-1970.

Most of the smaller EFTA countries and the rest of western Europe, being affected strongly and directly by the course of events in the EEC and the United Kingdom, also expect to experience a somewhat smaller expansion of total output between 1964 and 1965 than in the previous period. Most of these countries expect fixed investment and exports to continue to be the most dynamic components of demand; in Denmark and Sweden, however, public consumption may increase even more, while in the countries of southern Europe the outturn of the 1965 harvest will also exercise a considerable influence over the performance of the economy.

OTHER DEVELOPED MARKET ECONOMIES

In Japan, as elsewhere, the Government expects the gross national product to increase slightly less between the fiscal years 1964 and 1965 than in the preceding interval. The deceleration is expected to stem in part from external demand—in line with a probable slackening of growth in other countries and in world trade—but its principal impact will be on fixed investment. Because of the vulnerable balance of payments situation, however, the Government proposes to continue its export promotion efforts. Domestically, the prime objectives of economic policy will be to check the rise in prices and to hasten the modernization of the less developed sectors of the economy, particularly agriculture and small-scale industrial enterprises.

In Australia and New Zealand, resource limitations—especially in manpower—are likely to hold down the gain in output in 1965, probably to less than the previous increase. Favourable export developments during the current upswing have built up reserves—particularly in Australia—to a degree that should make possible the supplementing of domestic supplies on a considerable scale. The continuing growth of demand is therefore likely to result in a further large expansion in imports, though possibly in a further rise in prices as well.

South Africa also faces serious constraints on the supply side: the rate of expansion in building and manufacturing had already slackened appreciably by early 1965. Notwithstanding an official policy of restraint—both monetary and fiscal—demand has continued to rise, and the rest of the year is expected to see not only a further expansion in imports, with a consequent increase in the current account deficit, but also some intensification of inflationary pressures.

Recent developments in incomes policy formulation and practice

The desire to maintain economic stability without sacrificing full employment or an adequate rate of growth has led to a widening interest in ways and means of influencing demand and costs with minimum risk of inhibiting production. The result has been a good deal of experimentation with what has come to be called "incomes policies". Supplementing the more familiar instruments of monetary and fiscal policies, these income policies have sought, as their main objective, to hold the growth of incomes in line with the growth of output. Their principal element has in most cases been a norm or guide-line for wages and prices, designed to influence the rate of increase and keep the average wage advance within limits dictated by gains in productivity.

The effectiveness of incomes policies has varied widely and it has become clear that in a market economy it depends very largely on the degree of acceptance that the policy meets with, particularly among the parties directly affected but also by the public as a whole. For this reason considerable care has to be taken—and be seen to be taken—in both formulation and implementation and in respect of elements of the policy that might seem at first glance to be of only marginal importance to the main purpose. Recent experience suggests, indeed, that while the effectiveness of an incomes policy depends on its acceptability, acceptability depends largely on equity. And in an economy in which the pattern of income distribution at any given moment may contain more or less fortuitous and ephemeral anomalies, the pursuit of equity in income changes may conflict at many points with the pursuit of restraint in the interest of stability. This conflict cannot be resolved by any simple universal formula; it has to be faced anew in each situation with all its complexities.

National machinery and practice

Among the first countries to practise an official incomes policy was the Netherlands. During the post-war recovery period it was an integral part of the mechanism for short-term economic planning, and in 1951, in the face of a balance of payments crisis, the degree of co-operation among Government, workers and management was close enough to effect an absolute cut in real wages. As the economy passed from the recovery phase to a period of more normal economic growth, however, the role of the Government with respect to wage increases began to wane. In 1958, the previous system of periodically prescribing more or less uniform increases in wages throughout the economy was replaced by a system of differential increases based on relative sectoral improvements in productivity. The latter was in turn abandoned in 1962 when anomalies developed among the incomes in various industries. In terms of a new arrangement, responsibility for fixing wages was placed in the hands of labour and management, under the general guidance of norms set in a half-yearly report of an official Social and Economic Council. Partly as a result of these procedures, a significant disparity developed between wage levels in the Netherlands and those in neighbouring countries and in 1964, in the face of a relatively tight labour situation, a relaxation in wage restraints resulted in a sudden upsurge in wage rates, averaging about 15 per cent. This suggests the need for countries that have close economic ties—especially in respect of the movement of labour—to co-ordinate their incomes policies.

In the Scandinavian countries wage negotiations have taken place on a national level for many years. In Sweden, for example, central "frame" agreements have been designed to moderate the rise in wages. Since actual wage settlements are negotiated at the local and plant level, however, there have often been fairly wide divergences between national agreements and individual negotiated wages.

The spread of interest in incomes policies, however, has been an outcome of the current economic upswing which, because of its length and coverage, has tended to bring into sharper focus the problem of maintaining stability during long periods of continuous growth.

In the United States a "wage-price guide-post" was introduced in 1962. It related to the economy as a whole and was based on an over-all productivity trend. No formal machinery was created to implement the policy and the subsequent operation of the guide-post has been by persuasion and publicity, brought to bear particularly on key industries regarded as leaders in respect of wage and price changes.

Elsewhere, other mechanisms have been used. In Austria, for example, where a watch on wage increases has been maintained by a Price-wage Commission ever since 1957, an Economic and Social Council was set up by the Government in 1963 to advise on general economic policy and specifically to provide data to serve as the basis for incomes policy. In the Federal Republic of Germany, economic reports presented to Parliament by the Government in 1963 suggested guide-lines for increases in money wages in that year and the next, and early in 1964 a group of independent experts was appointed to prepare annual reports on the subject. In March 1963, the Danish Government introduced legislation calling for a pause in the rise of wages and prices during the next two years. A procedure was then worked out for preliminary national agreement on general wage increases, to be followed by special negotiations at a more detailed level. In Norway, a breakdown in wage negotiations in April 1964 prompted the Government to refer the dispute to the official arbitration court whose decision is legally binding. A court of this nature has been used more frequently in Australia, though until recently without reference to any explicitly formulated national incomes policy.

In France an attempt to influence general wage trends by restraining wages in the public sector gave rise to widening disparities as the upswing in economic activity continued. In 1963 the Government appointed a group of experts to examine the situation, and among its recommendations—subsequently adopted by the Government—was the creation in each public enterprise of a joint management-labour board, under an independent chairman, for the technical study of wages. In the meantime, the *Commissariat du Plan* had convened a conference of employers, employees and government officials, for a broad discussion of the problems involved in an incomes policy. It was generally agreed that the fifth plan should provide for projections of at least major categories of money incomes and the balance among them, that the Government should specify in the annual national budget a desirable rate of increase for each category of income, and that a body of independent persons be set up to advise the Government on the rate.

In the United Kingdom, a pause in the upward movement of wages, salaries and dividends was requested by the Government in mid-1961 in order to relieve mounting economic strains, both internal and external, and a White Paper was issued setting forth principles which should govern increases in incomes after the pause. The safe rate was judged to be less than the 2 to 2.5 per cent *per annum* by which national production per head had been rising. This figure was subsequently raised to 3 to 3.5 per cent, which was considered to be the rate necessary for productivity to improve if the annual target rate of growth of 4 per cent in aggregate production was to be realized. In 1962, a National Incomes Commission was set up as an independent body to advise on actual or proposed wage increases. It was hoped that the findings of the Commission would influence public opinion in this regard. In the event, however, the Commission only examined, retrospectively, cases referred to it by the Government. Towards the end of 1964, in the face of a renewed sterling crisis, an attempt was made to reinvigorate the policy: representatives of employers and employees were brought together and persuaded to adopt a "Joint Statement of Intent" with regard to productivity, prices and incomes, and the parties pledged, among other things, to keep increases in income in line with increases in productivity. The National Economic Development Council was made responsible for a general and continuous review of prices and incomes. Early in 1965, a National Board for Prices and Incomes was set up (in place of the National Incomes Commission) to examine particular cases in order to advise whether changes in prices or incomes were in the national interest. A norm of 3-3.5 per cent was prescribed for the average rate of annual increase of money incomes per head. It was emphasized that increases above the norm should be confined to exceptional cases, the number of which should be kept to a minimum, bearing in mind that such increases would need to be balanced by lower than average increases for other groups if the norm for the average was not to be exceeded.

THE PROBLEM OF SETTING WAGE NORMS

In so far as an incomes policy relies on the persuasive effect of an official wage guide-line, its success is likely to depend in the first instance on the support that can be won for the norms set for wage increases. In the absence of a national emergency or of other compelling circumstances, such support has to be won by the sheer reasonableness of the norms. In setting norms that are likely to be generally acknowledged as reasonable, two groups of problems have to be faced—one concerned with criteria for non-inflationary wage increases, guided by productivity, average and differential, and the other concerned with possible divergences between negotiated wage rates and actual earnings.

There is an obvious advantage in setting a norm that corresponds to some readily calculable average increase in over-all productivity such as may be obtained by comparing, over a given period, the growth in aggregate production and the rise in the gainfully occupied population (or in the number of man-hours worked). Such a crude measure needs to be used with caution, however, in order to ensure that systematic structural changes—such as the progressive commercialization of particular activities (domestic service, for example) or the continuous relative expansion of a high productivity sector (as might happen in the course of rapid industrialization) or the steady improvement in the quality of inputs (during a period of rapid technological advance, for instance) —are taken into account in using the average productivity figure.

As the productivity change with which an incomes policy is concerned is a probable future one, such past trends have been used in some countries only as a background against which to make a forecast of the change in the forthcoming year. This has been common where the incomes policy is an integral part of an indicative planning process. The advantage of making independent estimates of likely change lies in the scope it provides for taking into account all the immediate and expected circumstances, including the state of employment and investment and current or intended policy influences. This advantage is bought at the price of a certain loss in determinateness and hence of enlargement of the area of dispute and controversy in the process of wage bargaining.

While reaching a generally accepted norm is an essential first step in an incomes policy, such a single productivity allowance can hardly be mechanically or universally applied. If the over-all productivity rule were applied equally and strictly to all incomes and in all industries and occupations, general stability could be achieved only if it were accompanied by upward price adjustments in sectors with below-average improvements in productivity and downward adjustments in sectors with high productivity gains. Prices of many services, for example, might have to rise, while prices of commodities produced in industries with relatively high rates of increase in productivity would have to decline. Clearly, if downward flexibility were lacking, price stability might be impaired. So might it be if the upward and downward adjustments of prices—duly weighted to allow for the changes induced in sectoral output by the income and price movements in question—did not exactly offset each other.

There would seem to be no strong reason why an incomes policy should seek to preserve the precise structure of incomes and prices actually prevailing when the policy was formulated. And in fact most incomes policies have recognized—implicitly or explicitly—the essentially transient nature of the existing pattern of income and price relationship. Even within the wage structure itself temporary factors—such as the current pattern of demand, the current distribution of education and training, the current bargaining strength of individual trade unions and so on—may predominate as determinants of existing incomes. No incomes policy which attempted to freeze the particular structure existing when it was applied could hope to succeed.

The need or the desire to change the income structure may indeed play a significant part in shaping an incomes policy. As indicated above, the problem posed by the lag in remuneration in the public sector has helped to shape recent policy in France. One of the latest formulations of an incomes policy—that of the United Kingdom—explicitly recognizes four situations in which wage adjustments might depart from the specified norm: (*a*) to workers making a direct and special contribution to higher productivity; (*b*) where such differences will result in a desirable redeployment of manpower; (*c*) in order to maintain a minimum wage level that is socially acceptable, and (*d*) in order to adjust rates that are generally acknowledged to have fallen out of line, if this is in the national interest.

It is clear that recognizing that over-all norms are not necessarily applicable to each individual income adjustment does not in itself provide an alternative formula. Attempts to link wage movements to productivity changes industry by industry, for example, have met with great difficulties. In the Netherlands, where this was attempted between 1958 and 1962, it soon became apparent that short-term changes in productivity differ widely from industry to industry. Moreover, such differences cannot be attributed to differential contributions of any single factor of production, such as labour, but are a function of a large complex of influences and conditions including, in particular, capital investment, technological improvements and the effectiveness of organization within the industry. A mechanical formula for allowing for differential movements in productivity might result in gross inequities in payment received for similar work in different industries.

Comparable to the difficulty of adopting the norm in a manner consonant with changes in sectoral or industrial productivity is the problem of applying the norm in a manner that takes due account of current concepts of distributive justice. Increases at the lower end of the wage scale may be justified on social grounds rather than on the basis of economic or productivity criteria. And in dealing with wages that, for whatever reason, have been lagging behind national averages, the norm is very likely to be exceeded.

Considerations such as these help to explain why, in practice, guide-lines have not been rigidly applied either uniformly in the various sectors or differentially in accordance with particular sectoral or industrial formulas. The indicative nature of official guide-lines has been recognized explicitly in the United Kingdom and the United States. In the Scandinavian countries the guide-lines have generally been applied to national wage levels, while at the industry and plant levels detailed negotiations have from time to time resulted in marked deviations from the national level.

It is thus clear that guide-lines have not been regarded as a substitute for detailed negotiations among the parties concerned. It is also clear that the guide-lines do not in themselves ensure that the actual rise in incomes will be non-inflationary. For, in general, in so far as guide-lines are set for wage increases, they are intended to refer to negotiated rates, and wage *earnings* may diverge significantly from wage *rates*. This difference has become known as "wage drift", and inasmuch as earnings rather than rates are the relevant variable for incomes policies, the causes and probable extent of wage drift need to be taken into account in the fixing of norms for wage rates.

In making allowance for different sources of wage drift, it should be noted that some of the drift may be related to increases in productivity and thus may not add to unit cost, although in practice a precise evaluation of the implications of the different sources may be extremely difficult.

One of the known sources of wage drift is overtime work, paid for at above standard rates. Even if the latter remain unchanged, an increase in the amount of overtime worked will result in an increase in earnings. As the amount of overtime work depends on the supply of labour and the level of economic activity, its contribution to the drift is likely to vary from year to year (*see* table 2-3). To some extent, overtime pay has come to be regarded as an integral part of normal earnings: effective (as against nominal) wage rates—and hence earnings—are often increased by reductions in the standard work week, which may result in a higher proportion of the work being done at premium rates. To the extent that overtime reduces other costs, notably overhead, the cost effect may be less than suggested by the premium rate. On the other hand, to the extent that the overtime has been accompanied by a deterioration in the efficiency in normal hours the cost effect may be greater than indicated by the premium pay alone.

Table 2-3. United Kingdom: Effect of Overtime on Wage Drift, 1960-1964

(Percentage change from preceding year)[a]

Item	*1960*	*1961*	*1962*	*1963*	*1964*
1. Average hourly wage earnings	8.1	7.0	4.1	4.1	8.2
2. Average hourly wage earnings, excluding overtime	7.3	6.9	4.4	3.6	8.1
3. Average hourly wage rates	5.5	6.4	4.2	2.3	5.7
4. Wage drift, including overtime (1-3)	2.6	0.6	—0.1	1.8	2.5
5. Wage drift, excluding overtime (2-3)	1.8	0.5	0.2	1.3	2.4
6. Effect of overtime on wage drift (4-5)	0.8	0.1	—0.3	0.5	0.1

Source: United Kingdom Treasury, *Economic Report on 1964* (London, 1965).

[a] Change between October in the indicated year and October of the preceding year.

Another source of wage drift is an upgrading of employment, particularly in sectors in which basic wage rates are controlled. This source may reflect an indirect means of raising wages rather than a change in the nature of work.

For the economy as a whole, drift may arise simply as a result of changes in the pattern of employment: to the extent that there is a shift from low paid to high paid industries, a given percentage rise (uniform or on the average weighted by the existing structure) in negotiated rates implies a higher percentage rise in actual earnings. This type of drift, however, is one that carries with it a corresponding increase in the value of output per man and does not involve an increase in unit costs. Likewise, where the method of payment is by piece-rate rather than by time-rate, earnings rise automatically with productivity without any change in negotiated rates—and without necessarily adding to unit costs.

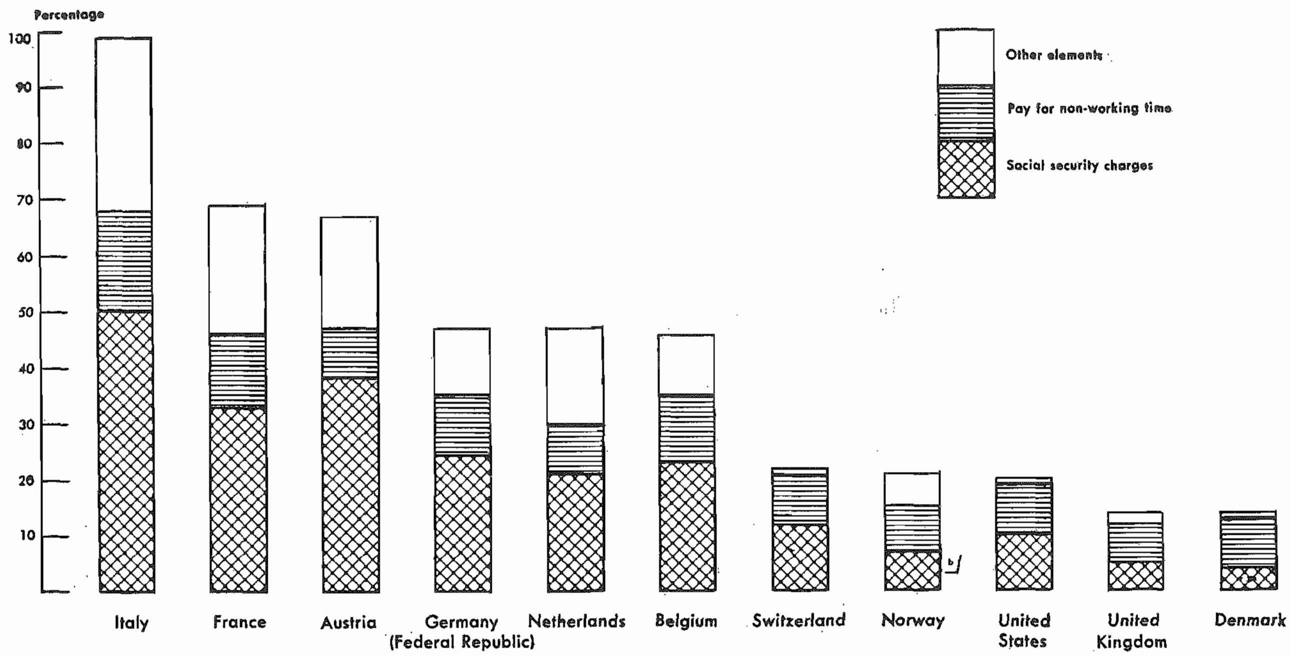
All these forms of drift may be entirely in accordance with the terms of wage contracts. Where the labour market is particularly tight, however, drift may also occur as a result of concessions made by employers to hold or attract workers. Recent experience has shown that wage guide-lines tend to be ineffective in situations in which the pressure of demand has significantly lowered employers' resistance to wage claims.

As revealed by published statistics, the over-all contribution of wage drift—however caused—to recorded increases in earnings differs quite sharply from country to country (*see* annex table 2A-7). In recent years, for example, it has accounted for between a fourth and a half of the total increase in the Scandinavian countries, for between an eighth and a fourth in the Federal Republic of Germany and the United Kingdom, but for hardly any of the increase in the United States. The high figure for the Scandinavian countries stems from the fact that, there, actual earnings are compared not with negotiated settlements at the plant level—as they are in the United States—but with the generally lower wage settlements at the national level. Despite such lack of comparability and refinement, these differences may also reflect differences in the employment situation.

In the setting of norms it is necessary to make due allowance not only for possible wage drift but also for various kinds of wage supplements, "fringe benefits" or social security-type payments, which in some cases may constitute a substantial proportion of gross earnings and wage costs (*see* chart 2-5).

The problem of allowing for wage supplements in the fixing of guide-lines for rates of increase in income arises partly from the difficulty of translating some of the benefits into pecuniary equivalent and partly from the fact that, even where this can be done in principle, the money value as assessed by employees may differ from that as assessed by employers. It is clear that the allowances that are made

Chart 2-5. Indirect Wage Cost as Percentage of Direct Wages, and its Composition in Selected Countries, Average 1958-1963[a]



SOURCE: Swedish Employers' Confederation, Statistical Section, *Direkta och totala lönekostnader för arbetare, internationell översikt, 1957-1964* (Stockholm).

[a] Data pertain to all industries. Total wages consist of direct and indirect wages.

[b] Statutory contributions only.

for the non-monetary benefits are likely to be somewhat arbitrary. A further problem arises when part of the supplement is financed by the state as well as (or instead of) the employer. As they do not enter into cost, social transfer payments financed from general tax revenue are not usually counted as part of the supplement to wages to be allowed for in the determination of non-inflationary norms. This means, however, that expected changes in the social security system—costs and benefits alike, whatever the source of finance—have to be taken into account in the shaping of incomes policy and the setting of wage guide-lines.

RESTRAINING NON-WAGE INCOMES

Because wages constitute the major component of incomes—around two-thirds of the national income of most industrial countries—and because wages enter directly into costs, wage guide-lines are necessarily the principal element in an incomes policy. The potential importance of a wage guide-line is enhanced by contemporary institutional structures and practices, particularly the size and operations of the organizations that engage in collective bargaining and the coverage and influence of many of the settlements negotiated at a national level.

None the less, wages are not the whole of income and the very acceptability of a guide-line for wages often hinges on the measures taken simultaneously to impose comparable restraints upon other forms of income. An incomes policy that is likely to depend to a large extent on persuasion must be seen to be equitable if it is to achieve any success in promoting stability during periods of rapid growth. The recent introduction of new guide-lines in the United Kingdom, for example, was accompanied by a number of other measures—including taxation of capital gains and stricter rules concerning the deduction of business expenses for tax purposes—designed to spread the policy of constraint over incomes not normally subject to guide-lines.

Non-wage income is derived from many sources, and it is difficult to subject it to direct controls, particularly in the case of profits which are by nature liable to wide fluctuations. Excess profits taxes, common in wartime, are not applicable in times in which profit differentials may be deemed to be a useful stimulant of dynamic growth. None the less, several countries have introduced controls over profit margins in recent years: though leaving incomes from profits to move with turnover, such controls—along with other measures designed to stabilize unit costs of production—are aimed at holding the price line.

A more common method of holding the price line is by regulating individual prices themselves. Most widespread is the fixing of agricultural prices, though the motivation here has generally been the maintenance of incomes in a weak sector rather than the stabilization of the economy as a whole. Controls over rents have also been widespread and again the purpose has been chiefly a social one—to protect the real incomes of tenants. With the overcoming of the wartime legacy of housing shortages, however, rent controls have gradually been relaxed in many countries, though in the interest of price stability the process of relaxation has, from time to time, been slowed down or halted.

Apart from actual controls of this nature, the mere possibility of government intervention is itself a constraining influence. In the United States, for example, the prices of steel products have undoubtedly been influenced by the knowledge of the Government's interest in them as key elements in industrial costs. (In 1963, indeed, an increase in steel prices was rescinded as a result of the President's intervention.) In the United Kingdom, formal machinery has recently been established for reviewing prices, and in recognition of the dual nature of the problem, the new stabilization effort has been officially labelled a "prices and incomes policy".[18] This parallels the official United States designation of wage-price guide-posts.

As part of the campaign against price increases during periods of rapid economic expansion, governments have also sought to stimulate competition among producers, most notably by action against monopolistic tendencies and by the liberalization of imports. Encouragement of imports as a means of holding down internal prices has been practised by a number of countries in recent years, particularly in cases in which the trade balance was active. In the context of stabilization, such action is designed to ensure that restraint achieved in the field of wages contributes not to the enhancement of profit but to the moderation of price movements. Measures of this nature have the advantage of being in the interest not only of present stability but also of longer-term growth, without introducing the sort of rigidity that is often associated with direct controls.

THE PRESENT STATUS OF INCOMES POLICIES

In one form or another, incomes policies are now practised in most of the developed market economies. Various methods of keeping the rise of incomes under control have been adopted, and the resultant incomes policy is accepted as one of the components of the complex of measures and policies by means of which the goals of growth and stability are simultaneously pursued. The adoption of incomes policies has not been limited to the countries experiencing acute disequilibrium, whether through domestic inflation or through balance of payments pressure. Nor have such policies been confined to countries engaged in one or other type of economic planning. Rather have they come to be regarded as another weapon in the regular armoury, to be used, together with others—mostly fiscal and monetary—of longer standing, in whatever combination seems appropriate in the prevailing circumstances.

This interdependence of policies and their joint use in most cases make it difficult if not impossible either to ascribe particular results to particular measures or to appraise in a definitive fashion the effectiveness of any specific action. Deviations of negotiated wage settlements from official guide-lines for increases, for example, cannot by themselves be interpreted as evidence of the failure of an incomes policy. For, as indicated above, much of the reported increase may represent the consolidation of advances that had already occurred as drift. Similarly, deviations of actual increases in earnings from official norms may reflect changes in industrial structure, in methods of payment or in overtime practices rather than non-compliance on the part of employers and employees. For the same reasons and because of variations in reporting systems, differences between countries in the extent of deviations from stated guide-lines are by no means a reliable measure of relative success in implementing incomes policies.

While precise measurement of effectiveness is likely to remain elusive, experience has served to emphasize some elements in incomes policy as of strategic importance for its successful deployment as a stabilizing instrument.

Perhaps most important is the extent of its acceptance by the parties most directly concerned. Such acceptance, in turn, implies broad agreement about objectives and about the reasonableness of the official norms in the light both of past statistics and of present and emerging circumstances. As this involves a process of education, it is probable that the usefulness of incomes policy will grow over time as its purpose and content come to be better understood, both by those who formulate and administer it and those whose earnings are likely to be affected most directly by it.

Given the dynamic, ever-changing nature of the economy, the guide-lines that are laid down must necessarily be of a general nature: the rules of an incomes policy can be neither rigid nor detailed.

[18] The first price review cases were referred to the National Board for Prices and Incomes early in May 1965; they related to flour and bread, soap and detergents and road haulage—items whose prices have risen sharply in recent years.

Partly as a result of this, it has been found useful to have available some machinery for review, however informal, so that the special cases for which the guide-lines, for reasons of public interest or of distributive justice, cannot be applied can be generally recognized as such and not regarded as examples of non-compliance tending to bring the whole policy into disrepute.

The number of exceptional cases depends in part upon the structure of wages and incomes actually in existence when the policy comes to be implemented: provision needs to be made for dealing with historical anomalies. But it also depends in part on the mutual interdependence of all the various elements of economic policy: attempts to hold an income and price line cannot be separated, for example, from general fiscal and monetary measures designed to influence demand.

While it has been impracticable, and perhaps unimportant, to provide in the guide-line for the smaller fringe industries—in which wages and earnings are well ahead or far behind the average—it has been shown to be essential to cater carefully to the large pace-setting industries. The more closely wage settlements in such industries conform to safe, within-the-norm rates of increase, the more likely is it that the guide-lines will be respected in other industries.

In general, and particularly in the case of the strategic industries, it has proved desirable to direct attention not only to the wage rates that are the subject of collective bargaining but also to all the other variables—hours of work and overtime, fringe benefits and the like—that determine actual earnings. The length of the contract that is negotiated is also relevant, especially in an economy that is already experiencing inflationary pressures, for the more frequent the adjustments the more likely are they to exert a destabilizing effect.

There is little evidence so far that the introduction of an incomes policy by government has endangered the institution of free collective bargaining. Even in the absence of such a policy, the bargaining takes place in circumstances in which the broad public interest and the potential impact of the settlement on the economy as a whole are recognized as relevant factors to be taken into account. Awareness of public involvement has, indeed, tended to increase with the expansion in the size and influence of trade unions and with the growing tendency for bargaining to be considered on an industry-wide basis and at the national level. There is, moreover, a fairly broadly based common interest in avoiding inflation: trade unions are showing increasing concern in preventing the gains they negotiate in money terms from being eroded by price increases.

In such a situation the introduction of an official incomes policy tends to strengthen the forces of moderation. It stiffens the resistance of employer groups to unduly high claims by the unions but simultaneously weakens their capacity to recover by way of price increases the full extent of their concessions to labour. The more effective its enforcement, the less likely is the outcome of collective bargaining to be inflationary.

Effective enforcement, however, remains largely at the experimental stage. Most guide-lines have so far been of a voluntary nature even when backed by the sanction of public disapproval of breaches. The need for flexibility in applying such guide-lines will continue to rule out any mechanical means of enforcement: review boards for wage settlements may help, but much will continue to depend on the success in stimulating public awareness of the facts and principles involved. And in the last analysis, the effectiveness of an incomes policy will depend upon the effectiveness of other devices operating in the fiscal or monetary fields to promote growth and stability, or stimulate competition and technological improvement.

Like the various measures with which it has to be associated or combined, an incomes policy has to operate in an international context. On the one hand, it may help to keep a country's price structure in line and hence prove a useful auxiliary in maintaining external balance. On the other hand, it cannot be expected to succeed in the face of incompatible policies in partner countries, particularly when there is a more or less free movement of factors of production between them. To keep such countries in line during a period of vigorous economic growth requires the harmonization of incomes policies.

The reserve currencies and the international monetary system

The external disequilibrium of the United Kingdom and United States economies has initiated a wide-ranging re-examination not only of the position of the pound and the dollar—the so-called reserve currencies—and the role they have been playing in providing international liquidity but of the whole monetary system as it has developed since the Second World War.[19]

The problems that are under discussion are closely interconnected and solutions to them cannot be pursued independently. The relationship between the payments difficulties of the reserve currency countries and the volume of international liquidity is direct and obvious. In recent years the dollar and the pound have together accounted for over two-fifths of the monetary reserves of the rest of the world (other than the centrally planned economies) and between 1957 and 1964, chiefly through payments deficits of the United States, they provided almost one-third of the growth of international liquidity at the disposal of other countries (*see* table 2-4). If these deficits can no longer be tolerated, an alternative source of growth of world liquidity will have to be found.

The relationship between the reserve currencies and the international monetary system is also clear. The present system is usually referred to as a gold-exchange standard and it is built on the expectation that any monetary authority may present dollars for conversion into gold at a fixed price and that the exchange value of sterling relative to the dollar will be maintained within narrow margins, making holdings of the reserve currencies practically as good as gold. It is evident that the system would break down if confidence in the ability of the reserve currencies to maintain gold convertibility were shaken by persistent payments deficits and sharp declines in the reserves held at the centre to meet potential claims.

Notwithstanding these close interrelationships, it is analytically useful to look separately at the position of the reserve currencies and the nature of the world monetary system, in the light of international liquidity requirements. The payments problems of the reserve currency countries are not necessarily rooted in the inadequacy of international liquidity; for while an increase in international liquidity would certainly ease the payments problems of these countries, it could conceivably embarrass the surplus countries and perhaps unduly postpone appropriate adjustments in the deficit countries. Nor does the solution of the payments problems of the reserve currency countries necessarily involve the complete overhaul of the international monetary system. Even if such an overhaul is needed, negotiations towards this end are likely to be more feasible and stand a better chance of success if basic reforms are not confused with emergency measures.

THE PROBLEM OF THE RESERVE CURRENCIES

The world-wide implications of recent developments affecting the dollar and the pound arise from their special position in the international monetary system. Their status as reserve currencies has been attained more through evolution of practice than by deliberate design.

[19] In the United Nations the most explicit statements of current interest in international monetary issues were made in the context of the 1964 Conference on Trade and Development. Recommendation A.IV.19 adopted by the Conference called for the convening of a group of experts "to consider the international monetary issues relating to problems of trade and development". Such a group is scheduled to meet later in 1965. See *Proceedings of the United Nations Conference on Trade and Development, Volume I, Final Act and Report* (Sales No.: 64.II.B.11), page 53.

Table 2-4. World Monetary Reserves,[a] 1958-1964

(Billions of dollars, at the end of year)

Year	Total reserves[b]		Gold		Foreign exchange		Estimated dollar reserves[c]	Estimated sterling reserves[d]
	World	Exclusive of United States and United Kingdom	World	Exclusive of United States and United Kingdom	World	Exclusive of United States and United Kingdom		
1958	57.82	32.18	38.03	14.64	17.24	16.94	9.65	6.70
1959	57.71	33.41	37.88	15.86	16.58	16.36	10.66	6.97
1960	60.70	37.62	38.06	17.46	19.06	18.63	11.64	7.08
1961	62.74	40.67	38.89	19.68	19.70	18.53	12.30	7.10
1962	63.16	42.63	39.27	20.63	20.09	19.77	13.11	6.22
1963	66.65	46.66	40.23	22.15	22.48	22.10	13.65	6.53
1964	68.97	49.98	40.86	23.25	23.95	23.34	14.35	6.85

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

[a] Excluding centrally planned economies (other than Yugoslavia) and Cuba after 1960.

[b] Gold, foreign exchange and reserve position in the International Monetary Fund (IMF).

[c] United States external liabilities to official holders, including short-term liabilities and foreign holdings of marketable United States Government bonds.

[d] 1958-1961: net overseas sterling holdings of central bank and official funds; 1962-1964: external sterling liabilities to central monetary institutions and United Kingdom Government and government-guaranteed stocks. These liabilities, net of United Kingdom claims, were \$6.1, \$6.4 and \$6.7 billion in 1962, 1963 and 1964, respectively.

Sterling assumed pre-eminence as an international currency in the nineteenth century, when the United Kingdom was the foremost industrial power engaging in world trade and finance and when London served as the centre for international settlements. The status of sterling as a reserve currency was confirmed in 1925 with the re-establishment of the gold standard under which sterling provided the link between gold and the currencies backed by sterling. It was reaffirmed when the gold standard was suspended in 1931, as the currencies of the sterling system chose to be linked with sterling rather than with gold.

Throughout the nineteen thirties the growth of sterling liabilities was more than covered by a corresponding growth of the gold reserves held in London. The war ended this relationship, however, and by the end of the nineteen forties sterling liabilities amounted to over six times the United Kingdom gold reserves. Under such conditions, any significant deficit in the balance of payments of the United Kingdom almost inevitably developed into a crisis in sterling.

Although, with the relative decline in the importance of the pound as a reserve currency, sterling liabilities ceased to expand and the reserve cover improved in the course of the nineteen fifties, these crises tended to grow in intensity: the crisis in 1964 was more severe than that in 1960-1961 and that in turn was worse than the one in 1955. Each was characterized by marked deterioration in the current account from a positive balance to a deficit, which became progressively larger: it was less than half a billion dollars in 1955 but more than a billion in 1964 (*see* table 2-5). In each crisis the behaviour of the

Table 2-5. United Kingdom: Selected Items in the Balance of Payments, 1958-1964

(Billions of dollars)

Selected balances	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
Balance on current account:							
(i) including reinvested earnings	0.97	0.43	—0.72	—	0.32	0.32	—1.14[a]
(ii) excluding reinvested earnings	0.88	0.38	—0.77	—0.11	0.22	0.23	—1.25[a]
Balance on long-term capital account:							
(i) including reinvested earnings	—0.54	—0.52	—0.42	—0.03	—0.25	—0.39	—1.07[b]
(ii) excluding reinvested earnings	—0.45	—0.47	—0.37	—0.08	—0.15	—0.30	—0.96[b]
Balance on current and long-term capital account	0.43	—0.09	—1.15	—0.03	0.07	—0.08	—2.21
Commercial	1.18	0.69	—0.18	1.18	1.33	1.30	—0.58
Non-commercial	—0.75	—0.78	—0.97	—1.21	—1.26	—1.37	—1.63
Balance on short-term capital account:[c]							
(i) including changes in short-term liabilities to foreign private holders[d]	0.68	0.01	2.06	—1.13	0.82	—0.35	0.22
(ii) excluding changes in short-term liabilities to foreign private holders	...	...	...	...	...	—1.33[e]	—1.39[e]
Balance on current and capital account:							
(i) including changes in short-term liabilities to foreign private holders	1.11	—0.07	0.91	—1.16	0.88	—0.42	—1.99
(ii) excluding changes in short-term liabilities to foreign private holders	...	...	...	...	...	—1.40	—3.60
Financing of deficit:							
Financing by official and private transactions	...	...	...	...	...	1.40	3.60
Financing by changes in short-term liabilities to foreign private holders	...	...	...	...	...	0.98	1.61
Financing by official transactions	—1.11	0.07	—0.91	1.16	—0.88	0.42	1.99
Special transactions	—	—0.21	—0.10	0.17	—0.04	—0.04	0.12
Changes in reserves	—1.11	0.28	—0.81	0.99	—0.84	0.46	1.87

Source: Annex table 2A-9.

[a] Including—$89.6 million interest on the United States and Canadian loans due but waived.

[b] Including—$84 million repayment of United States and Canadian loans due but waived.

[c] Including errors and omissions.

[d] 1958-1962: miscellaneous capital movements, including changes in net overseas sterling holdings other than official and IMF.

[e] Short-term capital movements, excluding miscellaneous capital and changes in sterling and other currency liabilities to private foreign holders and international organizations (other than the IMF).

exchange and the gold markets and the movement of "hot" money indicated widespread expectation of a devaluation of the pound, leading to action generally construed as an "attack".

The status of the dollar as a reserve currency is of more recent origin. The United States emerged from the Second World War as the only country capable of supplying the rest of the world with material and equipment for reconstruction and hence as the world's foremost trader and banker. As a result, the dollar became readily acceptable in international settlements and it soon replaced sterling as the most important reserve currency. Though, as in the case of sterling, the status of the dollar grew out of practice rather than by arrangement, it was given formal recognition as the central pillar of the post-war international monetary system, anchored in the Articles of Agreement of the International Monetary Fund.

While, unlike sterling, the dollar has not been subject to periodic crises, it had not been immune from attack. The pressure began building up at the beginning of the nineteen sixties even before earlier fears of a permanent dollar shortage had quite subsided. It took several more years of persistent external deficit—of the order of $3 billion annually—to reveal fully the vulnerability of the dollar.

This vulnerability does not reflect the sort of balance of payments weakness that has undermined the position of sterling. The underlying strength of the United States' external balance is still formidable. Despite the resurgence of Europe and Japan as competitors in world markets, the surplus on the United States current account has amounted to about $3 billion in recent years (*see* table 2-6). And in contrast to the deterioration in the United Kingdom, there was a further dramatic improvement, to over $5 billion in 1964. Moreover, the payments deficit as reported by the United States is much larger than it would be if reckoned in the manner generally used

Table 2-6. United States: Selected Items in the Balance of Payments, 1958-1964

(Billions of dollars)

Selected balances	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
Balance on current account:							
(i) including reinvested earnings	0.72	—1.33	2.61	3.85	3.40	4.29	6.52
(ii) excluding reinvested earnings	—0.13	—2.29	1.52	3.03	2.41	2.96	5.47
Balance on long-term capital account:							
(i) including reinvested earnings	—4.03	—2.98	—3.79	—4.28	—4.99	—6.02	—6.68
(ii) excluding reinvested earnings	—3.18	—2.02	—2.70	—3.46	—4.00	—4.69	—5.63
Balance on current and long-term capital account[a]	—3.32	—4.31	—1.18	—0.43	—1.59	—1.72	—0.16
Commercial	...	...	2.40	3.54	2.14	1.57	3.00
Non-commercial	...	...	—3.58	—3.97	—3.73	—3.30	—3.16
Balance on short-term capital account:[a]							
(i) including changes in short-term liabilities to foreign private holders[b]	0.29	1.59	—2.45	—1.56	—1.80	—0.94	—1.38
(ii) excluding changes in short-term liabilities to foreign private holders[b]	—0.21	0.13	—2.74	—2.64	—2.02	—1.54	—2.89
Balance on current and capital account:							
(i) including changes in short-term liabilities to foreign private holders[c]	—3.03	—2.72	—3.63	—1.99	—3.39	—2.67	—1.54
(ii) excluding changes in short-term liabilities to foreign private holders[d]	—3.53	—4.18	—3.92	—3.07	—3.61	—3.26	—3.05
Financing the deficit:							
Financing by official and private transactions	3.53	4.18	3.92	3.07	3.61	3.26	3.05
Financing by changes in short-term liabilities to foreign private holders	0.50	1.46	0.29	1.08	0.21	0.59	1.52
Financing by official transactions	3.03	2.72	3.63	1.99	3.39	2.67	1.54
Special transactions	—	0.44	0.04	0.70	1.40	1.32	0.67
Changes in reserves[e]	3.03	2.28	3.59	1.29	1.99	1.35	0.87

Source: Annex table 2A-10.

[a] Including errors and omissions.

[b] Short-term banking liabilities and marketable United States Government bonds and notes to private holders, including international organizations (except the International Monetary Fund).

[c] This is sometimes referred to as "exchange market balance".

[d] This is the same as United States Department of Commerce "balance on regular transactions" (excluding receipts from special government transactions).

[e] Including changes in United States official holdings of gold, convertible currency, reserve position in the International Monetary Fund and changes in United States liabilities to foreign official holders.

in European countries.[20] As a result of continuous accumulation, the creditor position of the United States has reached almost $100 billion and aggregate foreign assets, including gold, amount to over $110 billion. These are impressive amounts when compared with total United States liabilities to foreigners (namely $56 billion) or with the corresponding position of the United Kingdom which has about $42 billion of foreign assets as against about $34 billion of foreign liabilities (*see* table 2-7). The income derived by the United States from its accumulated assets has risen from less than $2 billion at the end of the nineteen fifties to over $3 billion in 1964, and is almost certain to increase steadily even if the pace of foreign investment should slacken. In addition, United States gold reserves amount to almost $15 billion—about two-fifths of the world total—and its total reserves are appreciably higher in relation to merchandise imports than in most other countries.

Nevertheless, the dollar is not just another currency. It is the only currency which may be converted into gold on demand by any central monetary institution. And, notwithstanding all these manifestations of strength, the fact remains that sustained deficits in the balance of payments and the ensuing loss of reserves have weakened the United States liquidity position. The ratio of reserves to short-term liabilities has declined from more than 3 to 1 in the immediate post-war years to less than 3 to 5 at the end of 1964. While the ratio is still far more comfortable than the slim cover of one-sixth on which the United Kingdom now operates, any further reduction arising from payments imbalances or speculative attacks might easily become cumulative.

Both the reserve currencies have thus reached a position in which unquestioned faith in their impregnability is no longer being taken for granted. If this position is not entirely new for sterling, it is certainly without precedent for the dollar. Moreover, the fact that both the pound and the dollar have become vulnerable is in itself a new element in the situation, adding significantly to the difficulties of management of either currency. Measures to defend the one have to be selected with the greatest care in order to minimize the danger of embarrassing the other. And, as the 1964 crisis clearly showed, the problems encountered by one of the currencies can have significant repercussions on the other.

The defence of sterling and the dollar

The increasing need to defend the pound and the dollar in recent years has called forth a considerable

Table 2-7. United States and United Kingdom: Foreign Assets and Liabilities, end of 1964

(*Billions of dollars*)

Item	*United States*	*United Kingdom*
Total assets (including gold)	113.5	41.5
Short-term	30.4	10.7
Official	20.1	2.3
Total reserves[a]	16.7	2.3
Private	10.3	8.4
Long-term	83.1	30.8
Official	18.8	2.8[b]
Private	64.3	28.8
Total liabilities	56.4	..[c]
Short-term	26.2	15.1
Official	8.8	4.7
Private	17.4	10.4
Long-term	30.2	...[d]
Official[e]	5.5	10.9
Private	24.7	..[f]
Liquid liabilities[g]	29.9	17.7
To official institutions[h]	15.4	7.6[i]
To private and international organizations	14.5[j]	10.1

Source: United States Department of Commerce, *Survey of Current Business*; Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin* (Washington, D.C.); Bank of England, *Quarterly Bulletin* (London).

[a] Including gold, reserve position in the Fund, and convertible currencies.

[b] Including international government loans, other official lending and holdings of non-sterling securities.

[c] Estimated at about $34 billion.

[d] Estimated at about $19 billion.

[e] The United States figure includes marketable, non-marketable, convertible and non-convertible United States Government Treasury bonds and notes with an original maturity of one year or more, and increases in government liabilities associated with specific transactions. The United Kingdom figure is composed of intergovernmental loans to the United Kingdom, total overseas holdings of government stocks and overseas holdings of United Kingdom local authority mortgages.

[f] At the end of 1962, private long-term liabilities were $7.9 billion.

[g] Short-term liabilities to foreign central banks, other banks, other official institutions and international organizations.

[h] Including the International Monetary Fund.

[i] Including $0.21 billion in non-sterling currency liabilities resulting from central bank assistance and $0.52 billion in liabilities to the International Monetary Fund.

[j] Including an estimated $0.94 billion in United States currency held abroad (which is not included in estimates of United States foreign liabilities above).

[20] A major difference between the reported payments balance (deficit) of the United States and that in European countries stems from the disparate treatment of short-term liabilities to foreign private holders. In the United States, while increases in short-term claims against foreigners are reported as capital outflow in the same way as in other countries, increases in short-term liabilities to foreign private holders are—in contrast to the practice in other countries—not recorded as "short-term capital inflow" but considered as one of the sources for financing the deficit. In 1964 about half of the reported deficit was "financed" by this means so that if the deficit had been calculated as in other countries, it would have been about halved. Partly because of this asymmetry in reporting, the deficit of the United States is not always offset by a corresponding surplus in other countries, so that for the world as a whole the reported deficit frequently exceeds the reported surplus. For alternative statements of "balance of payments deficit", *see* tables 2-5 and 2-6 and annex tables 2A-9 and 2A-10.

array of policy measures. In the United Kingdom defensive action has included the raising of the bank rate to the crisis level of 7 per cent on three separate occasions, the imposition of a 15 per cent surcharge on most imports in October 1964, the subsequent emergency mobilization of a very large international credit, and the adoption of an austerity budget in April 1965. Although the measures introduced in the United States have not borne the same stamp of crisis, a growing sense of urgency is discernible. The balance of payments programme began in the early nineteen sixties with efforts to reduce the Government's own contribution to the deficit: these included closer scrutiny of military outlays abroad and the tying of more foreign aid expenditures. Efforts to promote exports included the provision of export credit facilities and the containment of domestic costs by wage-price policies. In co-operation with foreign central banks, new techniques have been developed to deal with temporary disturbances in the foreign exchange markets. These measures were reinforced by an interest equalization tax, first proposed in the President's message to Congress in July 1963. A further strengthening of the programme, detailed in the President's message on balance of payments in February 1965, included a broadening of the scope of application of the interest equalization tax and a request for voluntary curbs on capital outflow from banks and business.

In evaluating the measures adopted in defence of the pound and the dollar, it should be remembered that while it is probably true that a much smaller effort would have been needed if the disequilibrium had been tackled earlier, yet the fact remains that the balance of payments is only a residual which may undergo major changes in response to relatively minor measures. The turnabout from a seemingly permanent dollar shortage to a dollar surplus is in itself a telling example of reversibility. The transformation of the French franc from a position of persistent weakness to one of considerable strength is another recent example of a quick turnabout. It is not impossible, therefore, for a balance of payments policy to over-correct a tendency towards imbalance. Nor can the measures taken to ensure external equilibrum be judged in isolation: a sound balance of payments is only one of the aims of economic policy. Had the reserve currency countries assigned a lower priority to the liberalization of trade and capital flows, or been less generous with international aid, the task of correcting payments imbalances would have been altogether different. It is because the considerations entering into the formulation of payments policies in the reserve currency countries have been varied and complex that a cautious approach has generally had to be followed.

Improving the current balance

Perhaps the most obvious way of strengthening the external payments position is by direct stimulus to exports and curtailment of imports. The degree of freedom in introducing such direct measures—as distinguished from the more general measures of domestic restraint and operations on the money and foreign exchange markets—has been circumscribed by international obligations and the long-run interest in promoting trade liberalization. These considerations have, however, been put aside on occasion by the need for speed.

As indicated above, in contrast to the large positive trade balance of the United States, a lag in the current account surplus has been a notable feature of the balance of payments of the United Kingdom, and the crisis of 1964 was characterized by the deterioration of the current account into deficit. It is not surprising, therefore, that one of the first steps taken by the United Kingdom to ease the external strain was an attempt to reduce import expenditure.

For this purpose the need for speed outweighed other considerations. Hence, instead of quantitative restrictions (which are permissible under the General Agreement on Tariffs and Trade (GATT) if imposed for balance of payments purposes) or advance deposits (which have never been effectively challenged under the GATT), a flat rate of surcharge was imposed on most imports, other than food and raw materials. This was clearly inconsistent with existing international commitments under the GATT and, since the flat rate implies a larger percentage increase on goods subject to preferential entry, at variance with trade arrangements with the Commonwealth and the European Free Trade Association.

The surcharge was avowedly of a temporary nature and in fact was reduced from 15 per cent to 10 per cent in April 1965. As this reduction was announced two months in advance, it probably served to enhance the incentive to postpone imports. Such a postponement is likely to have been concentrated in the first quarter of 1965 for which preliminary trade returns indicate a marked slowdown of imports.

In the United States, efforts to improve the current account have been concentrated largely in the government sector. Thus, though external military and economic assistance have both increased in recent years, less of it has been used to buy goods and services abroad and hence the associated outflow of dollars has declined. Net military expenditures abroad have been reduced from $2.7 billion in 1960 to $2.1 billion in 1964 and over the same period, the dollar component of economic assistance programmes has declined from $1.1 billion to $0.7 billion. Tied aid, which links the outward transfer of funds directly with exports, now accounts for about 90 per cent of the total.

Some restraint on private imports has also been exerted by a cut in the value of goods which a returning resident is permitted to bring into the United States duty free. Some reduction in foreign purchases may also flow from the recent request to corporations to contribute to the improvement of the country's balance of payments.

As far as the general promotion of exports is concerned, both the United Kingdom and the United States have relied chiefly on policies for growth, modernization and price stability. Nevertheless, various specific export drives have also been mounted to stimulate business. These have included overseas fairs and exhibitions and other forms of publicity as well as assistance with the mechanics of the export business, including market research and the systematic collection of information about current overseas requirements.

Probably the more significant, however, has been the provision of finance and insurance. Early in 1965 the United Kingdom widened the scope of official export finance machinery, lowering the minimum value of eligible consignments to £50,000 (from £100,000) and the minimum length of the credit to three years (from five years) and the rate of interest to 5.5 per cent (from 6.5 per cent). The credits are financed wholly by the commercial banks, but up to 30 per cent of their lending may be discounted at the Bank of England and therefore regarded as a liquid asset. The immediate effect of this measure is limited by the smallness of the proportion of exports hitherto sold under the indicated credit terms. At the same time the United Kingdom has made arrangements for rebates of indirect taxes to exporters as a specific form of encouragement. These rebates are similar in principle to the remission of turnover taxes practised by a number of continental European countries, but owing to the relatively small weight of indirect taxes in the United Kingdom tax system, are likely to prove far less important as a stimulus to exports.

Capital market measures

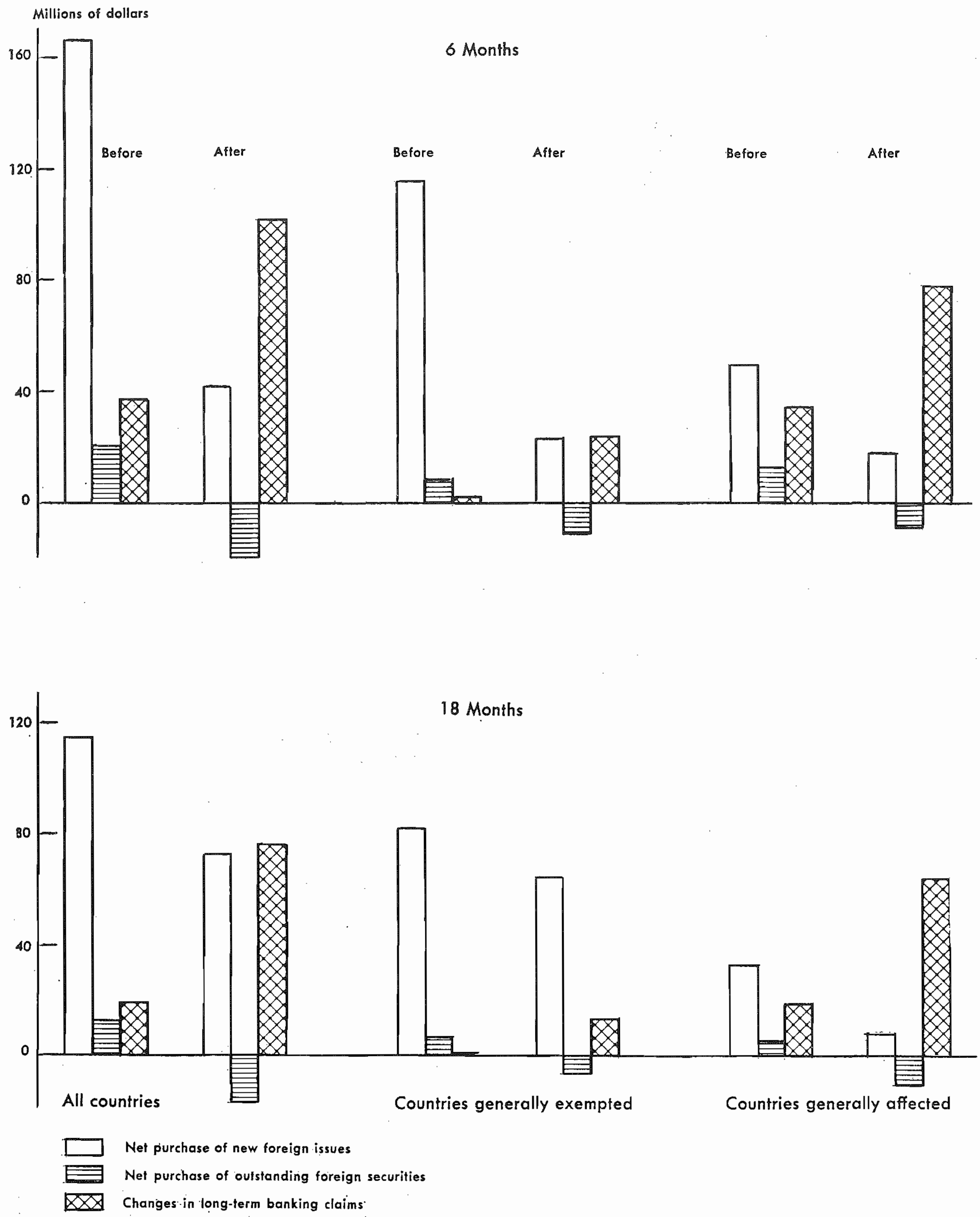
Even a cursory glance at the balance of payments statements of the United Kingdom and the United States reveals the preponderant importance of capital flows. In both countries a fractional reduction of the outflow of long-term capital over the years could have eliminated the entire deficit. To meet the imbalances brought about by the outflow of long-term capital, both countries have had to resort to short-term borrowing. Such short-term borrowing, however, has not always offset the long-term outflow, particularly in periods of low confidence when the flight of private capital has resulted in a net outflow of short-term capital, thus accentuating the effects of the long-term lending. Even allowing for the fact that individual items in the balance of payments cannot legitimately be viewed in isolation, that capital outflow has been intimately related to the growth of investment income and exports, and that much of the outflow stems from broad considerations of national policy—such as the desire to transfer resources to the developing countries—it is clear that the continuation of the practice of "lending long and borrowing short" has exacerbated the payments problem.

The most obvious method of curtailing the outflow of long-term capital would be by direct controls. While, despite gradual liberalization since 1958, such controls are still widely practised in European countries, the United States has not resorted to them, partly because of the difficulty of making them sufficiently comprehensive to be effective and partly on the ground that their imposition would in itself tend to shake confidence in the dollar. As an alternative, the United States has chosen to work chiefly through the market mechanism, first by the elimination of certain tax advantages previously accorded to nationals with investments abroad and then by the imposition of an interest equalization tax. The Revenue Act of 1962 aimed to remove the incentive to seek tax havens abroad, while a subsequent series of measures liberalizing depreciation allowances and reducing corporate taxes have had the effect of making domestic investment more attractive. The interest equalization tax—which would impose on foreign sellers of new or outstanding foreign securities the equivalent of one percentage point in additional interest costs—was announced in July 1963 and enacted in September 1964. It was mainly designed to discourage capital outflow to western Europe and Japan; capital moving to developing countries and to international organizations was exempt, as were new issues of Canada, on the understanding that capital would not be imported for the purpose of accumulating reserves.

The immediate effect of the interest equalization tax was a significant drop in the outflow of capital to the countries affected (*see* chart 2-6). It soon became apparent, however, that the effect of restraint placed on one form of capital flow could easily be neutralized by expansion in other forms. Thus, the reduction in the long-term capital outflow in stocks and bonds to countries subject to the tax was more than offset by increases in long-term bank loans. Part of the increase in capital outflow undoubtedly reflected anticipation of future requirements in view of the possibility of further capital control measures.

Such measures actually materialized in February 1965 with the President's message to Congress on

Chart 2-6. United States: Long-term Capital Outflow Before and After Announcement of the Interest Equalization Tax, July 1963



SOURCE: United States Department of Commerce, *Survey of Current Business*; United States Treasury Department, *Treasury Bulletin* (Washington, D.C.).

the balance of payments. Long-term bank loans to foreigners were brought under the interest equalization tax although, in addition to the original exemptions, new securities issued or guaranteed by the Government of Japan were exempted up to $100 million—to avoid disrupting the Japanese economy. In order to end discrimination between bank and non-bank lending, the interest equalization tax was made applicable to non-bank loans also. And over and above this enlargement of the tax disincentive, the business community was called upon to undertake voluntary restraint of capital outflow.

In March 1965 the Federal Reserve System requested banks and financial institutions to hold outstanding loans made to foreigners in 1965 to a level not more than 5 per cent above the end-1964 figure. (In cases where the target had already been exceeded, a reduction to the target level within a year was called for.) In the same month, the Department of Commerce asked corporations with substantial interest in foreign business to report on their individual balance of payments in 1964 and on the improvements they intended to make in 1965. The intention was to intensify efforts to increase both exports and dividend remittances and to reduce foreign lending even if profit considerations dictated otherwise.[21] The business community was warned that if these voluntary measures should prove ineffective, more stringent measures might have to be introduced.

It is as yet too early to assess the success of the new measures. The firming of Euro-dollar rates after the balance of payments message suggests that the voluntary programme was already making dollars less abundant in Europe. The first report submitted by corporations, in April 1965, envisaged an improvement of over $1 billion in their combined balance of payments, and a significant decline in bank loans to foreigners has taken place in recent months. At the same time, the mobility of capital in the well-developed United States market provides plenty of scope for evasion and leakage. The experience of capital flows following the interest equalization tax points to the possibility of substitution between capital market issues, long-term and short-term bank loans and other credit provided by financial and even non-financial institutions. The coverage of a voluntary programme is by nature uncertain. Moreover, the effectiveness of the interest equalization tax depends not only on the differential in the cost of issue but also on the availability of credit; and this has not been materially altered.

While the interest equalization tax relies primarily on the market mechanism, the implicit assumption behind the voluntary programme is that market considerations may be overruled. In the case of the limitation on bank loans, the co-operation of the banks may be ensured by the broad power that the Federal Reserve System exercises over them, as well as by the pressure of public opinion. The influence of the Department of Commerce over corporations in general is much weaker and the extent to which business can be persuaded to forgo profit possibilities in the public interest remains to be demonstrated. Yet the alternative poses formidable difficulties: direct control over the foreign investment of corporations would undoubtedly impair efficient operations if it took the form of across-the-board quantitative limitation while, if it took the form of licensing after detailed evaluation of every project, it would tend to involve the substitution of government directive for business decision.

Similar problems have arisen in the United Kingdom where, though the sums involved are much smaller, the history of capital export is much longer and the institutional arrangements no less sensitive and complex. Here, however, some control machinery has remained in being since the war, and one of the measures introduced with the budget of April 1965 was a general tightening up of exchange regulations. Some discouragement of capital outflow was also provided by a number of tax changes designed to remove the differential treatment that previously tended to favour overseas investment. As in the United States, these market measures were supplemented by moral suasion, private business being asked to refrain from actions likely to be detrimental in the short-run to the country's balance of payments.

Monetary policies

Another method that has been suggested for curbing the outflow of capital is the reduction of internal liquidity. This would entail more general restrictions on economic activity which, as indicated in the following section, may not necessarily be appropriate for dealing with the problems of the current external account. Even in the context of capital movements, however, the virtues of a tight money policy are far from obvious and simple.

The influence of short-term interest rates on international monetary movements is much smaller now than it once was; the present situation differs sharply from that which prevailed in the heyday of the gold standard, when a relatively moderate adjustment in the discount rate of the Bank of England was sufficient to induce a sizable flow of

[21] It was at first generally assumed that the voluntary programme might induce business to give special preference to domestic suppliers of goods. In response to an inquiry by the United Kingdom, however, the United States Government explained that the programme was not intended to result in import restrictions which would be inconsistent with the general goal of trade liberalization.

short-term capital. Short-term bills no longer play the same pivotal role in international finance, nor can the present financial capitals compare with London in market sensitivity and effectiveness at the international level. Nevertheless, since the restoration of convertibility after 1958, there has been a considerable increase in the movements of capital between countries, and short-term interest rates have again come to exercise a significant influence on such movements.

Notwithstanding this increase in the international mobility of capital, there are still tremendous intercountry differences in the levels of interest charged by lenders and in the availability of credit. These reflect not only basic differences in the structure of the banking system and the capital market but also the sharp contrast between the preoccupation with inflationary conditions that have tended to emerge in western Europe and the continued concern about below-capacity operations in the United States. In order to deal with the capital that may flow in response to these differences by means of a general credit policy, therefore, the magnitude of the interest adjustments would have to be extremely large, especially if the deficit countries acted alone.[22] Nor is it certain that offsetting movements in other markets might not neutralize all or part of the effect.[23] Furthermore, many European countries have imposed limitations on the quantity of local credit, so that even if the interest cost of foreign credit were made less attractive, the incentive to borrow abroad might not be entirely removed.

It is in this context that the reluctance of the United States to rely on general monetary policies for rectifying the payments balance has to be viewed. Monetary policy has been geared primarily to the needs of the domestic economy, even though subject increasingly to the imperatives of the external imbalance. Short-term rates of interest—judged to have a direct effect on the international movements of short-term capital—have been raised as far as deemed practicable without seriously affecting either the availability of credit or long-term rates of interest (and through them the level of domestic investment). Though the current expansion thus began with interest rates significantly higher than in the case of earlier upswings, the absence of major domestic strain enabled them to be held much steadier than on previous occasions (*see* chart 2-7). This steadiness reflects the continued availability of domestic credit, managed in large measure by means of the open market policy of the Federal Reserve System, as a result of which the commercial banks were able to avoid the precipitous decline in their "free" reserves that has characterized previous expansions (*see* chart 2-8).

As indicated above, the United Kingdom has been less inhibited about adopting a tight money policy in an effort to restore equilibrium, although the most recent crisis bank rate of 7 per cent—announced in November 1964 when earlier actions had proved to be insufficient—appears to have been intended more as a demonstration of the will to adopt drastic measures against a speculative attack than as a curb on domestic economic activity or even as a means of attracting short-term capital from abroad. It is a measure of the severity of the crisis and the persistence of the attack on sterling that the rate was held at this high level for much longer than on previous occasions. It was not lowered until the beginning of June 1965—and then only to 6 per cent.

The question of general economic restraint

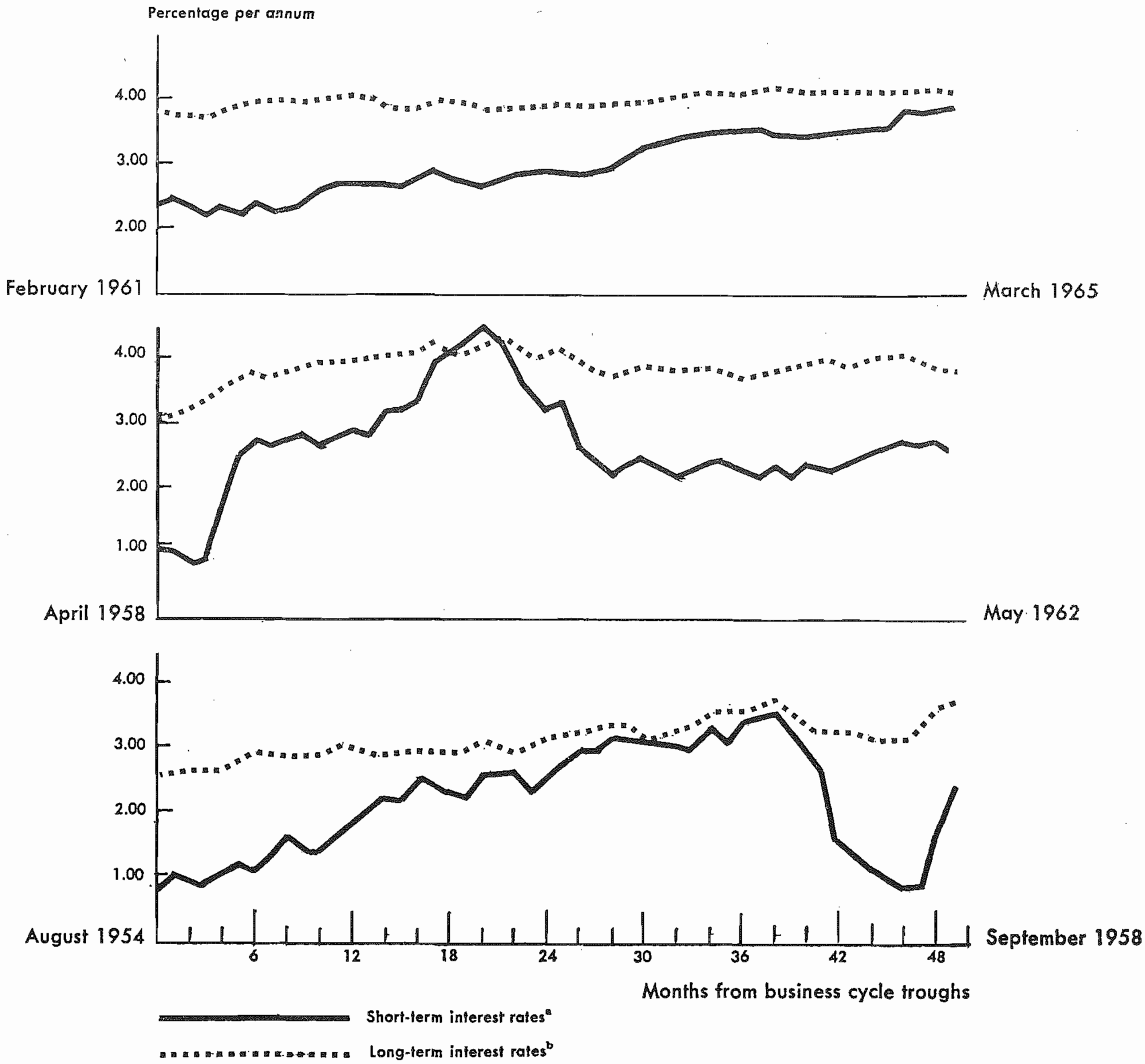
Where external imbalance is a direct consequence of internal imbalance, general economic restraints may alleviate the former by reducing the demand pressures that are drawing in imports and discouraging exports. The conclusion, foreshadowed above, that measures for general restraint on domestic economic activities are not necessarily the most appropriate for use in the defence of the reserve currencies stems in part from the pivotal importance of the reserve currency countries in the world economy—and the danger that policies of general restraint in these countries could trigger a cumulative contraction in other parts of the world—and in part from the inefficiency of general restraint as an instrument for effecting balance of payments adjustments. In the United States, moreover, the deficit in the balance of payments has not been accompanied by an excessively high level of demand or strain on resources; indeed, the average level of unemployment has remained around 5 per cent. Because of the relatively minor role that foreign trade plays in the United States economy, a reduction of imports of one billion dollars would require a sacrifice of over $20 billion of domestic product.[24] Furthermore, in view of the substantial current account surplus of the United States, serious doubts might be raised whether an even larger surplus is appropriate or, obversely, whether the country's trading partners would willingly accept a larger deficit on their current account with the United States.

[22] Interest charged by Japanese banks has been about twice as high as that of United States banks. The incentive to Japanese entrepreneurs to seek bank credit from the United States cannot be eliminated by a minor adjustment of United States rates.

[23] In November 1964, for example, when the maximum rate on ninety-day deposits in New York was increased from 4 to 4.5 per cent, the three-month Euro-dollar deposit rate was immediately raised by exactly the same margin.

[24] Recent experience in the United States suggests that it is safe to assume that the income elasticity of imports is generally less than unity.

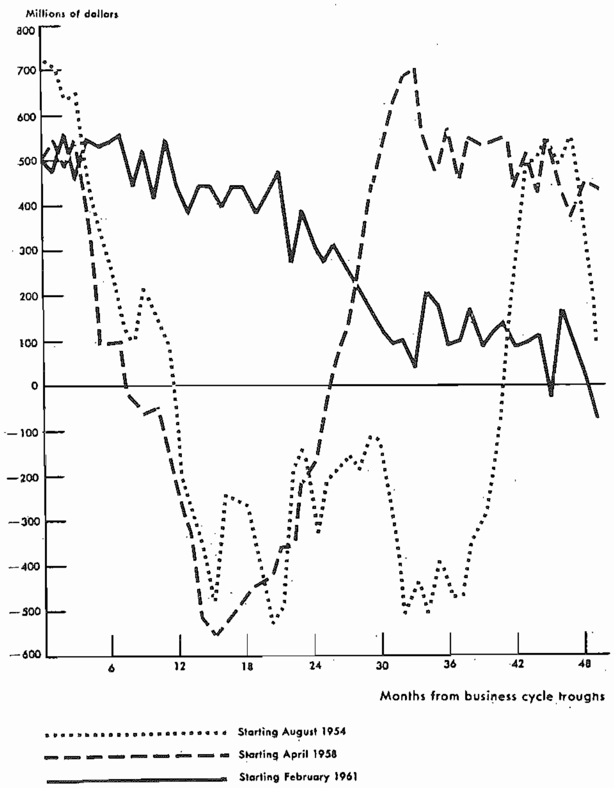
Chart 2-7. United States: Interest Rates in Three Periods of Expansion



SOURCE: United States, Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin.*
[a] Three-month United States Treasury bill rates.
[b] United States Government bonds.

Although in the United Kingdom the share of foreign trade in the total economy is far greater than in the United States, and conditions of full employment have generally prevailed, the possibility of solving the payments problems by general restraint on economic activity has also been looked upon with doubt and misgiving. Here the question is less whether general restraint can effectively correct the payments deficit than whether the result is likely to be lasting. For past experience has indicated that improvements in payments have come largely through reductions in imports—mostly for inventories, the import content of which is relatively high—which are temporary in nature and have to be made good when external balance is restored and economic activities resume their upward movement. The stimulus given to exports by domestic restraint has never been more than a minor one. This method of dealing with the payments problem has therefore yielded what has come to be known as a "stop-and-go" pattern of economic activity that has not prevented the re-emergence of external disequilibrium. Furthermore, the slowing down in the rate of economic growth implicit in periodic deflation

Chart 2-8. United States: Free Reserves in Three Periods of Expansion



SOURCE: As for chart 2-7.

may in turn be a major cause of lack of competitiveness in world markets in the longer run. It is significant, therefore, that even the austerity budget of April 1965, introduced in the midst of the most recent payments crisis, has not aimed at a deliberate dampening of the rate of growth in total economic activity: the resources released by domestic restraint are intended to be absorbed by activities that will bolster the balance of payments.

The argument for the use of general restraint is based in part on the benefit that would accrue to the balance of payments through a reduction of inflationary pressures and a more favourable development of prices. This would not enhance its applicability to the United Kingdom or the United States, neither of which has experienced a rise in prices more rapid than elsewhere in recent years. Indeed, in the past six years the United States has experienced relatively stable prices as compared with other industrial countries.

This is not to say that an even more favourable development of prices would not have improved the payments situation. The question is the manner in which this is to be brought about. If the favourable price development were occasioned by gains in productivity and restraints on the growth of incomes, the result would undoubtedly be a net improvement in the international competitive position. In contrast, post-war experience indicates that prices are not necessarily responsive to general economic restraints: on the one hand, gains in productivity tend to be positively associated with the growth of activity, while on the other hand, wage claims may be influenced more by trend rates of growth than by current rates. Furthermore, even if improvement in the competitive position in international markets through favourable price developments could be achieved by a policy of restraint, the advantage might well be offset by the lack of capacity and dynamism that tends to characterize a slow-growing economy.

Nor is there any assurance that the adoption of general economic restraint as a long-run policy would ease the payments situation—by reducing domestic demand and improving competitiveness—without impairing the over-all rate of growth. Such a policy could hardly apply to the United States where capacity has not been under strain and unemployment has remained at around 5 per cent of the work force. And in the United Kingdom, where unemployment has seldom risen above 2 per cent in recent years, it is far from certain that a 5 per cent rate of unemployment would be either socially tolerable or economically successful in simultaneously reducing inflationary pressures, improving external balance and maintaining an adequate rate of growth. Even without such prolonged deflationary action, the United Kingdom has ranked low in the list of industrial countries in respect of post-war growth in output and productivity.

While a policy of general economic restraint cannot be counted on to effect a significant improvement in the current account of the balance of payments, it is even less likely to succeed in bringing about desirable changes in the capital account. As far as long-term capital is concerned, indeed, the experience of the United States suggests that restraint may tend to induce outflows. For capital is attracted by profit possibilities, and deflationary forces at home are typically accompanied by a poor outlook for profits and hence tend to drive capital to countries with better prospects. Likewise, in so far as the security markets are affected, a decline in the prices of equities relative to those in other financial centres may also tend to induce an outflow of capital.

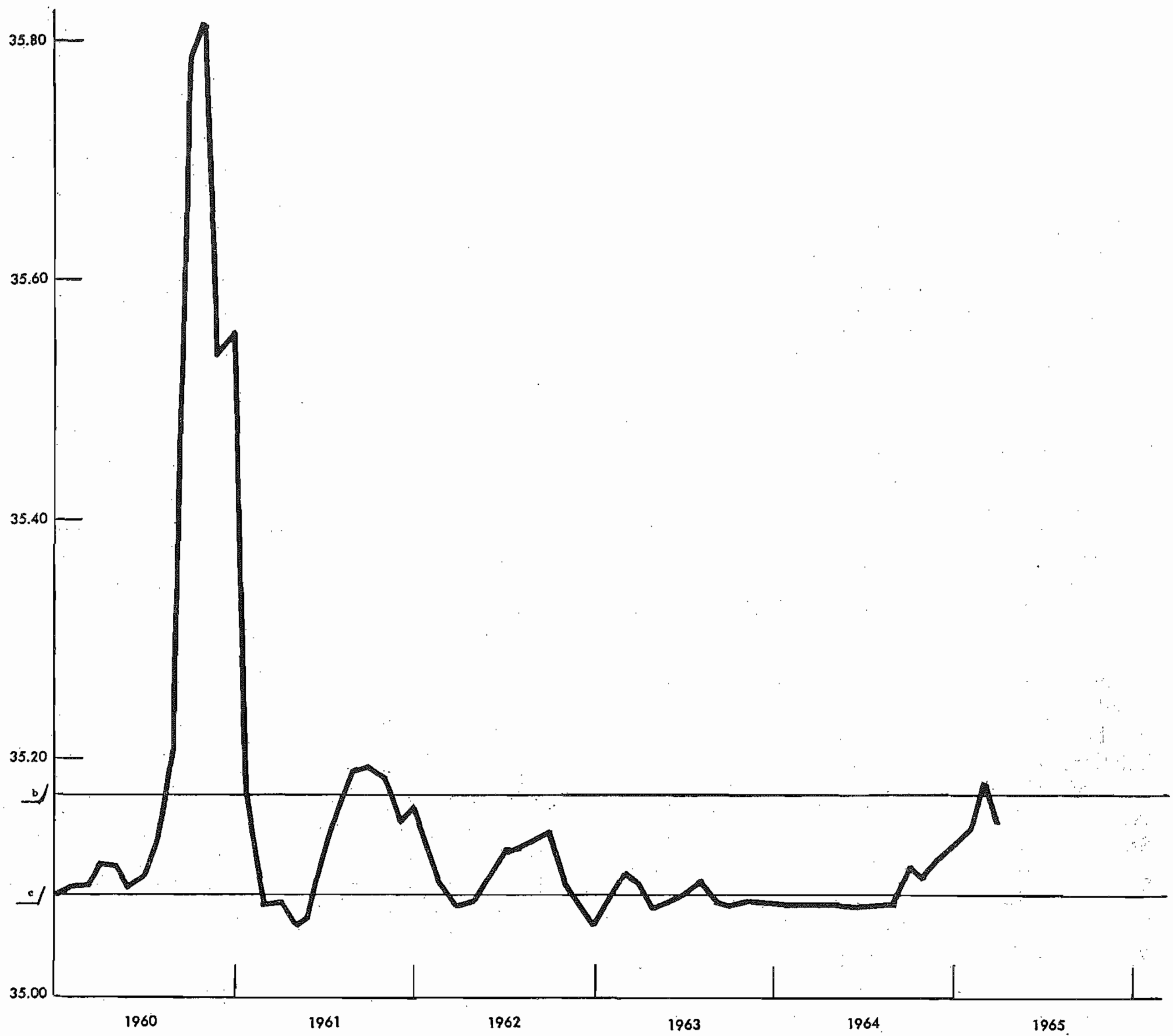
Foreign exchange market policies

Central to the management of reserve currencies is the maintenance of confidence. This involves not only the assurance of long-range solvency through proper relationship between assets and liabilities but also the holding of a position of adequate liquidity. During recent years of external imbalance, the United Kingdom and the United States have found it necessary to build up a network of defensive devices, both to bolster general confidence and to withstand the massive selling of pounds or dollars in times of crisis.

Inasmuch as a free gold market exists in London, a speculative attack against the pound or the dollar may also be reflected in the price of gold. Official holdings of dollars are redeemable in the United States at a fixed selling price; and the fact that the rate between the dollar and the pound is fixed within a narrow margin places an upper limit on the price at which official purchases are likely to be made on the free gold market. Yet, in periods of doubt about the strength of sterling, the free market price of gold, responding to large private purchases, has advanced well beyond this upper limit. In the second half of 1960, for example, the monthly average of the daily price was consistently above the exchange range (*see* chart 2-9).

Chart 2-9. Price of Gold in the London Market, 1960-1965

(Dollars per fine ounce)[a]



SOURCE: Bank of England, *Quarterly Bulletin.*

[a] Monthly average at daily fixing.

[b] United States official selling price plus cost of shipping between New York and London.

[c] United States official selling price.

An out-of-range gold price is a public manifestation of lack of confidence in the reserve currencies and it was against this background that a "gold pool" was established in 1961 to share the burden of official intervention on the London gold market to keep the price within bounds. The pool was an informal arrangement and it was joined by the central banks of Belgium, the Federal Republic of Germany, France, Italy, the Netherlands, Switzerland, the United Kingdom and the United States.

Notwithstanding the subsequent weakness in the balance of payments of the reserve currency countries, the free gold price has remained relatively stable. The pool has absorbed the gold that was offered, chiefly from South Africa and the Soviet Union—distributing it among members—and provided gold when the demand for private hoards exceeded current new supply. Even the recent sterling crisis induced only mild fluctuations in the gold price, though it has jumped from time to time, particularly when large amounts of dollars were officially presented to the United States for conversion into gold.

The present system of fixed exchange rates is supported by official operations on the spot exchange market. The maximum margin of fluctuation for these spot quotations has been fixed at one per cent on either side of parity with the dollar, and in practice at 0.75 per cent for most western European countries. Forward rates, however, may fluctuate freely, according to market conditions. Thus, the attack on sterling towards the end of 1964 was accompanied by a sharp discount on forward sterling. Because of the potential impact of such a discount upon public confidence, the central banks have become increasingly active in forward dealings: a peg in the forward market when the currency is under speculative attack has been considered useful to allay fears of further weakness.

Apart from the confidence factor, the official supply of forward foreign exchange has tended to lessen the demand for foreign exchange in the spot market and the consequent drain on the official reserve. Though such forward sales represent a future commitment of foreign exchange and must be made good in a few months, a commitment of this nature is unlikely to be a fresh source of embarrassment. For, to the extent that the forward sales of foreign exchange meet demand arising from short sales of currency, the official forward commitment will be matched by the commitment of the short seller to cover upon maturity. And in so far as the forward sales meet the anticipated requirements of exporters or importers or of foreign corporations for the remittance of dividends, the operation merely provides a form of insurance to the buyers and does not add to the foreign exchange payment, which has to be made anyway.

THE INTERNATIONAL CO-ORDINATION OF MEASURES

The various measures adopted in defence of the dollar and the pound have testified to the high level of co-operation existing within the international financial community, especially in times of crisis. Yet, most of these measures have consisted essentially of emergency restraints by the deficit countries and temporary financing by the surplus countries. Steps to improve the longer-run balance have inevitably proved more elusive, and the extent to which it has been possible to ensure appropriately co-ordinated action in creditor countries and debtor countries is still rather modest in relation to the gravity of the problem.

In the absence of a mechanism for automatic adjustment, domestic considerations have dominated major economic policies, not only in the deficit countries but even more in the surplus countries, where there is no impelling reason to halt the accumulation of reserves. Measures deliberately permitting domestic inflation as a means of correcting the balance of payments could hardly be entertained by any of the surplus countries, especially those with earlier experience of run-away prices. Moreover, in some of the surplus countries—notably France—a payments surplus has been accompanied by a substantial deficit on the current account, particularly in trade with the United States. In such cases an increase in the current account deficit would hardly be welcome.

Perhaps the most important attempts to coordinate balance of payments policies have been in measures affecting the foreign exchange and capital markets.

Purposeful intervention in the foreign exchange market, for example, has been facilitated by the mutual holding of currencies. This practice is relatively new for the United States and its evolution has been accompanied by the parallel development of new techniques of international financial co-operation. By the end of 1964, the United States had negotiated with various countries a series of currency "swaps" to an outstanding amount of more than \$2 billion (*see* annex table 2A-7). These swaps have been designed to serve short-term foreign exchange needs, and since, when activated, they count as reserves, they have the effect of creating international liquidity.

For longer-term credit the United States has at the same time arranged for a number of central banks, principally in western European countries, to hold non-marketable United States bonds. These bonds—which at the end of 1964 amounted to over one billion dollars—are denominated in the currencies of the countries holding them and in most cases are convertible into short-term obligations. Designed to absorb official dollar holdings which might otherwise be converted into gold, they give the holder the advantage of earning interest as well as a virtual guarantee against exchange depreciation.

In 1962 international co-operation to maintain liquidity was strengthened by the negotiation of a system of General Arrangements to Borrow (GAB). This embraced the Group of Ten—Belgium, Canada, the Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States—plus Switzerland, and it instituted stand-by machinery for organizing specific mutual currency support. It was activated for the first time during the sterling crisis in 1964. This amount of credit, mobilized almost overnight from the central banks and the IMF, amounted to the equivalent of $4 billion, of which $405 million was obtained from the GAB. A further drawing from the Fund by the United Kingdom in May 1965, amounting to $1,400 million, involved the borrowing of $525 million from the GAB.

Notwithstanding the speed and magnitude of this act of credit mobilization, however, there can be no presumption that it could readily be institutionalized or even repeated. The central bank credit, like the swap arrangements, was essentially an *ad hoc* arrangement. Though it reflects the general anxiety to avoid a world currency crisis, it cannot be construed as an automatic system of support for the reserve currencies. The creditor countries, indeed, have shown increasing reluctance to go on increasing their holdings of the reserve currencies. France has already converted sizable amounts of dollars into gold and, in present circumstances, countries that possess relatively large reserves may be prepared to pay the cost of holding a greater proportion in the form of non-interest-bearing gold.

Nor, given the present dimensions of the problem, is there an adequate or automatic source of credit in the International Monetary Fund. Since early 1964 when the Fund's holdings of dollars exceeded the currency subscription of the United States quota, it has not been able to accept dollars for repayment. In order to avoid a possible drain of gold by countries converting dollars so as to be able to repay the Fund, the United States began in 1964 to withdraw foreign currencies from the Fund for resale to such countries. It is true that the Fund was able to provide $2.4 billion of support to sterling in 1964 and 1965, but almost $1 billion of this was drawn, by arrangement, from the creditor countries participating in the GAB and a further $650 million involved sales of the Fund's gold.

Thus, despite the impressive innovations that have been made in the techniques of international co-operation and the dramatic demonstration of the solidarity of the financial centres in meeting the most recent crisis, there is nothing in the present system which assures automatic financing of the deficit of the reserve currency countries. However successful the foreign exchange policies have been in maintaining parities while providing the finance for a rapidly expanding volume of international trade, they are likely to continue to be of an *ad hoc,* improvised nature until the more fundamental imbalances have been reduced.

In France, the Federal Republic of Germany and Switzerland, foreign deposits have been discouraged by the lowering or prohibiting of interest payments, or by special deposit requirements with the central bank, and this has resulted in a substantial reduction in the inflow of non-resident bank deposits—from $150 million in 1963 to $77 million in 1964 in the Federal Republic of Germany, for example.

In a number of countries—such as France, the Netherlands and Switzerland—the foreign liabilities of domestic borrowers have been subject to government control or quantitative limitation. In announcing a tighter money policy in April 1965, the Swedish authorities warned the commercial banks against drawing short-term money from abroad. A similar warning was made by Denmark in connexion with an understanding between the central bank and the commercial banks, while in Norway, the Government has indicated that full control over short-term money movements would be introduced in new banking laws. In the Federal Republic of Germany, the Bundesbank has provided forward cover at a favourable rate for domestic credit institutions with money in the United States, thereby inducing them to hold their dollar assets and avoiding further pressure on the dollar in the forward market.

While the measures with respect to foreign deposits and foreign borrowing have affected chiefly the inflow of short-term capital, a number of countries have taken specific steps to discourage the inflow of long-term capital. In France, loans from abroad of more than two-years' maturity require authorization by the Bank of France. There have been frequent expressions of concern by public authorities with regard to foreign direct investment, especially by United States interests, and early in 1965 the Government indicated that foreign investment for purposes of taking over local companies would no longer be authorized. In March 1964, the Government of the Federal Republic of Germany announced its intention to introduce legislation imposing a 25 per cent withholding tax on income from fixed interest-bearing securities. Although the bill was not passed until early 1965 and is not scheduled to go into effect until July 1965, it has already had an impact: net purchases of domestic fixed-interest securities by foreigners declined from almost $500 million in 1963 to $1.25 million in 1964. In Switzerland, the investment of foreign funds in Swiss securities, landed property or mortgages has been forbidden.

To the extent that the upsurge in the movement of capital to western Europe has reflected, on the one hand, the desire of United Kingdom and United States industry to acquire or establish facilities inside the tariff wall being erected around the EEC and, on the other hand, the relatively under-developed state of European capital markets from an international point of view, a significant change in the outlook for such flow would require fundamental changes in institutional arrangements. The first of these forces would be weakened by reductions in the common external tariff and therein lies one of the important possibilities implicit in the so-called Kennedy round of negotiations now proceeding within the framework of GATT. The second requires both the enlargement and the opening up of European capital markets.

Relative to the capital markets that exist in London and New York, those of continental Europe tend to be thin and costly. Moreover, the access of foreign borrowers to these markets has often been restricted. It has not been uncommon for business concerns in the surplus countries to seek capital resources from the deficit countries. The capital market in the Netherlands is still virtually closed to foreigners. In Switzerland, although the cost of capital is among the lowest, the export of capital has long been regulated in the light of domestic needs, and in recent years the controls have tended to become more stringent.

Measures for strengthening the local capital market have been urged upon the continental European countries from time to time, and more recently the introduction of the interest equalization tax in the United States has acted as a stimulus to this end. While there are still many impediments to foreign flotations, some of these markets have begun to open. Thus, in the Federal Republic of Germany, foreign issues rose from DM 25 million in 1962 to DM 40 million in 1963 and DM 225 million in 1964, and a further increase is expected as a result of the abolition in July 1965 of the 2.5 per cent tax on security issues and the exemption of foreign issues in Deutsche marks from the 25 per cent withholding tax on income. In France, the first step for the reopening of the capital market to foreign borrowers was taken in 1963 with the authorization of a $12 million flotation by the European Coal and Steel Community. And 1965 will see the International Bank for Reconstruction and Development (IBRD) borrowing substantial amounts in Europe, thus reducing traditional reliance on the New York market.

If economic forces were left free to work themselves out, there can be little doubt that many of the disparities that have induced long-term capital to move from the deficit countries to the surplus countries would gradually be eliminated. And, in fact, there has been a discernible narrowing of the differential between western Europe and the United States in respect not only of capital market development but also of such important economic variables as market potential (as measured by *per capita* ownership of consumer durables and the degree of mechanization of industry, both of which have been catching up in Europe) and even over-all rates of economic growth (which have picked up in the United States and slowed down in Europe). This equalizing process has been assisted by the fact that in recent years prices and wages have been rising more rapidly in western Europe than in the United States. And corresponding to the eastward flow of capital has been an increasing westward flow of investment income, helping to close the payments gap.

Cutting across these forces is the fact that the needs of domestic policy have from time to time conflicted with the requirements of external policy as dictated by the state of balance. This has happened no less in the surplus countries than in the deficit countries. Indeed, in the surplus countries the domestic imperatives are inevitably stronger and the external needs less urgent than in the deficit countries.

Yet the fact remains that the international disequilibrium can be lessened more readily if it is approached from both sides than if it is left entirely for the deficit countries to remedy. There are patterns of behaviour appropriate to surplus positions just as there are for deficit positions, and it is in the global interest if they can be adhered to. To make this adherence easier has been one of the objectives of the search for new forms of international monetary co-operation. It is clear that the situation of the reserve currencies is not merely a matter of concern to the United Kingdom and the United States; it raises basic questions about the whole monetary system as it has evolved in the post-war period.

RE-EXAMINATION OF THE INTERNATIONAL MONETARY SYSTEM

The problems besetting the reserve currency countries, discussed above, have highlighted important weaknesses in the existing international monetary system. It is true that the post-war economic trend has on the whole compared favourably with earlier developments under a different international monetary régime: trade and payments have been progressively liberalized and imbalances have, by and large, been corrected without inducing the sort of cumulative deflationary effects which brought about disintegration of the international order in the inter-war period. But the slowness with which the payments imbalance of the United States is being redressed and the increasing gravity of the crises in sterling have caused widespread concern and weakened the traditional resistance to change.

In the United Kingdom and the United States, serious doubts have arisen as to whether the role of the reserve centre does not entail an inordinately heavy constraint on domestic policies. These countries—and especially the United States in the most recent period—have had to adjust not only to their own payments imbalances but also to the changing dollar-gold preferences of foreign central bankers. And in dealing with their payments imbalances, their choice of weapons is circumscribed by the necessities of their reserve currency role. In the surplus countries, on the other hand, the measures taken to support these currencies have been widely questioned—partly because of doubt as to whether other currencies could count on similar support and partly because of concern lest such action merely postpone the making of essential adjustments while at the same time providing the wherewithal for the continuation of direct investment by the deficit countries in the surplus countries.

The combination of a dangerously low level of reserves at the centre and growing uncertainty about the willingness of the surplus countries to accumulate reserve currencies has placed a considerable strain on the monetary system and posed a potential threat to world economic growth, in the developing countries as well as in the developed areas. As long as the gold-exchange standard is maintained, the supply of liquidity depends on fluctuations in the payments situation of the reserve currency countries and changes in the world supply of gold, arising from new production, from sales by the Soviet Union and from changes in private hoards. If the imbalance of the reserve currencies is speedily corrected, one of the principal sources of international liquidity will have dried up and an alternative source will have to be found in order to obviate deflationary pressure on the world economy. As long as the world reserve is built largely on one or two national currencies, the monetary system will remain inherently vulnerable to crises of confidence.

It is against this background that various proposals have been made for reform. They range from a complete overhaul of the international monetary system to specific remedies for indicated shortcomings in present arrangements. These proposals often reflect differences in approach to economic problems in general. Proponents of a return to the gold standard, for example, emphasize the automaticity and speed of adjustment to payments imbalances and the discipline implied by the system. Advocates of flexible exchange rates likewise stress automaticity and speed in adjustment but seek the key to the adjustment process in the exchanges rather than in domestic economic activities or prices. Architects of a world central bank, on the other hand, distrust mechanistic rules and insist on the need for conscious management of world liquidity as is already common practice in national central banking. Those responsible for the working of the existing system tend to stress the immense risk in experimenting with any new and untried system and favour an evolutionary and pragmatic approach in dealing with problems as they are encountered. Within each of these approaches there is room for a multitude of variations. In the present context it seems desirable to limit the discussion to the general nature of the major alternatives that are the subject of current debate.

A return to the gold standard

Those who recommended a return to the gold standard recognize the central role played by gold in the existing system but deplore its dilution by the reserve currencies. Gold, it is argued, has been valued for its own sake throughout history, while the value of a particular national currency is obviously subject to fluctuations in response to internal economic developments as well as to changing external relations. The rise of reserve currencies thus introduces an unstable influence into the system, something quite inappropriate to a standard of international values.

In its extreme form, a return to the gold standard would mean internal as well as external convertibility to gold of all currencies. Under such a régime any change in the over-all balance of payments would be automatically and speedily reflected in the domestic money supply. Equilibrating adjustment would then take the form of changes in domestic economic activity and prices or in short-term capital movements in response to interest differentials.

It is not difficult to see that the present stock of gold is quite inadequate to meet the requirements of internal convertibility. Even in the eleven countries in which the bulk of the world's monetary gold is concentrated—the Group of Ten and Switzerland—the reserve of $35 billion of gold constitutes only about an eighth of the total money supply. Unless gold were revalued upwards several times, the ability of the monetary authorities to honour convertibility would be open to doubt, and severe deflationary pressure might set in. On the other hand, an abrupt revaluation of such a magnitude would unleash powerful inflationary forces running counter to the declared objectives of stability and discipline, and distribute windfall gains in a very uneven fashion to a few countries richly endowed with gold.

The dangers of inflationary or deflationary pressures would not be, by any means, a once-for-all matter. To judge by past experience, the long-term rate of growth in the supply of gold has been around 2 per cent a year, while the growth of world income and trade has been two to three times as fast. Though money supply need not be linked with either income or trade in a one-to-one relationship, persistent lag of money is likely to exert a deflationary influence. In order to overcome such a bias, it might be necessary to arrange periodic devaluations. Apart from the secular lag in the supply of gold, history suggests that there would also be a good deal of short-term arbitrariness in the supply as a result of discoveries of new sources, and technological and other developments in the major gold producing countries.

In view of these supply problems, the gold standard might be applied only in respect of external convertibility. A monetary régime of this nature would differ from the present system in two principal respects. First, convertibility would become an independent undertaking for each national currency rather than through the link with the reserve currencies, as in the present system, and second, unless the buying and selling margin of each currency were deliberately widened, the system would imply a narrower margin between the currencies than now exists.

The immediate requirement for direct multiple external convertibility would be more gold. For, as indicated earlier, the gold reserves of most countries are far from adequate for this purpose, and the fundamental liquid asset-liability position of many countries is much weaker than that of the United States or even the United Kingdom. The transition from the existing system to one of external gold convertibility of all major currencies would thus precipitate a scramble for gold and a severe contraction of international credit. Hence, such a régime would hardly be feasible without a revaluation of gold. This suggests something of a paradox: the severe discipline involved in exclusive reliance on gold for the settlement of international indebtedness would need to be introduced by a major increase in the price of gold, with all that such a strong inflationary injection would involve for the world economy.

Whether it is based on complete convertibility or merely on external convertibility, the simplest and most important merit of the gold standard lies in the automatic mechanism of adjustment that it implies. Yet, the working of this automatic mechanism would depend in the final analysis on the willingness of national authorities to abide strictly by the rules of the game. As to the prospects for this, history is far from reassuring: even in the heyday of the gold standard, with London at the financial centre, sterling was used to supplement gold as a means of international payments, and the rules of the game were not always observed. The transmission of expansionary or contractionary forces from the external sector to the internal sector were often neutralized or tempered by deliberate action on the part of monetary authorities—through sterilization measures or through the pyramiding effect of the credit base—or by the less predictable responses of the marketplace. When the economy was threatened with severe inflationary or deflationary forces, the arguments for resisting the dictates of the mechanical rule often proved irresistible. Once started, moreover, the breakdown in compliance tended to cumulate, since the burden imposed on countries which intended to base their policy on the rules became all the more unbearable when compensatory action was not forthcoming from partner countries in the interdependent world. As the extent and intensity of management of the domestic economy is much greater and more general now than ever before, and as many governments are committed to specific goals in respect of employment or growth, the chance that precedence would be given to the influences emanating from abroad seems rather slim. The functioning of the gold standard requires a far more homogeneous and united world than now exists.

Flexible exchange rates

Despite the alleged automaticity of gold standard rules, it is clear that the system could not function without close co-operation among national authorities, prepared whenever necessary to take action that runs counter to immediate national interests. Moreover, inasmuch as the system entails a fixed exchange relationship, decisions with regard to the appropriate rate must be made by the authorities; and the fixing of the par value of currencies also involves periodic review of the appropriateness of the price of gold. Once the gold price and currency parities are fixed, however, any deviation between the gold standard rates and equilibrium rates would require adjustments to be made through changes in the domestic levels of activity and prices.

An alternative system is conceivable in which adjustments to changes in the rest of the world are made through the external value of the currency instead of through domestic activity. In such an alternative régime of flexible exchange rates, a persistent external deficit would be met not by domestic deflation but by currency devaluation; conversely, an upward movement in the rate of exchange, and not internal inflation, would be the response to a payments surplus.

The present gold-exchange system is not without provision for some flexibility in rates of exchange. The Articles of Agreement of the International Monetary Fund permit a one per cent margin on either side of par values, and a 2 per cent spread in spot exchange transactions, and since par values may be, and in practice have been, expressed in terms of dollars, this actually permits a 2 per cent margin or a 4 per cent spread between two currencies other than the dollar. Moreover, a unilateral exchange rate adjustment of up to 10 per cent of the initial par value may be effected without authorization by the Fund. And in case of "fundamental disequilibrium," more drastic changes in the par value are allowed, with the concurrence of the Fund.

There is, however, a basic difference between the existing system of an "adjustable peg" and a régime of flexible exchange rates. Under the existing system, exchange rates are normally fixed, and significant adjustments are to be made only by deliberate action. The régime of flexible rates, by contrast, is designed to give full play to market forces in the determination of parities, thus avoiding the difficulty of finding the appropriate initial rate and allowing prompt adjustment when the rate falls out of line. Such continuous adjustment obviates the need for any large or abrupt move, such as the devaluation of sterling in 1949, which in practice may tend to be too late and too drastic—too late because the authorities are naturally reluctant to make such a move until impelled by crisis, and too drastic because of the tendency to play safe when action is finally taken and to make allowance for possible offsetting factors in order to avoid the need for further adjustment.

By harnessing the powerful market mechanism, the régime of flexible rates, it is argued, would not only eliminate the need for deliberate management of the exchanges but would also tend to minimize the need for reserves or international liquidity. As a result, neither gold nor any reserve currencies would need to play any special role in such an international monetary system.

Offsetting these palpable advantages, however, are a number of serious objections arising in part from the fact that, as in the case of the gold standard, the rules implicit in a flexible rate régime would probably prove extremely difficult to follow. One problem would be to ensure non-interference with the exchange market by governments. If an exchange rate adjustment were brought about by government decision, it might be followed by deliberate offsetting moves in a manner reminiscent of competitive devaluation. The flexibility of the system would obviously be completely frustrated if a rate adjustment to a major currency were to lead in this way to corresponding changes in other major currencies. The practical difficulty is enhanced, moreover, by the fact that the non-interference principle is by no means simple or unambiguous. It would not be easy to draw the line between direct interference with the exchange market and policies affecting the market. The financial authorities might refrain from operations in the spot and forward exchange markets, but would they also be expected to refrain from managing interest rates, timing debt repayments, tying aid and engaging in all the various measures by which the balance of payments may be influenced? Given the enormous weight of government in all modern economies, it is unrealistic to pretend that the exchange market could not be directly or indirectly influenced by many means that would be virtually impossible to outlaw.

Another basic assumption of the flexible exchange régime is that the rates as determined by the market will be the "correct" rates. In actual practice, however, the market rate may be strongly influenced by temporary speculative forces, which might indeed be encouraged by the very uncertainty of the régime. Moreover, to the extent that the market rate is influenced by large-scale capital movements, for whatever reason, it is likely to fluctuate widely in the short run and deviate from a sustainable average in the longer run.

The impact of such exaggerated fluctuations in an exchange rate depends on the response mechanism within the domestic economy. Since the exchange rate is not just the price of another single commodity, but a pivotal price affecting the entire range of prices, fluctuations in the rate cannot but be transmitted to domestic prices. Instability of the exchange rate might thus frequently induce instability of domestic prices. Such instability is likely to introduce a further hazard, for experience suggests that in a modern economy there is more resistance to downward movements than to upward movements and that therefore flexible rates might well tend to impart a built-in inflationary bias to world prices. The tendency for prices to rise in the depreciating countries would not necessarily be matched by a compensating fall of prices in the appreciating countries.

Nor can it be assumed that the developments in economic activity that would take place in response to changes in exchange rates would always be of an equilibrating nature. The response pattern is likely to be particularly uncertain in view of the unpredictability of the future course of relative prices under a flexible exchange régime. For example, the realization of the ephemeral nature of the relative price advantage that would follow a depreciation of the exchange rate and the consequent rise in the domestic price of exports might well deter any shift of resources into export industries. And even if resources did actually move in the desired direction, it is far from certain that the switch would be readily reversible when the exchange rate appreciated. Nor would such back and forth movement be without real social costs, for the tacit assumption of perfect mobility of resources that would maximize the advantages of such a régime may not have its counterpart in the workaday world.

In view of the unsettling effect on the domestic economy of completely flexible exchange rates, it might seem worth while to explore the possibilities of a régime based on a more limited flexibility of exchange rates. Thus, the margin within which exchange rates may freely fluctuate might be widened considerably, even though changes in the initial par values could be made only in case of "fundamental disequilibrium". To the extent that speculative and random influences are considered disruptive, governments would be permitted to operate in the market and exert a stabilizing influence. Such a régime would be basically the same as the adjustable peg system except that margins would be wider.

As long as fluctuations in the rate were interpreted as temporary deviations from long-run equilibrium rates, the widening of the margin would encourage equilibrating capital movements. On the other hand, if the change were assumed to be longer lasting, it might well induce large-scale flight from (or into) a currency whose rate was falling (or rising). It is precisely for this reason that the monetary authorities have not invoked the right to adjust rates more often under the existing system, especially in the case of the reserve currencies.

From a long-run international point of view, moreover, a flexible rate régime would probably tend to exert a divisive rather than an integrating influence on the world economy by raising the risk and cost of inter-currency transactions. It is no accident that such a régime has never been suggested as a solution of the problem of regional disparities within a given economy. Indeed, where individual economies are integrating they have always moved toward a fixed-exchange régime. Most recently, in the case of the European Economic Community, for example, the agreement on the level of internal agricultural prices, expressed in common units of account, would seem to have significantly lessened the possibilty of differential exchange rate movements in member countries.

World central bank

If the world economy were viewed as truly integrated, the logic of applying the experience of national economies would be inescapable. At the country level, the problem of long-run supply of liquidity has been satisfactorily solved by central banking. The modern central banking system has, moreover, been established on a credit basis which is virtually independent of gold, even though rules governing credit or currency issue often continue to have a symbolic link with gold. Alterations in these links—such as the recent removal of the gold cover requirement for central bank deposit money in the United States—have no effect on the course of real economic activity.

A world central bank would presumably operate much like a national central bank. It would be the sole bank of issue and the sole authority for regulating liquidity through interest and open market policies. It would provide the system with both the discipline and the flexibility associated with the gold standard and the free-exchange rate régimes, without the need to impose intolerable automatic rules. It would not necessarily replace national central banks but would tend to be the banker's bank, accepting their deposits and creating the credit which would in effect serve as their foreign exchange reserves. It could conceivably be used as an instrument to extend credit and transfer resources to the developing countries.

It is clear that the less automatic the functioning of such world central banks, the greater is the area of potential conflict with national policies. At the limit, indeed, the endowment of the bank with full discretionary powers would involve an abrogation of national sovereignty in the economic field. If a world central bank were obliged to extend credit more or less automatically, it would have to be empowered to hold investments in weak currencies and obtain funds from the surplus countries. In these circumstances, thus, the surplus countries would, in effect, be called upon to make transfers of real resources to the deficit countries through the bank. It was essentially this feature to which the United States objected in the world central bank scheme of the Keynes plan put forward at Bretton Woods in the earliest post-war monetary negotiations. On the other hand, if the bank were empowered to impose discipline on the borrowers while at the same time enjoying virtually unlimited access to individual national resources, members would have surrendered to it an important component of their economic sovereignty.[25]

A further problem is the acceptability of the international credit created by a world central bank. If gold could not be demonetized, it might have to continue to play a pivotal role in the international

[25] It should be noted that while the International Monetary Fund may attach conditions to loans beyond the gold tranche, it does not have unlimited access to the resources of particular countries through open market operations.

monetary system.[26] If gold were internationalized, in the manner in which it has been nationalized in many countries, the gold backing of the world central bank credit might be of no more than symbolic significance, without effect on the bank's operational rules; such action, however, would depend on the readiness of countries to surrender their entire gold stock. In so far as national central banks continued to hold gold as part of their reserves, there would always be a danger that gold might be preferred above other reserve assets. And in view of the almost inevitable difference between the rate of growth of world central bank credit and the rise in the supply of gold, the bank would then be placed in a position similar to that facing the reserve currency countries today, with potential claims on its gold exceeding its holdings. It was for this reason that the Keynes plan postulated one-way convertibility of gold, with the world central bank undertaking to buy gold but not to sell. Under such an arrangement, however, gold would almost certainly become superior to world central bank credit: there would be a powerful incentive to hold the former rather than the latter and it would be difficult for the bank to gain any gold except through obligatory quota subscriptions.

Measures to strengthen the present system

This brief review of the three main types of international monetary régimes, and the sort of difficulties attendant on each, serves to explain why no consensus has emerged with regard to the solution of current problems. The fact remains, however, that the existing gold-exchange system is faced with a fundamental dilemma: while, on the one hand, a continuation of the large deficit of the reserve currency countries can no longer be tolerated, on the other hand, the elimination of this deficit implies a potential drying up of an important source of international liquidity. If the existing system is to survive, measures to resolve this dilemma must be found.

It is perhaps misleading to refer to "the existing system", as if it were something of a static nature, when in fact important evolutionary changes have constantly been taking place, especially in recent years. Some of these changes, indeed, may point to ways in which the system operating in 1965 might be further modified so as not only to deal with the present problem but also to avoid the difficulties associated with alternative methods of assuring and organizing the requisite supply of an internationally acceptable means of exchange.

One of these evolutionary developments has been in the functioning of the International Monetary Fund. The Fund was set up after the war as the institutional heart of the world monetary system, and its resources have been increased significantly by periodic enlargement of members' quotas. Quotas now total almost twice as much as at the beginning of the nineteen fifties and a further 25 per cent increase—and selectively larger increases for countries which have fallen out of line—was recommended in the latest five-year review and approved by the Fund early in 1965. This will bring the over-all level of quotas to $21 billion.

Within this quota total, the role of gold has not been a rigid and limiting one. Measures have been worked out to economize the use of gold without increasing the use of the reserve currencies. Thus, $800 million of Fund gold has been sold to the United States in exchange for government securities, and the recently agreed increase in quotas provides special procedures by which the loss of gold by the reserve currency countries on account of gold subscriptions—not only their own but also those of others who may have to convert dollars into gold—will be minimized or partly offset. A subtle change in the relationship among the reserve currencies, Fund quotas and gold is thus taking shape.

Furthermore, the role of the Fund as the bank of the central banks has tended to expand. Inasmuch as drawing from the Fund within the gold tranche is automatic, the practice of including the reserve position with the Fund in the reserves of each member country has gained widespread support. The special considerations given to credit needs for offsetting temporary fluctuations in primary commodity trade, while mainly intended for developing countries, have pointed a way to a more liberal interpretation of conditional credit. In addition, the Fund's potential resources have been expanded by such flexible devices as the General Arrangements to Borrow, negotiated with the Group of Ten and Switzerland.

The expansion of International Monetary Fund resources, with various degrees of liquidity, has been matched by bilateral extensions of credit between central banks. As pointed out earlier in the discussion, these credits have the effect of creating international reserves and enlarging the potential supply of liquidity. While alleviating pressure on the reserve currencies, they have also had the effect of activating a number of other currencies in the operation of the international monetary system.

[26] Alternatively, a commodity base might be considered preferable. For a recent proposal for such a commodity reserve currency, *see* "The Case for an International Commodity Reserve Currency", a paper submitted to the United Nations Conference on Trade and Development by A. G. Hart, N. Kaldor and J. Tinbergen, reproduced in volume III of the *Proceedings* (Sales No.: 64.II.B.13), pages 522-54.

At the same time, however, these arrangements —which have been largely of an *ad hoc* nature—have encountered growing resistance from the surplus countries. For, in the final analysis, their net effect is to transfer resources from the surplus countries to the reserve currency countries, for the financing of the latter's deficit. It is clear that, until the external position of the reserve currency countries is fundamentally changed, the system will remain extremely vulnerable.

Among the many ideas for strengthening the present monetary mechanism in a way in which the interests of the surplus countries as well as those of the deficit countries are taken fully into account some involve the possibility of systematizing and multilateralizing the various *ad hoc* measures already adopted. Doubts about the convertibility of reserve currencies and fears of their devaluation might in principle be removed by gold guarantees. In its simplest form, however, such a guarantee might be suspect when the potential liabilities added up to something clearly larger than the stock of gold. Nor could the guarantee be effectively limited to official holdings, since, in the face of weakness in the reserve currencies, private holders could easily dispose of their foreign exchange claims which would wind up in official institutions. The guarantee might be more successfully limited to a special deposit account established with the International Monetary Fund. Such a deposit would be more attractive than the reserve currencies because of the gold guarantee, and more attractive than gold if it were made an interest-earning asset. Its attraction, indeed, might be so great that it would induce so much switching from the reserve currencies into the special deposits that the gold cover would become inadequate. However it is organized, the effectiveness of a gold guarantee is necessarily limited by the amount of gold available to back it up.

From this standpoint, there might be more scope in an exchange guarantee than in a gold guarantee. Formalization of a system of exchange guarantees would be essentially an extension of the technique of swaps of currency and non-marketable convertible bonds worked out in a number of *ad hoc* bilateral arrangements. However, if such a system were multilateralized—through the International Monetary Fund, for example—the exchange rate structure might tend to become even less flexible than it is under the adjustable peg system.

The multilateralization of reserve currencies, it has been suggested, might also be achieved through the creation of a composite reserve unit. To start with, the unit might consist of the major currencies of the world—say, those of the Group of Ten and Switzerland—in fixed proportions. Fixing this ratio is intended to minimize the amount of switching from one currency to another. Such a new reserve unit could be handled either as an adjunct to a form of gold standard or as the currency of a world central bank.

In terms of the first approach, international settlements would be effected by a new "bundle", primarily in gold, supplemented by the new reserve unit (which thus perform the function now carried out by the reserve currencies). The proportion between gold and the new unit in the "bundle" would be the same as that between the aggregate of participating countries' gold holdings[27] and the amount of the new unit created; and the management of the new unit would rest with these countries rather than with the reserve currency countries or with the International Monetary Fund. In contrast to present practice, gold would constitute an indispensable part of any settlement. Thus, even if the amount of the newly created unit were as large as present reserve currency holdings, control over liquidity would be more stringent. An assessment of the liquidity situation would be undertaken from time to time and if necessary an adjustment made in the composition of the reserve unit and in its ratio to gold. Actual liquidity would tend to reflect the way in which the latent conflict of views between deficit and surplus countries was resolved in negotiation. As the system would involve the replacement of the reserve currencies by the new unit, there might be some risk of impairing—at least temporarily—the functioning of financial markets when the central banks were no longer able to supply the business community with the customary currencies.

In terms of the second approach, the new reserve unit would be created by an appropriate central institution. Proponents of this approach have thought of the International Monetary Fund, suitably expanded, as fulfilling this role. As long as it was agreed that the new unit could be used for all international settlements and that the central Fund was alone empowered to issue it, it would not matter whether the unit was expressed in terms of national currencies or gold or given a new name. If need be, such a unit could have all the attributes of central bank money; its creation by the central Fund would presumably be subject to various limitations, ensuring, for example, that international liquidity would expand only within certain maximum limits, perhaps no faster than the average annual rate of growth of world production or trade. Since, as in the case of domestic credit creation, there is really no foolproof formula which would guard

[27] Presumably each country would pool its existing gold holdings but, to prevent a prior scramble for gold, its allocation of reserve units would probably have to be based on some historical average of its holdings of gold.

against excesses or deficiencies, the creation of international reserves would almost certainly have to be a matter of deliberate decision.

While ideas are fairly clear in regard to many of the desirable attributes of an international monetary system, there are still wide divergencies of opinion in regard to the precise nature of the machinery likely to serve the purpose most adequately. Institutional innovations will have to be painstakingly negotiated if confidence in international financial innovations is to be cultivated, and negotiations will have to take into account the various views and reservations of individual countries. The result will probably be the progressive moderation of extreme positions, especially in the shaping of interim measures.

The international monetary system is a delicate mechanism and untried régimes inevitably involve large risks. Nevertheless, the need for reform has been universally recognized, and wide-ranging studies have been instituted by the Group of Ten, as well as by the International Monetary Fund, the Organisation for Economic Co-operation and Development (OECD) and the EEC, and these should pave the way for the necessary negotiations regarding the future shape of the international monetary system.[28]

If such negotiations come to be conducted under the shadow of the current imbalances, it would be important not to let the apparent conflicts of interest between present deficit and surplus countries obscure the longer-term perspective, and hamper the evolution of a monetary régime that would be flexible enough to provide for periodic transformations in the payments balances between countries. Whatever its flexibility, however, no system can ensure continuous smooth working. In the final analysis, in a régime of sovereign national governments, it will be the decisions of these governments that will determine the success or failure of the international monetary system. Willingness to co-operate and a concern for the international repercussions of domestic measures on the part of individual countries could compensate for the short-comings of any system. Conversely, even an ideal system will not function properly in the absence of appropriate responses from its participants.

The working of the monetary system cannot be separated from the general problem of international co-operation, not only in matters of obvious inter-country concern (as in the case of commercial policy and aid policy and so on) but also in matters often regarded as more strictly domestic (such as fiscal policies, monetary policies and incomes policies). From this point of view, the principle of "multilateral surveillance" for balance of payments purposes enunciated at the annual meeting of the IMF in 1964 is a significant and useful first step. Whether this beginning will point the way towards broader and closer co-operation and co-ordination not only among the central bankers but also among the finance ministries, planning agencies and other economic policy making bodies will determine the nature of the framework within which an international monetary system must work.

[28] As far back as 1953 the International Monetary Fund was asked by the United Nations Economic and Social Council to report on the adequacy of international reserves, and in 1958 the Fund published another study, *International Reserves and Liquidity*, carried out at the request of its own members. In response to the growing interest and concern—some of it expressed at the annual meeting in 1963 — the Fund published the results of further inquiry in its 1964 *Annual Report*. This and other studies (mentioned below) were discussed at the annual meeting in September 1964.

The problem was also under investigation in other interested bodies. In 1961 the finance ministers of EEC countries, acting through the EEC Monetary Committee, appointed a group of experts representing member central banks to examine the question of international liquidity and the various proposals that had been made for the reform of the international monetary system. The experts' report on *Current Problems of International Liquidity* was endorsed and presented in summary form in the *Fourth Report on the Activity of the Monetary Committee* in March 1962. The EEC Monetary Committee has pursued the problem further in its subsequent annual reports, the latest (seventh) of which was published in February 1965.

Immediately after the annual meeting of the IMF in 1963, the finance ministers and central bank governors of the Group of Ten directed their deputies to undertake "a thorough examination" of the international monetary system. The resulting report was endorsed in June 1964 in a *Ministerial Statement* in which it was published as an annex. The ministers also approved "the arrangements made by their deputies for a study group to examine various proposals regarding the creation of reserve assets". This group—known after its chairman as the Ossola Committee—was due to report in mid-1965.

In order to carry out the multilateral surveillance agreed to by the Group of Ten, the Bank of International Settlements and Working Party 3 of OECD have been provided with confidential data bearing on international balances of payments. Working Party 3 has also been invited by the Group of Ten to study measures for "the smooth functioning of the international monetary system" through the "avoidance of major and persistent international imbalances" and "the effective use of appropriate policies by national governments".

Annex

Table 2A-1. Developed Market Economies: Industrial Production and Gross National Product, by Country, 1962-1964

(Percentage change from preceding year)

Region and country	Industrial production			Gross national product (at constant prices)		
	1962	1963	1964	1962	1963	1964
North America						
Canada	8	5	9	6	5	6
United States	8	5	6	6	3	5
European Economic Community						
Belgium	6	7	7	4	4	5
France	6	4	8	7	4	5
Germany (Federal Republic)	5	4	9	4	3	6
Italy	10	8	1	6	5	3
Luxembourg	—4	1	9	—1	1	6
Netherlands	6	5	9	3	4	6
European Free Trade Association						
Austria	2	4	8	2	4	6
Denmark	...	...	...	5	2	7
Norway	5	5	7	3	5	6
Portugal	5	9	9	7	5	...
Sweden	1	3	6	4	4	6
Switzerland	...	...	...	5	5	5
United Kingdom	1	5	7	1	4	6
Other western Europe						
Finland	7	4	8	3	4	5
Greece	6	5	12	5	9	9
Iceland	...	...	...	8	7	6
Ireland	6	7	9	3	4	4
Spain	7	11	15	10	12	8
Turkey	7	8	...	6	7	5
Japan[a]	4	16	15	5	12	9
Australia[b]	—	10	7	1	6	5
New Zealand[a]	5	5	7	1	4	...
South Africa	7[c]	14[c]	16[c]	8	8	8

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Yearbook of National Accounts Statistics;* Organisation for Economic Co-operation and Development, *General Statistical Bulletin*, and official national sources.

[a] Fiscal years starting on 1 April of years indicated.

[b] Fiscal years ending on 30 June of years indicated.

[c] Manufacturing only.

Table 2A 2. Developed Market Economies: Gross National Product and its Main Components, by Country, Actual 1962-1964 and Forecast for 1965

(At constant prices; percentage change from preceding year)

Region, country and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services: Exports	Foreign trade in goods and services: Imports	Change in inventories[a]
North America							
Canada							
1962	6	4	1	3	5	2	1.3
1963	5	4	—	4	9	2	1.0
1964	6	6	4	14	12	11	0.8
1965[b]	5	...	...	10	...	...	...
United States							
1962	6	5	6	8	7	9	1.1
1963	3	4	3	4	6	6	0.9
1964	5	5	1	6	13	7	0.6
1965[b]	4	5	—	4	...	...	...
European Economic Community							
Belgium							
1962	4	4	5	4	9	8	0.3
1963	4	5	7	2	7	8	0.2
1964	5	5	2	10	10	11	0.4
1965	3.5	4	2	3	7.5	7	...
France							
1962	7	7	4	7	3	9	1.6
1963	4	6	2	6	8	12	1.1
1964	5	5	2	6	8	12	1.5
1965	3.5	4.5	3	5	8	7.5	...
Germany (Federal Republic)							
1962	4	6	12	6	4	12	1.1
1963	3	3	7	2	10	8	0.9
1964	6	4	4	9	10	8	1.3
1965	5	5	3	6	5.5	6.5	...
Italy							
1962	6	7	4	9	11	15	1.2
1963	5	10	5	6	7	21	0.8
1964	3	2	4	—7	11	—3	...
1965	3	3	4	3	10	11	...
Luxembourg							
1962	—1	...	...	...	...	...	...
1963	1	1	1	1	1	...	...
1964	6	6	2	4	12	...	...
Netherlands							
1962	3	5	7	3	6	8	1.5
1963	4	7	3	4	6	10	1.3
1964	6	6	—	15	10	14	2.7
1965	3.5	3.5	1	3	7.5	5	1.4
European Free Trade Association							
Austria							
1962	2	5	2	—2	7	9	2.5
1963	4	5	5	1	9	4	1.5
1964	6	4	6	9	8	9	...
1965	5	4	4	8	...	...	...
Denmark							
1962	5	7	12	8	5	14	2.4
1963	2	1	7	—4	11	—1	—
1964	7	6	5	15	8	18	2.0
1965	4	3	12	3	7	6	...

Table 2A-2. Developed Market Economies: Gross National Product and its Main Components, by Country, Actual 1962-1964 and Forecast for 1965 (*continued*)

(At constant prices; percentage change from preceding year)

Region, country and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories[a]
					Exports	Imports	
European Free Trade Association (continued)							
Norway							
1962	3	3	7	6	6	6	0.5
1963	5	4	6	8	11	10	0.5
1964	6	3	6	4	10	7	0.3
1965	5	3	6	7	6	8	...
Portugal							
1962	7	—1	7	1	26	—6	2.3
1963	5	12	—2	9	4	11	—1.3
Sweden							
1962	4	4	8	4	7	6	0.7
1963	4	5	5	7	7	7	—0.3
1964	6	4	4	8	9	9	0.5
1965	4	2.5	7	5	5.5	7	...
Switzerland							
1962	5	7	9	11	6	10	2.5
1963	5	6	6	6	5	5	1.4
1964	5	5	6	11	7	10	...
United Kingdom							
1962	1	2	2	—1	3	2	0.3
1963	4	4	3	2	5	4	0.4
1964	6	4	3	16	4	8	1.6
1965	3.5	2.5	3	8.5	2	1	...
Other western Europe							
Finland							
1962	3	4	10	—1	7	6	0.5
1963	4	3	8	1	3	—1	1.5
1964	5	4	4	14	8	17	...
1965	5	6	4	5	7	7	...
Greece							
1962	5	4	5	—8	12	—3	2.1
1963	9	9	9	—9	13	—3	2.4
1964	9	...	...	...	...	...	...
1965	8	...	...	...	...	...	...
Iceland							
1962	8	10	8	17	22	20	—1.0
1963	7	8	3	30	5	18	—1.0
1964	6	6	4	10	7	12	...
Ireland							
1962	3	3	5	15	—1	6	1.3
1963	4	5	6	12	7	10	0.7
1964	4	4	4	14	3	9	1.5
1965	4	4	2	10	...	6	...
Spain							
1962	10	5	20	35	12	32	...
1963	12	12	12	15	7	17	...
1964	8	8	2	3	21	10	...
Japan[c]							
1962	5	8	10	7	16	—1	3.0
1963	12	9	11	12	9	24	6.1
1964	9	8	9	16	20	8	3.8
1965	7.5	8	7	8	11	10	...

Table 2A-2. Developed Market Economies: Gross National Product and its Main Components, by Country, Actual 1962-1964 and Forecast for 1965 (*continued*)

(*At constant prices; percentage change from preceding year*)

Region, country and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services: Exports	Foreign trade in goods and services: Imports	Change in inventories[a]
Australia[d]							
1962	1	3	5	—2	12	—15	—1.3
1963	6	6	4	7	—1	21	2.0
1964	5	5	6	10	16	9	0.9
South Africa							
1962	8	7	14	—	4	3	0.7
1963	8	9	11	15	5	19	1.7
1964	8	11	3	16	3	25	1.9

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Yearbook of National Accounts Statistics*, and official national sources.

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

[b] Original official forecasts at current prices have been deflated on the basis of the assumption that price changes between 1964 and 1965 will equal those registered between 1963 and 1964.

[c] Fiscal years starting on 1 April of years indicated.

[d] Fiscal years ending on 30 June of years indicated.

Table 2A-3. Developed Market Economies: Personal Consumption and its Main Components, 1962-1964

(At constant prices; percentage change from preceding year)

Region, country and year	Total	Food, drink, tobacco	Clothing	Dwelling	Durables	
					Household goods	Passenger cars[a]
North America						
Canada						
1962	4	2	2	5	3	15
1963	4	2	1	8	4	21
1964	6	3	3	4	10	23
United States						
1962	5	4	4	5	5	19
1963	4	3	3	5	6	9
1964	5	5	8	5	12	7
European Economic Community						
Belgium						
1962	4	2	5	—	9	9
1963	5	2	10	—	8	19
1964	5	10	12	1	11	18
France						
1962	7	4	8	6	11	28
1963	6	4	9	5	11	15
1964	5	3	5	5	...	—4
Germany (Federal Republic)						
1962	6	4	6	7	3	11
1963	3	2	1	7	—1	2
1964	4	4	6	3	...	4
Italy						
1962	7	5	7	3	16	29
1963	10	7	6	2	25	44
1964	2	...	...	...	...	—13
Netherlands						
1962	5	4	6	2	10	20
1963	7	5	8	2	15	25
1964	6	3	8	3	12	25
European Free Trade Association						
Austria						
1962	5	3	7	...	1	7
1963	5	3	2	...	7	5
1964	4	4	3	...	7	7
Denmark						
1962	7	3	7	4	9	28
1963	1	4	3	4	—7	—22
1964	6	4	6	4	9	10
Norway						
1962	3	2	6	2	8	—4
1963	4	2	3	2	8	13
1964	3	2	1	—	7	10
Sweden						
1962	4	3	2	4	—1	10
1963	5	1	6	4	1	17
1964	4	4	5	4	7	6
United Kingdom						
1962	2	—	—1	2	—	6
1963	4	1	4	2	5	29
1964	4	2	3	2	4	19

Table 2A-3. Developed Market Economies: Personal Consumption and its Main Components, 1962-1964 (*continued*)

(At constant prices; percentage change from preceding year)

Region, country and year	Total	Food, drink, tobacco	Clothing	Dwelling	Durables: Household goods	Durables: Passenger cars[a]
Other western Europe						
Finland						
1962	4	4	2	3	14	48
1963	3	5	—	3	—5	27
1964	4	3	3	3	12	32
Ireland						
1962	3	2	—	1	11	12
1963	5	2	9	1	18	16
1964	4	...	...	...	...	11
Japan[b]						
1962	8	1	5	11	...	49
1963	9	2	8	7	...	15
1964	8	5	1	1	...	5
Australia[c]						
1962	3	4	—1	4	—2	—3
1963	6	4	2	4	9	32
1964	5	3	7	4	3	16
South Africa						
1962	7	3	10	1	3	11
1963	9	5	19	3	16	16
1964	11	...	...	...	...	34

Source: As for table 2A-2.

[a] Registration of new passenger cars.

[b] Fiscal years starting on 1 April of years indicated.

[c] Fiscal years ending on 30 June of years indicated.

Table 2A-4. Developed Market Economies: Gross Domestic Fixed Investment and its Main Components, 1962-1964

(At constant prices; percentage change from preceding year)

Region, country and year	Total	Housing	Manufacturing	General government[a]
North America				
Canada				
1962	3	5	...	...
1963	4	4	...	...
1964	14	10	...	...
United States				
1962	8	10	7	2
1963	4	4	6	2
1964	6	1	16	...
European Economic Community				
Belgium				
1962	4	—10	4	14
1963	2	—8	6	17
1964	10	10	...	24
France				
1962	7	5	8[b]	14
1963	6	8	3[b]	11
1964	6	10	3[b]	9
Germany (Federal Republic)				
1962	6	2	—6	12
1963	2	3	—3	14
1964	9	15	8	1
Italy				
1962	9	15	9[c]	—12
1963	6	9	7[c]	—2
1964	—7	...	...	...
Netherlands				
1962	3	—6	6[c]	8
1963	4	6	3[c]	3
1964	15	27	...	15
European Free Trade Association				
Austria				
1962	—2	2	—2	3
1963	1	...	—12	...
1964	9	...	—1	...
Denmark				
1962	8	5	8	7
1963	—4	—4	—14	3
1964	15	28	...	14
Norway				
1962	6	3	11	12
1963	8	1	1	14
1964	4	2	4	11
Sweden				
1962	4	9	—1	9
1963	7	7	—3	23
1964	8	10	—5	7
United Kingdom				
1962	—1	3	—8	4
1963	2	3	—10	7
1964	16	26	13	18
Other western Europe				
Finland				
1962	—1	14	...	3
1963	1	3	...	9
1964	14	—18	...	13

Table 2A-4. Developed Market Economies: Gross Domestic Fixed Investment and its Main Components, 1962-1964 (*continued*)

(*At constant prices; percentage change from preceding year*)

Region, country and year	Total	Housing	Manufacturing	General government[a]
Japan[d]				
1962	7	23	—5[b]	32
1963	12	34	6[b]	13
1964	16	26	12[b]	...

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

[a] Excluding government enterprises.

[b] Private enterprises.

[c] Including mining, quarrying, construction, electricity, gas, water and sanitary services.

[d] Fiscal years starting on 1 April of years indicated.

Table 2A-5. Developed Market Economies: Employment and Unemployment, 1962-1964

(*Annual averages*)

Region and country	Estimated civilian labour force in 1962	Percentage change from preceding year in total civilian employment			Percentage unemployed[a]		
		1962	1963	1964	1962	1963	1964
North America	78.5						
Canada	6.6	3	2	4	5.9	5.5	4.7
United States	71.9	2	1	2	5.6	5.7	5.2
European Economic Community	72.0						
Belgium	3.6	2	1	1	3.3	2.7	2.3
France	18.8	1	2	1	1.0	0.9	0.9
Germany (Federal Republic)	25.5	1	—	—	0.7	0.8	0.8
Italy	19.8	5	—2	—	3.1	2.5	2.7
Luxembourg	0.1	2[b]	—2[b]	3[b]	...	...	...
Netherlands	4.2	2	2	1	0.8	0.9	0.8
European Free Trade Association	41.5						
Austria	3.4[c]	1	—	1	2.7	2.9	2.7
Denmark	2.1[d]	2	1	3	3.3	4.3	2.8
Norway	1.4[d]	1	1	1	1.4	1.7	1.5
Portugal	3.4[d]	...	...	...	...	...	...
Sweden	3.7	1	2	—	1.3	1.4	1.2
Switzerland	2.5[d]	4	1	2	...	...	...
United Kingdom	25.0	1	—	1	2.1	2.6	1.6
Other western Europe	32.0						
Finland	2.2	1	—1	1	1.2	1.5	1.5
Greece	3.7[c]	...	...	...	2.0	1.9	1.8
Iceland	0.1	...	...	...	...	...	...
Ireland	1.1[e]	—	—	—	5.7	6.1	5.7
Spain	11.9[e]	6[b]	8[b]	3[b]	0.8	0.9	1.1
Turkey	13.0[d]	6[b]	6[b]	...	...	...	...
Japan	46.1	1	1	1	0.9	0.9	0.8
Australia	4.2[c]	3	3	4	1.3	1.0	0.5
New Zealand	0.9	2	2	3	—	0.1	0.1
South Africa	5.7[d]	1	2	7	6.3	5.9	4.5

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Labour Office, *Yearbook of Labour Statistics, 1964* (Geneva), and official national sources.

[a] Generally the ratio of registered applicants for work or surveyed unemployment to the civilian labour force available for hire. Percentages are not comparable between countries, owing to differences in definition.

[b] Industrial employment only.

[c] 1961.

[d] 1960.

[e] 1963.

Table 2A-6. Developed Market Economies: Prices and Earnings, 1962-1964

(Annual averages; percentage change from preceding year)

Region, country and year	*Wholesale prices*	*Consumer prices*	*Export unit value*	*Import unit value*	*Implicit deflator of gross national product*	*Wage earnings in manufacturing*
North America						
Canada						
1962	3	1	—3	—1	1.5	3
1963	2	2	—	3	1.8	4
1964	1	2	2	3	2.3	4
United States						
1962	—	2	—1	—2	0.9	3
1963	—	1	—	1	1.7	3
1964	—	1	1	3	1.7	3
European Economic Community						
Belgium						
1962	1	1	—1	—2	2.3	6
1963	3	2	—	—	3.5	8
1964	5	5	3	3	3.3	10
France						
1962	3	4	—	—	4.7	8[a]
1963	4	5	2	—	5.4	9[a]
1964	2	3	3	2	2.8	7[a]
Germany (Federal Republic)						
1962	1	3	1	—2	4.6	11
1963	1	3	—1	—	2.7	7
1964	1	3	1	1	2.0	9
Italy						
1962	3	5	1	—	5.8	15
1963	5	7	2	1	8.2	17
1964	4	6	1	3	6.0	10
Netherlands						
1962	1	3	—	—	3.8	10[a]
1963	2	5	2	1	4.5	9[a]
1964	6	5	3	3	7.0	14[a]
European Free Trade Association						
Austria						
1962	6	4	—2	—	3.1	6
1963	—2	3	—	—	2.3	6
1964	6	4	2	...	3.7	9
Denmark						
1962	3	7	2	—1	6.8	10
1963	3	6	2	2	5.6	8
1964	3	2	2	1	5.3	7
Norway						
1962	2	6	—1	—1	3.8	9
1963	—	3	—1	1	1.8	5
1964	5	5	3	1	3.6	5
Portugal						
1962	1	3	—2	5	...	...
1963	—	2	4	—	...	...
1964	1	4	6	2	...	...
Sweden						
1962	2	5	—3	—1	4.6	11
1963	3	3	—	3	3.5	8
1964	5	3	4	5	4.3	6

Table 2A-6. Developed Market Economies: Prices and Earnings, 1962-1964 (*continued*)

(Annual averages; percentage change from preceding year)

Region, country and year	*Wholesale prices*	*Consumer prices*	*Export unit value*	*Import unit value*	*Implicit deflator of gross national product*	*Wage earnings in manufacturing*
European Free Trade Association (continued)						
Switzerland						
1962	3	4	3	1	5.6	7
1963	4	4	4	3	5.3	7
1964	3	3	4	2	...	6
United Kingdom						
1962	—	5	1	−1	3.8	4[a]
1963	2	2	3	4	3.8	3[a]
1964	4	3	2	4	2.7	4[a]
Other western Europe						
Finland						
1962	2	5	−3	1	4.9	6
1963	3	4	4	2	4.8	7
1964	8	10	10	11	7.6	13
Greece						
1962	—	—	2	−1	2.5	...
1963	6	3	14	—	1.6	...
1964	4	1	−1	3	...	...
Iceland						
1962	...	11	...	...	12.3	...
1963	...	13	...	...	...	...
1964	...	20	...	...	...	...
Ireland						
1962	4	5	1	—	3.8	12
1963	1	2	2	1	2.8	5
1964	6	6	7	3	8.9	12
Spain						
1962	5	6	9	−1	...	...
1963	4	8	4	1	...	...
1964	4	7	—	5	...	...
Turkey						
1962	5	4	...	...	...	...
1963	4	10	...	...	...	...
1964	−1	−1	...	...	...	...
Japan						
1962	−2	7	−3	−3	5.1	10
1963	2	8	3	3	0.8	11
1964	—	3	1	1	3.2	10
Australia						
1962	−3	—	1	—	1.0	2[a]
1963	2	1	12	1	1.9	1[a]
1964	3	2	3	1	2.8	3[a]
New Zealand						
1962	—	3	2	−2	6.2	2
1963	3	2	9	—	5.0	2
1964	5	4	9	1	...	4
South Africa						
1962	1	1	−1	−1	0.6	...
1963	1	1	1	4	1.8	...
1964	2	3	6	−1	3.0	...

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics*, and official national sources.

[a] Wage rates.

Table 2A-7. Wage Drift in Selected Countries, 1960-1964

(*Percentage*)

Country and item[a]	*1960*	*1961*	*1962*	*1963*	*1964*	*Average*[b]
Denmark						
Average hourly wage earnings, percentage change from preceding year:						
1. Actual[c]	6.8	12.4	10.5	8.3	...	9.5
2. Negotiated	1.1	8.8	2.8	4.9	...	4.4
Wage drift	5.7	3.6	7.7	3.4	...	5.1
Wage drift as percentage of actual	83.8	29.0	73.3	41.0	...	53.7
Sweden						
Average hourly wage earnings, percentage change from preceding year:						
1. Actual	7.0	7.5	9.5	6.5	6.0	7.3
2. Negotiated[d]	5.0	5.0	7.5	5.0	4.0	5.3
Wage drift	2.0	2.5	2.0	1.5	2.0	2.0
Wage drift as percentage of actual	28.6	33.3	21.0	23.1	33.3	27.4
Norway						
Average hourly wage earnings, percentage change from preceding year:						
1. Actual	6.0	7.0	10.5	6.3	6.6	7.6
2. Negotiated[e]	...	5.0	8.5	4.6	4.7	5.7
Wage drift	...	2.0	2.0	1.7	1.9	1.9
Wage drift as percentage of actual	...	28.6	19.0	27.0	28.8	25.0
United Kingdom						
Average hourly wage earnings, percentage change from preceding year:						
1. Actual	8.1	7.0	4.1	4.1	8.2	6.3
2. Negotiated[f]	5.5	6.4	4.2	2.3	5.7	4.8
Wage drift	2.6	0.6	—0.1	1.8	2.5	1.5
Wage drift as percentage of actual	32.1	8.6	—2.4	43.9	30.5	23.8
Belgium						
Average hourly wage earnings, percentage change from preceding year:						
1. Actual	3.8	3.6	7.7	8.4	10.1	8.1
2. Negotiated	...	...	5.5	6.9	...	6.2
Wage drift	...	...	2.2	1.5	...	1.8
Wage drift as percentage of actual	...	...	28.6	17.9	...	22.2
Netherlands						
Average hourly wage earnings, percentage change from preceding year:						
1. Actual	9.5	7.4	8.8	6.9	11.4[g]	8.8
2. Negotiated	9.0	2.6	7.6	4.4	12.3[g]	7.1
Wage drift	0.5	4.8	1.2	2.5	—0.9[g]	1.6
Wage drift as percentage of actual	5.3	64.9	13.6	36.2	—7.9[g]	18.2

Table 2A-7. Wage Drift in Selected Countries, 1960-1964 (*continued*)

(*Percentage*)

Country and item[a]	*1960*	*1961*	*1962*	*1963*	*1964*	*Average*[b]
Federal Republic of Germany						
Average hourly wage earnings, percentage change from preceding year:						
1. Actual	9.4	10.6	11.3	7.1	8.4	9.4
2. Negotiated	6.9	8.3	10.4	6.1	7.3	7.8
Wage drift	2.5	2.3	0.9	1.0	1.1	1.6
Wage drift as percentage of actual	26.6	21.7	8.0	14.1	13.1	17.0

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat based on data from Organisation for Economic Co-operation and Development, *Economic Surveys* (Paris); Banque nationale de Belgique, *Bulletin d'information et de documentation* (Brussels); Denmark, Economic Secretariat of the Government, *Economic Survey of Denmark*, Department of Statistics, *Statistiske Efterretninger* (Copenhagen); Federal Republic of Germany, Statistisches Bundesamt, *Wirtschaft und Statistik* (Stuttgart); Netherlands, Central Bureau of Statistics, *Sociale Maandstatistiek* (Zeist); Norway, Ministry of Finance, *The National Budget of Norway* (Oslo); Sweden, National Institute of Economic Research, *The Swedish Economy* (Stockholm); United Kingdom Treasury, *Economic Report on 1964* (London).

Note: Data on wages are not strictly comparable among countries. In Belgium, data refer to all industrial workers with the exception of those in transportation; in the Federal Republic of Germany, to workers in manufacturing and mining; in Sweden, to all employees; in the United Kingdom, to all full-time manual workers in manufacturing, mining and quarrying (except coal), construction, gas, electricity and water, transportation and communications services (except British Railways, London Transport and British Road services) and public administration.

[a] Countries arranged in descending order of average annual wage drift as percentage of actual earnings.

[b] Annual compound rate between terminal years: 1959-1963 for Denmark; 1959-1964 for the Federal Republic of Germany, Netherlands, Sweden and the United Kingdom; 1960-1964 for Norway; 1961-1963 for Belgium.

[c] Including cost of living adjustments.

[d] Excluding overtime and shift pay.

[e] Including social insurance premiums.

[f] Average hourly wage rates.

[g] October 1963 to April 1964.

Table 2A-8. World and Selected Countries: Change in Reserves and Credit Facilities Between End of 1958 and End of 1964

(Billions of dollars)

Country and year	Reserves: Active: Gold	Reserves: Active: Foreign exchange	Reserves: Active: Reserve positions in International Monetary Fund[a]	Reserves: Active: Subtotal[b]	Reserves: Temporary: Special United States bonds	Reserves: Temporary: Swaps used by other party	Total reserves[c]	Credit facilities: Assured: Swaps unactivated	Credit facilities: Assured: International Monetary Fund standbys above reserve positions	Credit facilities: Assured: Subtotal	Credit facilities: Subject to negotiation: other International Monetary Fund tranches[d]	Total credit facilities	Grand total
Belgium													
1958	1.27	0.23	0.06	1.56	—	—	1.56	—	—	—	0.22	0.22	1.78
1964	1.45	0.54	0.20	2.19	0.03	0.05	2.27	0.06	—	0.06	0.34	0.40	2.67
Change	0.18	0.31	0.14	0.63	0.03	0.05	0.71	0.06	—	0.06	0.12	0.18	0.89
Canada													
1958	1.08	0.87	0.09	2.04	—	—	2.04	—	—	—	0.30	0.30	2.34
1964	1.03	1.66[e]	0.20	2.89	(0.12)[e]	—	2.89	0.25	—	0.25	0.55	0.80	3.69
Change	—0.05	0.79[e]	0.11	0.85	(0.12)[e]	—	0.85	0.25	—	0.25	0.25	0.50	1.35
France													
1958	0.75	0.30	—	1.05	—	—	1.05	—	—	—	0.26	0.26	1.31
1964	3.73	1.38	0.62	5.73	—	—	5.73	0.10	—	0.10	0.79	0.89	6.62
Change	2.98	1.08	0.62	4.68	—	—	4.68	0.10	—	0.10	0.53	0.63	5.31
Germany (Federal Republic)													
1958	2.64	3.09	0.15	5.88	—	—	5.88	—	—	—	0.33	0.33	6.21
1964	4.25	2.72[e]	0.91	7.88	(0.68)[e]	0.05	7.93	0.20	—	0.20	0.79	0.99	8.92
Change	1.61	—0.37[e]	0.76	2.00	(0.68)[e]	0.05	2.05	0.20	—	0.20	0.46	0.66	2.71
Italy													
1958	1.09	1.05	0.05	2.19	—	—	2.19	—	—	—	0.18	0.18	2.37
1964	2.11	1.57	0.15	3.83	—	—	3.83	0.25	—	0.25	0.50	0.75	4.58
Change	1.02	0.52	0.10	1.64	—	—	1.64	0.25	—	0.25	0.32	0.57	2.21
Japan													
1958	0.05	0.95	0.06	1.06	—	—	1.06	—	—	—	0.25	0.25	1.31
1964	0.29	1.47	0.22	1.98	—	—	1.98	0.15	0.09	0.24	0.38	0.62	2.60
Change	0.24	0.52	0.16	0.92	—	—	0.92	0.15	0.09	0.24	0.13	0.37	1.29
Netherlands													
1958	1.05	0.42	0.07	1.54	—	—	1.54	—	—	—	0.28	0.28	1.82
1964	1.69	0.40	0.26	2.35	—	0.10	2.45	—	—	—	0.41	0.41	2.86
Change	0.64	—0.02	0.19	0.81	—	0.10	0.91	—	—	—	0.13	0.13	1.04
Sweden													
1958	0.20	0.29	0.03	0.52	—	—	0.52	—	—	—	0.10	0.10	0.62
1964	0.19	0.69[e]	0.09	0.97	(0.02)[e]	—	0.97	0.05	—	0.05	0.15	0.20	1.17
Change	—0.01	0.40[e]	0.06	0.45	(0.02)[e]	—	0.45	0.05	—	0.05	0.05	0.10	0.55
Total, eight countries													
1958	8.13	7.20	0.51	15.84	—	—	15.84	—	—	—	1.92	1.92	17.76
1964	14.74	10.43	2.65	27.82	(0.85)[f]	0.20	28.05	1.06	0.09	1.15	3.91	5.06	33.11
Change	6.61	3.23	2.14	11.98	(0.85)[f]	0.20	12.21	1.06	0.09	1.15	1.99	3.14	15.35

Table 2A-8. World and Selected Countries: Change in Reserves and Credit Facilities Between End of 1958 and End of 1964 (*continued*)

(*Billions of dollars*)

Country and year	Reserves: Active: Gold	Reserves: Active: Foreign exchange	Reserves: Active: Reserve positions in International Monetary Fund[a]	Reserves: Active: Sub-total[b]	Reserves: Temporary: Special United States bonds	Reserves: Temporary: Swaps used by other party	Total reserves[c]	Credit facilities: Assured: Swaps unactivated	Credit facilities: Assured: International Monetary Fund standbys above reserve positions	Credit facilities: Assured: Sub-total	Credit facilities: Subject to negotiation: other International Monetary Fund tranches[d]	Total credit facilities	Grand total
Switzerland													
1958	1.92	0.14	—	2.06	—	—	2.06	—	—	—	—	—	2.06
1964	2.72	0.40	—	3.12	0.10	—	3.22	0.15	—	0.15	—	0.15	3.37
Change	0.80	0.26	—	1.06	0.10	—	1.16	0.15	—	0.15	—	0.15	1.31
United Kingdom													
1958	2.81	0.30	—	3.11	—	—	3.11	—	0.74	0.74	0.24	0.98	4.09
1964	2.14	0.18	—	2.32	—	—	2.32	0.50	—	0 50	1.43	1.93	4.25
Change	—0.67	—0.12	—	—0.79	—	—	—0.79	0.50	—0.74	—0.24	1.19	0.95	0.16
United States													
1958	20.58	—	1.96	22.54	—	—	22.54	—	—	—	2.75	2.75	25.29
1964	15.47	0.43	0.77	16.67	—	0.25	16.92	1.76	—	1.76	4.12	5.88	22.80
Change	—5.11	0.43	—1.19	—5.87	—	0.25	—5.62	1.76	—	1.76	1.37	3.13	—2.49
Total, eleven countries													
1958	33.44	7.64	2.47	43.55	—	—	43.55	—	0.74	0.74	4.91	5.65	49.20
1964	35.07	11.44	3.42	49.93	(0.95)[f]	0.45	50.51	3.47	0.09	3.56	9.46	13.02	63.53
Change	1.63	3.80	0.95	6.38	(0.95)[f]	0.45	6.96	3.47	—0.65	2.82	4.55	7.37	14.33
Rest of the world[g]													
1958	4.59	9.60	0.09	14.28	—	—	14.28	—	—	—	2.38	2.38	16.66
1964	5.79	12.51	0.74	19.04	0.05	—	19.09	0.04	—	0.04	4.42	4.46	23.55
Change	1.20	2.91	0.65	4.76	0.05	—	4.81	0.04	—	0.04	2.04	2.08	6.89
Total, all countries[g]													
1958	38.03	17.24	2.56	57.83	—	—	57.83	—	0.74	0.74	7.29	8.03	65.86
1964	40.86	23.95	4.16	68.97	(1.00)[f]	0.45	69.60	3.51	0.09	3.60	13.88	17.48	87.08
Change	2.83	6.71	1.60	11.14	(1.00)[f]	0.45	11.77	3.51	—0.65	2.86	6.59	9.45	21.22

Source: International Monetary Fund, *International Financial Statistics; Annex to the Ministerial Statement of the Group of Ten* (London, 1964); United States Treasury Department, *Daily Statement of the United States Treasury* (Washington, D.C.), 31 December 1963 and 31 December 1964; Board of Governors of the Federal Reserve System, *Monthly Review* (New York).

[a] The sum of a member's gold tranche position in the International Monetary Fund and outstanding claims on the Fund arising from lendings under the General Arrangements to Borrow.

[b] Corresponding to total reserves in table 2-4.

[c] Including special United States bonds not already included in foreign exchange reserves, and swaps used by other party.

[d] Including standbys subject to policy performance.

[e] Special United States bonds are counted as part of foreign exchange reserves.

[f] Special United States bonds, whether included in or excluded from foreign exchange reserves. In the case of the former, special bonds are not double-counted in the total reserves or in the grand total.

[g] Excluding the centrally planned countries (other than Yugoslavia) and, in 1964, Cuba.

Table 2A-9. United Kingdom: Balance of Payments, 1953-1964

(Millions of dollars)

Item	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*	*1953-1957, annual average*	*1958-1964, annual average*
Balance on current account (excluding reinvested earnings)	882	381	—773	—106	218	230	—1,249	302[a]	—60
Commercial	1,495	1,025	11	806	1,232	1,352	14	673	848
Goods	115	—286	—1,081	—356	—202	—137	—1,548	—413	—499
Imports	—9,425	—10,147	—11,533	—11,253	—11,385	—12,138	—14,068	—9,052	—11,421
Exports	9,540	9,862	10,452	10,898	11,183	12,001	12,519	8,639	10,922
Services	633	602	487	582	616	521	546	458	570
Income on investment[b]	748	708	605	580	818	969	1,016[c]	628[a]	778
(Reinvested earnings)	(84)	(48)	(50)	(104)	(104)	(87)	(112)[d]	(...)	(84)
Non-commercial	—613	—644	—784	—913	—1,014	—1,123	—1,263	—370	—908
Military expenditures	—358	—356	—451	—529	—596	—599	—664	—260	—508
Military grants	—6	—17	—34	—34	—42	—73	—165	137	—53
Non-military grants	—139	—140	—155	—191	—194	—184	—154	—170	—165
Miscellaneous government services, remittances and pensions	—110	—132	—145	—159	—181	—267	—280	—77	—182
Balance on long-term capital account (excluding reinvested earnings)	—454	—468	—372	76	—151	—305	—960	—448[a]	—376
Commercial	—314	—330	—190	370	95	—53	—591	—369[a]	—145
Direct investment	—76	—92	—263	132	—106	—118	—118	...	—92
Portfolio and other long-term[e]	—238	—238	73	238	202	64	—473[f]	...	—53
Non-commercial[g]	—140	—137	—182	—294	—246	—252	—370	—79	—232
Balance on current and long-term capital account	428	—87	—1,145	—31	67	—76	—2,209	—146	—436
Commercial	1,182	694	—179	1,176	1,327	1,299	—577	304	703
Non-commercial	—753	—781	—966	—1,207	—1,260	—1,375	—1,632	—449	—1,139
Balance on short-term capital account:[h]									
(*i*) including changes in short-term liabilities to foreign private holders	683	14	2,055	—1,126	820	—347	216	208	331
(*ii*) excluding changes in short-term liabilities to foreign private holders	...	...	...	...	...	—1,327	—1,392	...	...
Commercial:									
Short-term claims less foreign holding of commercial bills and promissory notes }	563[j]	98[j]	1,005[j]	—1,022[j]	232[j]	—1,016[i]	—1,394[i]	—36	141
Changes in short-term liabilities to foreign private holders }						1,070[k]	1,453[k]		
Miscellaneous capital[l]	—17	104	333	—22	353	—90	154	54	116
Non-commercial:									
Foreign currency holdings and short-term claims[h]	...	...	...	...	...	(3)	(—14)	...	...
Errors and omissions	137	—188	717	—81	235	—311	3	190	73

Table 2A-9. United Kingdom: Balance of Payments, 1953-1964 (*continued*)

(*Millions of dollars*)

Item	1958	1959	1960	1961	1962	1963	1964	1953-1957, annual average	1958-1964, annual average
Balance on current and capital account:									
(*i*) including changes in short-term liabilities to foreign private holders...	1,112	—73	910	—1,156	888	—423	—1,994	63	—105
(*ii*) excluding changes in short-term liabilities to foreign private holders...	...	...	...	...	...	—1,403	—3,601	...	...
Financing of deficit:									
Financing by official and private transactions	...	...	...	...	...	1,403	3,601	...	...
Financing by changes in short-term liabilities to foreign private holders[k]...	...	...	...	...	...	980	1,607	...	...
Financing by official transactions......	—1,112	73	—910	1,156	—888	423	1,994	—63	105
Special government transactions[m].....	—	—210	—104	168	—45	—42	123	...	—16
Changes in United Kingdom reserve assets	—848	—14	—918	960	—549	162	1,347	—26	20
Gold	—1,254	294	—286	532	—314	98	347	—15	—83
Convertible currency	459	39	—210	—619	826	50	—6	—71	77
Account with IMF	—25	—372	—423	1,047	—1,061	14	1,005	60	26
Balance with European Payments Union	—28	25	—	—	—	—	—	...	—
Changes in foreign reserve assets[n]........	—263	297	112	28	—294	302	524	10	101

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Kingdom, Central Statistical Office, *Balance of Payments, 1964* (London), *Economic Trends*, March 1965 (London); Bank of England, *Quarterly Bulletin*.

Note: Balance of payments figures for 1959-1963 were revised in March 1965. These revisions would increase imports by amounts ranging from $39 million in 1959 to $90 million in 1963, 1963 income on investment (including reinvested earnings) by $34 million, and 1963 net outflow on private investment (including reinvested earnings) by $53 million. The net effect of these revisions would be to make less favourable the balance on current and long-term capital account and increase the 1958-1964 average amount in errors and omissions from $73 million to $119 million.

[a] Including some reinvested earnings.

[b] *Including government income on investment.*

[c] Including —$89.6 million interest on United States and Canadian loans due but waived.

[d] Estimated.

[e] Transactions in foreign securities, investments of United Kingdom oil companies, purchases of real estate and certain borrowing by United Kingdom companies from banks and commercial companies overseas.

[f] Including —$84.0 million repayment on the United States and Canadian loans due but waived.

[g] Intergovernmental loans and repayments, excluding certain loans and non-scheduled repayments on debts included in special government transactions, and including net changes in assets held by United Kingdom official institutions and transactions in United Nations bonds.

[h] Excluding foreign currency holdings (non-convertible currency) and short-term claims on central monetary institutions included in foreign reserve assets.

[i] Sterling and non-sterling claims.

[j] Net non-official sterling holdings and acceptances outstanding, including liabilities to international organizations other than the International Monetary Fund.

[k] Including British Government stocks and short-term sterling and non-sterling liabilities to foreign private holders and international organizations.

[l] 1958 to 1962, including changes in net liabilities in non-sterling currencies.

[m] Including sales of Treasury bonds, waivers on interest due, non-scheduled repayments on debts, special loans and liquidation of European Payments Union debt.

[n] 1958 to 1962, net overseas sterling holdings by central banks and other official institutions; 1963 to 1964, net overseas sterling holdings by central monetary institutions.

Table 2A-10. United States: Balance of Payments, 1953-1964

(Millions of dollars)

Item	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*	*1953-1957 annual average*	*1958-1964 annual average*
Balance on current account (excluding reinvested earnings)	—132	—2,290	1,515	3,027	2,406	2,963	5,473	400	1,852
Commercial	...	...	4,510	5,716	4,749	4,815	7,099	...	...
Goods	...[a]	...[a]	2,822	3,196	2,079	2,273	3,742	...	...
Imports	...[a]	...[a]	—14,723	—14,497	—16,134	—16,996	—18,638	...	...
Exports	...[a]	...[a]	17,545	17,693	18,213	19,269	22,380	...	...
Services	...[a]	...[a]	—633	—442	—656	—731	—501	...	...
Income on investment[b]	2,176	2,215	2,321	2,962	3,326	3,273	3,858	1,897	2,876
(Reinvested earnings)	(845)	(959)	(1,092)	(816)	(984)	(1,329)	(1,050)	(838)	(1,011)
Non-commercial	...	...	—2,995	—2,689	—2,343	—1,852	—1,626	...	...
Military expenditures	—3,135	—2,805	—2,713	—2,552	—2,388	—2,238	—2,049	—2,643	—2,554
(Goods and services transferred under military grants)	(±2,286)	(±1,974)	(±1,765)	(±1,465)	(±1,539)	(±1,482)	(...)	(±3,022)	(...)
Non-military grants	—1,616	—1,633	—1,664	—1,854	—1,919	—1,896	—1,906	—1,747	—1,784
Exports of goods and services financed by non-military grants and capital	...[a]	...[a]	2,214	2,654	2,895	3,321	3,420	...	...
Miscellaneous government services, remittances and pensions	—863	—949	—832	—937	—931	—1,039	—1,091	—735	—949
Balance on long-term capital account (excluding reinvested earnings)	—3,184	—2,022	—2,697	—3,458	—3,996	—4,687	—5,633	—1,393	—3,668
Commercial	—2,552	—1,589	—2,107	—2,177	—2,609	—3,244	—4,100	—1,314	—2,625
Direct investment	—1,083	—1,134	—1,533	—1,526	—1,522	—1,893	—2,271	—1,150	—1,566
Portfolio and other long-term[c]	—1,469	—455	—574	—651	—1,087	—1,351	—1,829	—164	—1,059
Non-commercial	—632	—433	—590	—1,281	—1,387	—1,443	—1,533	—79	—1,043
Government loans[d]	—1,176	—1,052	—1,214	—1,939	—2,133	—2,180	—2,153	—589	—1,692
Scheduled repayments on United States government loans[e]	544	619	624	658	746	737	620	510	650
Balance on current and long-term capital account	—3,316	—4,312	—1,182	—431	—1,590	—1,724	—160	—992	—1,816
Commercial	...	...	2,403	3,539	2,140	1,571	2,999	...	...
Non-commercial	...	...	—3,585	—3,970	—3,730	—3,295	—3,159	...	...
Balance on short-term capital account:									
(*i*) including changes in short-term liabilities to foreign private holders	289	1,593	—2,449	—1,557	—1,802	—943	—1,376	296	—892
(*ii*) excluding changes in short-term liabilities to foreign private holders	—213	133	—2,738	—2,640	—2,015	—1,537	—2,893	—59	—1,700
Commercial	140	1,537	—1,149	—298	—446	—159	—472	79	—121
Short-term assets less changes in foreign holdings of commercial and brokerage liabilities	—362	77	—1,438	—1,381	—659	—753	—1,989	—277	—929
Changes in short-term liabilities to foreign private holders[f]	502	1,460	289	1,083	213	594	1,517	356	808
Non-commercial	—339	—356	—528	—261	—245	—445	—11	—325	—312

Table 2A-10. United States: Balance of Payments, 1953-1964 (*continued*)

(*Millions of dollars*)

Item	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*	*1953-1957 annual average*	*1958-1964 annual average*
Foreign currency holdings and short-term claims	—339	—356	—528	—261	—245	—445	—11	—325	—312
Errors and omissions	488	412	—772	—998	—1,111	—339	—893	543	—459
Balance on current and capital account:									
(*i*) including changes in short-term liabilities to foreign private holders	—3,027	—2,719	—3,631	—1,988	—3,392	—2,667	—1,536	—697	—2,709
(*ii*) excluding changes in short-term liabilities to foreign private holders	—3,529	—4,179	—3,920	—3,071	—3,605	—3,261	—3,053	—1,052	—3,517
Financing of deficit:									
Financing by official and private transactions	3,529	4,179	3,920	3,071	3,605	3,261	3,053	1,052	3,517
Financing by changes in short-term liabilities to foreign private holders[f]	502	1,460	289	1,083	213	594	1,517	356	808
Financing by official transactions	3,027	2,719	3,631	1,988	3,392	2,667	1,536	697	2,709
Special government transactions[g]	—	435	37	701	1,402	1,319	667	—	652
Changes in United States reserve assets	2,292	1,336	2,445	606	1,533	378	171	17	1,252
Gold	2,275	1,075	1,703	857	890	461	125	79	1,055
Convertible currency	—	—	—	—116	17	—113	—220	—	—62
Reserve position in the International Monetary Fund	17	261[h]	742[h]	—135	626	30	266	—62[h]	258
Changes in foreign reserve assets[i]	735	948	1,149	681	457	970	698	680	805

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United States Department of Commerce, *Balance of Payments, Statistical Supplement Revised Edition* (Washington, D.C., 1963) and *Survey of Current Business.*

[a] Balances on goods and services (commercial and exports of goods and services financed by non-military grants and capital) for 1958 and 1959 were $3,306 million and $882 million, respectively.

[b] Including government income on investment.

[c] Transactions in securities (including new issues and redemptions), long-term bank loans and other investments not included in direct investments.

[d] Including changes in United States government non-liquid liabilities.

[e] Plus changes in United States government liabilities associated with government grants and capital outflows, other government sales and miscellaneous government operations, and purchase of Columbia River downstream power benefits.

[f] Banking liabilities to foreign private holders and to international organizations other than the International Monetary Fund.

[g] Including advances on military exports, non-scheduled repayment of debts and purchases and sales of non-marketable, convertible and non-convertible United States Treasury bonds.

[h] Including IMF gold sales to the United States (with an option to reverse the transaction) amounting to $300 million in both 1959 and 1960 and $200 million in 1956.

[i] Short-term liabilities and United States Government marketable bonds and notes to foreign central banks and official institutions.

Table 2A-11. United States: Foreign Assets and Liabilities, Selected Years

(Millions of dollars)

Item	1946	1953	1957	1958	1959	1960	1961[a]	1962	1963	1964[b]
Total assets (including gold)	39,394	60,199	76,430	79,239	82,191	86,731	91,961	96,400	103,750	113,485
Short-term	22,180	25,351	29,859	28,167	27,507	27,234	28,209	27,626	28,348	30,341
Official	20,918	23,763	26,677	24,679	23,911	22,251	21,699	20,333	20,238	20,078
Total reserves	20,706	23,458	24,832	22,540	21,504	19,359	18,753	17,220	16,843	16,672
Gold	20,706	22,091	22,857	20,582	19,507	17,804	16,947	16,057	15,596	15,471
Convertible currency holdings	—	—	—	—	—	—	116	99	212	432
Reserve positions in the International Monetary Fund[c]	—	1,367	1,975	1,958	1,997	1,555	1,690	1,064	1,035	769
Foreign currency holdings and short-term claims	212	305	1,845	2,139	2,407	2,892	2,946	3,113	3,395	3,406
Private[d]	1,262	1,588	3,182	3,488	3,596	4,983	6,510	7,293	8,110	10,263
Long-term	17,214	34,848	46,571	51,072	54,684	59,497	63,752	68,774	75,402	83,144
Official long-term credits[e]	4,951	12,665	12,823	13,442	13,480	14,087	14,749	16,042[f]	17,146	18,812
Private	12,263	22,183	33,748	37,630	41,204	45,410	49,003	52,732	58,256	64,332
Direct investment	7,227	16,253	25,394	27,409	29,827	32,778	34,664[a]	37,226	40,645	44,215
Foreign dollar bonds	1,524	2,383	3,255	3,931	4,314	4,891	5,405	6,348	7,356	8,226
Other foreign securities[g]	2,572	2,048	2,653	3,650	4,189	4,667	5,602	5,520	5,920	6,101
Other long-term claims	940	1,499	2,446	2,640	2,874	3,074	3,332	3,638	4,335[h]	5,790[h]
Banking claims	...	...	...	...	...	...	...	1,960	2,815[h]	3,933[h]
Claims of non-financial institutions	...	...	...	...	...	...	...	1,678	1,520	1,857
Total liabilities[i]	15,242	21,881	30,733	34,424	39,112	41,190	45,972	46,280	51,478	56,451
Short-term[i]	6,661	11,039	15,243	16,268	18,305	19,665	20,875	22,723	23,598	26,153
Official[i]	1,385	3,445	5,371	5,372	7,475	7,639	7,512	9,379	8,720	8,799
United States Treasury bills and certificates	1,385	3,445	5,371	5,372	7,475	7,639	7,512	9,379	8,720	8,799
(United States currency held abroad)[b]	(633)	(839)	(847)	(890)	(906)	(910)	(915)	(908)	(930)	(938)
Private[j]	5,276	7,594	9,872	10,896	10,830	12,026	13,363	13,344	14,878	17,354
Long-term	8,581	10,842	15,490	18,156	20,807	21,525	25,097	23,557	27,880	30,298
Official	1,596	1,195	1,728	1,762	2,757	3,107	3,653	3,341	5,086	5,549
Marketable bonds and notes	380	1,019	1,449	1,480	2,149	2,276	2,787	2,110	2,742[k]	2,405
Non-marketable bonds and notes	—	—	—	—	—	—	—	251	893	1,232
Convertible	—	—	—	—	—	—	—	—	703	1,078
Non-convertible	—	—	—	—	—	—	—	251	190	154
Other[l]	1,216	176	279	282	608	831	864	980	1,451	1,912
Private	6,985	9,647	13,762	16,394	18,050	18,418	21,444	20,216	22,794	24,749
Direct investment	2,503	4,251	5,710	6,115	6,604	6,910	7,392	7,612	7,944	8,170
United States corporate stocks	2,690	3,650	6,091	8,305	9,363	9,302	11,808	10,336	12,485	13,737
United States corporate, state and municipal bonds	229	269	417	455	534	649	638	657	702	879
Other[m]	1,563	1,477	1,544	1,519	1,549	1,557	1,606	1,611	1,663	1,963
Liquid liabilities[n]	7,494	12,123	16,672	17,735	20,333	21,938	23,851	24,976	27,252	29,941
To official institutions	...	5,900	8,745	9,480	10,428	11,576	12,258	12,680	14,353	15,426
Short-term banking liabilities	...	...	7,917	8,665	9,154	10,212	10,940	11,963	12,467	13,223
Marketable bonds and notes[b]	...	...	828	815	1,274	1,364	1,318	717	1,183	1,125

Table 2A-11. United States: Foreign Assets and Liabilities, Selected Years (*continued*)

(*Millions of dollars*)

Item	*1946*	*1953*	*1957*	*1958*	*1959*	*1960*	*1961*[a]	*1962*	*1963*	*1964*[b]
Non-marketable convertible United States Government bonds	—	—	—	—	—	—	—	—	703	1,078
To private and international organizations[o]	...	6,223	7,927	8,255	9,905	10,362	11,593	12,296	12,899	14,515
United States currency held abroad[b]	633	839	847	890	906	910	915	908	930	938
Short-term banking liabilities	...	...	6,466	6,702	8,106	8,490	9,158	9,995	10,410	12,233
United States Government bonds and notes[b]	...	...	614	663	893	962	1,520	1,393	1,559	1,344

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United States Department of Commerce, *Survey of Current Business.*

Note: Owing to conceptual differences, changes in assets and liabilities implicit in this table are not always equal to the corresponding items in the balance of payments in table 2A-10.

[a] Data for Cuba omitted since 1961; 1960 total for United States direct investment was $956 million, book value.

[b] Estimated.

[c] International Monetary Fund gold tranche position and outstanding claims on the Fund arising from lendings under the General Arrangements to Borrow first used in December 1964.

[d] Reported by banks and non-financial institutions. In 1963 and 1964 the amounts reported by banks were $5,101 million and $5,848 million, respectively, and the amounts reported by non-financial institutions were $2,192 million and $2,282 million, respectively.

[e] Excluding First World War debts which are not currently being serviced.

[f] Outstanding amount of United States government long-term credits is raised by $490 million on account of settlements in post-war aid to Japan, and reduced by $50 million for other miscellaneous adjustments.

[g] Consisting of other foreign bonds (primarily securities payable in foreign currencies but including some dollar obligations such as participations and loans made by the International Bank for Reconstruction and Development through 1962) and foreign corporate stocks, the latter amounting to $4,714 million in 1963 and $5,145 million in 1964.

[h] Including participations in International Bank for Reconstruction and Development loans.

[i] Excluding estimates of United States currency held abroad.

[j] Excluding International Monetary Fund deposits in United States banks.

[k] New series, based on Federal Reserve Board survey. Data to reconcile old and new series not available.

[l] Including non-interest-bearing demand notes issued in payment of subscriptions to international and regional organizations other than International Monetary Fund, portfolio fund certificates sold abroad by Export-Import Bank, liabilities associated with government grants and capital transactions (including restricted accounts), and advances for military exports and other government sales.

[m] Including long-term banking liabilities and those reported by non-financial institutions.

[n] Excluding International Monetary Fund holdings of United States currency and non-interest-bearing demand notes.

[o] Excluding the International Monetary Fund. Figures include estimates of United States currency held abroad, which are not included in estimates of total United States liabilities above.

Chapter 3

RECENT ECONOMIC TRENDS IN DEVELOPING COUNTRIES

In most of the developing countries economic activity in 1964 was at a higher level than in 1963: in the aggregate, gross domestic product probably rose by around 5 per cent, significantly more than in 1963. External demand again contributed strongly to the increase, total export receipts rising by close to 8 per cent. The increase in output was a fairly general one, all the principal sectors expanding at relatively favourable rates, mining by 7 per cent, manufacturing by 6 per cent and agriculture, in the 1963/64 crop year, by 3 per cent. With real imports more than 5 per cent higher in 1964, the total volume of supplies available to developing countries was also about 5 per cent greater than in 1963. This increase in supplies helped to improve internal stability in a number of countries, just as the increase in export receipts contributed to a further improvement in the external balance.

Notwithstanding these favourable developments, however, most of the longer-run problems remain. The widespread gain in external liquidity still left many developing countries with a heavy burden of debt, much of it maturing in the immediate future. The better agricultural outturn still left many countries facing a rather precarious relationship between accelerating population growth and a lagging domestic food sector. The sharp increase in total supplies available from local production and imports still left a number of countries in a state of acute internal disequilibrium, with monetary demand inflated in ways that were proving very difficult to correct.

Efforts to solve these long-run problems may be handicapped in 1965 by some deterioration in the current situation. After having improved for two years, the terms of trade have ceased moving in favour of the developing countries, and 1965 opened with export prices lower than a year earlier and drifting downwards. Prospects for 1964/65 crops were generally less favourable than actual harvests of 1963/64. And forecasts of economic growth in the industrial countries that constitute the principal market for the developing countries suggest that the demand for imports may lose some of its buoyancy during the year. Unless there is an offsetting increase in the flow of capital to the developing countries, this could result in the drawing down of foreign exchange reserves and a renewal of balance of payments strains.

Foreign trade and payments

Under the impetus of continued economic expansion in most parts of the world, the volume of exports from the developing countries as a group increased by about 6 per cent between 1963 and 1964, maintaining the rate of growth achieved in the previous three years of the Development Decade. With the prices of a number of primary commodities averaging somewhat higher than in 1963, the combined unit value of exports of developing countries rose by about 2 per cent. Together, these increases resulted in a gain of almost 8 per cent in the aggregate export earnings of developing countries. This rise—of about $2.7 billion—was well distributed, though not nearly as widely as in 1963.

Reflecting earlier improvements in international liquidity, and rising steadily throughout the year, the volume of imports into the developing countries was about 5 per cent above the 1963 level, a gain much greater than in any of the three previous years of the Decade. Import unit values again rose slightly in 1964, and total import expenditure was about $2 billion greater than in 1963.

With exports again increasing more than imports, the over-all trade balance of developing countries registered its third successive improvement. Preliminary information indicates that the combined deficit in 1964 was around $0.3 billion, compared with $1.0 billion in 1963 and as much as $3.4 billion in 1961.

The reduction in the over-all trade deficit was largely the result of relative changes in volume, but since 1962 price movements have also contributed to the improvement. In 1964 the average unit value of exports again rose more than that of imports, and as a result the terms of trade of developing countries improved by a further one per cent in 1964. However, the gains in 1963 and 1964 were not sufficient to restore the relationship of export to import prices prevailing at the beginning of the Development Decade. And as the year advanced, primary commodity prices tended to drift downwards and prices of manufactures to creep upwards, reversing the improving trend that had characterized the terms of trade since mid-1962.

EXPORT EARNINGS

Between 1963 and 1964 there was a widespread increase in the volume of exports from developing countries but the extent of the expansion varied considerably: viewed regionally, it was negligible in Latin America and only about 2 per cent in southern and south-eastern Asia but over 12 per cent in Africa and West Asia. These disparities have persisted throughout the first four years of the Development Decade: the average annual rate of growth in export quantum has been less than 4 per cent in Latin America, about 5 per cent in southern and south-eastern Asia, about 8 per cent in Africa and 9 per cent in West Asia (*see* table 3-1).

Rising by a further 2 per cent between 1963 and 1964, average export unit values almost regained the 1960 level. The gain was concentrated in Latin America and Africa; export prices in Asia remained at the low 1962 average (*see* table 3-2).

Table 3-1. Developing Countries: Indices of Export and Import Quantum, 1960-1964
(1960 = 100)

Region	Export quantum				Import quantum			
	1961	*1962*	*1963*	*1964*[a]	*1961*	*1962*	*1963*	*1964*[a]
Developing countries[b]	104	111	119	126	104	106	109	114
Latin America[c]	103	111	114	114	104	105	106	111
Africa[d]	106	113	122	137	101	95	98	105
West Asia[e]	106	117	127	142	105	106	111	125
Southern and south-eastern Asia[f]	104	111	121	124	105	108	114	114

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

[a] Preliminary; based, for most countries, on less than twelve months' returns.

[b] Latin America, West Indies, Africa (other than South Africa) and Asia (other than mainland China, Mongolia, North Korea and North Viet-Nam).

[c] Twenty republics.

[d] African continent (other than South Africa) and associated islands.

[e] Aden, Bahrain, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia and Syria.

[f] Afghanistan, Brunei, Burma, Cambodia, Ceylon, China (Taiwan), Hong Kong, India, Indonesia, Laos, Macao, the Federation of Malaya, North Borneo, Pakistan, the Philippines, the Republic of Korea, the Republic of Viet-Nam, Ryukyu Islands, Sarawak, Singapore and Thailand.

These differences reflect rather diverse movements among the various primary commodities, with Africa and Latin America benefiting most notably from favourable changes in the prices of coffee and non-ferrous metals.

As a result of these movements in export quantum and unit value, the developing countries increased their export earnings by about 8 per cent between 1963 and 1964. The West Indies was the only region to register a decline—in the wake of the collapse of

Table 3-2. Developing Countries: Changes in Unit Values of Exports and Imports, 1960-1964
(1960 = 100)

Region[a]	Unit value of exports				Unit value of imports				Terms of trade[b]			
	1961	*1962*	*1963*	*1964*[c]	*1961*	*1962*	*1963*	*1964*[c]	*1961*	*1962*	*1963*	*1964*[c]
Developing countries	97	95	97	99	99	98	99	100	98	96	98	99
Latin America	98	96	99	106	100	100	99	100	99	97	101	106
Africa	96	94	97	100	100	102	103	104	96	92	94	96
West Asia	98	98	98	98	100	100	100	101	98	98	98	97
Southern and south-eastern Asia	94	91	91	91	98	97	98	99	96	94	93	92

Source: See table 3-1.

[a] As defined in table 3-1.

[b] Unit value of exports by unit value of imports.

[c] Preliminary; based, for most countries, on less than twelve months' returns.

the 1962-1963 sugar boom. Elsewhere expansion was general: it ranged from 5 per cent in southern and south-eastern Asia and 7 per cent in Latin America to 12 per cent in West Asia and 14 per cent in Africa (*see* table 3-3).

In the first four years of the Development Decade the average annual rate of growth in export receipts has been held down by lagging prices to about 3 per cent in southern and south-eastern Asia and boosted by more buoyant prices to about 5 per cent in Latin America. Affected rather less by price changes, earnings in West Asia and Africa have risen at about 9 per cent a year.

Table 3-3. Developing Countries: Indices of Value of Exports and Imports, 1960-1964

Region[a]	Exports f.o.b.					Imports c.i.f.				
	Value, 1960 (billions of dollars)	Index of value (1960 = 100)				Value, 1960 (billions of dollars)	Index of value (1960 = 100)			
		1961	1962	1963	1964[b]		1961	1962	1963	1964[b]
Developing countries	27.3	101	106	115	124	30.0	103	104	108	114
Latin America	8.6	101	106	113	121	8.4	104	105	105	111
West Indies[c]	1.4	109	111	115	113	1.9	107	108	109	115
Africa	5.2	102	106	119	136	6.4	101	97	102	110
West Asia	4.3	104	115	124	139	3.2	105	107	110	126
Southern and south-eastern Asia	7.7	98	100	111	114	9.8	102	104	112	114

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

[a] As defined in table 3-1.

[b] Preliminary; based, for most countries, on less than twelve months' returns.

[c] Consisting mainly of Barbados, British Guiana, British Honduras, Guadeloupe, Jamaica, Martinique, Netherlands Antilles, Surinam and Trinidad and Tobago.

The principal component of the expansion of developing countries' exports in 1964 was the flow to the European Economic Community (EEC) which was about an eighth above the 1963 level. Most regions participated in this but the most notable gains were those of southern and south-eastern Asia and Africa. Proportionately even larger was the rise in exports to Japan, even though the rate of growth was cut back sharply from the extraordinary figure of 1963 when Japanese inventories were being built up. Exports to the United States increased more moderately—about 6 per cent—but substantially faster than between 1962 and 1963; all developing regions shared in this expansion but, as in 1963, the growth in Latin American shipments was no more than nominal. The increase in exports to the United Kingdom was only 2 per cent, well below the gain registered in 1963; as in the case of trade with the other industrial regions, it was Africa that registered the greatest expansion (*see* table 3-4).

One reason for the steep rise in African exports in recent years has been the development of its petroleum resources, particularly in Libya which has become a major exporter since 1961 when its first pipeline was completed. Apart from increases in volume, African export earnings benefited from a number of price increases, most notably for non-ferrous metals and ores (which resulted in a very large gain in Zambia), coffee (which gave Angola, Ethiopia, the Ivory Coast and Uganda over-average increases) and ground-nuts (which helped to do the same for Nigeria and Senegal). Cotton prices were marginally higher, and this helped to sustain the earnings of Mozambique and the United Arab Republic, but could not prevent a sharp reduction in those of the Sudan in the wake of a poor crop. And offsetting these price advances to some extent were declines in sugar, cocoa and iron ore which reduced the receipts of Mauritius and Réunion and held down those of Cameroon, Ghana and Tunisia (*see* annex table 3A-1).

These price movements had an even more favourable impact in parts of Latin America: several of the coffee producers (Colombia, Costa Rica, El Salvador, Nicaragua) and metal producers (Bolivia, Chile, Peru) registered over-average increases in earnings largely as a result of the rise in unit values. Brazil's coffee receipts were above the 1963 level despite a 20 per cent decline in volume, and Mexico almost doubled its coffee earnings from a 50 per cent increase in exports; in both cases over-all gains were reduced by a sharp drop in the volume of cotton shipped. Argentina doubled its wheat earnings with volume and price increases, but earned less from wool as shipments were down by a fourth. Venezuela sold more petroleum than in 1963 but unit values were somewhat lower.

The gains in West Asia were almost entirely from petroleum. The increase was limited to volume: posted prices—though not necessarily actual market prices, which affect company profits but not country earnings in this region—remained unchanged. Ex-

Table 3-4. Trade of Developing Countries with Selected Industrial Countries,[a] 1963 and 1964

Item and region	*Value, 1963, all developing countries (billions of dollars)*	*Total[b]*		*Latin America[c]*		*West Indies[d]*		*Africa[e]*		*West Asia[f]*		*Southern and south-eastern Asia[g]*	
		1963	*1964*	*1963*	*1964*	*1963*	*1964*	*1963*	*1964*	*1963*	*1964*	*1963*	*1964*
		(Indices, preceding year=100)											
Imports into:[h]													
European Economic Community[i]	8.8	108	112	105	109	103	78	109	117	110	109	106	115
United States	6.2	103	106	102	101	107	106	102	129	106	107	105	109
United Kingdom	4.2	106	102	100	99	138	87	114	107	101	101	101	103
Japan[j]	2.8	126	115	118	117	160	192	139	168	130	123	127	104
Exports from:[k]													
European Economic Community[i]	6.3	103	108	91	107	97	126	108	103	108	117	104	111
United States	7.2	104	113	98	117	110	121	94	115	97	115	118	106
United Kingdom	3.1	100	101	88	106	91	108	107	100	106	104	98	97
Japan[j]	2.6	113	117	97	127	96	141	145	137	117	127	111	109

Source: International Monetary Fund, *Direction of Trade* (Washington, D.C.)

[a] Derived from the trade returns of the industrial countries.

[b] Total of listed regions.

[c] Twenty republics.

[d] Barbados, British Guiana, British Honduras, Guadeloupe, Jamaica, Martinique, Netherlands Antilles, Surinam and Trinidad and Tobago.

[e] Continent and associated islands.

[f] Aden, Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Muscat and Oman, Neutral Zone, Qatar, Saudi Arabia, Syria and Yemen.

[g] Asia, other than West Asia, mainland China, Japan, North Korea and North Viet-Nam.

[h] Data are on a c.i.f basis except for the United States for which data are f.o.b.

[i] 1964 indices based on January-October returns.

[j] 1964 indices based on January-November returns.

[k] Data are on an f.o.b. basis.

ports to Japan rose by almost a fourth while, three times as large in absolute terms, exports to the EEC rose by about a tenth—as they had done in the immediately preceding years. Shipments to the United Kingdom, however, again remained virtually static. Syria was the only country in the region not to export more in 1964 than in 1963: the decline was chiefly the result of a reduction in the cotton harvest.

On balance, southern and south-eastern Asia gained nothing from price increases in 1964: a dramatic upswing in the price of tin and modest increases in the prices of copra, abaca and high-grown tea more or less offset the sharp reduction in the free market price of sugar and marginal declines in the prices of rubber and iron ore. With one or two exceptions—China (Taiwan), Hong Kong, the Republic of Korea and Thailand—volume increases were not very marked and, in contrast to 1963, the region had a higher proportion of countries with reduced earnings than any other. Intra-trade was also down, partly because of a reduction in exportable rice in Burma, Cambodia and the Republic of Viet-Nam, and partly because of the by-passing of the Singapore market by Indonesia. The rate of growth in exports to Japan also fell away to a mere 4 per cent between 1963 and 1964. Shipments to the EEC and to the United States, however, increased more than in the previous interval: a 15 per cent expansion in exports to the EEC raised this market above that of the United Kingdom in total value for the first time.

Though in absolute terms the combined increment in export earnings of the developing countries was slightly greater between 1963 and 1964 than between 1962 and 1963, it was rather less widely distributed. The proportion registering a decline rose from about an eighth to over a fifth and the proportion registering an expansion of more than 10 per cent dropped back from over half to not much more than 40 per cent (*see* table 3-5).

IMPORT EXPENDITURE

Following on the severe balance of payments pressures that built up in the second half of the nineteen fifties, there was a general tendency to keep a tight rein on expenditure, and in the first three years of the Development Decade imports grew by less than 3 per cent a year. The resultant improvement in external balance raised liquidity and permitted some relaxation in spending in 1963 and the consequence was a sharp rise in imports in 1964. The acceleration was widespread. The only region in which the increase between 1963 and 1964 was no greater than in the earlier part of the Decade was southern and south-eastern Asia. In Africa, where 1963 imports were below the 1960 level, there was a rise of 7 per cent in volume (*see* table 3-1).

Import prices crept up by a further one per cent in 1964, regaining the 1960 average for the developing countries as a group (*see* table 3-2). Total import expenditure in 1964 was about 14 per cent above the 1960 level. Regional indices did not differ markedly from the average, though, less inhibited by foreign exchange shortages, West Asia has registered a somewhat higher rate of growth: nearly 15 per cent between 1963 and 1964 and about 26 per cent since 1960 (*see* table 3-3).

The principal source of supply for the developing countries in 1964, as in 1963, was the United States. A higher rate of increase was registered in imports from Japan, however, not only for the developing countries as a group (17 per cent above the 1963 level) but also for each of the developing regions. Imports from the EEC were 8 per cent above the 1963 level: Africa took only 3 per cent more, but Asian purchases were up by well over an eighth. Purchases from the United Kingdom showed no advance over the 1962 and 1963 figures, some recovery in the western hemisphere being offset by a slackening or even reduction in the quantitatively more important African and Asian trade (*see* table 3-4).

The sharp increase in the import expenditure of Africa and West Asia in 1964 was fairly widely distributed. In Africa, there was a marked increase in imports into the Ivory Coast and Nigeria and further rapid expansion in the case of Libya where outlays have doubled in the course of the past four years. Among the major trading countries, only Ghana and the Sudan bought less in 1964 than in 1963, both suffering from severe payments stringency in the wake of sluggish export performance. In West Asia there was a sharp recovery in imports into Iran (where, apart from continued demand for machinery and vehicles, a poor harvest necessitated additional purchases of food) and into Iraq (where an upswing in investment induced a greater inflow of capital goods), and a further increase in imports into Israel (most notably of raw materials and transport equipment). In Syria, by contrast, imports were just about maintained in the face of a decline in exports.

The modest rise in imports into southern and south-eastern Asia was a less general one. Among the countries registering over-average expansion there was some acceleration in the rate of increase in imports into Hong Kong and the Philippines, following an improvement in external balance in 1963, and some deceleration in the case of China (Taiwan), Pakistan and Thailand. Recovery in Burma and Ceylon restored the flow of imports to the 1960 level in money terms, though probably still short of this in real terms. Against these increases, however, there were slight reductions in imports into the Federation of Malaya and India, and a sharp cut in the case of the Republic of Korea, to below the 1962 level in money terms. There was also a sharp decline in volume of goods coming into Singapore, largely as a result of the diversion of Indonesian trade.

In Latin America almost all the major traders increased their foreign purchases in 1964 after several years of holding the line. Though the recovery in Argentina was rather limited, leaving imports well below the 1960 level, it reflected a revival of internal demand and a greater need for raw materials and semi-manufactures. A very similar type of change occurred in Venezuela, reversing a five-year decline in imports. In Uruguay, imports recovered from the cutback in 1963, without regaining earlier levels. And in Colombia there was a similar sharp recovery from a 1962-1963 reduction. In Mexico, where imports had been more or less static rather than declining over this period, a sharp increase in 1964 reflects not only an expansion in industrial demand but also some additional requirements for the public sector and some anticipatory purchasing of motor vehicles in advance of a scheduled introduction of import restraints in 1965. In the Dominican Republic, El Salvador and Peru imports have risen more steadily in recent years and 1964 saw further expansion. In contrast to this general increase, there was a decline in imports into Chile after a sharp upsurge in 1963, and a large reduction in Brazil induced by devaluation and controls in response to a critical external payments situation.

Notwithstanding the upswing in imports in 1964, among the developing countries as a whole the proportion of countries in which imports were reduced was about the same as in 1963, namely one-fifth. The most notable change was in the proportion registering sizable increases in imports: the proportion with increases exceeding 10 per cent rose from a fifth in 1961 to almost a half in 1964, while the proportion with increases in excess of 20 per cent trebled, almost reaching a fourth in 1964 (*see* table 3-5).

TERMS OF TRADE

The average price of primary commodities exported by the developing countries rose steadily from mid-1962 to the early part of 1964, regaining the 1958 level. During 1964 it receded quite steeply and by the beginning of 1965 it was back to the 1960 level. The major depressants in 1964 were sugar, wool and sisal, though, averaged over the year, all three of these were well above the 1960 level (and above the 1963 level, too, in the case of wool). Relative to 1960 prices, the principal depressants in 1964 included some of the commodities that were fairly stable (at a low level) during the year, most notably cocoa, jute, rubber, hides and manganese and chrome ore, but also tea, copra, palm kernels, linseed oil and iron ore. Offsetting these were a number of items whose prices were high in relation to the 1960 level, most notably coffee, beef, sugar, wool, sisal and the non-ferrous metals, but also the cereals and tobacco.

These opposing changes are reflected in the unit value of exports of the developing countries which fell away in 1961 and 1962 and then recovered, virtually to the 1960 average by 1964. Reflecting the pattern of exports, the trend in export prices was most favourable in Latin America and least favourable in southern and south-eastern Asia: in the former the 1964 unit value averaged 6 per cent above the 1960 figure; in the latter it averaged 9 per cent below.

The price of manufactured goods moving in international trade has been inching up at about one per cent a year. As manufactures constitute the bulk of developing countries' imports, this tends to impart a certain steadiness and uniformity to average import unit values. The main disparities arise from differences in the importance and composition of imports of food-stuffs, raw materials and fuels, and, to a less extent, from such changes as the substitution of cheaper for more costly sources of supply. In recent years import prices have risen most in Africa, least in southern and south-eastern Asia. In 1964 a one per cent rise from the previous year was registered in each of the regions.

Though improving again between 1963 and 1964, the terms of trade of the developing countries as a group failed to regain the 1960 level and they began 1965 2 per cent below the 1958 level. The improvement in 1964 was concentrated in Latin America and Africa; there was a slight worsening in the developing Asian countries as a group. In the case of southern and south-eastern Asia this decline was just sufficient to complete the writing off of the gain that had been recorded at the time of the rubber boom in 1959 and 1960, bringing the region's terms of trade back to the 1958 level.

THE BALANCE OF PAYMENTS

After an improvement of about $1.5 billion between 1962 and 1963, the balance of trade (exports f.o.b. minus imports c.i.f.) of the developing countries as a group improved by a further $0.7 billion in 1964. Export receipts in the aggregate came nearer to paying for imports than at any time during the previous ten years. There was a significant rise in the surplus on trade with the EEC and a small rise in the surplus with the United Kingdom. Combined, these more than offset a small reduction in the surplus with Japan and a large increase in the deficit with the United States. The principal gain came

Table 3-5. Developing Countries: Distribution of Changes in Exports and Imports, 1961-1964[a]

Index (preceding year = 100)	Exports								Imports							
	Number of countries				Export receipts (billions of dollars, f.o.b.)				Number of countries				Import expenditure (billions of dollars, c.i.f.)			
	1961	1962	1963	1964[b]	1961	1962	1963	1964[b]	1961	1962	1963	1964[b]	1961	1962	1963	1964[b]
Less than 90	8	8	1	6	2.6	2.6	0.1	1.4	7	5	6	4	1.3	2.4	3.1	2.9
Less than 95	14	8	4	10	4.9	2.7	0.5	1.8	13	12	9	8	3.2	5.4	4.2	4.4
Less than 100	27	15	9	15	10.3	4.9	3.0	3.3	26	20	13	14	10.1	7.8	5.8	8.5
100 or more	41	53	59	53	12.2	18.8	23.0	24.7	42	48	55	54	16.0	18.7	21.5	20.9
More than 105	26	34	45	43	6.6	11.3	14.7	16.5	38	35	36	45	9.0	8.5	12.7	17.8
More than 110	20	24	35	28	5.0	6.9	11.6	9.7	14	19	22	32	5.3	5.3	7.1	14.6
More than 120	8	9	18	14	1.0	2.1	3.5	5.2	5	5	10	15	1.8	1.0	3.0	6.2
More than 130	4	6	11	4	0.3	0.6	2.2	2.1	2	4	2	4	1.0	0.8	0.7	1.5
Total	68	68	68	68	22.5	23.7	26.0	28.0	68	68	68	68	26.1	26.5	27.3	29.4

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

[a] The country coverage is the same as in annex table 3A-1, except for the exclusion of Kuwait and Saudi Arabia, and the inclusion of Equatorial Africa and Martinique. It thus excludes Aden, Algeria, the Democratic Republic of the Congo, Cuba and most of the petroleum producers of the Persian Gulf as well as a number of minor territories, estimates for which are included in tables 3-1, 3-2 and 3-3.

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

from a reduction in the African deficit but there was also a further sizable increase in the West Asian surplus and a smaller improvement in Latin America. Against these, the deficit in southern and south-eastern Asia, which had been reduced somewhat in 1963, widened again in 1964 (*see* table 3-6).

Where the trade balance became active or more active in 1964 it was usually the result of an expansion in exports—as in China (Taiwan), Iran, Kuwait, Libya and Peru and on a smaller scale Angola, Cameroon, Paraguay, Tanganyika and Uganda. In Brazil, Chile and the Federation of Malaya, however, a reduction in imports also contributed, while in Cambodia an import cut was the principal factor. Where the trade balance became less active, it was usually the result of an expansion in imports (as in Argentina, Iraq, the Ivory Coast and Venezuela) though in a few cases (notably Mauritius) a decline in exports also contributed.

A substantial majority of developing countries—about two-thirds—have passive trade balances and in spite of the over-all improvement in external balance, most of these increased their merchandise deficits in 1964. In general, this reflects an increase in imports, as in Ceylon, Israel, Mexico, Nigeria, Pakistan and the Philippines, and on a smaller scale Aden, Hong Kong and a number of Latin American countries—the Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Nicaragua, Trinidad and Tobago and Uruguay. In Indonesia, however, a reduction in exports also contributed to a deterioration in the trade balance, as was the case also on a smaller scale in Barbados, Burma, Guadeloupe, Haiti, the Republic of Viet-Nam and Réunion. In the Sudan and Syria and to a less degree in Martinique and Sabah, the balance grew more passive despite a cut-back in imports.

Where the trade deficit was reduced between 1963 and 1964, it was generally the result of export expansion—as in Colombia and Thailand as well as in Costa Rica and Honduras. In a number of cases, however, there was a simultaneous contraction in imports, most notably in India and the Republic of Korea but also in Bolivia, Ghana, Jordan and Morocco. In the two large entrepôt territories—the Netherlands Antilles and Singapore—the trade turnovers declined appreciably.

Receipts from services generally followed trade receipts upwards in 1964, though they were of significant absolute magnitude in only a few countries. Earnings from the Suez Canal in 1964 were about 10 per cent above the high 1963 level and were equal to nearly half of the United Arab Republic's merchandise trade deficit. In Mexico, net tourist receipts, which have been increasing steadily since 1958, rose by a further one-seventh in 1964—at about $400 million, they covered 90 per cent of the merchandise trade deficit.

On the other side of the account was an almost universal increase in the net outflow of investment income. This reflects the general rise in the foreign indebtedness of developing countries, the counterpart to the continuing inflow of loan capital in previous years. In some countries, however, it also reflects the increase in income accruing to export industries in 1963 and 1964 which resulted from the general buoyancy of markets in commodities for which production facilities are to a significant extent foreign-owned. Net investment income flowing to the United States from the developing countries, for example, rose to $2.6 billion on private account (an increase of $387 million over 1963) and to $302 million on government account ($25 million above the level of the previous year).

Profits arising from export activities which generate foreign exchange do not generally add to payments difficulties when they are transferred. The servicing of interest-bearing debt, however, has risen to proportions that constitute a serious foreign exchange burden for many developing countries. By 1964 the total volume of external public and publicly guaranteed debt was probably of the order of $25 billion.[1] Since 1956 there has been a three or fourfold increase in service payments, so that the proportion of export earnings absorbed in this way has risen rapidly—from less than 4 per cent to more than 9 per cent, involving a claim of the order of $3 billion in 1964.

A high proportion—probably over 70 per cent—of service disbursements now consists of amortization payments, reflecting the fact that interest rates probably average less than the going commercial figure and—more immediately significant—the generally short tenor of the debt. The International Bank for Reconstruction and Development (IBRD) study showed that at the end of 1962 the proportion of outstanding public and publicly guaranteed debt that was due for repayment within the next three years ranged as high as a third in south-eastern Asia and Latin America (*see* table 3-7). And if commercial arrears and International Monetary Fund (IMF) obligations had been included in the calculation, the proportion of early maturities would have been even

[1] In 1962 the total for seventy-four under-developed countries—including eight countries in southern Europe not included in the group of developing countries with which the present chapter is concerned—was estimated at $20 billion. *See* International Bank for Reconstruction and Development, *Economic Growth and External Debt*, by D. Avramovic and Associates (Washington, D.C., 1964). *See* also United States Agency for International Development, *Loan Terms, Debt Burden and Development* (Washington, D.C., 1965), in which the situation in a number of the principal developing countries is analysed.

Table 3-6. Developing Countries: Balance of Trade and Changes in Liquidity

(Millions of dollars)

Region	*Balance of trade*[a]					*Change in total reserves*[b]					*Net change in other balance of payments items*				
	1960	*1961*	*1962*	*1963*	*1964*[c]	*1960*	*1961*	*1962*	*1963*	*1964*[c]	*1960*	*1961*	*1962*	*1963*	*1964*[c]
Developing countries[d]	—2,700	—3,400	—2,500	—1,000	—300	178	—591	—155	1,070	55	2,878	2,809	2,345	2,070	355
Selected countries in Latin America[e]	202	101	559	1,317	1,338	28	—106	—380	500	145	—174	—207	—939	—817	—1,193
Excluding Venezuela	—1,042	—1,220	—939	—362	—183	143	—77	—383	338	59	1,185	1,143	556	700	242
Africa[f]	—1,170	—1,285	—940	—594	—171	—15	—355	35	—140	—65	1,155	930	975	454	106
West Asia[g]	971	898	1,344	1,600	1,854	35	121	245	475	40	—936	—777	—1,099	—1,125	—1,814
Southern and south-eastern Asia[h]	—1,545	—1,788	—1,974	—1,795	—1,940	126	—170	—55	247	—89	1,671	1,618	1,919	2,042	1,851
Total, above	—1,542	—2,074	—1,011	528	1,081	174	—510	—155	1,082	31	1,716	1,564	856	554	—1,050
Excluding Venezuela	—2,786	—3,395	—2,509	—1,151	—440	289	—481	—158	920	—55	3,075	2,914	2,351	2,071	385

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

[a] Exports, f.o.b. minus imports, c.i.f.

[b] Gold, convertible foreign exchange and reserve positions in the International Monetary Fund.

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

[d] As defined in table 3-1 above, excluding Cuba. These figures include estimates for countries excluded from the regional sub-groups for lack of adequate data.

[e] Nineteen republics (excluding Cuba) plus Jamaica.

[f] Excluding South Africa.

[g] Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Saudi Arabia and Syria.

[h] Burma, Ceylon, China (Taiwan), the Federation of Malaya, India, Indonesia, Pakistan, the Philippines, the Republic of Korea, the Republic of Viet-Nam and Thailand.

Table 3-7. Average Maturity of External Public and Publicly Guaranteed Debt in Selected Developing Countries, end-1962[a]

Region	Number of countries	Percentage of debt, repayable in	
		1963-1965	1963-1967
Latin America	18[b]	36	55
West Asia and southern Asia	4[c]	19	32
South-eastern Asia	5[d]	31	52
Africa	7[e]	13	20

Source: International Bank for Reconstruction and Development, *Economic Growth and External Debt*, by D. Avramovic and associates.

[a] Data exclude commercial arrears, IMF obligations and similar transactions.

[b] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

[c] India, Iran, Israel, Pakistan.

[d] Burma, Ceylon, the Federation of Malaya, the Philippines and Thailand.

[e] Ethiopia, Kenya, Nigeria, Rhodesia and Nyasaland, the Sudan, Tanganyika and Uganda.

higher—up to one-half due in the 1963-1965 period in the case of Latin America, for example.

A debt structure of this nature obviously poses awkward problems for developing countries in which scarce foreign exchange is urgently needed to finance the importation of capital goods required for investment. Not only is a considerable fraction of current earnings pre-empted for debt service but the opportunities and cost of new borrowing become progressively less favourable as the debt burden rises. It is against this background that various proposals have recently been made to take remedial action. Thus, members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development have been urged to "relate the terms of aid on a case-by-case basis to the circumstances of each under-developed country or groups of countries",[2] and the United Nations Conference on Trade and Development recommended that "Competent United Nations bodies and/or other international financial institutions should stand ready, at the request of any developing country, to review, in co-operation with the creditor countries concerned, the external indebtedness of the developing country concerned, where appropriate, with a view to securing agreement, if necessary, on the re-scheduling or consolidation of debt, with appropriate periods of grace and amortization and reasonable rates of interest".[3]

[2] *See* Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1964 Review* (Paris, 1964), appendix A.

[3] See *Proceedings of the United Nations Conference on Trade and Development, Volume I, Final Act and Report* (Sales No.: 64.II.B.11), annex A.IV.5.

THE FLOW OF CAPITAL AND AID[4]

The rather limited and mostly preliminary data on international capital movements in 1964 suggest that in the aggregate the developing countries may have received somewhat more than in 1963.[5] Most of the major capital exporting countries appear to have increased their lending, and outflows from the principal multilateral institutions were also slightly larger.

The net outflow of long-term capital and official donations (excluding reinvested earnings) from the United States—at $4.1 billion—was about $0.3 billion higher than in 1963. A decline of $0.2 billion in the outflow of government lending was more than offset by an increase of almost $0.5 billion in private capital and a rise of $74 million in official donations.

More than three-fifths of the increase in United States long-term capital movements was concentrated in Latin America; at $0.7 billion the net flow was more than one-fourth higher than the 1963 figure, despite a considerable decline in government lending. Official donations to Latin America were also below the 1963 level; the increase went entirely to Africa and Asia where developing countries received $84 million more than in 1963.

Not only was United States government lending reduced in amount, it was also stiffened in its terms. The minimum interest rate, applicable after the period of grace, was raised to 2 per cent in January 1964 and to 2.5 per cent in October when a minimum rate of one per cent was set for the grace period.

At the equivalent of about $0.53 billion, the flow of official capital and donations from the United Kingdom to the developing countries was also about a fifth higher than in 1963. About 90 per cent of this flow went bilaterally to Commonwealth countries.

There was also an increase of about a fifth in the amount of capital and donations moving from the Federal Republic of Germany to the developing countries. This was in excess of $0.7 billion in 1964

[4] In this section data for the United States are from United States Department of Commerce, *Survey of Current Business* (Washington, D.C.); data for the United Kingdom are taken from *The Economist* (London); for Japan, from the Ministry of Finance, as reported in *Japan Economic Journal* (Tokyo); for the Federal Republic of Germany, from *Die Welt* (Hamburg). Data for recipient countries are based on replies to the joint United Nations and International Monetary Fund questionnaire, "Special Report for United Nations on International Flow of Long-Term Capital". In some cases, because of differences in the method of defining capital flow, the figures may differ somewhat from those presented in United Nations, *International Flow of Long-term Capital and Official Donations, 1961-1964* (document E/4079).

[5] For a more detailed examination of these capital flows, *see* United Nations, *International Flow of Long-term Capital and Official Donations, 1961-1964.*

of which about a third was in the form of private capital—up over 40 per cent on the 1963 figure. Over and above this movement of long-term capital and donations, there was a smaller increase in the volume of new short-term (up to five years) credits granted: these amounted to over $40 million in 1964.

In contrast to these increases, the flow of capital and aid from Japan was about 8 per cent below the 1963 level. The contraction was entirely in private capital movement: at the equivalent of $40 million this was less than half the 1963 figure. The official flow—reparations, grants and loans—at about $0.2 billion was almost an eighth higher than in 1963.

At a much smaller absolute level, the international institutions continued to provide resources for economic development. Though in amount this was not significantly different from the 1963 figure, some important innovations occurred in procedures, terms, purposes and direction, all designed to enhance the effectiveness of the flow in the light of current circumstances in the developing countries, including, in particular, their debt structure and their investment needs.

Lending by the IBRD was less than in 1963, marginally on a gross basis ($425 million), about 10 per cent on a net basis ($269 million). Net disbursements were down to $179 million in Latin America, $39 million in southern and south-eastern Asia and $14 million in West Asia. The net drawings of African countries, however—at $37 million—were double the 1963 figure.

Significantly, the Bank's "soft" loan affiliate, the International Development Association (IDA), doubled its disbursements between 1963 and 1964. The flow was highly concentrated: $336 million of the total of $396 million went to India and Pakistan. On a much smaller scale, International Finance Corporation (IFC) investments in the developing countries amounted to just over $28 million in 1964, a slight increase over 1963.

All three of these institutions sought to direct more of their funds to strategic points in the developing economies, notably agriculture, education and industry. The Bank made loans to Chile for improving pasture-land and breeding stock and to China (Taiwan) for the purchase of better fishing vessels. Arrangements were made to expand assistance to agricultural credit institutions and to enlist the co-operation of the Food and Agriculture Organization of the United Nations (FAO) in the identifying and preparing of projects for financing and subsequently in arranging for technical assistance and in supervising their execution. Parallel arrangements were made with the United Nations Educational, Scientific and Cultural Organizaton (UNESCO) in respect of projects in the field of education. The first IBRD educational loan—with a thirty-year maturity—was made to the Philippines. By the end of 1964, twenty-one agricultural and nine educational projects were under consideration. During the year further efforts were made to direct funds into industry in the developing countries. As requirements here are often on a relatively small and local level in the private sector, both the IBRD and the IFC made further loans to industrial development corporations as financial intermediaries.

Among the other actions taken to facilitate borrowing, the Bank began lengthening the tenor of its loans: advances to Colombia and Nigeria made in 1964 carried thirty-five-year maturity, compared with the previous fifteen to twenty-five-year limit. Interest rates for developing countries were held at 5.5 per cent, while those applicable to more advanced countries were raised to the prevailing market level. The interest rate payable on undisbursed loans was reduced from three-quarters to three-eighths of one per cent. The rule against financing local costs was relaxed in cases of high-priority projects for which assistance in respect of the foreign exchange component was not enough to make them feasible. In an attempt to encourage the flow of private capital to the developing countries, the Bank drew up a convention for the voluntary settlement of disputes between governments and foreign nationals through the use of facilities and procedures for conciliation or arbitration.

The regional banks also expanded their lending in 1964 and made efforts to direct it in ways calculated to improve its developmental effect.

The Inter-American Development Bank's loan authorizations were up $40 million to about $300 million and its gross disbursements—not very different from net disbursements in these early years of its operations—were up $57 million to about $200 million. With the association of Canada, its resources were increased by Can. $10 million. In the course of the year it opened lines of credit totalling $11 million to finance intra-Latin American trade in capital goods. Another regional institution engaged in development financing in Latin America —the Central American Bank for Economic Integration—has also accelerated its pace of operations recently. By the beginning of 1965 the Bank, which concentrates its activities on promoting the economic integration of Central America, had lent $26.5 million to Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

The resources available to Latin America were also expanded by the formation of an investment association by a number of private companies in Europe, Japan, New Zealand and the United States.

Known as the Atlantic Community Development Group for Latin America (ADELA), it has an authorized capital of $40 million, now largely subscribed, and it intends to provide private financial and technical assistance to countries in the region and to encourage the participation of other private investors in development projects.

Under the terms of the Yaoundé Convention adopted in June 1964, the EEC has pledged the equivalent of about $730 million to the (mostly African) countries associated with it. This is to be disbursed over a five-year period by the European Development Fund (EDF). It is not limited to economic and social infra-structure and technical assistance as was the previous fund but is free to finance projects of a more directly productive nature. In 1964 the EDF committed about $54 million for investment in the associated countries, as against $40 million in 1963.

A major forward step in the creation of institutions to finance African economic development was taken in 1964 with the entering into force of the Agreement establishing the African Development Bank. Although the initial capital available is relatively small, the Bank is expected to be a major element in African development through its activities in carrying out pre-investment studies, in the actual implementation of investments and in attracting funds and know-how from outside the continent. The Bank is also expected to provide an important stimulus to integration, in part through its activities in supporting the development of industry, transport and energy.

The broader-based machinery of the United Nations and its specialized agencies provided more resources for the developing countries in 1964 than in 1963. Expenditure under the regular technical assistance programme remained at about $26 million, but the Expanded Programme disbursed $45 million in 1964, compared with $36 million in 1963, reflecting the maturing of projects in the second year of its two-year cycle. An almost identical increase was registered by the United Nations Special Fund; of its $46 million expenditure in 1964 almost half was for expert assistance and about a third for equipment. By the end of 1964 the World Food Programme had received pledges of $94 million in goods, services and cash. About half of the $21 million set aside for emergency relief in the period 1963 to 1965 had been distributed or committed and virtually all the $57 million available for development purposes had been allotted, the bulk of it in 1964.

Information from the recipient side with regard to capital inflow in 1964 is still very fragmentary and provisional. A majority of developing countries—including Bolivia, Ceylon, Costa Rica, Ecuador, Israel, Jordan and Nigeria—report a greater net inflow in 1964 than in 1963. In Mexico the net inflow, at over $500 million, was nearly twice as great as in 1963, with the Government accounting for almost all the increase. The government sector also accounted for the change in the Philippines: the net inflow of private capital was much the same as in 1963, whereas the Government was a net repayer of loans in 1963 and a net borrower in 1964, so that, counting unilateral receipts as well, the over-all net inflow amounted to about $45 million. Net long-term capital and official donations received by India rose from about $0.9 billion in 1963 to nearly $1.3 billion in 1964, the great bulk of it coming from the aid consortium brought together under IBRD auspices to help finance the third five-year plan.

There was a moderate decline between 1963 and 1964 in the net inflow of capital and donations into China (Taiwan), Indonesia, the Republic of Viet-Nam and the Sudan. There was a much sharper reduction in the case of Panama, Paraguay and Thailand, and, on a much larger scale, in the Republic of Korea where each of the main components—public and private capital and official donations—was below the 1963 level, and the over-all net inflow was down more than $100 million. In Chile there was also a sharp (40 per cent) reduction in the net inflow of resources, a continued flight of private capital more than offsetting the increment in official receipts. Net receipts also appear to have been lower in Pakistan, though in 1963/64, in addition to a number of bilateral credits, $443 million was pledged by members of the IBRD-sponsored aid consortium. A similar volume of assistance—$431 million—was pledged for 1964/65, the fifth year of the second development plan.

Relatively few developing countries registered a net outflow of capital in 1964. There was reduction in the loss of private capital in Burma and Venezuela, but in Uruguay, where a rapid depreciation in the free exchange rate accompanied the deterioration in both internal and external balance, there was a further increase in the flight of capital.

CHANGES IN LIQUIDITY

After a massive increase of over $1 billion in 1963, the developing countries added only marginally to their total official reserves in 1964. As the trade deficit was sharply reduced, this implies that the net inflow of other current items and capital in 1964 was substantially below the 1963 level. Since, as indicated in the previous section, there seems to have been some increase in the gross inflow of long-term capital in 1964, the reverse flows of capital and investment income would appear to have been significantly greater than in 1963.

Latin America and West Asia again added to their reserves in 1964 and African reserves were again drawn down, though in each case to a much smaller extent than in 1963. In southern and south-eastern Asia, the sharp increase of 1963 was followed by a moderate reduction.

Most Latin American countries increased their reserves in 1964—more than in 1963 in Bolivia, Colombia, Costa Rica and Peru as well as in Brazil, Chile and Honduras (where there had been a decline in 1963), but less than in 1963 in El Salvador, Guatemala, Mexico, Nicaragua and Venezuela. There was virtually no change in the Dominican Republic and Ecuador; only in Argentina and Panama was there a significant reduction.

The increase in West Asian reserves was the smallest since 1960. There were modest gains in Israel, Jordan, Lebanon and Saudi Arabia, but sizable losses in Iran, Iraq and Syria. Following a decline in 1963, this loss brought Syrian reserves down to their lowest post-war level. Not included in this West Asian calculation is an amount approaching $100 million which may accrue to the petroleum exporting countries in the region in respect of 1964 production as the result of an Agreement reached late in the year between the companies and the Organization of Petroleum Exporting Countries (OPEC). If it is ratified by the countries concerned, this Agreement will increase the Governments' share of future profits.[6]

The loss in Africa was concentrated in Ghana, Morocco, the Sudan and Tunisia; in all these countries reserves dropped to new lows. Elsewhere, there was some recovery after declines in 1963, and a further substantial rise in Libya, even before counting the amount due to be paid by the petroleum companies in respect of their Agreement with OPEC.

In southern and south-eastern Asia the gains were concentrated very largely in China (Taiwan) and Thailand: at the end of 1964 reserves stood at almost three times the level at the beginning of the Development Decade in the former and almost twice the level in the latter. There was also a further, though small, gain in the Philippines, raising the reserves to double the low 1961 level (but still only half the level of the mid-nineteen fifties). Elsewhere, losses were general—large in the case of India, Pakistan and the Republic of Viet-Nam, smaller in Ceylon and Indonesia and also the Federation of Malaya, where they were more than offset by a rise in the foreign exchange holdings of the commercial banks. The reductions in liquidity were most serious in Ceylon, India and Indonesia where the reserves were drawn down to new lows, covering less than three months' imports in India and less than two months' imports in Ceylon and Indonesia.

The developing countries produced slightly more gold in 1964—a total of about $136 million—than in 1963, increases in Colombia, the Democratic Republic of the Congo, India, the Philippines and Rhodesia, more than offsetting declines in Ghana, Mexico and Nicaragua. Changes in official gold holdings were only marginal on balance: they rose in Burma, Libya, Mexico and Morocco, and fell in Brazil and the United Arab Republic. In Brazil the decline has been more or less continuous since 1959, but in the United Arab Republic gold holdings have long been held constant; the reduction —$35 million—reflects sales effected towards the end of the year for the purpose of acquiring western European currencies for the repayment of short-term debt, and as a counterpart there was a comparable rise in the foreign exchange holdings of the deposit banks.

The generally favourable movement on external account between 1962 and 1964 is indicated by the transactions of the developing countries with the IMF. Borrowing continued into 1963 and on balance there was a net outflow from the Fund of $122 million in that year. With the easing of external pressures, repayments exceeded drawings by $39 million in 1964. The swing was most marked in Latin America where 1963 saw net drawings of $113 million and 1964 net repayments of $71 million, notwithstanding borrowings by Colombia, the Dominican Republic, Haiti, Honduras and Nicaragua. There were no new drawings by members in southern and south-eastern Asia; indeed, India and the Philippines made repayments. Among the deficit countries of West Asia and Africa, however, Afghanistan, Iran, Morocco, Somalia, the Sudan, Syria and Tunisia all made use of IMF resources, so that these regions borrowed more in 1964 than in 1963.

[6] By the end of May 1965, the Agreement had been ratified by Iran, Qatar and Saudi Arabia.

The state of internal balance

Between 1963 and 1964 the developing countries enjoyed a rate of increase in material supplies higher than in any earlier year in the Development Decade. Not only was there a sharp expansion in the imported component of total supply but, in the aggregate, domestic production also registered the largest gain of the Decade. This reflects a widespread, if modest, improvement in the outturn of agriculture, a continued high rate of growth in manufacturing and a somewhat greater advance in mineral production and in trade, both external and internal.

Though 1964 saw many of the wide divergences in performance that have to be expected among a large group of countries so heterogeneous in size, pattern of production and state of development, there was a surprising degree of uniformity in average results for major regions. Compared with 1963 results, the improvement in domestic product was greatest in Latin America, smallest in Africa. In the aggregate, the increase was about 5 per cent both for real gross domestic product and for total supplies.

This expansion in supplies permitted a small, though fairly widespread, increase in the *per capita* level of consumption, and a sizable increase in exports and in investment, both in fixed capital and in inventories (which in many countries had been drawn down by several years of low growth in imports). The increase in exports was somewhat below the rate recorded in 1963, the increase in fixed capital formation substantially higher. The expansion in supplies also went further to absorb the rise in money incomes than had been the case in 1963. And this, in combination with the effect of restraining measures taken earlier in some countries to curb total claims on resources, helped to bring about a perceptible improvement in the state of internal balance.

Notwithstanding these aggregate and average gains, there were quite a number of developing countries with acute economic problems alleviated, if at all, to only a minor extent in 1964. One such problem relates to the group of countries in which inflationary pressures have been deeply entrenched; by and large, these countries did not greatly improve the balance between the generation of incomes and the production of goods and services in 1964. Another problem concerns the slow growth of agriculture, particularly food-stuffs, in a number of countries; even though harvests were generally better in 1964, the disparity between the inexorable and rapid increase in population and the erratic and often inadequate expansion in local food supply remains a major stumbling block to a more satisfactory pace of over-all economic development.

Agricultural production

The 1963/64 season seems to have been generally more favourable than either the one that preceded it or the one that followed it. By and large, therefore, since natural conditions are by far the most important determinant of crop size in the developing countries, agricultural production increased to a greater extent between 1962/63 and 1963/64 than appears to have been the case between 1963/64 and 1964/65 (*see* table 3-8). Even the higher rate

Table 3-8. Developing Regions: Indices of Agricultural Production

(*Preceding season = 100*)

Region	1962/63	1963/64[a]	1964/65[b]
Developing regions	102	103	101
Latin America[c]	99	104	97
Africa[d]	107	103	103
West Asia[e]	108	99	99
Southern and south-eastern Asia[f]	101	103	101

Source: United States Department of Agriculture, *The 1964-1965 World Agricultural Situation* (Washington, D.C.), and communications from the United States Department of Agriculture.

[a] Preliminary.

[b] Forecast.

[c] Twenty republics.

[d] Excluding the Republic of South Africa.

[e] Iran, Iraq, Israel, Jordan, Lebanon, Syria.

[f] Burma, Cambodia, Ceylon, China (Taiwan), India, Indonesia, Laos, Malaysia, Pakistan, the Philippines, the Republic of Korea, the Republic of Viet-Nam and Thailand.

of growth between 1962/63 and 1963/64, however, was barely enough to keep pace with the growth of population. And if the average *per capita* rate of increase in agricultural output rose fractionally in that interval, it may have declined by as much as 2 per cent in 1964/65. The swing was most marked in Latin America, though it also characterized southern and south-eastern Asia. In West Asia, where there was no great improvement in climatic conditions in 1963/64, agricultural production drifted downwards.

The course of production in Latin America is influenced strongly by developments in Argentina and Brazil. In Argentina, severe drought in 1961 and 1962 greatly reduced the output of livestock products in 1963, and the better weather of 1964 brought a sharp gain in pastoral production as well as in grain (especially wheat) and sugar production. In Brazil, poor coffee harvests have depressed the total agricultural outturn in recent years: in 1962/63 and 1963/64 the coffee crop—at about 27 million bags—was 20 per cent below the 1961/62 figure and well below the average for the second half of the nineteen fifties, and in 1964/65 frost and drought have reduced the crop to about 10 million bags.

The highest rates of expansion in recent years have been registered in some of the Central American and Caribbean countries, most notably El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Venezuela. To some extent this has been based on success with cotton and coffee and other export crops, but in Mexico and Venezuela it reflects a more widely spread improvement in cereal culture and other segments of domestic agriculture. Against this, there has been a relatively poor performance in Chile and Colombia as well as in Costa Rica, Cuba, Ecuador, Haiti, Paraguay and Uruguay.

In southern and south-eastern Asia the crops to register the largest gains between 1963 and 1964 were rice, maize and barley, sugar and tea and wool and rubber. Offsetting these, however, were reductions in the output of wheat, tobacco, cotton, jute and abaca. In most of the countries in the region, 1963/64 harvests were appreciably greater than those of the previous season. The exceptions were China (Taiwan) and Indonesia, and in these countries minor declines in 1963/64 were followed by a markedly better outturn in 1964/65.

In India, the 1964 outputs of maize, millet and sugar were appreciably above the 1963 level and the 1964/65 rice crop seems to have been better than the preceding one; offsetting these advances, however, were reductions in the wheat, pulse and oil-seed outturn. In Pakistan the 1963/64 rice crop was a record one, but flood damage appears to have reduced the 1964/65 outturn. The wheat, barley and cotton crops followed a similar sequence. The jute harvest, by contrast, after reaching a record level in 1961/62, has registered three successive declines up to 1964/65 and seems to have dropped below the one million-ton average of the second half of the nineteen fifties. As in India, though at a much lower absolute level, sugar production has advanced steadily in Pakistan. Indonesia staged a recovery in agriculture in 1964 after the sharp setback of 1963; however, while the 1964/65 rice crop regained the 1962 level, the 1964 output of rubber was still below the average for the second half of the nineteen fifties. In the Philippines, also, some crops—notably rice and maize—recovered from the 1963 decline and sugar production continued to rise; lack of rainfall, however, adversely affected the output of copra, and in the aggregate, 1964/65 production showed little advance on that of 1963/64.

The Federation of Malaya and Thailand recorded two successive gains, maintaining their position as the countries with the highest rates of agricultural growth in the region. China (Taiwan) has also registered a faster-than-average rate of growth: a slight setback in 1963/64 was followed by a sizable expansion in most crops in 1964/65. At a lower over-all rate of increase, Burma also recovered in 1964/65 from a dip in 1963/64 occasioned largely by a poor outturn of oil-seeds.

In West Asia total agricultural output in 1964/65 fell fractionally short of the 1963/64 level which had in turn been slightly below the 1962/63 level. In 1963/64 the decline was concentrated in Iraq and Syria; in Iraq, indeed, production barely reached the average of the quinquennium ten years earlier. In 1964/65, the decline was concentrated in Iran: in the face of better harvests in almost all the other countries in the region, frosts and drought severely reduced production of most crops in Iran, particularly of cereals, dates and citrus.

In Africa, agricultural output as a whole appears to have kept pace with population growth in 1964/65 as it did in 1963/64. Results were far from uniform, however. In the Maghreb, crops which had recovered in 1963/64 from the previous year's setback, were poor again in 1964/65; in north-eastern Africa, these phases were reversed and 1964/65 harvests—in particular, cereals, sugar, oil-seeds and cotton in Ethiopia, the Sudan and the United Arab Republic—were generally well above 1963/64 levels. The 1964/65 cotton crop in the United Arab Republic is estimated at 2.3 million bales, an all-time record and an eighth above the 1963/64 crop. In the Sudan, the 1964/65 cotton crop—at about 750,000 bales—is back to normal after the serious failure of the 1963/64 harvest.

In tropical Africa, coffee production was up 4 per cent in 1963/64 and down 2 per cent in 1964/65, ground-nuts registered two successive declines—2 per cent and 7 per cent—while cocoa was up 6 per cent in 1963/64 and by over one-third in 1964/65. Rhodesia had substantially increased harvests of tobacco, sugar and maize in 1963/64. Among the staple subsistence crops, 1963/64 saw a marked rise in most food crops in Cameroon and Senegal, in rice in Liberia and Tanganyika, millet and sorghum in the Niger, cassava and sugar in Togo.

INDUSTRIAL PRODUCTION

Among the developing countries as a group, industrial output continued to expand in 1964 at more or less the same rate as in earlier years of the Development Decade. The gains between 1963 and 1964 were remarkably uniform among the major sectors: the only notable deviants from the average of almost 7 per cent were the non-metallic minerals industry, which recovered sharply from a slight lag in 1963 and the metal products industry, which lagged again in 1964 after very rapid growth earlier in the Decade. The food and textile industries increased their production much more rapidly in 1964 than in earlier years, but the increase in the paper industry was well below earlier rates. As in 1963, growth in the mining sector was also below the high rates that characterized the beginning of the Decade (*see* table 3-9).

There was a sharp acceleration in the expansion of industrial production in Latin America in 1964. This reflects principally a recovery in Argentina after the long recession, but large gains in several

Table 3-9. Developing Countries: Index Numbers of Industrial Production, 1960-1964

Item	*Developing countries*[a]			*Southern and south-eastern Asia*[b]		
	1963 (1962 = 100)	*1964 (1963 = 100)*	*1964 (1960 = 100)*	*1963 (1962 = 100)*	*1964 (1963 = 100)*	*1964 (1960 = 100)*
Total industrial production[c]	106	107	131	110	108	138
Mining	107	107	143	106	107	132
Manufacturing	105	106	125	111	108	138
Light manufacturing[d]	104	105	119	108	106	129
Heavy manufacturing[e]	106	107	133	115	110	154
Food, beverages and tobacco	103	105	115	104	107	122
Textiles	104	107	118	106	106	124
Paper and paper products	107	105	134	114	108	148
Chemical, petroleum and coal products	108	107	134	118	109	149
Non-metallic mineral products	105	111	127	109	111	145
Basic metals	108	107	131	115	101	142
Metal products	104	104	134	115	116	171
Total						
Electricity and gas	107	109	140	113	115	166

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data supplied by the Statistical Office of the United Nations.

[a] Latin America, British Honduras, the Guianas, Surinam and a member of Caribbean countries and territories; Africa, excluding South Africa; West Asia, excluding Israel; southern and south-eastern Asia as defined in foot-note *b*.

[b] Afghanistan, Brunei, Burma, Ceylon, China (Taiwan), Hong Kong, India, Indonesia, Iran, Japan, Malaysia (excluding Sabah), Pakistan, the Philippines, the Republic of Korea, the Republic of Viet-Nam and Thailand.

[c] Mining, manufacturing and electricity and gas.

[d] Food, beverages and tobacco; textiles and clothing; wood products; leather, rubber and related products, and printing and publishing.

[e] Paper, chemical, non-metallic mineral and metal products.

other countries—notably Mexico and Venezuela and, on a smaller scale, El Salvador—also contributed (*see* annex table 3A-2).

The recovery in Argentina was sharpest in manufacturing, particularly in the steel and motor vehicle industries. It was initiated by a relaxation in the Government's previously stringent deflationary policy: credit restraints were loosened and tax concessions granted to new and expanding enterprises. In 1963 industrial production was one-eighth below the 1958 level and manufacturing employment one-fourth below; by the second half of 1964 industrial production was again running at 1958 rates, about 7 per cent above the 1960 level, though employment was still lagging. Boosted by the upsurge in petroleum output, mining production was over 50 per cent above the 1960 level.

The acceleration in Venezuela was also in large measure a response to official stimuli, including customs protection, duty-free imports of raw materials and the leasing of fixed assets on favourable terms as well as credit assistance from the Venezuelan Development Corporation. Manufacturing advanced by about 14 per cent in 1964, well above the 9 per cent average for the first four years of the Development Decade.

In Mexico, also, import licensing and import surcharges tended to promote domestic industry and special government credit was available to small industrial enterprises. The engineering industry benefited markedly from a decree raising the minimum domestic content of locally assembled motor vehicles from 25 per cent to 60 per cent, to be attained by the end of 1964. Industrial production also reflected the generally high level of business confidence and the continued rapid rise in domestic investment. Despite a slowing down in mining, industrial production increased by about one-eighth in 1964, also well above the Decade average of about 8 per cent.

Elsewhere in Latin America conditions were less favourable for an increase in the rate of industrial growth. Political uncertainties and acute imbalances —external and internal—tended to retard expansion in a number of countries, especially where restraining measures had to be enforced to hold back inflationary pressures or slow down the rate of depreciation in the exchange rate. This was most notably the case in Brazil where the deceleration that started in 1963 continued through 1964, aggravated by the widespread rationing of electric power in the wake of prolonged drought. In Chile, however, there was a marked acceleration in mining activity in response to the rapid rise in world prices for most non-ferrous metals.

In southern and south-eastern Asia there was a slight slowing down in the rate of industrial advance from the high rate of 10 per cent recorded in 1963 to something just below the four-year average. The deceleration was concentrated in the paper, chemical and base metal industries, all of which had expanded particularly rapidly in 1963. In the aggregate, it was most marked in Pakistan and the Republic of Korea though, in the wake of a slowdown in steel production and a decline in mining (colliery) activity, total industrial output also dropped back in India from above the four-year average to below it. Despite this deceleration in the rate of increase in iron and steel production—and also in the output of the aluminium and jute textile industries, where, as in the case of steel, capacity was being more or less fully utilized—over-all Indian manufacturing production again increased by 8 per cent, the advance being paced by the chemical and engineering industries. Industrial production also increased by 8 per cent in the Republic of Korea, well below the 12 per cent average of the Development Decade so far. The slowdown was largely the consequence of the worsening of the external balance: restraints were placed on imports, including various manufacturing inputs, and in May 1964 the won was virtually halved in value, leaving industry to adjust itself to some sharp increases in domestic costs. In Pakistan, industrial production, after rising vigorously in 1963, levelled off noticeably in 1964. Output had doubled between 1957 and 1963, and to some extent the deceleration probably reflects the difficulty of maintaining the momentum of growth as the industrial base widens. Throughout 1964, the Government continued to provide financial and technical support to new enterprises and encouragement to foreign investment.

Elsewhere in southern and south-eastern Asia, acceleration was the rule. In the Philippines there was a sharp increase in the rate of expansion in both manufacturing and mining, after some slackening in 1963. The gains in manufacturing were most notable among durable goods and reflect the easing of credit and of restraints on raw material and component imports; the gains in mining reflect recovery in the gold sector in response to official encouragement. In China (Taiwan), industrial production advanced by more than one-fourth, stimulated by the high profits earned in sugar milling in 1963, by a high rate of investment and by rising external demand for various labour-intensive manufactures—such as textiles—for which the country has a relative cost advantage over many competitors.

In Africa and West Asia, industrial activity was strongly influenced by the general increase in world demand for minerals, particularly for petroleum and the non-ferrous metals. In these regions the only countries in which petroleum production was less in 1964 than in 1963 were the Congo (Brazzaville) and Morocco; elsewhere, increases ranged from 10 per cent in Algeria to a doubling in Libya. In West Asia as a whole the rate of increase rose from 10 per cent in 1963 to 11 per cent in 1964. Mining production was also up sharply in Algeria (iron and lead ore and coal), Morocco (phosphate and lead ore), Rhodesia (asbestos, coal, chromite, gold and tin), South West Africa (copper and lead ore), Tunisia (iron ore) and Zambia (zinc and copper ore), while the Democratic Republic of the Congo achieved a considerable recovery in its output of copper and zinc metal. On the other hand, in Ghana (bauxite, manganese and gold) and, outside the petroleum sector, in Nigeria (tin and coal) mining production showed no advance on 1963.

SUPPLY, DEMAND AND PRICE MOVEMENTS

With agriculture up by about 3 per cent, industry up by about 7 per cent and foreign trade up by over 8 per cent, the combined gross domestic product of the developing countries may well have been as much as 5 per cent greater in 1964 than in 1963. This was an appreciably higher rate of growth than that achieved between 1962 and 1963 and it reflects principally the widespread easing of external liquidity strains, the generally better outturn of agriculture, and the marked recovery in industry in Latin America. Relatively few countries experienced a lower rate of growth than in 1963, and among those that did—including Burma, Iran, Panama, the Philippines and Tunisia—most were relatively small in the global aggregate. On the other hand, quite a number of countries registered a marked improvement, including Ceylon, China (Taiwan) and Pakistan in southern and south-eastern Asia; Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela in Latin America; Iraq, Israel and Jordan in West Asia, and Rhodesia, the Sudan and Zambia in Africa.

In general, imports added considerably more to supplies in 1964 than in any of the three preceding years. In many countries the relative expansion in imports was substantially greater than in domestic production (*see* annex table 3A-4). The exceptions were confined very largely to countries that were actively holding down imports in the interest of external equilibrium—Bolivia, Ghana, India, Jordan, the Republic of Korea and the United Arab Republic, for example, where the merchandise deficit was reduced, and Brazil, Chile and Peru where a positive balance was restored in 1964.

With imports increasing by rather more than 5 per cent in real terms, the total volume of supplies at the disposal of the developing countries was probably about 5 per cent greater in 1964 than in 1963. This expansion in supplies was sufficient to permit a material increase in all the major forms of resource use: in the aggregate, consumption and investment both rose significantly more between 1963 and 1964 than in the previous interval, exports somewhat less.

The change between the two periods was most dramatic in Latin America. Supplies, which had increased very little in 1963, rose by more than 6 per cent in 1964 and, as the quantum of exports remained more or less at the 1963 level, the volume of resources available for domestic disposition was substantially higher. Consumption, which had not kept pace with population in 1963, increased by about 5 per cent in 1964. And investment, which had declined by 5 per cent in 1963, rose by about 12 per cent in 1964.

Particularly high rates of increase in domestic expenditure—over 15 per cent in investment and over 3 per cent in *per capita* consumption—were registered in Argentina and Venezuela (at the expense of a sharp reduction in the trade surplus) and in El Salvador, Guatemala, Mexico and Nicaragua (at the expense of a sharp rise in the trade deficit). At the other end of the scale, the smallest gains in consumption and investment were registered in some of the countries in which the external balance was improved—in Chile, Costa Rica, Honduras and Paraguay, for example. In Brazil, where there was hardly any increase in supplies between 1963 and 1964, the export balance was improved by price rises in the face of a decline in volume; *per capita* consumption was just about maintained, but only by virtue of a further cutback in investment.

In southern and south-eastern Asia the expansion in supplies was somewhat smaller. Nevertheless, several countries were in a position to raise all three major components of expenditure. In China (Taiwan), for example, investment was significantly higher than in 1963 and *per capita* consumption was also raised while a massive increase in exports turned the trade balance from passive to active. India also continued a general increase, largest in the case of capital formation (about 10 per cent) and public consumption, but sufficient in the case of exports (about 8 per cent) to contribute to a marked reduction in the trade deficit. Ceylon and Thailand also managed a sizable increase in consumption, investment and exports though the former drew a much larger proportion of its increment of supplies from imports, with a consequent deterioration in the trade balance.

In the Federation of Malaya, Pakistan and the Philippines, most of the increase in supplies went into consumption and investment; exports absorbed relatively little. In the case of Pakistan and the Philippines, where imports contributed much of the increment in supplies, this meant a sharp worsening of the external balance.

There was an even sharper deterioration in the external balance in Burma where the domestic product failed to reach the 1963 level. A sizable increase in imports helped to sustain consumption —at least in total—but both capital formation and exports were reduced. The reductions in investment and in *per capita* levels of consumption were concentrated in the private sector; government expenditures—both current and capital—were higher than in 1963.

In contrast to most of the other countries in the region, the Republic of Korea applied most of the increment in its resources to the improvement of its external balance. This was achieved by a large decrease in imports and increase in exports, and it was effected at the expense of the internal disposition of resources. Though domestic production rose by almost 7 per cent, total available supplies were up by only about 3 per cent—much less than in earlier years. *Per capita* consumption was just about maintained at the 1963 level but fixed capital formation was substantially reduced.

In Africa and West Asia the expansion in supplies between 1963 and 1964 was generally appreciably greater than in the preceding interval. In most countries both domestic production and imports contributed to the increase. In Jordan, the Sudan and the United Arab Republic, however, imports were cut back. Given good harvests, this helped to reduce the external deficit in Jordan and the United Arab Republic without seriously affecting consumption or investment. In the Sudan, however, the result of the poor 1963/64 cotton crop was a sharp contraction in export availabilities and a substantial increase in the merchandise deficit as well as a reduction in domestic expenditure. The decline in agricultural output in 1963/64 had similar consequences in Syria where both internal and external balance deteriorated. Though hit by the bad harvest of 1964/65, Iran, using resources from the 1963/64 harvest and from the petroleum sector, was able to expand its supplies very considerably from imports while at the same time adding to its trade surplus. Israel also added greatly to its domestic production—itself up about 10 per cent again—through imports, but only at the expense of enlarging its trade deficit.

The widespread increase in the available supply of goods had a discernible influence on the general state of internal balance in the developing countries in 1964. Except in the few countries with acute inflationary pressures of long standing and one or two cases in which resources have recently come under heavy strain, there was a general easing of domestic strains.

One indication of this improvement in domestic balance is provided by the movement of retail prices. The proportion of countries in which the cost of living remained more or less stable or showed a perceptible deceleration in its rate of increase rose sharply from below 40 per cent in 1963 to nearly 50 per cent in 1964. Conversely, the proportion in which the rise in retail prices accelerated dropped from 40 per cent in 1963 to less than 25 per cent in 1964 (*see* table 3-10). In 1963 about 70 per cent of the countries showing the most rapid price rise—over 10 per cent a year—registered some degree of acceleration, whereas in 1964 the corresponding proportion was not much more than 40 per cent.

Table 3-10. Developing Countries: Cost of Living Changes,[a] 1963 and 1964

Trend	*Percentage of countries in which, in relation to the trend during the preceding year, the trend during the indicated years registered:* 1963	1964
Acceleration	40	24
Continued rise	23	28
Deceleration	28	37
Continued stability	9	11

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

[a] Based on fifty-seven countries; *see* annex table 3A-3.

Among the countries in which the cost of living rose by over 10 per cent in the course of 1964—about a fourth of the total, as in 1963—there was some easing of the pace in Argentina, the Democratic Republic of the Congo, Indonesia and the Republic of Korea. In Brazil, Chile, Ghana and Uruguay, on the other hand, prices continued to rise much as they had done in 1963, while in Bolivia, India, Peru, the Philippines, Sierra Leone and the United Arab Republic there was a distinct rise in inflationary pressures. Except for Bolivia, the countries in this last group are not among those suffering from chronic and acute instability: the rapid rise in prices in 1964 indicates the operation of new forces threatening domestic balance.

Though the general improvement in the state of balance in the developing countries is attributable chiefly to the easing of the supply position, disinflationary policy measures also contributed to the same end in some instances. In a number of countries monetary and fiscal policies were intended to exert a restraining influence on the economy.

In most developing countries money supply expanded more or less in step with production, trade and incomes. The proportion of countries in which money supply contracted during the year or rose less than 4 per cent was about 15 per cent—up sharply on 1963. And the proportion in which money supply rose more than 10 per cent was rather less than 60 per cent—down appreciably from the 70 per cent recorded in 1963 (*see* annex table 3A-5). There was a marked increase in the proportion of countries in which there was a discernible deceleration in the rate of growth in money supply (it was about 22 per cent in 1963 and 35 per cent in 1964) and a corresponding decline in the proportion registering an acceleration (*see* table 3-11).

Table 3-11. Developing Countries: Changes in Money Supply,[a] 1963 and 1964

Trend	*Percentage of countries in which, in relation to the trend during the previous year, the trend during the indicated year registered:* 1963	1964
Acceleration	48	41
Deceleration	22	35
Continued expansion	30	24

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

[a] Based on forty-six countries; *see* annex table 3A-5.

One factor involved in this slowing down in the expansion of money supply was a generally greater caution in government budgeting. Government financial operations contributed much less to inflationary pressures in 1964 than in 1963. Comparing year-to-year changes in official indebtedness relative to total expenditure, the proportion of countries in which there was a decline trebled between 1963 and 1964 and the proportion in which the rate of increase accelerated was halved. In 1963 the number of countries registering a greater rise in government indebtedness than in the preceding year was about twice the number registering a decline or a smaller rise. In 1964 the proportions were virtually reversed (*see* table 3-12).

Notwithstanding this turn-around in budgetary position, the growth of government borrowing from the banking system was a major factor in the increase in the supply of money in some of the countries in which this ran ahead of the increase in goods and services. In Ghana and the Republic of Viet-Nam, for example, where there was a substantial rise in

Table 3-12. Developing Countries: Changes in Government Budgetary Position,[a] 1963 and 1964

Trend	*Percentage of countries in which, in relation to the previous year, government indebtedness during the indicated year showed:*	
	1963	*1964*
Decline	9	29
Deceleration in rise	20	23
Acceleration in rise	60	31
Continuation of rise	11	20

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

[a] Net change—claims minus deposits—in government dealings with the banking system as percentage of government expenditure in previous year. Based on thirty-six countries; *see* annex table 3A-6.

relative government indebtedness (*see* annex table 3A-6), this was almost the sole contributor to the acceleration in the increase in money supply. Government credit was also a leading component of the rapid expansion in money supply in Argentina, Haiti and the United Arab Republic (along with private credit) and in Mexico (along with an increase in foreign assets).

A rise in foreign assets was the principal factor in monetary expansion in the Republic of Korea (where private credit also contributed) and in Bolivia, Jordan and Libya (where there were also increases in private and government credit). But among the countries in which money supply increased by over 10 per cent during 1964, the expansion of private credit was the main contributor in most instances. In Brazil, Chile, India, Iran, Jamaica, Nigeria, Pakistan and Uruguay it was accompanied by considerable expansion in credit to the public sector; in Honduras, Nicaragua and Venezuela by considerable increases in foreign assets, and in Peru by increases in both foreign assets and credit to the public sector.

In the aggregate—taking into account not only the countries referred to above but also those in which the rise in the supply of money was more in line with the increase in real incomes—the most expansionary component in 1964 was private credit in about 58 per cent (compared with 49 per cent in 1963), government credit in about 27 per cent (33 per cent in 1963) and foreign assets in about 15 per cent of the countries (18 per cent in 1963).

Changes in foreign assets were more important as a contractionary force in 1964: they operated in this way in almost half of the developing countries (as against about 40 per cent in 1963). Changes in government credit were contractionary in about a fifth of the developing countries (15 per cent in 1963). In the case of private credit, however, the number of cases in which it was a contractionary influence was smaller in 1964 (5 per cent) than in 1963 (9 per cent).

Outlook for 1965[7]

By and large, the developing countries entered 1965 in better economic shape than in earlier years of the Development Decade. Most sectors were more active, inventories more adequate—particularly in the case of the key items in food-stuffs and imports—and foreign exchange reserves higher.

Despite this generally favourable posture, however, the outlook for 1965 was distinctly less promising than it had been a year earlier. On the whole, crop prospects were poorer; export prices had reached their peak early in 1964 and seemed likely to drift downwards again as growth forecasts from the industrial countries that constitute the major market of the developing countries suggested a slackening in import demand. The export prospects of the developing countries were also dimmed by the probability of a better outturn of various primary products and their substitutes in the industrial countries.

In the face of a possible decline in the rate of increase in export earnings, import expenditure in the early months of 1965 continued the more rapid rise that had commenced towards the end of 1963. Taken in conjunction with the heavy claims of external debt, this foreshadows an increase in balance of payments pressures as 1965 advances. A decline in the rate of increase in agricultural production —not very high, even in 1964—and a simultaneous deterioration in the external balance would exacerbate the longer-term difficulties in respect of food supply and internal balance that the developing countries have recently been making new efforts to overcome.

These broad generalizations and contingencies apply to the various developing countries in differing degree, depending in particular on the composition and destination of exports, on the current state of external liquidity and on the course of production—especially agricultural production—in the 1965/66 season. By and large, the Latin American countries would appear to be in a stronger position than those of Africa and Asia, both in respect of recent gains in liquidity and because their principal market seems less likely to weaken in the course of 1965. But the Latin American debt problem is

[7] This section is based in part on the replies of Governments to the United Nations questionnaire on economic trends, problems and policies of November 1964.

generally more acute and, as indicated in an earlier section of this chapter, some of the countries in the region entered 1965 in a serious state of domestic imbalance. And within the region there are marked differences in the prospects for export earnings.

The rise in coffee earnings that occurred between 1963 and 1964 is not likely to be repeated in 1965. Though prices at the beginning of the year were at the highest level since 1958, there are signs of weakening. In the face of a large 1964/65 crop, *robusta* prices turned downwards in mid-1964 and *arabica* prices have tended to follow. Because of the existence of a large accumulation, the decline in Brazilian production has made little impression on available supplies. These are now governed by quotas under the International Coffee Agreement and the distribution of earnings in 1965 seems unlikely to differ markedly from that of 1964. On the average, however, prices in the first quarter of 1965 were 5 per cent below the corresponding 1964 level.

Cocoa prices were down even more sharply in the first quarter of 1965, in the face of a record 1964/65 crop in West Africa. Latin American earnings from this source may fall short of the 1964 figure. Earnings from banana exports may also be lower: ever since 1958 prices have been drifting downwards and, with acreage expanding and demand tending to level off, there are no signs of a reversal in 1965.

Sugar earnings are almost certain to be lower than in 1964: prices in the first quarter of 1965 were less than half the corresponding 1964 figure and, stimulated by the high prices of 1963/64, production is up almost everywhere—in importing countries as well as exporting countries. Quotas for the higher priced United States market are lower in 1965 than in 1964, except in the case of Brazil and Puerto Rico. Developing country sales under the Commonwealth Sugar Agreement will be at more or less the same price as in 1964 and India, Rhodesia and Swaziland have been allocated quotas for the first time. In the aggregate, Latin America is likely to have substantially more sugar to export; so, on a smaller scale, is southern and south-eastern Asia. Total earnings, however, may well be lower.

Latin America accounts for most of the temperate farm products exported by the developing countries and here prospects are not unfavourable. Argentina is likely to increase its wheat exports very considerably: a bumper 1964/65 crop and a large carry-over from 1963/64 will provide the means of fulfilling major contracts with mainland China and the Soviet Union as well as with western Europe and Brazil. Meat exports are also likely to provide more foreign exchange in 1965 than in 1964, in Uruguay as well as Argentina: demand is still rising rapidly and supplies from within the importing countries are not expected to increase. In the first quarter of 1965, beef prices were about an eighth above the corresponding 1964 level.

Latin America also accounts for most of the wool exported by the developing countries. This will probably not yield as much in 1965 as it did in 1964: consumption has lagged in western Europe and Japan, stocks have accumulated and prices in the first quarter of 1965 were about a fourth lower than in the first quarter of 1964. Even if Argentina and Uruguay liquidate part of their 1964 accumulation, it is doubtful whether the effects of the price decline would be fully offset.

In contrast to wool, cotton seems likely to yield higher export earnings in 1965, particularly in the central American region where 1964/65 crops are generally well above the previous level. The Sudan and the United Arab Republic are also likely to increase their cotton earnings, since they have more to sell—especially in the case of the Sudan, where a better quality crop yielded an 8 per cent higher average export unit value in the first half of 1965.

The upswing in non-ferrous metal prices that characterized 1964 has levelled off but it has left most prices well above earlier averages. In the first quarter of 1965, the average export price of non-ferrous metals from developing countries was about a third above the corresponding 1964 figure. Though production—in the net importing countries as well as in the exporters—has been catching up with the higher rate of consumption and the latter may well tail off somewhat later in 1965 if growth forecasts for the industrial countries are borne out, it seems probable that metal earnings in the developing countries will exceed the 1964 level by a substantial margin. In the absence of labour strikes or other disruption, copper, lead and zinc producing countries, such as Chile, Mexico and Peru—as well as the Democratic Republic of the Congo, South West Africa and Zambia—are likely to benefit considerably from the market situation.

In the case of copper, free market prices have not yet declined below the extremely high average attained in 1964. Chile and Zambia have sought to stabilize their export price at the United States producer price of 36 cents a pound—a figure regarded as tenable in the face of competition from substitutes—and this should provide them with an appreciably higher income than in 1964. With consumption still running ahead of production, and the shortfall being made good by releases from the United States stockpile, as it was in 1964, tin prices on the open market are also extremely high by earlier standards. If output is kept up, tin exporters, such as Bolivia, Malaysia and Thailand, should enjoy a further increase in earnings from this source.

More important in the case of the Asian countries is the course of the market for natural rubber, and here—assuming no further deterioration in the political situation in the region—the outlook is for continued price stability near the floor set by the low-cost synthetic substitute. Past replanting policy should ensure a further rise in output in Malaysia, and in the aggregate—unless the relatively low price again reduces tapping in Indonesia—the developing countries seem likely to maintain the recent modest rate of growth in natural rubber production. In 1965, as in 1964, the upsurge in rubber consumption associated with the motor-car boom will be met by the synthetic products.

Earnings from jute and allied fibres in 1965 may be somewhat above the 1964 level, even though the high 1964 prices are reported to have induced further substitution in the packaging field, not fully compensated by growth in consumption in the carpet industry. Since the 1964/65 crop is estimated to have been slightly below the previous one, and more of it is likely to be used domestically—especially in Pakistan—the volume of exports may not reach the 1964 level.

A lag may also be expected in hard fibre exports in the wake of a reported accumulation of stocks in the hands of users and processors in mid-1964 and the subsequent decline in prices. Philippine earnings are also likely to be depressed by a drop in abaca output owing to drought and disease. Since in 1964 East Africa produced more and exported less than in 1963, more sisal may be shipped in 1965, though it is doubtful whether the volume increase will fully compensate for the decline in price: the average price in the first quarter of 1965 was a fifth below the corresponding 1964 figure.

Earnings from exports of oil-seeds and oils will probably exceed the 1964 figure both in southern and south-eastern Asia and in Africa. Prices were rising fairly steadily in 1964 and in the first quarter of 1965 averaged about a sixth above the corresponding 1964 level. Price gains should be supplemented by volume gains in some countries—notably Malaysia, where palm kernel production has been rising—but in Nigeria, where the 1964/65 ground-nut crop was smaller than the previous one, and the Philippines, where coconut trees were damaged by typhoon in 1964, shipments may be somewhat reduced. As a result of security difficulties in plantations, exports of other palm products from the Democratic Republic of the Congo are also likely to be below the 1964 level.

Trade in rice within the southern and south-eastern Asian region is not expected to differ much in volume or value from 1964 levels. To judge by preliminary data for 1964/65, exportable supplies are at least up to 1964 levels in Cambodia and Thailand though somewhat lower in Burma and the Republic of Viet-Nam, while import requirements are less than in 1964 in Indonesia and Pakistan but unchanged or greater in Ceylon, India, Malaysia and the Philippines.

Tea earnings are also expected to approximate the 1964 figure. Poor growing conditions in East Africa and southern India are likely to affect the supply from those areas but the main flow from Ceylon and northern India may be large enough to offset this. Demand continues to be very stable, the most rapid increase being in the producing countries themselves, a factor that serves to retard the expansion of exports.

In the aggregate, tobacco earnings may also differ only slightly from the 1964 level: higher production in Brazil and Colombia should compensate for lower production in India and the Philippines, while in Rhodesia and Zambia a decline in output should be offset by a rise in quality and unit value. Up to August, 204 million pounds had been auctioned at an average of 41 cents a pound, compared with 228 million pounds at 33 cents in the corresponding portion of 1964.

Petroleum exports are expected to increase at the fairly steady pace of 9 or 10 per cent that has characterized recent years. Posted prices seem likely to remain unchanged, but Venezuelan earnings may be affected by a continuing and perhaps increasing tendency for sales to be made at a discount, whereas Middle East earnings should be raised by the new tax arrangement negotiated between the Organization of Petroleum Exporting Countries and the international companies.

Notwithstanding this great diversity in commodity and country prospects, it is probable that the developing countries as a group will experience a price loss in 1965 as against a price gain in 1964 and that therefore the over-all increase in their export receipts will be less than between 1963 and 1964. Other current receipts, however—from tourism, shipping, transit dues, migrant labour and so on—should continue to expand at least at earlier rates, though the effect of this may be offset (in the aggregate, but not for individual countries) by a rise in the net outflow of investment income in the wake of the previous two years' expansion in export activity with which foreign-owned corporations have in many cases been associated.

As far as unilateral transfers and capital receipts are concerned, the 1965 total is likely to be of the same order as that of 1964. The current efforts to curb the outflow of capital from the United Kingdom and the United States and to protect the external balance in Japan are not intended to affect the developing countries, but some of the effects of these and of the balance of payments pressures they reflect may spill over as a restraining influence on such flows. On the other hand, commitments made by international institutions as well as by capital exporting countries, and the volume of loans negotiated but undisbursed at the beginning of 1965 suggest that the total flow will be comparable with that of recent years and may indeed be somewhat higher.

Any decline in the rate of inflow of capital would have serious consequences at this stage, since the debt burden of the developing countries is now extremely heavy relative to export earnings, and the bunching of repayment obligations in the years immediately ahead constitutes a major potential threat to the external balance. The latter may in any case come under pressure again from current account developments, if imports continue the expansion that began in 1964 and the rate of growth in export receipts does in fact tail off under the influence of declining prices and decelerating demand in the industrial countries.

Indicative of this possibility is the fact that in the first quarter of 1965 net drawings of the developing countries from the International Monetary Fund were about $67 million, as against a net repayment of $40 million in the comparable quarter of 1964 and $39 million for the whole year. Gross drawings in the first quarter of 1965 amounted to $204 million—compared with $179 million in the whole of 1964—the bulk going to Brazil, Chile, India and Pakistan. Of the twenty stand-by arrangements existing at the end of April 1965, ten had been made in the first four months of 1965.

The more constraining the external payments position becomes, the sooner will the developing countries have to tighten the controls over imports that began to be relaxed in the second half of 1963 as liquidity improved. The more restrictive import policy becomes, the less scope does a developing country have to raise its rate of growth without imperilling internal stability. The early need to restrict imports would be particularly disappointing at this juncture, for not only have imports actually lagged very noticeably in the first four years of the Development Decade—in terms of quantum, the rate of increase has averaged only about 3 per cent a year, not much more than half the rate of increase in exports—but in 1965 the rate of growth in domestic product promises to be less favourable than it was in 1964. Moreover, from a broader, global point of view, since trade among the industrial countries—which has been a major source of expansion in recent years—is expected to lose a good deal of dynamism in 1965, a contraction in the imports of the developing countries would further decelerate the growth of international trade.

Predictions of movements in the gross domestic product made early in the year are based largely on what is known of the 1964/65 harvest. Although, as indicated above, some marked improvements were in prospect, the over-all result pointed to an increase rather less than that which occurred between 1962/63 and 1963/64. While the outturn for 1965 as a whole depends also on crops reaped in the second half of the year, the probability of a significantly larger increase seems slight.

Most governments, encouraged by the easing of pressures in 1963 and 1964, are pushing ahead with their development plans. Nowhere is production likely to lag as a result of weakness in demand. Indeed, in a number of countries, 1965 opened with renewed efforts to contain excessive claims on resources in both the public and the private sectors, as well as to produce matching supplies.[8] The success of these efforts depends very largely on factors over which the developing countries are unable to exercise control, namely the weather and the state of external markets for their primary products.

[8] These stabilization efforts—involving restraints on demand on the one hand and promotion of food supply on the other—are discussed in the following sections.

Inflationary tendencies: Recent developments[9]

Inflationary pressures that are chronic, strong and overt are limited to relatively few of the developing countries. In recent years (say, between 1957 and 1964) about a sixth of the developing countries for which adequate data are available registered increases in their retail prices averaging more than 10 per cent a year, though a further group of an eighth also exhibited marked inflationary tendencies, with price increases averaging between 5 and 10 per cent a year over the eight years (*see* annex table 3A-7).

In some of these countries the rate of increase in prices has tended to rise in recent years. Some of the most serious manifestations of this acceleration are to be found in Chile, Colombia, Indonesia, Laos, the Republic of Korea and Uruguay. In Brazil the

[9] This section is based in part on replies of Governments to the United Nations questionnaire on inflation and economic development of January 1965. These replies have been reproduced in document E/4053.

acceleration occurred earlier—round the turn of the decade—and the higher rates have continued in the past three years. In all these countries the average rate of increase in cost of living in the recent period, 1962-1964, was in excess of 20 per cent a year. At a lower level, there has also been a marked acceleration in price rises in Ghana, India and Peru, where the increase in the cost of living averaged between 10 and 15 per cent a year in 1962-1964. Higher, but decelerating, rates of increase have been registered in Argentina, where the 1962-1964 average was about 22 per cent a year.

These are among the countries in which concern about the adverse effects of inflation on the process of economic development has given rise to many and varied efforts both to counteract those effects and to eliminate the causes. That these efforts have not been as successful as policy makers might have wished reflects the complexity of the causative process and the fact that it often contains links that are of an institutional nature and highly resistant to change. It also reflects the fact that action taken to alleviate the symptoms has sometimes aggravated the underlying imbalances. In addition, the results of remedial measures adopted internally have from time to time been nullified by an unfavourable turn of external events over which no control could be exercised.

In a number of countries the most serious consequences of inflation have been those adversely affecting the volume and structure of production. This has come about in some instances through the diversion of resources—and, not least, of scarce entrepreneurial skills—to speculative activities in land, inventories and foreign exchange. It has also diverted the more directly productive forms of investment to avenues made more profitable by the relative movements of internal and external prices or by defensive measures (such as import control) and away from other avenues that may be socially more necessary but are less profitable as a result of other defensive measures (such as price control). Production has also been inhibited from time to time by direct restraints on investment and on credit, introduced as curbs on demand and money incomes. And, particularly, where internal instability has necessitated exchange control, the inflow of foreign capital has been discouraged—to the detriment of new production.

In so far as inflation, or action taken to counter it, does inhibit production, the results are generally insidious since the inflationary tendencies themselves stem from, or are accentuated by, the inadequacy of output. This is not to say that there is necessarily a close inverse correlation between the rate of increase in prices and the rate of increase in total production (see chart 3-1). The inhibiting effect on production depends in part on the degree of dependence on trade with the rest of the world—a country with a large domestic resource base can usually stand up to stronger inflationary forces than a smaller one in which imports and exports are relatively more important. It also depends on the degree of self-generation of the inflation: with the emergence of an accelerating wage-price spiral, production is soon likely to be disrupted. Up to a point, moreover, internal strains can be tolerated to a greater extent in countries that are able to mitigate their inhibiting effects through access to external resources.

Even if it had no effect on production, the external disequilibrium occasioned by inflation would constitute a serious problem for a developing country. Rising domestic prices are likely to put costs out of line with those in other countries, with immediate implications for export and import-substituting industries. Adjustment has soon to be sought through devaluation of the currency and the more often that happens the more difficult does stabilization become. The burden of servicing of foreign debt may be magnified and the difficulties of external capital transactions enhanced.

Inflation also has an effect on the distribution of domestic incomes that is often regarded as undesirable. It tends to favour income from property and therefore to run counter to the social objectives of many countries, particularly those in which the pattern of incomes is already skewed. The problem of seeking a more egalitarian distribution is complicated by the fact that any linking of wages to the cost of living, in order to protect real standards, tends to increase the risks of setting in motion a spiral that becomes progressively more difficult to control.

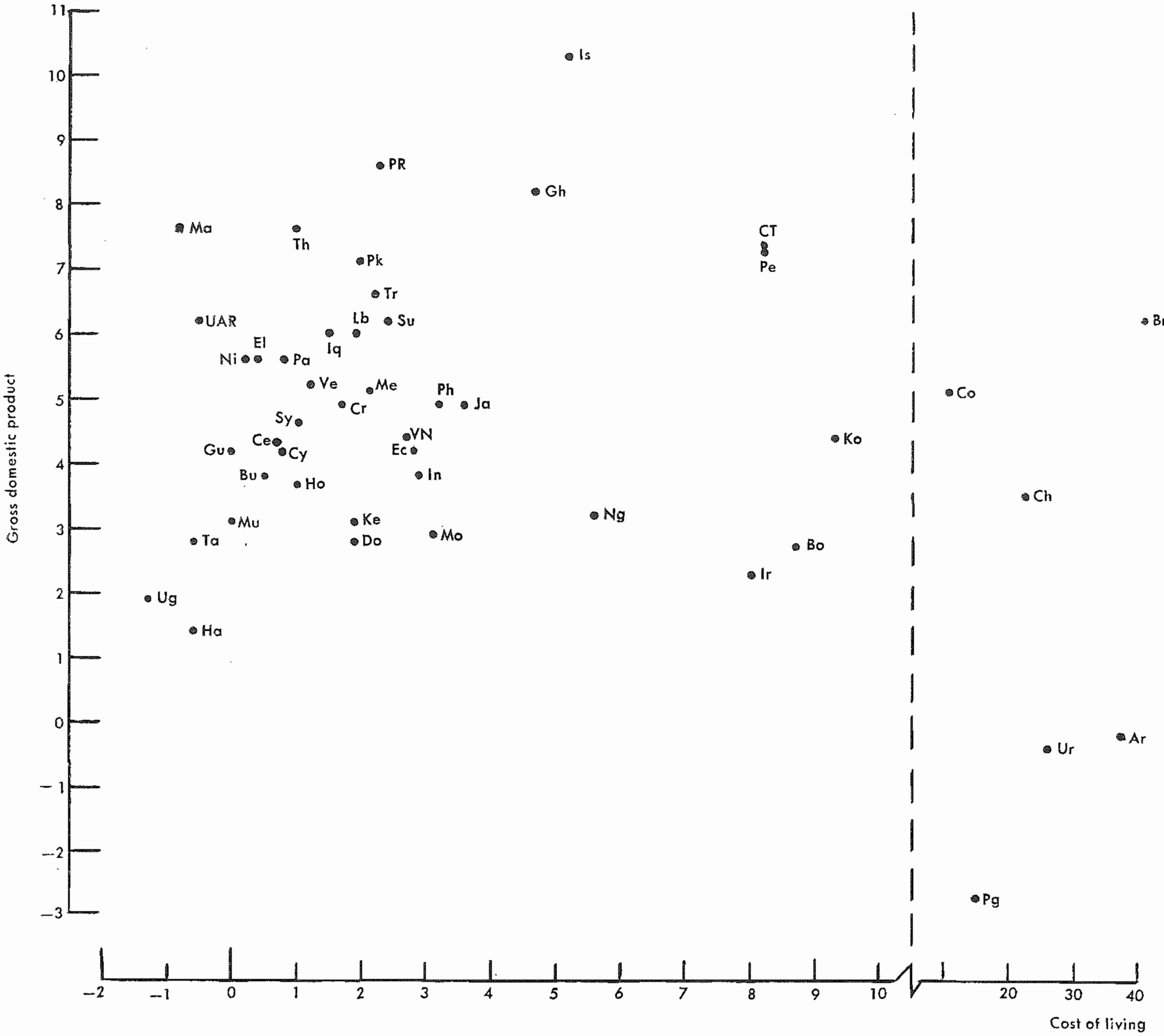
CAUSATIVE FACTORS

Though the process by which inflationary pressures build up and become cumulative is complex and in many respects unique to each economy, a number of factors are commonly present in most developing countries, though in varying degree. One group of such factors operates on the demand side, another group on the supply side. In many cases exogenous factors also contribute and there is a common mechanism tending to generate a spiral effect, making the process self-perpetuating.

On the demand side, the developing countries have all experienced a rapid increase in total claims on resources as a result of a rising rate of population growth and a continuing movement to the towns. These claims are for basic requirements of food, clothing and shelter, plus certain minimal services of a communal nature, and as such they are not post-

Chart 3-1. Changes in Gross Domestic Product and the Cost of Living, 1958-1963[a]

(Average annual change)[b]



Ar	Argentina	El	El Salvador	Lb	Lebanon		
Bo	Bolivia	Gh	Ghana	Ma	Malaya (Federation of)	PR	Puerto Rico
Br	Brazil	Gu	Guatemala	Me	Mexico	Su	Sudan
Bu	Burma	Ha	Haiti	Mo	Morocco	Sy	Syria
Ce	Ceylon	Ho	Honduras	Mu	Mauritius	Ta	Tanzania
Ch	Chile	In	India	Ng	Nigeria	Th	Thailand
Co	Colombia	Iq	Iraq	Ni	Nicaragua	Tr	Trinidad and Tobago
Cr	Costa Rica	Ir	Iran	Pa	Panama	UAR	United Arab Republic
CT	China (Taiwan)	Is	Israel	Pe	Peru	Ug	Uganda
Cy	Cyprus	Ja	Jamaica	Pg	Paraguay	Ur	Uruguay
Do	Dominican Republic	Ke	Kenya	Ph	Philippines	Ve	Venezuela
Ec	Ecuador	Ko	Korea (Republic of)	Pk	Pakistan	VN	Viet-Nam (Republic of)

SOURCE: For cost of living, Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; for gross domestic product, Statistical Office of the United Nations, *Yearbook of National Accounts Statistics*; United Nations Economic Commission for Latin America, and national sources.

[a] In some cases the period is shorter.

[b] Compound rate, based on terminal years.

Table 3-13. Selected Developing Countries: Increase in Total Money Supply,[a] and its Components, 1958-1964

(Index, 1958 = 100; percentage)

Country and item	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
Argentina						
Index of total money supply	136	182	224	247	293	384
Percentage contribution to annual increase:						
Foreign assets	3	18	—1	—69	—5	8
Claims of government sector	51	30	18	54	64	55
Claims on private sector	46	52	83	115	41	37
Brazil						
Index of total money supply	128	175	261	407	644	1,067
Percentage contribution to annual increase:						
Foreign assets	1	1	2	3	2	4
Claims of government sector	35	36	46	41	40	41
Claims on private sector	64	63	52	56	58	55
India						
Index of total money supply	110	119	126	137	150	158
Percentage contribution to annual increase:						
Foreign assets	—8	3	—17	—17	—5	5
Claims of government sector	89	47	39	61	65	87
Claims on private sector	19	50	78	56	40	8
Indonesia						
Index of total money supply	160	213	272	306	781	...
Percentage contribution to annual increase:						
Foreign assets	39	51	—8	—16	—12	...
Claims of government sector	37	8	63	87	87	...
Claims on private sector	24	41	45	29	25	...
Philippines						
Index of total money supply	110	119	133	157	190	211
Percentage contribution to annual increase:						
Foreign assets	33	68	—22	—16	5	—55
Claims of government sector	7	—66	—7	9	4	16
Claims on private sector	60	98	129	107	91	139
Republic of Korea						
Index of total money supply	116	132	183	246	266	304
Percentage contribution to annual increase:						
Foreign assets	18	30	65	31	—84	62
Claims of government sector	—12	—23	—16	16	30	—15
Claims on private sector	94	93	51	53	154	53

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

[a] Money supply includes currency, deposit money, quasi-money and other items; indices based on end of year data.

ponable. Nor, except to the limited extent to which urbanization is employment-induced, are these claims automatically linked to production. Unless production keeps pace with them, an inflationary gap is likely to emerge.

Another potentially inflationary source of demand is investment, and in this respect the developing countries face a particularly difficult situation. Not only does their progress depend very largely on increasing investment but a good deal of the most essential investment is of a long-gestation variety: it may involve outlays (that constitute current money incomes) for years before it actually yields any usable output. In so far as such investment is not financed through real savings, it will also tend to contribute to an inflationary gap.

In practice, most investment and some consumption are financed by credit that is not always or necessarily geared to prior saving. It is no accident that most of the countries with serious problems of inflation have experienced high rates of increase in money supply: between 1958 and 1964, for example, there was almost a doubling in India, more than a doubling in the Philippines, a threefold expansion in the Republic of Korea, a fourfold expansion in Argentina and a tenfold expansion in Brazil and Indonesia (*see* table 3-13). Relative to gross production, the rate of increase in money supply has tended to accelerate in recent years in most of these countries. In Brazil, Colombia and the Philippines, for example, the ratio between the rates of growth of real gross domestic product and money supply more or less doubled from 1958-1960 to 1960-1963, while in Argentina and Indonesia it increased considerably more. In all these countries the rate of increase in money supply accelerated while the rate of increase in production slackened. Over the whole period 1958 to 1963, the former exceeded the latter by two to three times in Colombia, the Philippines and the Republic of Korea, by eight to nine times in Brazil and Chile and by even larger margins in Argentina and Indonesia (*see* table 3-14).

Table 3-14. Selected Developing Countries: Increase in Money Supply,[a] Gross Domestic Product at Constant Prices, and Cost of Living, 1958-1963

(*Annual percentage rate*)[b]

Country and item	*1958-1960*	*1960-1963*	*1958-1963*
Argentina			
Money supply	38.9	13.7	23.2
Gross domestic product	1.0	—0.1	0.3
Cost of living	64.9	21.9	37.5
Brazil			
Money supply	36.0	55.5	47.5
Gross domestic product	7.0	4.7	5.6
Cost of living	36.0	54.0	46.5
Chile			
Money supply	32.3	24.3	27.5
Gross domestic product	3.0	3.9	3.5
Cost of living	24.5	21.2	22.3
Colombia			
Money supply	13.1	20.0[c]	16.5[d]
Gross domestic product	5.4	4.9[c]	5.3[d]
Cost of living	5.4	5.8[c]	5.5[d]
Philippines			
Money supply	5.8	13.4	10.4
Gross domestic product	4.9	4.5	4.7
Cost of living	1.5	4.5	3.2
Republic of Korea			
Money supply	10.9	18.9	15.7
Gross domestic product	3.0	5.1	4.4
Cost of living	5.8	11.6	9.3

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*, *Yearbook of National Accounts Statistics*; United Nations, *Statistical Bulletin for Latin America*; International Monetary Fund, *International Financial Statistics*.

[a] Currency and deposit money held by the domestic non-government sector.

[b] Compound rate, calculated from change between the first and the last year.

[c] 1960-1962.

[d] 1958-1962.

In Brazil, the Philippines and the Republic of Korea the dominant element in this expansion was the growth of private credit; in India and Indonesia the government sector was chiefly responsible for the increase in credit, while in Argentina the two sectors shared in the expansion.

In most developing countries private credit tends to be fairly closely related to production, or at least to supply: it finances such things as farm crops, industrial investments that are likely to yield a material output fairly quickly, and imports of raw materials and components for manufacturing and finished goods for commerce. In general, government borrowing tends to relate to investment in infrastructure and other forms of capital from which a material product is less likely to be immediately forthcoming. Governments may also borrow to meet short-falls in current revenue and such credit becomes incomes—as salaries, pensions, subsidies, farm supports and so on—with no corresponding increase in product. Where such credit is drawn from the banking system and does not represent savings, it is a potential source of inflationary pressure, and the more rapid the expansion and the less directly productive the use, the greater is the probable inflationary risk.

The rise in the flow of credit to the government sector in such countries as Brazil, India and Indonesia in recent years reflects a widening fiscal deficit. In Brazil this deficit has risen from about 2 per cent of the gross domestic product in 1958 and 1959 to over 5 per cent in more recent years. In India the deficit fluctuated around 5 per cent of the net domestic product in the period 1958-1962, but has risen sharply in 1963 and 1964 in the wake of a large increase in defence and development expenditure not fully matched by increases in tax revenue. In the Republic of Korea, on the other hand, the budget deficit has been greatly reduced in the past two years, after reaching a level of 13 per cent of the gross national product in 1962.

By increasing foreign assets and the incomes in the hands of participants in the export sector, an expansion in exports may also have inflationary consequences. Whether this is a significant factor depends in part on the degree of integration of the export sector and the rest of the economy. While it is true that the great bulk of the goods exported by the developing countries has no alternative domestic market—so that exports are generally not at the expense of internal consumption—and that the foreign exchange derived from such exports is readily translated into imports of goods that are usable for domestic consumption or investment, nevertheless, in varying degree the earnings of the export sector enter into internal demand whether as the income of peasants, the profits of traders, the wages of participating workers or the re-investment of foreign-owned corporations. Moreover, the process of economic development tends to increase the vulnerability of primary exporting countries to this source of instability. For, as the various sectors of the economy become increasingly interdependent, the impact of the sort of massive swings in export prices and earnings to which a primary exporting country is exposed tends to become progressively more destabilizing. Downswings of this nature are deflationary in the first instance, but in many countries—particularly in Latin America—the effects of a decline in export incomes have often been counteracted by a relaxation of domestic credit. Coming at a time when foreign exchange availabilities are low, an expansion in credit may well set off or accentuate a rise in the prices of imported goods.

Though most of the chronic and rapid inflations reflect excess monetary demand, inflationary forces can also be generated by difficulties on the supply side. Most potent in this respect has been the lag in food production which has characterized the post-war period in many of the developing countries.[10] The nature and magnitude of this lag are discussed in the concluding portion of this chapter; in the present context its importance lies in the fact that food is by far the largest component of the consumer budget in most developing countries, often absorbing over half of total expenditure.

In most of the countries experiencing serious inflation, food production has barely kept pace with population growth; in some of them, indeed, *per capita* production in 1963 was below the 1958 level (*see* table 3-15). Given this drag, a poor harvest is likely to be the occasion of a marked rise in food prices and, hence, in the cost of living. That the role played by food shortages is a leading one, both in magnitude and in time, is borne out by the fact that in most of the countries in question the cost

[10] The present discussion is concerned with the current situation and its roots in the recent past. For a review of the impact of the agricultural lag in earlier years, see *World Economic Survey, 1957* (Sales No.: 58.II.C.1), page 12.

Table 3-15. Selected Developing Countries: Index of *Per Capita* Food Production and *Per Capita* Production and Supply of Cereals, 1958-1963[a]

(*Index, 1960 = 100*)

Country and item	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*
Brazil						
Food production	95	99	100	100	100	97
Cereal production	90	91	100	104	104	110
Cereal supply	89	91	100	102	104	109
India						
Food production	95	98	100	99	94	94
Cereal production	95	96	100	100	95	98
Cereal supply	93	95	100	98	94	97
Indonesia						
Food production	99	101	100	101	94	98
Cereal production	96	103	100	105	97	107
Cereal supply	94	100	100	105	96	106
Philippines						
Food production	100	97	100	99	100	101
Cereal production	102	103	100	102	100	96
Cereal supply	108	100	100	105	100	101
Republic of Korea						
Food production	106	104	100	105	91	99
Cereal production	105	106	100	113	96	108
Cereal supply	117	105	100	117	99	118

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; Food and Agriculture Organization of the United Nations, *Production Yearbook* and *Monthly Bulletin of Agricultural Economics and Statistics* (Rome).

[a] The years refer to the crop year starting in the indicated year for the northern hemisphere and the crop year ending in the indicated year for the southern hemisphere.

of food has surged ahead of the cost of other items of common consumption, sometimes—as in Indonesia and the Republic of Korea—by a substantial margin (*see* table 3-16). If the food situation is not relieved —by secondary crops or by imports, for example— the rise in prices is likely to be followed by a rise in wages, and in this way the inflationary spiral is given an initial or supplementary twist.

The food problem is not limited to its production aspect, though this is obviously fundamental in the circumstances of most developing countries. Even in years of satisfactory harvests, storage and distribution difficulties may cause regional shortages and price increases. And the fact that there are serious physical and economic difficulties to be overcome —even in the case of regional shortfalls—opens the door to another obstacle to smooth adjustment of temporary imbalances between demand and supply, namely, the temptation to hoard. As soon as prices begin to rise there is likely to be a flurry of precautionary and speculative actions on the part of several elements in the distributive chain—in anticipation of a possible shortfall. Hoarding by farmers, traders and consumers adds significantly to total demand at a time when supplies may be only fractionally below normal demand, and tends to create the very shortage against which it is intended to be a protection, thereby greatly aggravating the imbalance and accentuating the price increase.

Difficulties in the way of rapidly augmenting total supply, or moving supplies from an area of excess to an area of deficiency, tend to make hoarding a natural defensive action on the part of those through whose hands supplies flow. But since it is necessarily perverse in its timing, the hoarding is a powerful disequilibrating factor in many situations in the developing countries where supplies may often be short—or thought likely to fall short—of current demand for use. Apart from its role in the food situation, its most common and disruptive effects are found in the movement of imported goods.

Because of the chronic balance of payments strain that characterizes most developing countries, imports tend to be in a position similar to that of domestic food-stuffs—potentially in short supply, and hence a frequent object of the perverse demand of hoarders. Shortages of imports aggravate domestic imbalance in other ways, however, both directly through price changes and indirectly through the local production process.

Table 3-16. Developing Countries: Indices of Food Prices in Relation to Cost of Living Index, 1958-1964

(1960 = 100)

Country and item[a]	1958	1959	1960	1961	1962	1963	1964
Brazil							
Food (43 per cent of all items)	48	69	100	135	212	354	695
All items	54	74	100	138	211	365	684
Ratio, food: all items	89	93	100	98	100	97	102
India							
Food (54 per cent of all items)	94	99	100	100	104	108	124
All items, excluding rent	94	98	100	102	106	108	124
Ratio, food: all items	100	101	100	98	98	100	100
Indonesia							
Food (63 per cent of all items)	70	83	100	139	420	892	1,756[b]
All items	59	75	100	124	344	742	1,309[b]
Ratio, food: all items	119	111	100	112	122	120	134
Philippines							
Food (48 per cent of all items)	98	94	100	103	111	122	137
All items	97	96	100	102	108	114	123
Ratio, food: all items	101	98	100	101	103	107	111
Republic of Korea							
Food (46 per cent of all items)	88	88	100	109	118	156	213
All items	89	92	100	108	115	139	179
Ratio, food: all items	99	96	100	101	103	112	119

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

[a] The percentages refer to the basket of goods priced in the cost of living index.

[b] Six months' average.

The unit value of manufactures entering world trade has continued to rise at about one per cent a year for most of the post-war period. In so far as manufactured goods constitute the bulk of the imports of the developing countries, this has been a persistent exogenous source of price increase, modest in its dimensions but cumulatively significant. In terms of local currencies, the cost of imports has risen much more rapidly, especially in those countries with chronic inflation. In Argentina, for example, the local price of imports rose almost sixfold between 1958 and 1964, and in Chile and the Republic of Korea imports doubled in price in the first four years of the nineteen sixties. Where differential rates and exchange control have been used to hold down the volume of imports—as in Brazil and Indonesia, for example—the rise in the local price of imported goods has been even steeper. And where such price increases are incorporated into the costs of local factories, the effect tends to be magnified even more.

Apart from the price of imports, their availability has also become an important factor in some countries. Local costs of production have often been adversely affected by shortages in the imported supply of raw materials and components. In India, for example, capacity has been idled from time to time, the flow of finished products curtailed and unit costs raised because of the difficulty of maintaining purchases of imported inputs. In part, this shortage of imports is attributable to a shortage of exports and is therefore another aspect of the basic problem of increasing production. But in many cases it has been aggravated by unfavourable price movements which have reduced the flow of imports obtainable for a given volume of exports. In this sense, a deterioration in the terms of trade, through its impact on the flow of imported goods, can add appreciably to the inflationary consequences of the imbalance between demand and supply.

The course of the inflation itself may compound this difficulty, for, with domestic prices rising rapidly, the currency is likely to become over-valued, to the detriment of exports and the external balance. Attempts to hold an official rate of exchange open up the field for currency speculation and the holding back of exports in expectation of a devaluation as well as for capital flight—all of which tend to impede economic development and magnify the problem of regaining stability.

The rate at which inflationary forces multiply depends in part on the link through wages. Most developing countries face a dilemma in this respect. To keep wage earnings in line with the cost of living is to give impetus to the inflationary process from the cost side. To exert a drag on wages in the interest of stability is to run counter to the generally accepted policy of reducing the grosser inequalities of income distribution and also to invite social unrest. And the latter, if manifested in strikes, may do greater damage to stability through lost production than wage concessions would have done through increased costs.

The extent to which wages can be permitted to keep pace with prices thus tends to vary considerably from country to country and from time to time. In Argentina, for example, the wage index has moved parallel with the cost of living index in recent years. In the Philippines and the Republic of Korea it kept pace between 1958 and 1961, but since then has fallen appreciably behind. In China (Taiwan) wages have been rising more rapidly than prices since 1961 when inflationary pressures were finally got under control, and this has also been the case in the Dominican Republic, Israel and Mexico. In general, the more rapidly prices are rising, the less likely is a rising trend in real wages.

REMEDIAL MEASURES

Most developing countries have had from time to time to take steps to contain or reduce inflationary pressures and to mitigate some at least of their adverse effects. The general nature of these steps has been very similar in essence, but the heterogeneity of the developing economies and the complexity of the factors involved have resulted in a considerable diversity in the "policy mix". The selection of measures has necessarily been influenced strongly by the most critical of the immediate problems; hence, policies designed to meet balance of payments strains, food and raw material shortages and widening gaps between prices and wages have often had to be given priority.

All countries experiencing serious domestic imbalance have had to seek ways and means of accommodating their internal price structure to that of the rest of the world with the least ill effects. This has often led to differential devaluation and exchange and import controls. The sharpest reductions in the external value of the currency have been made in the case of the least competitive exports and the least essential imports. In order to maximize the supply of essential imports, non-essentials have sometimes been completely prohibited and special incentives provided to exporters in an effort to increase the amount of foreign exchange available for such high priority items as food-stuffs, fuel, various factory inputs and development machinery and equipment. In the interest of augmenting domestic supply, some countries have taken steps to encourage the inflow of foreign capital by protecting it from some of the effects of the internal inflation—through favourable exchange rates, for example, and the allocation of exchange for remitting earnings. Among the countries currently employing multiple exchange rates in order to minimize the impact of domestic inflation on the external balance are Brazil, Chile, Colombia, Indonesia, the Philippines, the Republic of Korea and Uruguay.

The problem of maintaining and augmenting the supply of key products in order to reduce the pressure on prices has also been dealt with by means other than differential exchange rates. Governments have directly encouraged local production—by appropriate public investment under development plans, for example, and by various fiscal incentives to private producers in the sectors concerned. Such direct action has been most common in the agricultural sector in southern and south-eastern Asia where food shortages have been a constant threat to domestic price stability. It has been backed up in a number of cases by efforts to reduce hoarding and speculation. These have been outlawed in the Republic of Korea, while in India an attempt has been made to circumvent them by massive government participation in the distribution system through grain stockpiles and a network of so-called "fair-price shops". State trading and price ceilings for major agricultural products have also been used in China (Taiwan) as part of the stabilization machinery.

Action to slow down the rate of price increase, in order to avoid having to narrow the gap between prices and wages by means of wage increases, has usually taken the form of restraint on particular sources of money incomes, through fiscal policy on the one hand and credit policy on the other.

Disinflationary action in the fiscal field has generally involved both cuts in government expenditures and increases in taxes with a view to reducing the budget deficit. To cut expenditure has often meant giving stability a higher priority than other economic objectives: a reduction in the civil service may add to unemployment in countries in which labour tends to be relatively more plentiful than other factors of production; a reduction in investment may slow down the process of development; a cut in subsidies may necessitate increasing prices in such areas as transportation, communications and power and thus in the first instance add to the upward thrust of costs. To increase taxes may in some instances also add immediately to costs and prices, especially in countries that have to rely heavily on indirect taxation. As a result, efforts have been made to improve the administration of the tax system—thus increasing revenue without increasing rates—to extend and make more progressive the tax on incomes and to introduce new forms of taxes (on wealth and on expenditure, for example) that are less likely to enter costs. Efforts have also been made to increase government resources by borrowing from personal saving—something that has always been difficult in countries where saving ratios are low, capital scarce and price increases likely to overtake many times conventional rates of interest—compulsorily in some cases, by means of treasury bills linked to the cost of living in others.

Attempts to limit the growth of private credit have been among the most common of disinflationary policies. Here again, the problem has been to maximize the restraint on demand with the least possible harm to production. As a result, restrictions of a general nature—the raising of the central bank rediscount rate, the imposition of ceilings on bank advances, the tightening up of minimum liquidity requirements and so on—have often been supplemented by differential controls designed to make it more difficult to borrow for such purposes as financing less essential imports, holding inventories or investing in low-priority industries.

As a temporary measure, direct control over prices has been practised in some developing countries, especially in respect of vital consumer goods and in cases in which there is a close link with wages. While often serving an essential social purpose and sometimes slowing down the spiralling of inflation for a time, such controls have tended to have a rather perverse, longer time effect—encouraging consumption and discouraging production and thus aggravating the basic imbalance. The tendency in recent years has been to try to break any legal or automatic link that may exist between the cost of living and wage rates, and in some countries—Argentina and Brazil, for example—the rudiments of an incomes policy are being worked out; in Brazil, wage adjustments are made less frequently and more in accordance with changes in productivity.

By and large, the developing countries that have been contending with serious inflationary forces have adopted broad stabilization programmes whose general structure tends to differ from country to country and whose precise details tend to differ from time to time depending, in particular, upon the course of production and upon developments in the external sector, neither of which is wholly under the country's control.

Among the countries which experienced a slackening in the pace of inflation in 1964, two of the principal contributing factors were increases in the supply of goods and government policies designed to curb aggregate demand. In Colombia, for example, supplies were augmented by favourable harvests and by an expansion of imports made possible by the higher export receipts that accompanied the rise in coffee prices. In addition, the Government sought to restrict credit by raising the required reserves of commercial banks and limiting the discount facilities of these banks with the Bank of the Republic. And at the beginning of 1964, in an effort to reduce the budget deficit, the Government introduced a 20 per cent surtax on personal incomes earned in the two preceding years. Nevertheless, the deficit was somewhat larger in 1964 than in 1963, and a further increase is expected in 1965 when the relief from imports may be less, as—despite a 12 per cent devaluation of the non-coffee peso in October 1964—a deteriorating external balance forced the tightening of controls.

In Argentina, also, a major factor helping to reduce the rate of inflation in 1964 was the improvement in supply: as indicated in the previous section, there was a sharp recovery in agricultural and basic industrial production, supplemented by a moderate increase in the volume of imported commodities (as against a substantial reduction in the preceding year). The resulting increases in supplies helped to counteract the inflationary influence of the expansionary monetary policies used to spark the recovery as well as to offset the effect of a sizable budget deficit financed largely through bank credit. The minimum legal reserve of commercial banks was raised in order to restrict private credit, but the impact of that measure was lessened somewhat by permitting the funds thus blocked to be used for regional development. Import prices were raised by three devaluations (of about 5 per cent each) in 1964 and a third (of about 14 per cent) in April 1965, and the price spiral was given another twist late in 1964 by the institution of a higher minimum wage. As a result, the rate of increase in retail prices accelerated perceptibly in the early months of 1965.

The slackening of inflationary pressure in the Republic of Korea in 1964 followed a bumper harvest reinforced by grain imports. In an effort to restrain demand, the Government balanced its budget for the first time for many years and pursued a restrictive monetary policy. Nevertheless, in response to a substantial increase in foreign assets and in private credit, the money supply expanded at a rapid pace. Domestic prices were also pushed upwards by a virtual halving of the official rate for the won in the second quarter of the year. This devaluation was designed as part of the fiscal and monetary stabilization policy: by stimulating exports it was hoped to ensure the foreign exchange required for the imports of raw materials and components that are essential for expanding domestic production. This was followed up in March 1965 by the negotiation of a stand-by agreement with the IMF intended to support further reforms of the exchange system so as to facilitate relaxation of restrictions on trade and payments.

In Brazil and Chile, there was no great gain in production in 1964, and inflation continued at its previous rapid pace despite government efforts to restrain demand. In Brazil, the Government set diminishing goals for the expansion in money supply—70 per cent in 1964, 30 per cent in 1965 and 15 per cent in 1966. The stabilization programme adopted in 1964 concentrated on reducing the government deficit, restricting credit and restraining wages. Although revenues were increased in 1964, the size of the federal deficit was in fact larger than that in 1963; in addition, the amount of credit extended to the private sector rose substantially and was the principal factor in a 66 per cent increase in money supply in 1964. The new wage policy sought to limit wage increases to less than the previous price rises, relating them to gains in productivity, and to stagger the increase given to various groups over time. In the event, inflationary pressure abated hardly at all during the year. The cost of living almost doubled, the upward pressure coming not only from the expansion in money incomes but also from the implementation of a price decontrol policy. In 1965 the budget deficit is to be reduced and financed as far as possible from savings. In addition, the Government is expecting some relief from pressures on supply as a result of a better outturn of crops for internal consumption and also from the imports that it may be possible to obtain if the export incentives offered around the turn of the year are successful.

The new Government that came into office in Chile in 1964 also introduced a broad programme aimed at the progressive reduction of inflation until stability is achieved in 1968. Major elements in the programme are increases in agricultural output, a rise in the capacity to import through expansion of exports, a tighter monetary and incomes policy and tax reforms aimed at reducing budget deficits. The immediate outlook is not encouraging, however, for not only is the 1965 budget still seriously unbalanced but drought has sharply reduced 1964/65 crops. This will enhance the importance of the prospective improvement in the external balance likely to flow from the higher price of copper and the refinancing of half of the debt due for repayment in 1965 and, in the longer run, from new agreements with the copper companies regarding the expansion of the industry and of the country's participation in it.

In countries such as India, Peru and the Philippines, which experienced an acceleration in inflation in 1964, the deterioration in domestic balance was the result of a number of factors including budgetary deficits financed through inflationary borrowing from the banking system, rapid growth in bank credit extended to the private sector and shortages in basic food-stuffs.

In India, inflation was intensified in 1964 by growing demand pressures originating in increased private investment and government expenditures for development and defence, and also by shortages in supplies, especially of agricultural commodities. To deal with these problems, a broad range of measures was introduced, including monetary and fiscal restraints on demand and renewed efforts to increase agricultural production and improve the distribution of food-stuffs. Budgetary policy aimed at a reduction in the central government deficit in 1964/65 and at a surplus in 1965/66. The Reserve Bank tightened credit, raising its discount rate and the interest rates charged commercial banks on loans. The agricultural programme provided for increased availability of credit and physical requisites to farmers, as well as for price incentives. In addition, steps were taken to improve the distribution of food and to eliminate speculation. Though 1964/65 grain production is expected to be well above the 1963/64 level, imports in 1965 are to be at least up to the 1964 figure of 6 million tons with a view to building up a buffer stock equivalent to one month's consumption. Some of these measures—particularly the agricultural supports and many of the new taxes and public service charges—while stabilizing in the longer run may have the immediate effect of raising prices.

Food problems also played a part in the accelerating price rise in the Philippines: bad weather and the conversion of some acreage to more profitable cash crops resulted in a disappointing rice output in 1964. There was also a larger budget deficit, financed by bank borrowing. In order to reduce demand pressures, the Government restricted private credit and by raising tax revenues lessened its own need for credit. The 1965 budget embodied another sizable deficit, however, and, in the wake of an increase in the minimum wage rate, industrial costs are expected to rise.

In Peru, where the rise in inflationary pressures in 1964 occurred in the face of a sizable increase in gross production, there was also a sharp expansion in the money supply. The budget deficit was enlarged by additional current and developmental expenditure and a contraction in revenue (reflecting a decline in receipts from the sugar and fishing industries), and the gap was filled by additional borrowing from the banking system. Although the Government sought to reduce private credit expansion by increasing the reserve requirements of the commercial banks and reducing their liquidity by transferring government funds to state banks, there was a further rise in borrowing by the private sector. The nominal budget deficit is smaller in 1965 and the Government is committed to a tighter monetary policy. But the principal hope for an improvement in the internal balance lies in the possibility of an appreciable increase in supplies, both domestic and imported.

Developments in 1964 seem to suggest that determined action on the part of governments in restraining their own resort to bank borrowing continues to be far more potent than efforts to restrict the availability of credit to the private sector. But the most powerful disinflationary force is an expansion in output, especially in the output of the goods and services of common consumption.

The food supply problems of developing countries

It was pointed out earlier that in much of the developing world food production in 1963 and 1964 again failed to keep pace with population growth. In Latin America and southern and south-eastern Asia, while aggregate output was higher in 1963/64 than in 1962/63, a number of countries failed to raise *per capita* production.[11] In North Africa, production of cereals[12] appears to have fallen in 1964, and in West Asia to have remained more or less at the 1963 level.

This widespread failure to expand *per capita* production is of particular significance in the light of the seriousness of the underlying food supply problem in many developing countries. This problem is not only one of ensuring an adequate diet for a rapidly growing population but also one of meeting the effective demand for food-stuffs without having to divert resources required for investment crucial to the process of economic development. This demand can be met by domestic production or from imports, and one of the tasks confronting policy makers in developing countries is to ensure the adequacy of the food supply at minimum real cost. As the demand is rising fairly rapidly, the problem of whether to apply resources directly to food production or indirectly to the production of goods that can be traded for food has a time dimension, too. And where food production cannot, for whatever reason, be expanded rapidly, the possibility of obtaining im-

[11] Conclusions on aggregate food production for Latin America are based on preliminary United States Department of Agriculture data for grains, sugar, starchy roots, fruit, cocoa, meat, fish, fats and dairy products.

[12] "Cereals" include wheat, maize, barley and rice.

ports on concessionary terms may assume considerable importance in a country anxious to achieve a high rate of over-all economic growth. Because of the strategic role that imports may thus play, the problem of the food supply of the developing countries soon becomes a matter of global concern. The disappointing production results of recent years serve to emphasize the need to consider a world food policy.

THE GAP BETWEEN NEED, DEMAND AND SUPPLY

In many developing countries *per capita* food consumption is at present quite low, whether viewed in relation to levels in other countries or in relation to the supply of food required in order to prevent under-nutrition and malnutrition.[13] In the period 1957-1959, according to estimates by the Food and Agriculture Organization of the United Nations, these "low-calorie" countries, together with mainland China, Cyprus, Japan, South Africa and Turkey, had an average daily *per capita* supply of about 2,150 calories—about 7 per cent less than that required for adequate nutrition—compared with about 3,050 calories in the rest of the world (other than the Soviet Union). Although food supplies have expanded in the low-calorie countries, relative to pre-war availabilities, they have barely kept pace with the growth of population (*see* table 3-17). Among the countries for which data are available, quite a number entered the Development Decade with *per capita* food supplies that were both low in relation to needs and lagging in relation to availabilities at the beginning of the nineteen fifties: Ceylon, Ecuador, India, Jordan, Pakistan, Peru, the Philippines and Surinam all had daily averages of 2,000 calories or less.

The FAO estimates, conservatively, that several hundred million people in the developing areas—now numbering about 1.7 billion—are under-nourished, and that as many as 60 per cent suffer from malnutrition. The nature and extent of dietary deficiency vary considerably from country to country and even among regions. The largest deficits are in southern and south-eastern Asia and parts of South America, but almost all developing countries are deficient in proteins, particularly first-class (animal) proteins, supplies of which amount only to about two-thirds of what FAO regards as a reasonable short-term (1975) target. This is the case even in areas such as Africa and the Middle East which, at least on the average, are adequately supplied with calories (*see* annex table 3A-8). Some of the widest

Table 3-17. Average Daily *Per Capita* Supplies of Calories, Total Proteins and Animal Proteins, 1934-1938 to 1957-1959

Country group and period	*Number of calories*	*Total protein* (*grams*)	*Animal protein*
Low-calorie countries[a]			
1934-1938	2,110	62	10
1948-1952	1,960	56	8
1957-1959	2,150	58	9
High-calorie countries[b]			
1934-1938	2,950	85	34
1948-1952	2,860	85	37
1957-1959	3,050	90	44

Source: Based on Food and Agriculture Organization of the United Nations, *Third World Food Survey* (Rome, 1963).

[a] Latin America (other than Argentina, Paraguay and Uruguay), Africa and Asia (including Cyprus and Turkey, but excluding Soviet Asia).

[b] North America, Europe (other than Cyprus and Turkey), Oceania, Argentina, Paraguay and Uruguay.

variations occur in Latin America where, at one extreme, the River Plate countries generally enjoy high nutritional standards while in some of the Andean countries food supplies are well below requirements (*see* annex table 3A-9). Moreover, even within particular countries, there may be marked differences, and many countries with adequate average *per capita* food supply face serious local problems—occasional or endemic—because of their general state of economic under-development and, in particular, because of the inadequacies of transport between food surplus and food deficit areas and the lack of storage facilities.

Apart from the purely nutritional problem, the inadequacy of food supply poses a number of economic problems for developing countries. In many cases, moreover, these problems have been accentuated by the very process of economic development with its attendant stimulus to the demand for food. This stimulus has been greatest in the countries in which *per capita* incomes have been lowest; here a large fraction of any increment in personal income has been devoted to the purchase of food. The process of development has also stimulated the demand for food through the changes in consumption pattern that tend to accompany urbanization and the spread of knowledge of new food-stuffs and new methods of preparing foods. As a result of such influences, the demand for food in the developing countries as a whole has probably risen almost twice as rapidly as population in recent years (*see* table 3-18).

In a number of countries, the failure of food production to expand correspondingly has made it essential to increase imports, drawing on scarce

[13] Very few developing countries enjoy an average calorie intake above the minimum necessary to prevent under-nutrition. Apart from the small group around the River Plate—Argentina, Paraguay and Uruguay—they all fall into the category of "low-calorie" countries.

Table 3-18. Growth of Population and Food Demand in Selected Countries, 1954-1963[a]

(Annual rate)

Country[b]	*Population growth*	*Growth in food demand*
Israel	3.9	9.2
Algeria	2.2	6.1
China (Taiwan)	3.5	5.8
Venezuela	3.6	5.6
Mexico	3.1	4 8
Panama	3.0	4.8
Iran	2.4	4.7
Iraq	1.5	4.7
United Arab Republic	2.4	4.6
Honduras	3.1	4.5
Philippines	3.1	4.5
Brazil	3.1	4.3
Federation of Malaya	3 3	4.2
Republic of Korea	2.9	4.2
Peru	1.9	4.1
Guatemala	3.0	3.9
Pakistan	2.1	3.9
Colombia	2.2	3.6
Ceylon	2.5	3.5
India	2.1	3.4
Chile	2.4	3 0
Tunisia	1.8	2.7
Indonesia	2.2	2.0
Uruguay	1.5	1.8
Median	2.5	4.2

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Yearbook of National Accounts Statistics* and *Monthly Bulletin of Statistics*, and Food and Agriculture Organization of the United Nations, *Agricultural Commodities—Projections for 1970* (Rome, 1962).

[a] Food includes grains, starchy roots, sugar, pulses, edible oil crops, nuts, fruits, vegetables, wine, cocoa and livestock products. Growth in food demand calculated from rates of growth of gross national product and FAO estimates of income elasticity of demand for food. Rates of growth calculated from first and last years of period shown. For some countries, the period is slightly shorter than that indicated.

[b] Countries are arrayed in descending order of rate of growth in demand for food.

foreign exchange for the purpose. In a number of cases—India, the Republic of Korea and the United Arab Republic, for example—the resulting balance of payments pressures have from time to time necessitated a reduction in imports of essential raw materials and capital goods for industry, thus hampering development efforts. The impact of the food situation on the external balance would have been far more severe than it has in fact been in recent years had not food aid been forthcoming on a massive scale.[14]

Where domestic food supply has failed to expand in line with growing demand, and imports have not filled the gap, food prices have risen. In view of the importance of food in the budget of low-income families, this has tended to aggravate or, on occasion, even initiate inflation. In India, for example, notwithstanding rationing and price controls, shortages have contributed to sharp increases in the prices of food-stuffs—15 per cent in 1964 alone—and in the cost of living. In the Philippines, also, rising incomes in conjunction with the slow growth of food production forced a rise in food prices and aggravated inflationary pressures in 1963 and 1964. In Ghana, where a lag in domestic production has increased the country's dependence on external supplies, the need to curtail imports in the face of dwindling reserves contributed to an increase in local food prices of 16 per cent in 1964. The United Arab Republic has also experienced shortages in the supply of basic food-stuffs and, despite the Government's extensive price stabilization policies—which include rationing, fixing maximum prices and encouraging production by means of guarantees to purchase crops at remunerative prices—the year ending in November 1964 saw a rise of 6 per cent in food prices.

[14] The role of food aid is examined below.

RECENT TRENDS IN PRODUCTION AND IMPORTS

As indicated above, the increase in the demand for food may be met out of domestic production or by means of imports. As there has been a widespread tendency for production to lag in the post-war period, there has been a corresponding trend towards greater dependence on imports. In many countries the production lag had its origin in war-time disruption, but in many countries it has been accentuated in more recent years not only by acceleration in the rate of growth of demand but also by difficulties arising in the agricultural sector itself—from population migration and changes in technology, land tenure, price relationships, investment priorities, and even in attitudes towards occupations.

Not only has food production failed to keep pace with the growth in demand but in many countries it has even lagged behind the growth in population. Between 1934-1938 and 1957-1961 the production of food in the developing regions as a whole increased by about 50 per cent in aggregate terms but hardly at all on a *per capita* basis.[15] More recently, domestic food production would have had to grow by about 2.5 per cent a year on the average merely to have kept pace with population. In some countries, indeed, population has been increasing at more than 3 per cent per year. While food production has been

[15] In the developed regions (including Europe, North America, Oceania and the Soviet Union), total production also rose by about a half, but *per capita* production increased by about a fourth.

expanding in almost all developing countries, in very few has the growth been significantly faster than that of population. In the five years ending in 1963—the period ushering in the Development Decade—it is probable that half the developing countries registered a significant decline in *per capita* food production, even though seven out of eight succeeded in increasing total food production (*see* table 3-19).

In Latin America, the difficulties encountered in expanding food production have been accentuated by the fact that the region's population growth is at present the highest in the world: *per capita* production has fallen below the level attained in the late nineteen fifties. This poor performance has been fairly general but its consequences have been most serious in countries which entered the Development Decade with low levels of nutrition.

The Development Decade target for southern and south-eastern Asia is a doubling of the rate of increase of food production—a modest objective in

Table 3-19. Growth in Food Production and Demand, 1954-1963[a]

Country[b]	*Growth in food production (annual percentage rates)*				*Growth in total food production relative to food demand (ratio)*	
	1954-1955 to 1962-1963		*1958-1959 to 1962-1963*			
	Total	Per capita	*Total*	Per capita	*1954-1955 to 1962-1963*	*1958-1959 to 1962-1963*
Israel	10.1	5.9	8.1	4.4	1.1	0.8
Mexico	6.2	3.0	2.7	—0.5	1.3	0.7
Venezuela	4.9	1.3	8.1	4.6	0.9	1.6
Honduras	4.0	1.0	3.0	0.3	0.9	0.8
Brazil	4.2	0.9	3.7	0.2	1.0	0.9
Iran	2.7	0.6	—	—2.5	0.6	...
China (Taiwan)	3.9	0.5	2.8	—0.6	0.7	0.5
Federation of Malaya	3.6	0.5	3.7	0.7	0.9	0.5
Guatemala	3.4	0.3	2.8	0.3	0.9	1.2
United Arab Republic	2.8	0.3	3.9	0.7	0.6	0.6
Philippines	3.4	0.2	3.7	0.5	0.8	0.9
Ceylon	2.7	0.1	5.9	3.3	0.7	1.4
India	2.2	—0.1	1.9	—0.5	0.6	0.5
Panama	2.6	—0.1	1.0	—1.8	0.5	0.2
Chile	2.1	—0.3	1.5	—0.8	0.7	0.5
Pakistan	1.9	—0.3	2.6	0.2	0.6	...
Colombia	1.4	—0.8	0.9	—1.4	0.4	0.2
Peru	1.9	—0.8	3.6	0.7	0.5	0.7
Republic of Korea	1.9	—0.8	1.1	—1.8	0.4	0.3
Indonesia	1.0	—1.1	1.4	—0.9	0.6	...
Tunisia	0.2	—1.2	—8.8	—10.2	0.1	—2.8
Iraq	0.8	—1.3	2.4	1.5	0.2	0.4
Ethiopia[c]	0.7	—1.6	1.3	—1.3	...	...
Cuba	—0.4	—2.5	—6.8	—8.9	...	...
Algeria	—1.1	—3.2	—1.6	—3.0	—0.2	...
Median	2.6	—0.1	2.6	—0.5	0.6	0.7
Number of countries with:						
Increase	*22*	*8*	*21*	*8*		
No change[d]	*2*	*9*	*1*	*4*		
Decrease	*1*	*8*	*3*	*13*		

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Yearbook of National Accounts Statistics*, and from Food and Agriculture Organization of the United Nations, *Production Yearbook* and *Agricultural Commodities—Projections for 1970.*

[a] For definitions, see foot-note *a* to table 3-18. Production growth rates calculated from the change between terminal biennia.

[b] Countries are arrayed in descending order of growth rate of *per capita* production from 1954-1955 to 1962-1963.

[c] Excluding Eritrea.

[d] From 0.4 per cent to —0.4 per cent.

the light of the fact that about one-fourth of the region's population is under-nourished and a much larger proportion does not enjoy a properly balanced diet. So far, however, although a few countries have done well—such as Ceylon and Malaysia—there has been virtually no increase in the over-all *per capita* output of food as a whole or even of cereals or pulses. This reflects the failure of domestic production to provide for any significant growth in the level of *per capita* consumption in such countries as China (Taiwan), India, Indonesia and Pakistan.

Food production has also failed to rise more rapidly than population in Africa and West Asia. This reflects the relative importance of subsistence agriculture in much of this area: in many of the developing countries of Africa *per capita* food production in the early nineteen sixties was at more or less the same level as ten years earlier. Though commercial agriculture has expanded rapidly in a number of cases, its output has consisted overwhelmingly of export crops; the commercial production of the principal cereal and root crops has not increased correspondingly and in some countries the vagaries of weather and changes in the composition of the farm population have combined to depress production below earlier levels.

To bridge the gap between demand and domestic production, most developing countries have been obliged to import increasing quantities of food. As a result a large number of these countries have become net importers of food-stuffs as a whole, and even more of cereals, by far the largest component of food supply (*see* annex table 3A-10). In 1961-1962—the latest period for which reasonably complete data are available—cereal trade deficits ranged from under 100,000 tons in Laos, Honduras and a number of African countries to over 10 million tons in Brazil, India, Indonesia, Pakistan and the United Arab Republic.

Among the developing countries there are a few major exporters of cereals, notably Argentina, Burma and Thailand and on a smaller and less regular scale, Angola, Cambodia and Rhodesia. But as a group the developing countries have run a deficit for much of the post-war period and in recent years the net import balance has tended to rise fairly rapidly. In 1956 the flow of trade was more or less offsetting: the developing countries exported rather less than $900 million of cereals and imported rather more than $900 million (valued f.o.b. in both cases). By the opening years of the Development Decade, however, net imports were well over $500 million a year. In the second half of the nineteen fifties, the great bulk of the increment in world exports of cereals (about $1 billion between 1955 and 1960) went to the developing countries. The proportion of world cereal exports absorbed by the developing countries doubled between 1955 and 1960, the intake of southern and south-eastern Asia going up from 9 to 21 per cent, of the Middle East and North Africa from 3 to 9 per cent and of Latin America from 6 to 7 per cent. By the beginning of the Development Decade, the cereal surplus of Latin America had virtually disappeared while the deficit of southern and south-eastern Asia had reached $300 million a year (*see* table 3-20).

Table 3-20. Developing Countries: Trade in Cereals,[a] 1955-1956 to 1961-1962

(Annual average in millions of dollars, f.o.b.)

Period and item	*Developing countries*[b]	*Latin America*	*Southern and south-eastern Asia*
1955-1956			
(*a*) Exports	885	313	373
(*b*) Imports	775	198	400
(*a*) — (*b*)	110	115	—27
1958-1959			
(*a*) Exports	830	295	395
(*b*) Imports	1,210	250	693
(*a*) — (*b*)	—380	45	—298
1961-1962			
(*a*) Exports	855	288	445
(*b*) Imports	1,475	285	748
(*a*) — (*b*)	—620	3	—303

Source: United Nations, *Monthly Bulletin of Statistics*, April 1961 and April 1964.

[a] Cereals are defined as SITC groups 041-045.

[b] Latin America, Africa (other than South Africa), West Asia (other than Turkey), southern and south-eastern Asia (other than mainland China, Japan, Mongolia, North Korea and North Viet-Nam).

Dependence upon imports tends to be greatest in the smallest and most densely populated areas: thus, Barbados, Hong Kong, Israel, Lebanon, Mauritius, Trinidad and similar places import virtually all their cereal requirements. Extensive arable cultivation is necessarily ruled out in such areas. But large and growing imports are also to be found in a number of countries in which the constraints of land and population are far less exacting. Brazil and Chile, for example, continue to draw about an eighth of their supply from abroad and the Philippines about a twelfth. Smaller, rapidly rising import dependence characterizes India, Indonesia and Pakistan, while in the case of Peru and the United Arab Republic the contribution of imports is both relatively large and increasing (*see* table 3-21).

The significance of imports is not fully reflected in the ratio of the foreign and domestic components of national supply. Even where imports constitute only a small proportion of total supply, they may play a

Table 3-21. Selected Countries: Ratio of Net Imports to Total Supply of Cereals, Biennial Averages, 1954-1963

(*Percentage*)

Country	1954-1955	1958-1959	1960-1961	1962-1963
Brazil	13	12	12	12
Chile	13	6	6	11
India	1	4	5	4
Indonesia	2	5	7	7[a]
Pakistan	—1	5	6	5
Peru[b]	21	30	27	29
Philippines	8	8	8	9[a]
United Arab Republic	2	11	17	21

Source: United Nations, *1963 World Trade Annual*, vols. I to IV, Statistical Papers, Series D; Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics, Trade Yearbook* and *Production Yearbook*; United States Department of Agriculture, *World Agricultural Production and Trade* (Washington, D.C.).

[a] Based on gross cereal imports; exports are negligible.

[b] The figures relate to 1954-1955, 1957-1958, 1959-1960 and 1961-1962, respectively.

crucial role in maintaining *per capita* consumption, in containing demand pressures and hence in ensuring internal economic stability during a period of growth. And in large countries, even small percentages of total supply may constitute sizable absolute amounts (*see* chart 3-2), by no means insignificant in relation to other critical variables such as the transport and storage facilities required to move millions of tons of grain from producers in one part of the world to consumers in another and—potentially even more of a limitation—in relation to the foreign exchange required to meet the cost of the imports.

In most developing countries the use of foreign exchange to import food-stuffs is looked upon askance. There is a strong feeling that for social and strategic reasons a country should be able to feed itself: the particular pattern of food consumption is local and unique, and there is no question of having to establish a new and complex industry in order to provide for it. Foreign exchange would be much better employed in acquiring goods that have not been produced locally, particularly the technically complicated items that are needed to underpin so much of the investment on which acceleration of the pace of economic development depends.

Notwithstanding these misgivings, the imperatives of the situation have often dictated otherwise. In the face of the seemingly inexorable rise in population and some advance in incomes, domestic agriculture has not proved capable of expanding its output to the necessary extent. Hence, more and more of the developing countries find themselves forced to use their scarce exchange resources to supplement their domestic output of food-stuffs, including the basic cereal component. Not only most of the smallest of the developing countries but also many of the largest now use sizable fractions of their foreign exchange earnings to buy additional food. Among the countries in which more than 15 per cent of the import bill has consisted of food-stuffs in recent years are several of the largest, with populations in excess of 25 million—such as Brazil, India, Indonesia, Pakistan, the Philippines and the United Arab Republic—as well as numerous smaller countries. And in most of these larger countries the bulk of the food import bill is for cereals (*see* table 3-22).

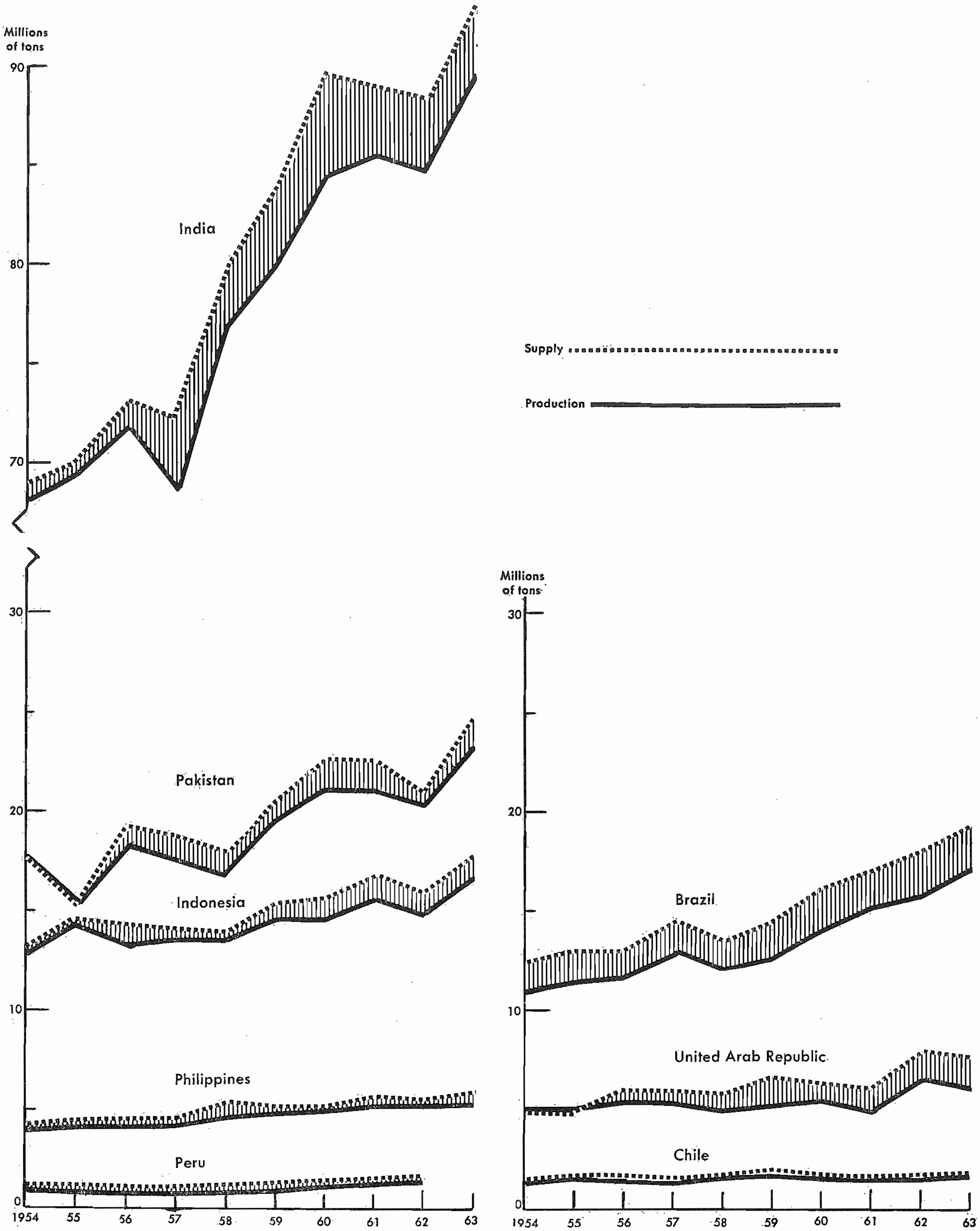
THE PROBLEM OF INCREASING PRODUCTION

In most developing countries the view that it ought to be easier to expand the output of an old industry such as agriculture more readily than that of an industry that still has to be established rests on the erroneous identification of the traditional agriculture that exists with the sort of agriculture that would be needed to produce the adequately expanding supply. The latter is indeed a "new industry" and, because of its peculiar land and labour requirements, its establishment and growth generally pose much greater difficulties than those encountered in the setting up of a new factory to turn out some industrial item not previously produced in the country concerned.

The hard fact is that in many cases traditional agriculture, geared largely to a subsistence economy in which change is extremely slow, is not capable of increasing its disposable output at the pace that has now become necessary. To do so requires a vast transformation involving not only the volume and composition of inputs but also the whole organization of the rural sector, including in some countries even its institutional foundations and the very attitudes of the people concerned. This is not the sort of development that is capable of being accomplished rapidly: in some cases progress is likely to be more appropriately measured in decades than in years, at least in the early stages.

Thus, many developing countries have begun to reconcile themselves to a period of growing dependence on food imports until a decline in the rate of population increase and in the income elasticity of demand for food and a rise in the rate of increase in agricultural production eventually bring domestic supply into better balance with domestic demand. This recognition of the arithmetic of the situation does not alter the need to transform agriculture. On the contrary, not only is a rise in food production essential for closing the food gap itself but advances in agriculture are also required both to provide addi-

Chart 3-2. Supply of Cereals in Developing Countries



SOURCE: Food and Agriculture Organization of the United Nations, *Production Yearbook, Trade Yearbook* and *Monthly Bulletin of Agricultural Economics and Statistics.*

Note: "Cereals" include wheat, maize, rye, barley, rice, oats, millet and sorghum.

Gap between supply and production equals net imports or net exports.

Table 3-22. Selected Countries: Gross Cereal and Food Imports in Relation to Total Imports, Biennial Averages, 1954-1963[a]

(*Percentage*)

Country and item	1954-1955	1958-1959	1960-1961	1962-1963
Brazil				
Cereals	12	10	10	12
Food	15	12	13	16
Chile				
Cereals	5	2	1	5
Food	20	13	12	18
Ghana				
Cereals	4	5	4	4
Food	15	17	17	17
India				
Cereals	b	15	14	12
Food	b	18	16	15
Indonesia				
Cereals	8	17	15	11
Food	12	21	17	12
Pakistan[c]				
Cereals	—	26	10	14
Food	2	31	13	17
Peru				
Cereals	9	10	8	...
Food	14	16	14	...
Philippines				
Cereals	6	4	4	5
Food	18	13	14	14
United Arab Republic				
Cereals	1	13	12	16
Food	12	21	19	27

Source: Statistical Office of the United Nations, *Yearbook of International Trade Statistics*; Food and Agriculture Organization of the United Nations, *Trade Yearbook*.

[a] Based on value data in current prices. Cereals are defined as SITC division 04 as far as possible. Food is defined as SITC section 0. In some cases the period differs slightly from that shown in column headings.

[b] Data for 1954-1955 are not comparable with data for subsequent years.

[c] A change in classification beginning in 1961 may have a minor effect on comparability of sub-periods.

tional exports to help pay for imports and—more fundamentally—to raise the rate of economic growth in countries in which the bulk of the labour force is in any case still agrarian.

Though the process of occupational diversification implicit in economic development may be expected to bring about a progressive reduction in the proportion of the population working on the land, agriculture is likely to remain the principal contribution to national income in most developing countries for a long time to come. And during this period the rate of over-all economic growth will reflect to a large extent the progress being made in agriculture. These countries therefore have little choice but to put a good deal of their development effort into the land.

The question of choice does arise, however, in decisions regarding what the land shall produce. Here, food-stuffs constitute but one alternative within the limits set by climatic and ecological factors. Though in the final analysis such decisions are likely to be taken at the local level, district by district, they are not immune from the consequences and influence of government policy as expressed, for example, in the priorities and instrumentalities of the country's over-all development plan. And there has been a fairly widespread tendency for official policy to lean in the direction of the production of food. This reflects not only mounting concern over the gap between output and demand, discussed in the preceding section, but also the general deterioration in the prospects for agricultural exports, to which increasing weight has been attached ever since the mid-nineteen fifties when prices began to decline.

Production can be increased by absolute extensions of the acreage sown or—more generally practicable—by improvements in the yield per acre. The feasibility of extending the arable area differs greatly from country to country; by and large, the higher the population density the less likely it is that more land can be put under cultivation. Thus, a significantly smaller proportion of the increase in cereal output registered between 1954-1955 and 1962-1963 was the result of extension of area in countries such as India, Pakistan and the United Arab Republic than in less densely populated countries such as Brazil, Chile and the Philippines (*see* table 3-23). In general, the more densely settled the country the more likely it is that extension of cultivable area can be achieved only by means of investment in irrigation or drainage or other capital-intensive facilities, over and above the normal expansion of infra-structure that such extension almost always necessitates.

The scarcity of capital that characterizes developing countries tends to inhibit the adoption of most of the standard means available for raising average yields. Apart from the provision and control of water, these include various other inputs, improved or new, that represent investment or the result of investment—more adequate tools and equipment to work the land and to put the resultant crop into a salable condition, artificial fertilizers to enrich poor or heavily used soils, pesticides to reduce the wastage caused by insects and disease, sources of energy other than the farm workers themselves and storage, maintenance and transport facilities in keeping with the new pattern of inputs and outputs.

Table 3-23. Contributions of Changes in Acreage and Crop Yield to Growth in Output of Cereals,[a] 1954-1955 to 1962-1963

Country[b]	*Growth in output (percentage change)*	*Percentage of change in output due to increase in:*	
		Area planted	*Yield per acre*
Brazil	47	59	41
Chile	20	62	38
India	27	28	72
Indonesia	15	126	—26
Pakistan	31	31	69
Peru	9	74	26
Philippines	27	76	24
United Arab Republic	23	5	95

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Food and Agriculture Organization of the United Nations, *Production Yearbook*.

[a] Cereals include wheat, rye, barley, oats, maize, millet, sorghum and rice.

[b] Selected because they are major net importers of cereals.

The exact proportions in which such inputs are required will depend entirely on local conditions and hence are likely to vary widely from one district to another and from crop to crop. Before they could be used effectively, moreover, it would be necessary to ensure that the production unit—the farm or plantation—in which they are to be employed is of appropriate size and under adequate management. And it is in this critical sphere that many developing countries face their greatest difficulties: history has bequeathed to them systems of land tenure and agrarian attitudes that are quite unsuited to the rapid improvement of techniques without which it seems impossible to ensure the required expansion in food production.

Most developing countries have tackled this formidable complex of problems but in many cases little progress has yet been made in transforming the underlying institutional and psychological situation. Action in this area tends to be restrained not only by the immense political and social difficulties usually involved but also by a fear that the immediate effect of change may well be negative. New institutional arrangements rarely emerge in full working order, and few developing countries can face the prospect of a transitional period in which the effects of an upheaval in the distribution and management of farm units are accentuated by a falling off in production. In general, therefore, agricultural development has consisted largely of investment in and improvements to existing farm structures, supplemented by auxiliary action in the field of rural credit and agricultural price supports.

In India—which faces a widening food gap, still small in relation to total demand but already extremely large in absolute terms and in relation to foreign exchange resources—development plans have given increasing weight to agricultural investment.[16] Many aspects of the food problem receive attention in the current programme, which includes the expansion of the area under irrigation, encouragement of soil conservation, increased production and use of fertilizers, the introduction of modern technology in rural areas through improved tools and agricultural techniques, the provision of more adequate storage facilities and of a greater volume of agricultural credit, and an increase in the number of marketing co-operatives. To increase the impact of these efforts they are being concentrated in broad-scale agricultural development programmes in selected districts designed to cover at least 20 per cent of the country's cultivated area. Price supports are now in effect for all major crops; in order to encourage production, minimum prices were raised for both wheat and rice in the 1963/64 season and for rice again in 1964/65—this time by no less than a third. An Agricultural Price Commission is examining the price structure of agricultural commodities with a view to adjusting it in a way that would further stimulate production and improve the balance among different crops.

Price supports designed to encourage producers raise obverse problems in respect of consumer prices. In their anxiety not to feed inflationary forces governments have often sought to hold down the prices of consumer essentials such as food-stuffs. In so far as this has involved subsidizing retail prices it has tended to magnify demand as well as government expenditure. When, as in India in the most recent period, supplies are still short of requirements, the government is likely to become even more involved. In order to discourage hoarding and speculation, the Indian Government has extended controls over the distribution of food-grains, the licensing of traders and the opening up of a network of so-called fair-price shops. Strains on the distributive system—including transport and warehousing—have hampered the operation of these shops, however, and early in 1965 the Government established the Food Corporation of India to conduct buffer stock operations and, by massive involvement in the purchase, storage and distribution of grains, to stabilize the market.

In Pakistan where, as in India, there was virtually no increase in food production between 1960-1961

[16] *See* United Nations, *World Economic Survey, 1964, Part I. Development Plans: Appraisal of Targets and Progress in Developing Countries* (Sales No.: 65.II.C.1) for a comprehensive review of development plans in which the relative importance of the various sectoral components is discussed.

and 1962-1963 (*see* annex table 3A-11), the current five-year plan (1964-1968) aims at self-sufficiency. It includes emergency measures to reduce waterlogging and salinity in the west and the severe seasonal flooding that has handicapped agriculture in the east, as well as a longer-term soil survey. Fertilizer usage, which is as low as that in India (*see* table 3-24), is to be stepped up through an increase in local production. Aid to small-scale farmers is to be continued: the amount outstanding on loans advanced by the Agricultural Development Corporation, for the purchase of seeds, implements and other agricultural requisites as well as to finance small irrigation works, rose from the equivalent of $153 million in 1960 to $718 million in 1964.

Table 3-24. Selected Developing Countries: Fertilizer Consumption in Relation to Arable Land

(Tons, plant nutrient content basis, per thousand hectares of arable land)

Country and item	1954/55-1955/56[a]	1961/62-1962/63[a]
Brazil[b]		
Nitrogen	1.2	3.2
Phosphate	1.6	3.9
Potash	2.0	4.6
Chile		
Nitrogen	3.6	5.7
Phosphate	4.3	9.3
Potash	1.1	1.9
India		
Nitrogen	0.8	2.3
Phosphate	0.1	0.4
Potash	0.1	0.2
Indonesia[c]		
Nitrogen	1.2	5.2
Phosphate	0.4	2.6
Potash	0.2	0.2
Pakistan[d]		
Nitrogen	0.5	2.6
Phosphate	0.1	0.5
Potash	—	0.3
Peru		
Nitrogen	26.4	34.9
Phosphate	16.2	17.6
Potash	3.6	4.5
Philippines[c]		
Nitrogen	2.0	3.7
Phosphate	1.3	1.8
Potash	0.6	2.6
United Arab Republic		
Nitrogen	43.4	71.7
Phosphate	14.9	16.4
Potash	0.1	0.6
United States		
Nitrogen	10.0	17.5
Phosphate	11.4	14.2
Potash	8.9	11.5

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

[a] In some instances the two-year average may differ somewhat from the dates shown.
[b] Based on agricultural holdings.
[c] For 1961/62-1962/63, based on total agricultural land.
[d] Based on partial arable land figures.

In the Philippines, where cereal yields have been below even the low averages registered on the Indian sub-continent (*see* table 3-25), and food production has barely kept pace with population growth during the past ten years, the current development plan also provides for increased agricultural investment and a number of organizational changes. Emphasis is on the construction of irrigation and water control facilities, the distribution of subsidized fertilizer and seed, and the expansion of agricultural credit facilities. In 1963, a land reform law was adopted which provided for the abolition of tenancy, set ceilings on land rentals and created a number of agencies to assist farmers not only with improved credit and marketing mechanisms but also with technical and legal advice.

Table 3-25. Major Cereals: Crop Yields, Average, 1962-1963

(Hundreds of kilogrammes per hectare harvested)

Country or region	Wheat	Rice, paddy	Maize	Millet and sorghum
Brazil	7.2	17.2	13.6	...
Chile	13.8	26.8	21.1	...
India	8.4	14.6	10.0	4.8
Indonesia	...	18.2	9.8	...
Pakistan	8.2	16.2	10.5	5.0
Peru	10.0	41.0	13.2	...
Philippines	...	12.4	6.5	...
United Arab Republic	26.0	53.8	24.8	33.6[a, b]
North America	16.5	43.1	41.3	27.4[a]

Source: Food and Agriculture Organization of the United Nations, *Production Yearbook* and *Monthly Bulletin of Agricultural Economics and Statistics*.

[a] Sorghum.
[b] 1962.

Official efforts to raise production and productivity in agriculture in southern and south-eastern Asia have not been confined to the countries with growing food deficits. Both Malaysia and Thailand—where population pressures are lighter and food production has been rising fairly rapidly in recent years—have agricultural development programmes. Malaysia is extending the area under double cropping, while Thailand has a broad-based modernization plan involving the spreading of new systems of crop rotation and pest control, the distribution of improved seeds, the encouragement of increased fertilizer consumption, and further investment in irrigation.

In Africa, though population pressures are fewer and more localized than in southern and south-eastern Asia, economic growth is no less dependent on the raising of rural productivity. And in some countries widening trade gaps are making more urgent the need to reduce basic food imports. In Ghana, for example, the current development plan directs into agriculture a higher share of expenditure than did earlier plans: there are provisions for specific irrigation projects as well as more generalized programmes for improvements in farm extension services, in facilities for the livestock industry and in the availability of agrarian credit. An effort is also being made to improve distribution services, partly through the construction of a network of feeder roads to bring peasants within easier reach of markets, and partly through a Food Marketing Board set up in 1964 to handle the buying, storing and selling of food-stuffs at the wholesale level.

The food problem is more acute in North Africa where population is increasing very rapidly, arable acreage is extremely limited and the climate unusually erratic. Water storage capacity is insufficient to cushion the effects of violent fluctuations in rainfall and growing conditions, and to some extent the stabilizing role has been transferred to foreign trade (*see* chart 3-3). In recent years, however—production difficulties having been aggravated in some countries by changes in the ownership and operation of much of the most favourably situated farmland—dependence on imports has tended to become chronic, and Governments are urgently seeking ways and means of raising agricultural productivity by better use of land and water.

Most critical, in terms of the ratio of people to usable land, is the situation in the United Arab Republic. Here, production has been maintained by increasing application of fertilizers: during the nineteen fifties the use of nitrogen doubled and the use of phosphate trebled, bringing consumption up to the highest rates among the developing countries. Further gains in production now depend largely on extension of arable land: almost all of the country's arable land is now irrigated, but with the completion of the Aswan High Dam the cultivable area will be expanded by about a third. In the meantime, efforts are being made to make better use of crop rotation and to improve seed strains.

Population pressure is also more of a local than a general problem in Latin America, notwithstanding the universally high rates of natural increase. Difficulties tend to be greatest in the mountainous districts where conditions for cultivation without erosion are usually very unfavourable and there is often a reluctance of people to move to the valleys where health and other hazards are likely to be greater. To overcome such reluctance, official support is being given to various colonization programmes in the Andean countries, notably in Peru where the Government is currently seeking to reverse the downward movement in *per capita* food production by extending the arable area by a million hectares by means of water control measures and the provision of technical assistance and finance to small-scale farmers.

Even in countries in which production has been rising at a more or less satisfactory over-all rate—as in Brazil, for example—the result is not always apparent in local nutritional levels. This is in part the result of a poor balance in production itself, with carbohydrates and starches occupying too prominent a place. But it is also a consequence of the inadequacy of distribution facilities, reflecting both inequalities in income and the generally backward state of physical facilities for transporting and storing food-stuffs in many parts of the continent.

It is clear that the food problem in the developing countries is essentially a long-term one. It involves the whole agrarian complex and a good deal of the transport and services sector. It is bound up with the high rate of increase in demand for food that characterizes low-income groups. Neither the acceleration in the rate of increase in production nor the deceleration in the rate of increase in demand is the sort of change that can be accomplished by known or simple means in a relatively short period. Closing the food gap by domestic action is indeed an integral part of the whole process of economic development itself. While this is under way, dependence on import will inevitably tend to grow.

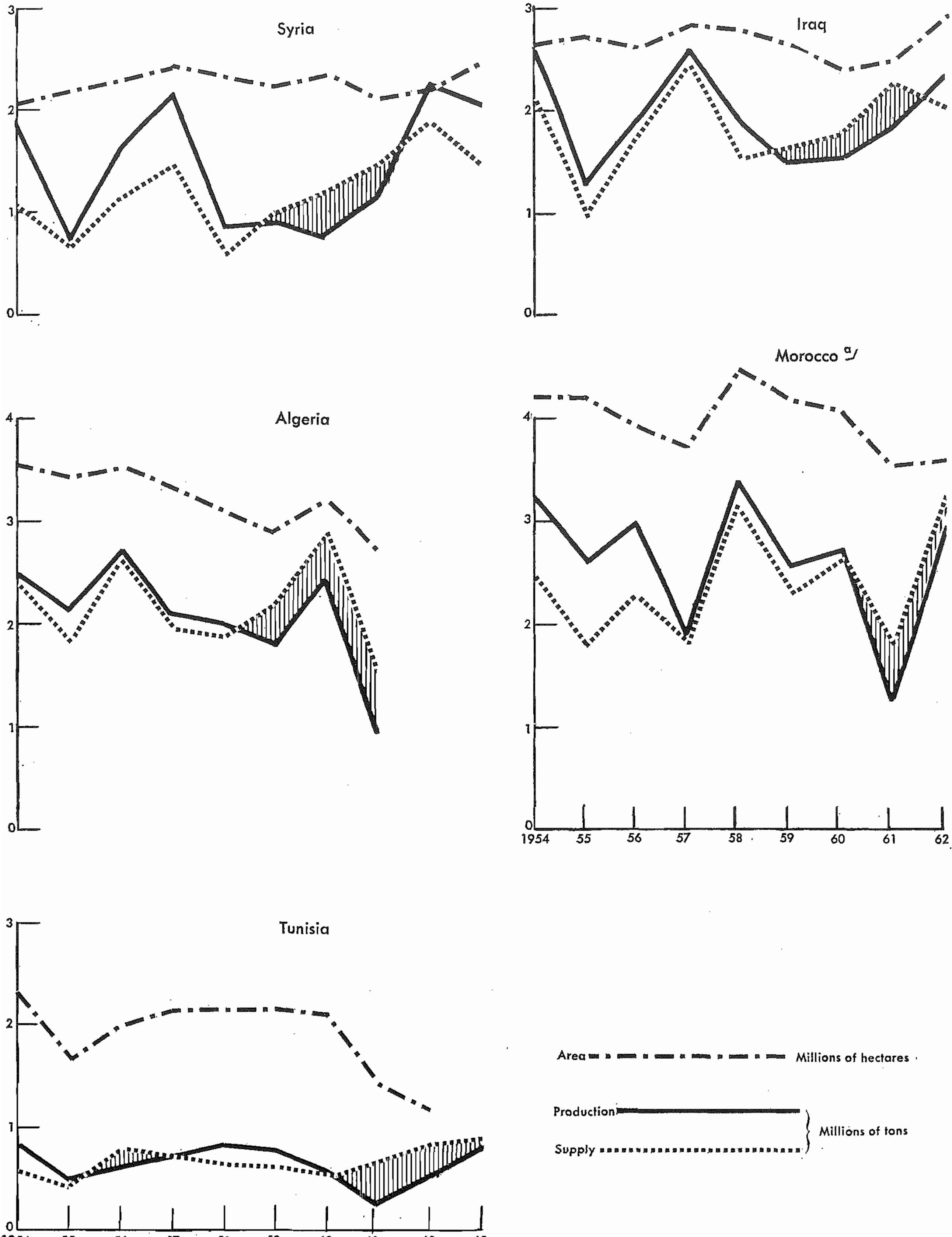
THE ROLE OF FOOD AID

It has been estimated that, if recent trends in the growth of population, consumption and domestic production continue, the food gap of the developing countries with diet deficits will amount to about $2.6 billion (at average 1959-1961 world prices) in 1970.[17] The FAO visualizes a 1970 cereal gap—between production and demand—totalling 21 million tons for the developing countries as a whole.[18] Prospects of this nature lift the problem from the national to the international level, and prompt a number of

[17] This food gap is the difference between projected food availabilities and nutritional reference standards that represent minimum physiological requirements for normal activity and health. The estimate of value is based on the cost of bridging the gap by means of a nutritionally appropriate combination of cereals, non-fat dry milk, soya grits and vegetable oil. For details, *see* United States Department of Agriculture, *The World Food Budget, 1970* (Washington, D.C., 1964).

[18] Food and Agriculture Organization of the United Nations, *Agricultural Commodities — Projections for 1970.*

Chart 3-3. Instability of Cereal Production and Supply in Selected Developing Countries



SOURCE: As for chart 3-2.
See note to chart 3-2.
[a] For 1954-1956, French Zone only.

questions. Whence are food supplies of this order to be obtained? How can imports on this scale be financed? How can developing countries with food deficits ensure that a period of growing import dependence does not delay or distort domestic agricultural development?

The answers to such questions depend very largely on the policies adopted in the countries concerned. The many considerations which will probably shape such policies lie well beyond the scope of this discussion. In the present context all that can be attempted is a brief review of relevant recent trends and their implications for future action and policy. And perhaps the most important of these recent trends lies in the development and institutionalization of food aid.

Food aid was born of the fortuitous coincidence of imbalances: in the second half of the nineteen fifties the emergence of deficits in the developing countries was paralleled by the building up of surpluses in some of the more advanced countries, most notably those of North America.[19] In contrast to the developing countries where demand was rising rapidly and production lagging, the more advanced countries faced a domestic demand that was growing only slowly—and in the case of cereals actually declining—and a production that, with the help of price supports and a variety of technical gains, had recovered from war-time disruption and was rising more rapidly.

As the period was one of deteriorating terms of trade for the developing countries, the problem of how to finance increased imports of food—along with all the investment goods necessary to carry out their development plans—quickly came to the fore. And one of the answers took the form of "concessional sales", that is, transfers at less than the market price. By far the most important instrument for effecting such transfers was the United States Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, Eighty-third Congress).[20] Between the beginning of the PL 480 programme in 1954 and mid-1964, developing countries received food-stuffs to the value of $6.7 billion. The flow has increased steadily from an average annual rate of about $380 million in the second half of the nineteen fifties to almost $1 billion in the first half of the nineteen sixties and about $1.2 billion in the fiscal year ending in June 1964 (*see* table 3-26).

By 1964, about 100 developing countries and territories were receiving food aid under the PL 480 programme. Over the ten years the flow has reflected the absolute size of the food deficits: about two-thirds of the total has gone to Asia and about a sixth each to Africa and Latin America. With the emergence of serious shortfalls in North Africa, the proportion of the total going to Africa has tended to rise (to about a fifth in recent years), and the proportion going to southern and south-eastern Asia to decline (to just over a half in recent years). Of the food sent to southern and south-eastern Asia, over half has gone to India, which has been by far the largest single beneficiary, receiving almost a third of all United States food aid. Among the other major recipients have been Brazil, Pakistan and the United Arab Republic: together these three have accounted for another third of United States food aid in recent years.

Because the principal surpluses have emerged in commodities for which demand in the more advanced countries was relatively static, the bulk of food aid has been in the form of cereals. Over three-fourths of all PL 480 shipments from the United States have been of cereals, mostly wheat, and in absolute volume cereal aid has risen from about 5 million tons a year in the second half of the nineteen fifties to over 12 million in recent years (*see* table 3-27). In terms of nutritional requirements, however, the deficit of the developing countries is relatively greater in the case of protein than in the case of calories. In so far as this difference is reflected in effective demand, moreover, it is likely to be enlarged as incomes rise in the developing countries, for while the demand for cereals tends to increase about half as rapidly as incomes, the demand for fats and oils tends to increase a fifth more rapidly, that for sugar a third more rapidly and that for milk and milk products about twice as fast.[21] There would seem to be no reason to expect the pattern of surpluses in the advanced countries to conform to the pattern of deficits in the developing countries. At the beginning of the nineteen sixties over 90 per cent of United States food aid exports consisted of grains, and although, with the re-emergence of surpluses of dairy products and soya beans, the proportion of

[19] For a discussion and quantification of this "surplus" problem, *see* United Nations, *Commodity Survey* for the years 1960 and 1962 (Sales Nos.: 61.II.D.1 and 63.II.D.3).

[20] The principal PL 480 programme is operated under Title I, which provides for sales of surplus agricultural commodities for foreign — often inconvertible — currencies. These are used in part for meeting United States needs in the food receiving countries in question, but the great bulk goes into development grants and loans to these countries. Under Title II, famine relief is provided and economic development promoted directly through grants of commodities. Title III authorizes barter of United States surpluses for commodities considered to be of a strategic nature, and donations of surpluses for overseas distribution through relief agencies. Under Title IV, promulgated in 1959, the United States is authorized to provide foreign governments with long-term credit for the purchase of surplus commodities, repayment to be in dollars.

[21] These are elasticity estimates for Asian countries made by the FAO. *See* Food and Agriculture Organization of the United Nations, *Agricultural Commodities—Projections for 1970.*

other foods has steadily risen—to about a fourth in 1963/64—the adjustment of supply to actual needs is unlikely to be accomplished without deliberate production decisions.

In the aggregate, food aid has become extremely important in relation both to the total food imports of the developing countries and to the over-all flow of capital and donations from the advanced countries.

Thus, in 1963, food aid from the United States alone (at about $1.1 billion) constituted more than a fifth of the total amount of food imported by the developing countries (about $5.3 billion as measured

Table 3-26. United States PL 480 Exports of Food-stuffs to Developing Countries, by Region and Major Importer,[a] 1955-1964

Item	*1955-1964 (total)*	*1955-1959* (annual average)	*1960-1964*	*1960*	*1961*	*1962*	*1963*	*1964*
	(Millions of dollars; market value, f.o.b.)							
Total, developing countries:								
Titles I, III and IV	6,227	369	876	648	762	836	1,004	1,133
Title II[b]	469	18	76	22	87	65	115	92
	(Percentage)							
Total	100	100	100	100	100	100	100	100
Southern and south-eastern Asia	58	66	55	60	60	46	56	54
Latin America[c]	19	19	20	19	16	23	19	21
Africa	16	7	19	14	14	24	20	21
West Asia	7	8	6	7	10	7	5	4
Major recipients	60	53	66	65	65	60	59	65
India	30	31	30	34	34	22	28	31
Pakistan	11	11	11	10	12	10	10	12
United Arab Republic	11	5	13	12	11	17	12	13
Brazil	8	6	9	9	8	11	9	9

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data supplied by the United States Department of Agriculture.

[a] Except as noted, the coverage consists of food supplied under Titles I, III and IV of United States PL 480. The food-stuffs include grains, meat, poultry, dairy products, fats and oils, fruits and vegetables and seeds. Data are for fiscal years ending 30 June of the year indicated.

[b] Title II figures are shown separately inasmuch as they refer not to shipments but to authorization of transfer of commodities.

[c] Including the West Indies.

Table 3-27. United States PL 480 Exports of Grains and Other Foods to Developing Countries, 1955-1964[a]

Item[b]	*1955-1964*	*1955-1959* (annual average)	*1960-1964*	*1960*	*1961*	*1962*	*1963*	*1964*
	(Millions of dollars; market value, f.o.b.)							
Total foods	6,227	369	876	648	762	836	1,004	1,133
Title II	469	18	76	22	87	65	115	92
Grains	4,862	258	715	600	666	679	774	856
Title II	372	11	64	16	86	49	97	69
Other foods[c]	1,365	111	161	48	96	157	230	277
Title II	97	7	12	6	1	16	18	23
	(Percentage)							
Total foods	100	100	100	100	100	100	100	100
Grains	78	70	82	92	87	81	77	76
Other	22	30	18	8	13	19	23	24
	(Thousands of tons)							
Grains	82,289	5,004	11,468	9,675	10,776	11,137	12,333	13,417

Source: See table 3-26.

[a] See foot-note *a* to table 3-26.

[b] Titles I, III and IV, except as noted.

[c] Foods other than grains consist of meat, poultry, dairy products, fats and oils, fruits, vegetables and seeds.

by SITC sections 0 and 1). For cereals alone, the corresponding proportion was over twice as high, having increased steadily from about a fifth in 1955-1957 when the developing countries imported just over $900 million and PL 480 cereal exports amounted to about $200 million. And in some countries—India, Pakistan and the United Arab Republic, for example—virtually all cereal imports were drawn from United States aid (*see* annex table 3A-12).

In recent years food aid has constituted about an eighth of the gross flow of long-term capital and donations from the industrial countries to the developing countries. In some cases, however, food has been the principal component of aid. In Algeria and Hong Kong, virtually all United States aid has been in the form of food, and more than three-fourths of it in the case of China (Taiwan) and the United Arab Republic. Even in the case of India, by far the largest single recipient of United States aid, almost 40 per cent of the 1962-1964 total was in the form of food.

Though by virtue of the size of its agricultural surpluses, the United States has predominated as a source of food aid, supplies have been made available on a smaller scale by Australia and Canada, through the Colombo Plan, by France, largely to its former dependencies, and by a number of other countries which have been able to provide particular commodities, such as dairy products. And more recently, the idea of food aid has become institutionalized through the setting up of the World Food Programme, under joint United Nations/FAO auspices. The importance of the World Food Programme lies less in the magnitude of its operations—it currently handles only about 2 per cent of all the non-commercial food distributed internationally—than in its potential contribution to the solution of some of the problems implicit in the global food imbalances that have emerged in the post-war period.

Making up the deficits in domestic supply in many developing countries has necessarily endowed the question of food aid with great urgency. Though it is essentially a self-liquidating operation—indeed the success of food aid might be measured by the speed with which it is out-grown—it seems likely to be required long enough for it to be regarded not as an emergency marrying of existing surpluses with existing (calculated) deficits but as an exercise involving the longer-term international division of labour. Before donor countries are encouraged to undertake the deliberate "production of surpluses" to meet the hypothetical future needs of the developing countries, it is desirable to put the matter in its proper global perspective and to ask where the interim needs of the deficit countries—and the longer-term needs of those that are unlikely ever to become more or less self-sufficient—can be met in a manner calculated to lead to the most productive use of the world's resources. From this global standpoint, for example, it may be possible to devise ways and means of meeting a higher proportion of the food deficits through supplies originating in those developing countries that are net exporters. By the same token, it may also be possible to introduce a greater freedom of choice in regard to the composition of the supplies making up the shortfall, against the day when deficit countries have the wherewithal to exercise effective demand on world markets.

The multilateralization of food aid through the World Food Programme provides an opportunity for these problems to be viewed in this broader global context. It also provides an opportunity for experimentation in using food aid in ways that minimize its inhibiting effect on local agriculture while maximizing its more general developmental impact—raising nutritional levels, lessening inflationary pressures and facilitating investment projects that would not otherwise have been possible.

Annex

Table 3A-1. Developing Countries: Changes in Export Receipts

Country[a]	*Index of change in export receipts (preceding year = 100)*		*Value, 1963 (millions of dollars)*	*Principal export commodities*
	1964[b]	*1963*		
Latin America				
Bolivia	130	112	66	Tin ore
Paraguay	125	121	40	Meat and products
Peru	123	100	540	Non-ferrous metals, cotton
Colombia	122	96	446	Coffee
Costa Rica	119	103	96	Coffee
El Salvador	116	113	154	Coffee, cotton
Chile	115	102	540	Copper, iron ore
Honduras	114	101	82	Bananas
Panama	113	125	60	Bananas, petroleum products
Nicaragua	112	122	100	Cotton, coffee
Uruguay	108	108	165	Wool, beef
Mexico	107	106	985	Cotton, sugar
Ecuador	104	116	166	Bananas
Argentina	103	112	1,365	Cereals, meat and products
Dominican Republic	103	101	174	Sugar
Brazil	102	116	1,406	Coffee, cotton
Venezuela	102	103	2,667	Petroleum
Guatemala	101	132	154	Coffee
Haiti	95	98	41	Coffee
West Indies				
Trinidad and Tobago	109	108	373	Petroleum products
Jamaica	108	112	203	Bauxite, alumina, sugar
Netherlands Antilles	96	96	658	Petroleum products
Guadeloupe	92	109	38	Sugar
Barbados	83	141	41	Sugar
West Asia				
Jordan	144	106	18	Fertilizers
Iran	134	95	933	Crude petroleum
Saudi Arabia	112	112	1,050	Crude petroleum
Iraq	110	113	781	Crude petroleum
Kuwait	110	106	1,110	Crude petroleum
Israel	106	123	350	Diamonds, citrus fruits
Syria	93	113	189	Cotton
Africa				
Libya	185	239	337	Crude petroleum
Sierra Leone	130	142	81	Diamonds, iron ore
Angola	128	111	165	Coffee, diamonds
Ivory Coast	122	119	230	Coffee, cocoa
Uganda	122	133	153	Coffee, cotton
Ethiopia	117	107	90	Coffee
Rhodesia and Nyasaland	117	106	625	Copper
Morocco	113	110	384	Phosphates, citrus fruits
Nigeria	113	112	531	Cocoa, ground-nuts
Madagascar	112	87	82	Coffee
Senegal	111	90	111	Ground-nuts, ground-nut oil
Mozambique	110	111	101	Cotton, cashew nuts
Tanzania	110	123	179	Sisal, cotton
Cameroon	108	115	118	Cocoa, coffee
United Arab Republic	108	126	522	Cotton

Table 3A-1. Developing Countries: Changes in Export Receipts (*continued*)

Country[a]	*Index of change in export receipts (preceding year = 100)*		*Value, 1963 (millions of dollars)*	*Principal export commodities*
	1964[b]	*1963*		
Africa (continued)				
Ghana	107	94	273	Cocoa
Kenya	106	113	142	Coffee, tea
Tunisia	104	108	125	Phosphates, wine
Réunion	97	115	38	Sugar
Mauritius	96	141	90	Sugar
Sudan	87	100	226	Cotton
Southern and south-eastern Asia				
Republic of Korea	137	158	87	Metal products, iron ore
China (Taiwan)	130	152	332	Sugar
Thailand	129	102	466	Rice, rubber
Hong Kong	116	114	873	Cotton fabrics
Sarawak	110	92	122	Petroleum
Ceylon	109	96	363	Tea
India	107	118	1,629	Tea, jute fabrics
Federation of Malaya	103	103	884	Rubber, tin
Pakistan	102	105	417	Jute, cotton
Philippines	101	131	727	Sugar, copra, timber
Indonesia	96	102	696	Rubber, petroleum
Sabah	91	117	90	Logs
Cambodia	90	165	89	Rubber, rice
Burma	87	102	271	Rice
Singapore	79	102	1,135	Rubber, petroleum products
Republic of Viet-Nam	61	135	77	Rubber, rice

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

[a] Ranked, within regions, in descending order of the first column.

[b] Preliminary; based, for many countries, on less than twelve months' returns.

Table 3A-2. Selected Developing Countries: Index Numbers of Industrial Production, 1960-1964[a]

Country	*Industrial production*			*Mining*			*Manufacturing*			*Electricity*		
	1963	*1964*		*1963*	*1964*		*1963*	*1964*		*1963*	*1964*	
	(1962 = 100)	*(1963 = 100)*	*(1960 = 100)*	*(1962 = 100)*	*(1963 = 100)*	*(1960 = 100)*	*(1962 = 100)*	*(1963 = 100)*	*(1960 = 100)*	*(1962 = 100)*	*(1963 = 100)*	*(1960 = 100)*
Argentina	92	113	107	97	106	152	89	116	103	99[b]	100[b]	107[b]
Chile	...	...	...	103	105	127	106	105	130	...	...	...
China (Taiwan)	110	126	175	105	107	126	110	129	183	107[b]	118[b]	163[b]
El Salvador	...	...	...	...	...	...	107	117	146	...	...	...
Ghana	...	...	...	99	100	89	...	...	...	117	116	184
Guatemala	114[c]	108[c]	129[c]	...	...	...	112	106	122	114	116	172
India	110	108	137	109	95	123	108	108	133	115	116	175
Israel	114[d]	114[d]	171[d]	114	121	163	114	114	171	...	...	...
Mexico	109	112	134	104	102	105	109	112	136	110	115	147
Morocco	...	...	...	96	113	111	...	...	...	...	...	...
Pakistan	114[d]	108[d]	155[d]	109	116	157	114	108	156	...	...	...
Philippines	...	...	...	101	102	112	106	108	129	...	...	...
Republic of Korea	114[e]	108[e]	151[e]	114	110	164	113	107	147	111	123	160
Rhodesia	104	109	114	100	107	101	105	109	113	113	113	159
Tunisia	...	...	...	111	111	110	...	...	...	...	...	...
Venezuela	102	110	122	99	108	112	107	114	138	...	...	...

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

[a] The coverage of industries varies widely from country to country. For 1964, based on data covering less than twelve months in some cases.

[b] Including manufactured gas.

[c] Excluding mining.

[d] Excluding electricity and manufactured gas.

[e] Excluding manufactured gas.

Table 3A-3. Developing Countries: Distribution of Changes in Cost of Living,[a] 1963-1964

Trends in 1964[b]	*Number of countries*	*Countries in which, relative to the corresponding month of 1963, the cost of living index at the end of 1964*[c] *was:*					
		98 or less	*99-101*	*102-105*	*106-109*	*110-120*	*Over 120*
Trend continued	22		British Guiana Burma China (Taiwan) Ivory Coast Kenya Thailand	Costa Rica Ecuador Honduras Hong Kong Madagascar Morocco Nigeria Panama Puerto Rico Republic of Viet-Nam Senegal	Chad	Ghana	Brazil Chile Uruguay
Trend accelerated	10			Mexico Rhodesia	Iran Pakistan Tunisia	India Peru Philippines Sierra Leone United Arab Republic	
Trend decelerated	15		Dominican Republic El Salvador Jamaica Niger Trinidad and Tobago	Ceylon Colombia Gabon Israel Nicaragua Uganda		Argentina Congo (Democratic Republic of)	Indonesia Republic of Korea
Trend reversed	10	Cambodia Iraq Malaysia Mozambique Sudan Surinam Venezuela	Tanzania		Zambia	Bolivia	
Total	57	7	12	19	5	9	5

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

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

[b] The change between the end of 1964 and the end of 1963 as compared with the change between the end of 1963 and the end of 1962.

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

Table 3A-4. Developing Countries: Indicated Change Between 1963 and 1964 in Gross Domestic Product, Volume of Imports and Total Supplies[a]

Country[b]	*Gross domestic product*	*Imports*[c]	*Total supplies*[d]
El Salvador	C	F	D
Israel	C	F	D
Mexico	D	E	D
Nicaragua	C	F	D
Argentina	C	B	C
Ceylon	B	G	C
China (Taiwan)	C	D	C
Ecuador	B	F	C
Guatemala	C	F	C
Iran[e]	B	F	C
Iraq	C	F	C
Jordan	E	—C	C
Nigeria	B	F	C
Pakistan[e]	C	D	C
Philippines	B	F	C
Rhodesia and Nyasaland	C	D	C
Tanzania	B	C	C
Uganda	C	B	C
Venezuela	C	E	C
Bolivia	C	—B	B
Chile	B	—E	B
Colombia	B	C	B
Costa Rica	B	C	B
Ethiopia	B	D	B
Federation of Malaya	B	—B	B
Ghana	B	B	B
Honduras	B	C	B
India	B	—B	B
Kenya	B	B	B
Morocco	B	C	B
Paraguay	B	B	B
Peru	C	B	B
Republic of Korea	C	—F	B
Syria	B	A	B
Thailand	B	C	B
Tunisia	A	C	B
United Arab Republic	C	—B	B
Uruguay	B	D	B
Brazil	A	—E	A
Burma[e]	—B	C	A
Panama	—B	B	A
Sudan	A	—C	—B

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; United Nations, *Economic Survey of Latin America*; Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics*; International Monetary Fund, *International Financial Statistics*; United States Department of Agriculture, *The 1965 World Agricultural Situation* and regional supplements; United States Department of State, Agency for International Development, *Agency for International Development Data Book* (Washington, D.C.); replies of Governments to the United Nations questionnaire on economic trends, problems and policies, and national sources.

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

[b] Countries are arrayed in descending order of change in total supplies between 1963 and 1964.

[c] Quantum index of imported goods, including services in some cases.

[d] Aggregate of gross domestic product and imports, weighted in accordance with national accounts for 1960.

[e] Change between fiscal years; July/June for Pakistan and the Sudan; October/September for Burma; 21 March/20 March for Iran.

Table 3A-5. Developing Countries: Distribution of Changes in the Supply of Money, 1963-1964

Index of change in money supply[a] (corresponding figure in preceding year = 100)	*Number of countries*		*Countries in which, in relation to the trend during the preceding year, the trend during the indicated year[a] registered:*							
			Continuation		*Deceleration*		*Acceleration*		*Reversal*	
	1963	*1964[b]*	*1963*	*1964[b]*	*1963*	*1964[b]*	*1963*	*1964[b]*	*1963*	*1964[b]*
Less than 97.5	0	4								Burma Dominican Republic Panama Philippines
98 - 103	2	3			Syria	Iraq Tunisia Morocco			Jamaica	
104 - 110	12	12	Iran Malaysia Nigeria Republic of Korea	Ecuador Malaysia Syria Thailand	Ethiopia Ghana Iraq Jordan Morocco	Afghanistan Ceylon Costa Rica El Salvador India Israel Somalia Sudan	Haiti Thailand		Venezuela	
111 - 117	19	12	Costa Rica Dominican Republic Ecuador Honduras Mexico Philippines Republic of Viet-Nam	Guatemala Honduras Nicaragua Pakistan	Colombia Nicaragua Sudan	Saudi Arabia	Ceylon India Libya Pakistan Peru Somalia	Ethiopia Haiti Iran Jordan Republic of Korea Venezuela	Guatemala Paraguay United Arab Republic	Jamaica
118 and over	13	15	Afghanistan Brazil Israel	Bolivia China (Taiwan) United Arab Republic			Argentina Bolivia Burma Chile China (Taiwan) El Salvador Panama Saudi Arabia Tunisia Uruguay	Argentina Brazil Chile Colombia Ghana Libya Mexico Nigeria Paraguay Peru Republic of Viet-Nam Uruguay		
Total	46	46	14	11	9	12	18	18	5	5

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

[a] Measured between successive year ends.

[b] In some cases change between an earlier month of 1964 and the corresponding month in 1963.

Table 3A-6. Developing Countries: Distribution of Change in Government Budgetary Position,[a] 1963-1964

Movement in government indebtedness during the indicated year compared with the preceding year	*Number of countries*		*Change in government indebtedness during the indicated year as a percentage of government expenditure in the preceding year*							
			0 - 5		*6 - 10*		*11 - 15*		*Over 15*	
	1963	*1964*	*1963*	*1964*	*1963*	*1964*	*1963*	*1964*	*1963*	*1964*
Rise to fall	3	6	Ecuador Republic of Korea	Honduras Lebanon Thailand	Nicaragua			El Salvador Venezuela		
Fall at same rate .	0	2		Republic of Korea		Nicaragua				
Larger fall	0	1				Ecuador				
Fall to rise	9	0	Iran Israel Lebanon Venezuela		Peru		Philippines		Burma Dominican Republic Mexico	
Smaller rise	7	8	Bolivia Colombia El Salvador Ghana Guatemala	Haiti Israel Philippines Syria	Haiti			Dominican Republic India Mexico Pakistan	Chile	United Arab Republic
Rise at same rate .	4	7	Costa Rica	Bolivia China (Taiwan)	Ceylon	Ceylon Peru Malaysia	Iraq		India	Burma Chile
Larger rise	12	11	China (Taiwan) Thailand	Colombia Costa Rica Guatemala	Malaysia Paraguay	Paraguay	Honduras Republic of Viet-Nam Sudan Syria	Iran	Argentina Brazil Pakistan United Arab Republic	Argentina Brazil Ghana Iraq Republic of Viet-Nam Sudan
Total	35	35	14	13	6	7	6	6	9	9

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

[a] As measured by net change—claims minus deposits—in government dealings with the banking system.

Table 3A-7. Changes in Rates of Increase in Cost of Living, 1957-1964

Rate of increase in cost of living, 1957-1964[a]	*Rate in 1959-1962 compared with 1957-1959*			*Rate in 1962-1964 compared with 1959-1962*		
	Lower	*Similar*	*Higher*	*Lower*	*Similar*	*Higher*
High	Argentina Chile	Uruguay	Brazil Colombia Indonesia[b] Laos[b] Republic of Korea	Argentina	Brazil	Chile Colombia Indonesia[b] Laos[b] Republic of Korea Uruguay
High to moderate	Bolivia Peru Senegal	China (Taiwan) India	Ghana Israel	Bolivia China (Taiwan) Israel Senegal		Ghana India Peru
Moderate to low	Iran Lebanon Madagascar Uganda United Arab Republic Venezuela	Colombia Honduras Mexico Netherlands Antilles Pakistan Southern Rhodesia Trinidad and Tobago	Costa Rica Dominican Republic Ecuador Jamaica Kenya Morocco Philippines Republic of Viet-Nam Sudan Thailand Zambia	Cambodia Costa Rica Jamaica Kenya Lebanon Mexico Sudan Thailand Trinidad and Tobago Uganda	Ecuador Honduras Iran Morocco Netherlands Antilles Republic of Viet-Nam Southern Rhodesia Zambia	Dominican Republic Madagascar Pakistan Philippines United Arab Republic Venezuela
Stable	El Salvador	Ceylon Guatemala Mauritius Nicaragua Tanzania	Burma Federation of Malaya Iraq	Tanzania	Burma Iraq	Ceylon El Salvador Federation of Malaya Guatemala Mauritius Nicaragua
Number of countries	12	15	21	16	11	21

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

[a] A high rate of increase in cost of living has been defined as a rate of increase of at least 10 per cent per year; high to moderate, between 9.9 and 5 per cent per year; moderate to low, between 4.9 and one per cent per year; stable indices are those which have increased less than one per cent per year. Calculations are based on changes between ends of years indicated.

[b] Rate of increase for the period 1957-1963.

Table 3A-8. Recent *Per Capita* Food Supply in Relation to Nutritional Requirements[a]

Region	*Calories*					*Total proteins*			*Animal proteins*		
	Current supply	*Requirement*	*Short-term target[b]*	*Supply as percentage of: Requirement*	*Supply as percentage of: Short-term target*	*Current supply*	*Short-term target[b]*	*Supply as percentage of short-term target*	*Current supply*	*Short-term target[b]*	*Supply as percentage of short-term target*
	(number per day)					*(grammes per day)*			*(grammes per day)*		
Southern Asia[c]	1,970	2,300	2,300	86	86	50	63	79	7	12.5	56
South-eastern Asia, mainland[d]	2,030	2,260	2,300	90	88	49	57	86	13	15	87
South-eastern Asia, major islands[e]	2,070	2,270	2,300	91	90	45	55	82	7	12	58
Near East[f]	2,470	2,400	2,470	103	100	76	77	99	14	20	70
Africa	2,360	2,340	2,400	101	98	61	69	88	11	18	61
Latin America:											
Total	2,510	2,410	2,550[g]	104	...	67	71[g]	...	24	25[g]	...
Central America[h]	2,370	2,420	2,450	98	97	63	69	91	19	23	83
South America (excluding Brazil and the River Plate countries)	2,190	2,480	2,500	88	88	56	72	78	20	25	80

Source: Food and Agriculture Organization of the United Nations, *Third World Food Survey*.

[a] Supply at retail level, based on production, trade and stock change, with deductions for amounts used for animal feed, seed and manufacture and for amounts wasted during distribution up to the retail level. "Requirements" constitute intakes necessary to prevent under-nutrition; they differ from country to country in accordance with local physiological, climatic and socio-economic circumstances. "Recent" generally refers to the period 1957-1959.

[b] The "short-term targets" proposed by the FAO involve the elimination of under-nutrition and allow for a reasonable improvement in the nutritional quality of the diet by 1975.

[c] Ceylon, India and Pakistan.

[d] Burma, the Federation of Malaya, the Republic of Viet-Nam and Thailand.

[e] Indonesia and the Philippines.

[f] Cyprus, Iran, Iraq, Israel, Jordan, Lebanon, Libya, the Sudan, Syria, Turkey and the United Arab Republic.

[g] Excluding the River Plate countries.

[h] Including Mexico.

Table 3A-9. Estimated Calorie and Protein Content of National Average Food Supplies *Per Capita*[a]

Region and country	Calories 1951/52-1953/54 (number per day)	Calories 1960/61-1962/63[b] (number per day)	Total protein 1951/52-1953/54 (grammes per day)	Total protein 1960/61-1962/63[b] (grammes per day)	Animal protein 1951/52-1953/54 (grammes per day)	Animal protein 1960/61-1962/63[b] (grammes per day)
Industrial countries						
Canada	3,050	3,070	93	93	58	63
United Kingdom	3,100	3,270	84	89	44	53
United States[c]	3,150	3,100	90	92	63	65
Latin America						
Argentina	2,980	2,895	97	84	59	52
Brazil	2,400	2,760	58	65	17	18
Chile	2,430	2,420	74	77	25	28
Colombia	2,200[d]	2,130	48[d]	47	23[d]	20
Ecuador	2,180[e]	1,930	52[e]	49	13[e]	16
Mexico	2,350[e]	2,605	63[e]	72	17[e]	23
Paraguay	...	2,485	...	61	...	24
Peru	2,070	2,110	55	52	12	12
Surinam	...	2,040[f]	...	48[f]	...	16[f]
Uruguay	2,950	2,930	99	94	67	61
Venezuela	2,270	2,415	53	63	20	23
Africa						
Libya	...	2,100[g]	...	53[g]	...	10[g]
Mauritius[c]	...	2,370	...	47	...	12
United Arab Republic	2,400	2,580[h]	70	76[h]	11	12[h]
West Asia						
Israel	2,760	2,830[h]	86	84[h]	27	36[h]
Jordan	...	2,050	...	55	...	9
Lebanon	...	2,320[b]	...	63[b]	...	14[b]
Syria	2,330[i]	...	78[i]	...	17[i]	...
Southern and south-eastern Asia						
Ceylon[c]	1,990	2,080	43	44	8	8
China (Taiwan)[c]	2,210	2,350	53	58	13	15
India	1,750	2,020[h]	47	52[h]	6	6[h]
Pakistan	2,040	1,970[h]	48	45[h]	8	7[h]
Philippines[c]	1,720	1,810	38	43	9	14

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

[a] All developing countries for which FAO data are available are included. Data for 1962/63 are tentative. In some instances the years differ slightly from those indicated in the column headings. In cases where the difference is considerable, this has been indicated.

[b] For Latin American countries and Lebanon, 1960-1961 average.

[c] Calendar years.

[d] 1956-1958.

[e] 1954-1956.

[f] 1959-1961.

[g] 1959.

[h] 1960/61-1961/62.

[i] 1957.

Table 3A-10. Developing Countries: Trade Balances in Cereals and Food and Feed, Average 1961-1962

Region and country[a]	*Cereals*[b] Per capita (*kilogrammes*)	*Cereals*[b] Total (*thousands of tons*)	*Food and feed*[c] (*millions of dollars*)
Latin America			
Trinidad and Tobago	—134	—1,172	—38
Barbados	—115	—266	—13
Jamaica	—97	—1,598	—22
Netherlands Antilles	—95	—188	—25
Cuba	—76	—5,358	...
Venezuela	—48	—3,830	—161
Bolivia	—45	—1,591	—17
Paraguay	—43	—772	5
Costa Rica	—42	—538	—7
Uruguay	—42	—1,230	23
Peru	—39	—4,512	23
Panama	—35	—396	5
Brazil	—27	—19,987	—131
Chile	—23	—1,880	—65
El Salvador	—21	—556	—8
Guatemala	—17	—684	4
Nicaragua	—17	—276	7
Colombia	—13	—1,973	—32
Ecuador	—8	—344	73
Dominican Republic	—4	—113	15
Haiti	—1	—416	...
Honduras	—1	—12	36
Mexico	—1	—418	142
Surinam	19	66	—6
British Guiana	31	186	6
Argentina	2,482	53,170	648
Africa			
Mauritius	—142	—996	—22
Tunisia	—88	—3,790	13
Libya	—85	—1,061	—18
Zanzibar and Pemba	—69	—221	—2
Senegal	—54	—1,759	62
United Arab Republic	—51	—13,974	—119
Gambia	—38	—118	7
Algeria	—37	—4,153	...
Morocco	—35	—4,285	39
Liberia	—23	—304	—13
Ghana	—19	—1,380	—69
Gabon	—15	—69	—8
Somalia	—15	—334	10
Congo (Brazzaville)	—14	—111	—10
Ivory Coast	—13	—450	—11
Sierra Leone	—12	—311	—7
Kenya	—8	—716	—8
Cameroon	—7	—324	—44
Tanganyika	—7	—695	12
Mauritania	—6	—44	—1
Togo	—5	—82	—2
Central African Republic	—4	—47	—2
Congo (Democratic Republic of)	—4	—523	3
Dahomey	—3	—70	5
Nigeria	—3	—986	137
Sudan	—1	—104	32
Uganda	—1	—52	2
Chad	—1	—34	—2
Mali	—1	—38	3
Upper Volta	—1	—32	0

Table 3A-10. Developing Countries: Trade Balances in Cereals and Food and Feed, Average 1961-1962 (*continued*)

Region and country[a]	*Cereals*[b] Per capita (*kilogrammes*)	Total (*thousands of tons*)	*Food and feed*[c] (*millions of dollars*)
Africa (continued)			
Ethiopia	—	—47	14
Niger	—	—15	11
Madagascar	3	179	7
Angola	22	1,109	6
Rhodesia and Nyasaland	24	2,458	—11
Asia			
West Asia			
Israel	—301	—6,896	—20
Lebanon	—157	—2,927	—48
Jordan	—107	—1,840	—23
Saudi Arabia	—38	—2,658	—66
Iraq	—27	—1,798	—58
Iran	—17	—3,554	—32
Syria	5	276	—1
Southern and south-eastern Asia			
Hong Kong	—163	—5,571	—237
Federation of Malaya and Singapore	—101	—9,240	—257
Sarawak	—101	—778	—18
Sabah	—76	—363	—11
Ceylon	—66	—6,842	—93
China (Taiwan)	—23	—2,559	—2
Republic of Korea	—18	—4,812	—33
Philippines	—15	—4,372	81
Indonesia	—12	—11,840	—57
Pakistan	—11	—10,280	—75
India	—8	—36,424	—191
Laos	—4	—70	...
Republic of Viet-Nam	—	22	—15
Nepal	2	192	...
Cambodia	68	3,938	20
Thailand	70	19,627	204
Burma	71	16,368	158

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; Food and Agriculture Organization of the United Nations, *Production Yearbook* and *Trade Yearbook*.

[a] Within each region countries are arranged in descending order of net *per capita* imports of cereals.

[b] Including wheat and wheat flour, rice, barley, maize, rye, oats and other cereals not specified. In a few instances, 1959 or 1960 data have been used where later information was unavailable.

[c] Food and live animals (SITC section 0) plus beverages (SITC division 11) plus fats and oils (SITC division 22 and section 4). Sugar, coffee, cocoa, tea and spices, though included as imports, have been excluded as exports. In some instances the trade balance is based upon trade in major items in these categories and is therefore an approximation. Exports f.o.b. less imports c.i.f. In some cases data for 1960 were used; in some instances data relate to a single year.

Table 3A-11. Selected Countries: Production of Cereals and Food, Biennial Averages, 1952-1963[a]

(Index, 1958-1959 = 100)

Country and item	1952-1953	1954-1955	1958-1959	1960-1961	1962-1963
Brazil					
Cereals, total	78	91	100	119	134
Per capita	93	102	100	112	119
Food, total	78[b]	83	100	109	116
Per capita	90[b]	94	100	102	103
Chile					
Cereals, total	77	82	100	96	98
Per capita	90	91	100	91	89
Food, total	89[b]	90	100	101	106
Per capita	101[b]	100	100	97	97
India					
Cereals, total	84	88	100	109	111
Per capita	94	95	100	105	102
Food, total	85	91	100	106	107
Per capita	96	99	100	101	98
Indonesia					
Cereals, total	83	97	100	108	112
Per capita	95	106	100	103	103
Food, total	90[b]	97	100	106	106
Per capita	99[b]	106	100	100	96
Pakistan					
Cereals, total	94	91	100	116	120
Per capita	105	99	100	111	110
Food, total	95	95	100	109	110
Per capita	107	103	100	104	101
Peru					
Cereals, total	121	106	100	109[c]	116
Per capita	139	118	100	106[c]	...
Food, total	97[b]	98	100	109	115
Per capita	110[b]	110	100	103	103
Philippines					
Cereals, total	81	85	100	105	108
Per capita	99	96	100	99	95
Food, total	85	88	100	108	116
Per capita	102	100	100	102	102
United Arab Republic					
Cereals, total	83	100	100	101	124
Per capita	96	110	100	97	112
Food, total	77	90	100	105	122
Per capita	88	99	100	100	111

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; Food and Agriculture Organization of the United Nations, *Production Yearbook* and *Monthly Bulletin of Agricultural Economics and Statistics*.

[a] Food production includes grains, starchy roots, sugar, pulses, edible oil crops, nuts, fruits, vegetables, wine, cocoa and livestock products.

[b] 1953-1954 average.

[c] 1959-1960 average.

Table 3A-12. United States PL 480 Exports to, and Total Imports of Grains by, Selected Countries, 1954-1963

(Thousands of tons; ratio in percentage)

Country and item	Annual average			
	1954-1955	1958-1959	1960-1961	1962-1963
Brazil				
(*a*) PL 480 exports	15	544	1,136	1,056
(*b*) Total imports	1,769	1,717	2,001	2,222
(*c*) Ratio, (*a*) to (*b*)	—	32	57	48
Chile				
(*a*)	—	41	68	121
(*b*)	211	116	100	201
(*c*)	—	36	68	60
Ghana				
(*a*)	—	10	27	4
(*b*)	49	96	122	101
(*c*)	—	10	22	4
India				
(*a*)	4	2,568	3,741	3,791
(*b*)	774	3,577	4,374	3,628
(*c*)	—	72	86	104[a]
Indonesia				
(*a*)	—	54	142	315
(*b*)	346	774	1,188	1,201
(*c*)	—	7	12	26
Pakistan				
(*a*)	—	703	1,254	1,287
(*b*)	72	1,000	1,526	1,201
(*c*)	—	70	82	107[a]
Peru				
(*a*)	20	117	152	130
(*b*)	279	351	367	454
(*c*)	7	33	41	29
Philippines				
(*a*)	—	41	37	26
(*b*)	353	485	448	530
(*c*)	—	8	8	5
United Arab Republic				
(*a*)	34	472	1,324	1,984
(*b*)	47	1,365	1,371	1,908
(*c*)	72	35	97	104[a]

Source: United Nations, *Trade Yearbook*; Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics*, and communications from the United States Department of Agriculture.

[a] Ratios in excess of 100 per cent are due to such factors as reporting differences between recipient and donor sources and time lag between shipments and receipt.

Chapter 4

RECENT TRENDS IN THE CENTRALLY PLANNED ECONOMIES

Total production of the centrally planned economies increased in 1964 at a rate considerably higher than that in both 1963 and 1962, but still below the rate experienced in the years preceding 1962. The acceleration of growth during 1964 was due mainly to the substantial recovery of agricultural production in the Union of Soviet Socialist Republics and to an acceleration in the growth of industrial production in several other countries.

Investment activities accelerated in some countries quite substantially, but slowed down in other countries. The supply of consumer goods in the retail trade network increased in 1964 faster than during the preceding year in most countries; in some, however, a certain deceleration of growth of retail trade took place. The balance between supply and demand for consumer goods has been generally maintained and in some countries improved, but shortages of certain goods in high demand continued during 1964. In Yugoslavia, however, the balance between demand and supply of consumer goods was severely upset, largely because of considerable increases in money wages and in prices paid to agricultural producers; real wages nevertheless rose substantially in 1964, exceeding the relatively high rate of increase achieved in 1963. In several other countries real wages also increased faster than during the preceding year, while in others the growth of real wages decelerated. The efforts towards improvement in methods of planning and management were intensified in 1964. In several countries new significant decisions have been taken in this field in the course of the year, and new methods have been introduced on an experimental basis. Along with these changes, increasing attention has been devoted to the improvement of ways and means of fostering inter-country specialization and co-ordination of economic activities of the Council of Mutual Economic Assistance (CMEA) countries.

National income, investment and consumption

The centrally planned economies taken as a group experienced a higher rate of growth of national income in 1964 than in 1963. The changes over the preceding year varied considerably among these countries, however. In most cases the expansion of the industrial sector was the main accelerating factor; thus, in all countries except the Soviet Union the industrial sector grew at substantially higher rates in 1964 than a year earlier. In many cases less successful developments in agriculture dampened the effect of industrial expansion on over-all economic growth. In the Soviet Union, however, the exceptional acceleration in the growth of national income from 4.6 per cent in 1963 to 7 per cent in 1964 was due exclusively to improvements in agriculture, which, after the 7 per cent fall in 1963, registered a 12 per cent increase in 1964. In contrast, the expansion in industry in the Soviet Union fell somewhat short of the rates of growth achieved during the preceding year. Significant acceleration in the growth of national income also occurred in Eastern Germany with a rate of growth of 4.7 per cent in 1964 compared with 2.7 per cent in 1963 and 2.1 per cent in 1962. A significant acceleration, most likely, occurred in mainland China, also in view of improved performance in agriculture and higher rates of growth achieved in industry. Among the remaining countries, the national income of Romania increased somewhat faster and that of Bulgaria and Yugoslavia at the same rates as in 1963, while in Poland and Hungary a certain deceleration took place. In the two latter countries this was due exclusively to a steep decline in the rates of growth of agriculture, industrial production having expanded at accelerated rates. In Czechoslovakia, national income, which declined in 1963 by more than 4 per cent, remained unchanged during 1964, despite the fact that industrial production increased by over 4 per cent and gross output of agriculture rose by about one per cent. (*See* table 4-1.)

This discrepancy between the rate of growth of production of the two main sectors of the economy and the national income, apparent also in some other

Table 4-1. Changes in National Income, 1960-1964

(Percentage change over preceding year)

Country	1960	1961	1962	1963	1964 Planned	1964 Actual
Bulgaria	6.8	2.8	6.2	6.0	6.5	6.0
Czechoslovakia	8.1	6.5	1.5	—4.2	1.4	—
Eastern Germany[a]	4.6	3.2	2.1	2.7	3.8	4.7
Hungary	10.0	6.1	4.7	5.0	6.5	4.0
Poland	4.5	7.7	2.2	6.5	3.6	6.0[b]
Romania	11.0	10.0	4.4	9.8	...	10.0
USSR	8.0	7.0	6.2	4.6	7.7	7.0
Yugoslavia	6.0	4.0	5.0	12.5	12.0	12.5

Source: Reports on fulfilment of plans; national statistical yearbooks and statistical bulletins, and replies of Governments to the United Nations questionnaire of November 1964 on economic trends, problems and policies.

[a] In current prices. Data for 1962 and 1963 are based on *Die Wirtschaft* (Berlin), 14 January 1965; they differ from those originally published in the statistical yearbook of Eastern Germany for 1963.

[b] Based on the statement of the Chairman of the Central Planning Commission published in *Trybuna Ludu* (Warsaw), 25 March 1965. According to this statement, national income increased by 6 per cent and net domestic expenditure by 5 per cent. According to the original evaluations published in the report on fulfilment of the plan for 1964, the respective rates of increase were 5 and 4 per cent.

countries, was largely due to considerable differences between changes in gross and net output in agriculture. Thus, in Czechoslovakia, for instance, the contribution of agriculture to the growth of national income was negative in 1964, net output of that sector having declined by about 8 per cent. Similarly, in Bulgaria, where gross agricultural production rose by almost 9 per cent in 1964, net output fell by about 4 per cent. In view of this the rate of growth of national income has remained unchanged in Bulgaria despite a great acceleration in gross output of agriculture and a certain increase in the rate of growth of industry, both of which rose in 1964 at substantially higher rates than national income. These differences between the changes in gross and net output, especially in agriculture, which reflect the increase in input per unit of output, have been of great concern in several centrally planned economies as one of the basic factors restraining the rate of growth of national income during recent years.

The difficulties encountered in agriculture in Bulgaria and Czechoslovakia as well as in Hungary were also responsible for the slow expansion of national income relative to that planned. In fact in all countries except the Soviet Union the growth of agricultural production fell considerably short of the planned rates. In the Soviet Union national income increased somewhat less than planned, while industrial production rose considerably faster than planned.

In Poland, however, the growth in industrial production, which was much higher than planned, resulted in a 6 per cent increase in national income, compared with an increase of 3.6 per cent anticipated in the plan. In Eastern Germany, also, the pace of expansion was faster than provided in the plan. As in the preceding year, the highest rates of expansion were achieved in Yugoslavia and Romania, with 12 and 10 per cent, respectively, followed by the Soviet Union, Bulgaria and Poland.

Investment activities accelerated in 1964 in five out of the eight countries listed in table 4-2. In several cases the rates of change in 1964 differed considerably from those planned for that year and also from those achieved in 1963. One significant feature was that, in all but one case, where plans provided for a deceleration in the growth of investment, the actual growth rates in investment exceeded those planned, while in cases where an acceleration was planned, actual performance fell short of the plan targets.

The most radical changes occurred in Czechoslovakia and Yugoslavia, the two countries which achieved the highest rates of growth of fixed investment in 1964. In Yugoslavia gross fixed investment increased by 17 per cent in 1964, as against a 10 per cent increase planned for that year and an 11 per cent increase achieved in 1963. This difference between the plan and the actual achievement is explained in part by the fact that, in contrast to other centrally planned economies, decisions concerning investments are largely within the competence of individual enterprises, and that a considerable proportion of investment outlays is regulated by the central authorities indirectly through credit policy. The extremely liberal credit policy during the first nine months of

Table 4-2. Changes in Gross Fixed Investment, 1961-1964

(Percentage change over preceding year; in constant prices unless otherwise indicated)

Country and type of investment	1961	1962	1963	1964 Planned	1964 Actual
Bulgaria[a]					
State and co-operative	5.7	4.5	14.4	—7.0	3.9
State, centrally planned	3.2	9.9	19.0	—1.0	6.7
Czechoslovakia					
Total	7.2	—2.6	—11.0	14.2	12.2
Eastern Germany[a]					
Total	—	1.8	5.4	9.0	6.0
Hungary					
State and co-operative	—11.0	15.5	14.0	5.5	3.2
Poland					
Total	7.3	10.9	4.0	2.6	3.4[a]
Romania					
State	21.4	13.7	8.9	13.0	11.0
USSR					
Total	4.4	4.7	5.2	...	8.0
Centrally planned state and co-operative	10.0	9.0	6.0	10.0	8.0
Yugoslavia[b]					
Total	4.0	9.0	11.0	10.0	17.0

Source: See table 4-1; also *Planovo Stopanstvo i Statistika* (Sofia), 1 November 1965; and *Statisztikai Havi Közlemenyek*, No. 4, 1965 (Budapest).

[a] In current prices.

[b] Estimated from data in current prices deflated by cost indices calculated on the basis of changes in man-hours worked in construction and of changes in prices of machinery and equipment.

1964 led to a considerably higher rate of growth of gross fixed investment than had been planned. Not less significant, although in a different sense, were the changes in Czechoslovakia where the 12 per cent increase in fixed investment in 1964 represented a turning point in investment, which had registered an absolute decline in 1963 and 1962 of about 11 and 3 per cent, respectively. The 1964 recovery, smaller than anticipated in the plan, brought the level of investment almost to that of 1962; but it still remained below that of 1961.

A rather sharp change—though in the opposite direction—took place in Bulgaria where investment increased by 4 per cent in 1964, compared with a 14 per cent rise during the preceding year. The extremely great investment effort during 1963 created a need for relaxation in 1964, and the plan for that year in fact provided for a 7 per cent decline in total investment and a one per cent fall in centrally planned state investment. Indeed, the latter investment rose by 6.7 per cent, offsetting the smaller than anticipated decline in the remaining part of state and co-operative investment. In Hungary, also, the expansion of investment slowed down quite considerably, from a rate of 14 per cent in 1963 to one of 3.2 per cent in 1964. In East Germany, Romania and the Soviet Union investment activities accelerated, but in Poland some deceleration occurred although on a smaller scale than that planned.

The difficulties experienced in the implementation of investment policies varied from country to country. Thus, in Bulgaria the increase in investment in excess of the original plan was entirely due to expansion in construction works, while the delivery of machinery and equipment fell short of expectation.[1] In Eastern Germany the failure to fulfil the plan was also caused by lower than planned delivery of machinery and equipment. In Czechoslovakia and Hungary, however, the reverse was true. The less than planned growth of investment in these countries was due exclusively to non-fulfilment of the con-

[1] The value of construction works was 6.6 per cent above the planned level, while deliveries of machinery and equipment were 4.9 per cent below the planned quota.

struction targets, while the supply of machinery and equipment substantially exceeded the planned quotas.[2]

The available information on sectoral allocation of investment indicates that in all countries, with the possible exception of Yugoslavia, investment in agriculture increased much faster than average. Thus, in Poland, investment in agriculture rose by 24 per cent, while industrial investment increased by only about 3 per cent and that in transport and communications and in trade fell. In Hungary data referring to state and co-operative investments indicate that, while the total of these expenditures rose by 3.2 per cent in 1964, the investment allocated to agriculture rose by 6.1 per cent, absorbing 21 per cent of the total. The shift in investment towards agriculture was also apparent in the Soviet Union as well as in Czechoslovakia, where the share of agriculture in the total rose in 1964 to 12 per cent.

Within the industrial sector, the highest rates of growth of investment were in most countries attained in the chemical and engineering industries.

As in the past few years, all European centrally planned economies continued, with varying intensity, to concentrate on completion of projects under construction, or on a limited number of high-priority investments. The purpose of this policy was to reduce the exceedingly high proportion of uncompleted construction, and to increase the efficiency of investment by speeding up the commissioning of investment projects. In several countries the amount of investment immobilized in unfinished construction was so much in excess of what was considered normal that absolute reductions in volume were considered necessary. This policy has significantly contributed to the improvements registered in this field in several countries. The volume of unfinished construction has been reduced either in absolute terms or in relation to total investment, and relatively large amounts of new capacities were put into operation in 1964. In Czechoslovakia the volume of unfinished construction declined in absolute terms. The new additions to productive capacity increased for natural gas by 78 per cent, for electricity by 57 per cent and for installed steam boilers by 24 per cent as compared with 1963. The volume of unfinished construction was reduced by about 5 per cent, while investment rose by 12 per cent in 1964. In the Soviet Union the improvements achieved during the past two years in relation to the period 1960-1962 are shown in table 4-3. They indicate a substantial increase in the ratio of completion to investment, which resulted in a decline in the annual increment in unfinished construction. In 1964, however, neither the plan for investment nor that for commissioning of new capacities was fully implemented, and in consequence the value of unfinished construction increased by 1.1 billion roubles, that is, somewhat more than in 1963, as compared with an increase of 0.3 billion roubles anticipated by the plan. While new additions to productive capacity were 6 per cent larger in 1964 than in 1963, the increases in the oil and gas industries amounted to 16 per cent, in the coal and chemical industries to 17 per cent each, in the food industry to 10 per cent and in agriculture to 28 per cent. In Romania, also, the plan to raise the ratio of completions to investment to 80 per cent was not fulfilled, the actual ratio amounting to about 75 per cent. In that country, as in Poland, considerable increases in capacity occurred in the electrical and power industries.

Table 4-3. Soviet Union: Investment, Completions of Investment Projects and Value of Unfinished Construction, 1960-1964

(Billions of roubles)

Year	*Investment*	*Completions*	*Value of unfinished construction*
1960	30.8	28.1	21.4
1961	32.7	28.7	24.8
1962	34.8	32.7	26.1
1963	37.0	36.2	26.2
1964	40.0	38.7	27.5

Source: *Narodnoe Khozyaistvo SSSR v 1963 Godu* (Moscow), pages 447 and 451; *SSSR v Tsifrakh v 1964 Godu* (Moscow), pages 107 and 109.

Note: All data relate to the state and co-operative sectors; they do not include investment of the collective farms or private housing construction. Fixed investment and completions are expressed in constant prices. Data on stock of unfinished construction represent the actual cost of construction (in current prices) at the end of the year. In consequence, the changes in unfinished construction derived by subtracting completion from investment differ slightly from those calculated directly from annual data on unfinished construction.

In contrast to these developments, there was a setback in 1964 in housing construction in most of the countries for which data are available. Only Romania and Poland have reported increases in the number of dwellings completed in that year. In the latter country the number of rooms built by the State and the co-operatives increased by 18 per cent.[3] In Romania the number of dwellings built in 1964 increased by 3 per cent over 1963. In Czechoslovakia, however, the decline in housing construction, which began in 1963, continued throughout 1964. Privately financed construction, which represented 26 per cent of the total in 1964, declined more than

[2] In Czechoslovakia, the plan provided for a 13.6 per cent increase in construction and a 15.1 per cent rise in the deliveries of machinery and equipment. The actual increases amounted to 8.4 and 17.6 per cent, respectively.

[3] No data are available on privately built housing, which in 1963 represented 36 per cent of the total.

did state and co-operative housing. Developments in Eastern Germany and in Hungary were similar in many respects to those which took place in Czechoslovakia. In these countries, also, housing construction had reached a peak in 1961, and the ensuing decline continued through 1964. In Eastern Germany, however, the decline suffered in 1964 was very slight, amounting to less than one per cent, while in Hungary housing construction fell during that year by as much as 4 per cent. In the Soviet Union, state, co-operative and private housing, excluding housing construction of collective farms, declined for the second consecutive year by about 3 per cent, largely reflecting the drop in private construction.

As in the preceding years, most countries experienced a greater than anticipated unit cost of investment. This divergence reflected the under-evaluation of cost in the preparation of plans as well as actual increases in cost caused by the dispersion of efforts of construction enterprises over a large number of projects. The extension of construction activities over and above the actual capacity of the building enterprises resulted in a considerable lengthening of the construction period and increased cost. In order to eliminate these shortcomings, several countries introduced regulations aimed at improving planning and increasing the efficiency of construction enterprises. Thus, for instance, in Eastern Germany and Hungary the performance of the enterprise is to be evaluated after the completion of a given project—the quality of the work and the relationship between planned and total cost being taken into account—instead of on the basis of annually calculated "gross output". The building enterprises are to be paid for their work only after completion of the project and in the meantime they must cover their current expenditure by means of interest-bearing credits. It is expected that this will induce them to concentrate on the completion of projects under way and avoid the dispersion of their efforts on too many projects.[4]

Data on changes in consumption in 1964 are available for only four countries; for other centrally planned economies the statistics on retail sales of consumer goods provide the main indicators of changes in consumption. As in the preceding year, the highest rates of growth of retail sales were achieved by Yugoslavia, Romania, Hungary and Bulgaria (*see* table 4-4). In Yugoslavia a further acceleration of growth of consumer supply occurred in 1964, as indicated by the 17 per cent increase in retail sales following a 14 per cent rise in 1963. Developments in 1964 were influenced by a considerable growth in industrial production and by the improvement in agricultural supplies from the 1963 harvest. In Romania the volume of retail sales increased by 8 per cent, that is, at the same rate as during the preceding year but by 2 percentage points less than planned for 1964. In Hungary, the 5 per cent rise provided for by the 1964 plan was substantially exceeded. Actual sales during that year rose by 7.6 per cent, as compared with an 8.6 per cent rise in 1963. In Bulgaria, also, the growth of retail sales decelerated in 1964. But, in contrast to Hungary, this deceleration was much greater than that provided for in the plan. While in 1963 retail sales in Bulgaria rose by 9.4 per cent, they increased by only 5.6 per cent in 1964, compared with the planned increase of 7 per cent. In Poland, where the 1964 plan provided for an acceleration in the growth of retail sales, the actual increase fell short of that planned and amounted to about 4 per cent, compared with a 5 per cent rise in 1963. Among

[4] Recent developments in planning and management are reviewed in the section "Changes in Planning and Management", below.

Table 4-4. Changes in Volume of Retail Trade, 1961-1964

(Percentage change over preceding year)

Country	1961	1962	1963	1964 Planned	1964 Actual
Bulgaria	9.0	5.0	9.4	7.0	5.6
Czechoslovakia	4.5	2.5	1.4	2.8	2.7[a]
Eastern Germany	5 8	—0.7	0 3	4.5	3.4
Hungary	2.0	5.0	8.6	5.0	7.6[a]
Poland	8.0	5.0	4.9	5.7	4.1
Romania	16.0	13.0	8.0	10.0	8 0
USSR	4.0	6.0	5.0	5.8	5.3
Yugoslavia	12.0	4.0	14.0	. . .	17.0

Source: See table 4-1.

Note: Turnover of retail trade includes public catering. For Czechoslovakia, Romania and the Soviet Union, retail sales figures are supplied for state and co-operative trade only.

[a] In current prices.

the remaining countries retail sales accelerated substantially in Czechoslovakia and Eastern Germany and slightly in the Soviet Union. In Eastern Germany retail sales, which declined in 1962 by somewhat less than one per cent and rose by no more than three-tenths of one per cent in 1963, increased in 1964 by 3.4 per cent, exceeding the level of 1961 by 3 per cent. The increase in sales, however, fell short of the 4.5 per cent rise provided in the plan for 1964. In Czechoslovakia, also, the actual increases were smaller than anticipated, but the 2.7 per cent rise in retail sales in 1964 was higher than the rates of increase achieved during the two preceding years. In the Soviet Union the increase in retail sales amounted to 5.3 per cent in 1964, as compared with a planned rise of 5.8 per cent and an actual increase of 5 per cent in 1963.

In mainland China, for which no statistical data are available, indirect information indicates a substantial increase in retail sales, especially of food-stuffs.

In most countries sales of food increased at a higher rate than sales of non-food products. In Poland, however, the reverse seems to have been true, whereas in Eastern Germany both groups of commodities increased at about the same rate, although the non-fulfilment of the sales plan was entirely due to the lower rise in sales of non-food products than had been planned.

Among the food products, sales of meat seem to have increased less than those of other food-stuffs. In Poland, for example, the sales of meat did not increase at all in 1964, and in the Soviet Union they declined by 2 per cent. This decline, however, was much smaller than the decrease in the industrial production of meat, which, under the impact of the sharp drop in agricultural production in 1963, declined in 1964 by 23 per cent. The effect on sales was largely offset by a reduction of stocks and by changes in foreign trade.

In contrast, changes in sales of several other food-stuffs, such as poultry, fish, milk and milk products, were more favourable in most of the centrally planned economies. Among other commodities, sales of textiles in several countries registered only very modest increases, and in some cases even declined, while sales of ready-made clothing and shoes in many cases increased much faster. There were also very substantial increases in the sales of certain durable goods such as refrigerators and television sets,[5] while the trade in radios and sewing machines increased only slightly, indicating in many cases saturation of demand for these products at prevailing prices.

Consumption data are available only for Bulgaria, Czechoslovakia, Hungary, Poland and Yugoslavia. They relate in most cases to total rather than personal consumption and therefore also include government expenditure on goods provided free of charge to the population and to institutions.[6] Since neither these expenditures nor the value of goods consumed directly by their producers is reflected in retail sales, the changes in total consumption may differ from those indicated by retail trade data. Thus, in Bulgaria, where retail sales rose by 5.6 per cent in 1964, total consumption increased by 5.1 per cent. In Hungary this difference was much greater, the comparable figures being 7.6 and 5 per cent, respectively. In Hungary, and possibly in Bulgaria as well, the faster growth of retail sales reflects the increase in the share of consumption goods purchased through the retail trade network.[7] In contrast, total consumption in Czechoslovakia and personal consumption in Poland increased faster than retail sales, although the differences in their respective rates were rather small.[8] In Yugoslavia personal consumption increased by about 12 per cent in 1964 and in Eastern Germany by about 3.5 per cent.

The changes in the allocation of national income among its end uses can in most of the centrally planned economies be ascertained only by comparing data on national income, gross fixed investment and retail sales. However, for four countries more precise assessment of 1964 developments is possible because of the availability of the data on the main expenditure components of national income shown in table 4-5. In Bulgaria the most significant change consisted of a very large decline in accumulation, of about 15 per cent[9] compared with a 6 per cent increase in national income. Because of a change from substantial net imports in 1963 to net exports

[5] The increases in sales of refrigerators in 1964 over 1963 were 35 per cent in Bulgaria, 28 per cent in Eastern Germany, 65 per cent in Hungary, 30 per cent in Poland, 33 per cent in Romania and 21 per cent in the Soviet Union.

[6] The share of social consumption in total consumption in 1963 amounted to about 8 per cent in Bulgaria, 5 per cent in Hungary and 11 per cent in Poland.

[7] This tendency, apparent also in several other countries during the preceding years, reflects the shift of the agricultural population to industrial occcupations, or the increasing share of money payments in the income of agricultural producers, or both.

[8] In Poland personal consumption increased more slowly than total consumption indicating a faster than average growth in social consumption.

[9] As indicated in table 4-2, gross fixed investment increased in 1964 by 4 per cent. The difference between the growth rate of gross fixed investment and accumulation is due to the effect of divergent changes in inventories, depreciation and capital repairs, since accumulation in the concept of national income in most centrally planned economies can be defined as gross fixed investment less depreciation plus changes in inventories plus capital repairs.

Table 4-5. Selected Centrally Planned Economies: Allocation of National Income, 1963-1964

Item	*Bulgaria*[a]			*Czechoslovakia*			*Hungary*			*Poland*[a, b]		
	1963	*1964*	*1964 (Index, 1963 = 100)*	*1963*	*1964*	*1964 (Index, 1963 = 100)*	*1963*	*1964*	*1964 (Index, 1963 = 100)*	*1963*	*1964*	*1964 (Index, 1963 = 100)*
	(Billions of leva in current prices)			*(Billions of korunas in 1960 prices)*			*(Billions of forints in 1959 prices)*			*(Billions of zlotys in 1961 prices)*		
National income	5,675.8	6,016.3	106.0	171.1	171.7	100.3	163.9	171.1	104.4	446.6	468.9	105.0
Net domestic expenditures	5,894.9	5,854.0	99.3	164.7	168.5	102.3	166.8	175.9	105.5	443.3	461.0	104.0
Consumption	4,299.7	4,444.0	105.1	139.7	144.9	103.7	120.3	127.0	105.6	330.9	345.8	104.5
Accumulation	1,665.2	1,410.0	84.7	25.0	23.6	94.4	46.5	48.9	105.2	112.4	115.2	102.5
Balance of foreign trade[c].	—219.1	162.3		6.4	3.2		—2.9	—4.8		3.3	7.9	

Source: See table 4-1; also, for Bulgaria, *Planovo Stopanstvo i Statistika*, No. 1, 1965, page 9; for Czechoslovakia, reply of the Government of Czechoslovakia to the United Nations questionnaire on economic trends, problems and policies, 1964-1965; for Hungary, direct communication from the Hungarian Statistical Office.

[a] Data relating to 1964 are only very rough estimates based in most cases on preliminary evaluations of percentage changes over 1963 indicated in the plan fulfilment reports and other national publications. They should, therefore, be viewed as a broad indication of changes rather than as exact actual amounts.

[b] Data for 1964 were calculated by the application of the percentage increase indicated in the report on the fulfilment of the plan for 1964 to the absolute data available for 1963. According to the statement of the Chairman of the Central Planning Commission published in *Trybuna Ludu* (Warsaw), 29 March 1965, the originally allowed percentage increases of national income and of net domestic expenditure have been revised upwards from 5 and 4 per cent, respectively, to 6 and 5 per cent. The new figures could not be used for the estimates shown in the table because of lack of revised data on changes in consumption and accumulation. It is, however, believed that the basic proportions have not been significantly altered by these revisions. The evaluation of the value of net foreign trade obtained as a difference between the net domestic expenditure and national income in 1964

[c] Obtained as a difference between national income and net domestic expenditure.
is not affected by the revision of the percentage increase of these two items.
This item may also be influenced by losses and statistical discrepancy.

in 1964,[10] however, this did not result in any increase in the share of consumption in national income. In fact, the sum of accumulation and net trade increased in 1964 by almost 9 per cent. In consequence, consumption increased by only 5 per cent and its share in national income declined.

The developments in foreign trade had a similar though much less extensive effect on the allocation of national income in Poland. National income increased by 5 per cent while accumulation rose by only 2.5 per cent.[11] But net exports more than doubled and, together with accumulation, showed an increase of more than 6 per cent. Total consumption increased by 4.5 per cent, or less than national income. The rise in personal consumption was even lower, 4 per cent, while social consumption rose by about 7 per cent. The increase in accumulation by about 2.5 per cent compared with the 3.4 per cent rise in gross fixed investment seems to be largely accounted for by a decline in the growth of inventories.[12] In the two other countries for which data on allocation of national income are available the shift in the allocation was in favour of consumption.

In Czechoslovakia where national income showed virtually no increase in 1964, accumulation fell by about 6 per cent. But net exports declined by as much as 50 per cent, and the sum of net exports and accumulation fell by 15 per cent. This decline in the amount of resources allocated to purposes other than domestic consumption made it possible to raise consumption by 3 per cent over 1963. The fall in accumulation, despite a 12 per cent increase in fixed investment, was caused by an absolute decline in inventories, which occurred for the first time since 1960.

In Hungary consumption also rose faster than national income. But, in contrast to Czechoslovakia, accumulation also increased, although at a lower rate than consumption. Thus, in 1964, national income in Hungary increased by 4.4 per cent, while accumulation rose by 5.2 per cent and consumption by 5.6 per cent. These increases, exceeding the growth of national income, were made possible by an almost 70 per cent rise in net imports. In Yugoslavia national income and personal consumption seem to have risen in 1964 at approximately the same rate of 12 per cent. Accumulation probably increased at a higher rate,[13] but this did not reduce the share of personal consumption in national income significantly, if at all, because of a further sharp increase in net imports and possibly a slower growth of social consumption. In the Soviet Union in 1964 national income rose by 7 per cent, investment by 8 per cent and retail sales by 5.3 per cent. Although consumption of the peasants out of their own output may have increased more than retail sales owing to the considerably better harvest, it is doubtful that this would have resulted in a much greater rise in total consumption than in retail sales. It may therefore be concluded that the shift in allocation of income in 1964 was in favour of accumulation. In 1963 the share of consumption in national income was increased. The information on changes in investment, retail sales and national income in Eastern Germany and Romania indicates that in these two countries accumulation has also most likely risen faster than consumption.[14]

In those countries where consumption increased at a slower rate than national income the balance between supply and demand was largely maintained by means of an incomes policy which in the industrial sector consisted in keeping the growth of money wages significantly below the rise in productivity. In all countries excepting Yugoslavia, output per man seems to have increased considerably faster than average money wages. In consequence, the developments in this sector had an anti-inflationary effect. The changes in the agricultural sector are more diffi-

[10] This is expressed in domestic currency; the changes expressed in foreign trade currency might be quite different. In some of the centrally planned economies the conversion into domestic currency of trade figures expressed in foreign currency occasionally resulted in an inversion of the plus or minus sign.

[11] This analysis is based on data derived from the report on the fulfilment of the plan for 1964. According to a statement made at a later date by the Chairman of the Central Planning Commission (*Trybuna Ludu*, 29 March 1965), the original estimates of national income and of net national expenditure have been revised upwards and amount to 6 and 5 per cent, instead of 5 and 4 per cent, respectively. The use of the unrevised data in the present analysis was made necessary because of lack of revised data covering consumption and accumulation. While these data have not yet been published, it is believed that they would affect the absolute magnitudes rather than the relations between expenditure components indicated in the plan fulfilment report. It should be added that calculation of the balance of foreign trade in 1964 by the application of the revised indices to the 1963 values yields exactly the same absolute amount of net exports as the use of the unrevised data indicated in table 4-5. (The foreign trade balance has been calculated by subtracting national income from net domestic expenditure.)

[12] Acccording to the reply of the Polish Government to the United Nations questionnaire on economic trends, problems and policies, 1964-1965, the increment in inventories (presumably in current prices) declined by 16 per cent in 1964, although according to the same source, this increment rose by about 11 per cent in industry and by about 5 per cent in domestic trade.

[13] The volume of gross fixed investment in the socialized sector increased by about 17 per cent in 1964. The effect of this increase on accumulation seems to have been partially offset by decrease in inventories.

[14] In Eastern Germany investment rose by 6 per cent, retail sales by 3.4 per cent and national income by 4.5 per cent. In Romania the corresponding data were 11, 8 and 10 per cent, respectively. In Eastern Germany personal as well as total consumption seems to have increased at approximately the same rate as retail sales, by 3.5 per cent. This is revealed by the data on growth of consumption between 1958 and 1964 indicated in *Die Wirtschaft* 14 January 1965 compared with the data for 1958-1963 as shown in the Eastern Germany statistical yearbook for 1963.

cult to ascertain, owing to lack of data on money incomes of the peasant population. In some countries, however, the money income of the peasants grew more than the volume of their sales because of increases in prices paid for agricultural goods by the state purchasing agencies. Another factor which in some cases contributed to the rise in disposable money income was the reduction of taxes and increases in money payments for pensions and other social benefits. The effect of these factors was in most cases not sufficient to offset the anti-inflationary impact of the reduction of unit wage cost in industry. In some countries the proportion of income saved by the population seems also to have increased. It is likely that this increase was motivated in large part by the inadequate supply of certain durable goods and the expectation of an improvement in private housing construction in the near future.

In only one country, Yugoslavia, did the growth of money income of the population result in significant imbalances between supply and demand for consumer goods; this occurred despite the fact that the share of national income allocated to consumption did not change appreciably, if at all. A rise in money payments in excess of the increase in output was the main reason for the sharp increase in the pressure of demand on supply.[15] Thus total money earnings in the socialized sector increased in 1964 by 34 per cent, money payments to the peasants for sale of their produce to the socialized trade agencies increased by 23 per cent and other payments to the population increased by 31 per cent. Although credits extended to consumers were reduced in 1964 by 30 per cent as compared with the preceding year, the total amount of money available to the consumer after taxes rose by 27 per cent, or much more than the increase in the supply of goods and services. The volume of retail sales, for instance, rose by about 16 per cent in 1964. In consequence, prices increased sharply. The retail price index rose by 9 per cent, largely because of an increase of 19 per cent in prices of food, while prices of industrial goods rose by 6 per cent. The cost of living index increased by 12 per cent in 1964.

In Bulgaria output per man in industry rose by 8 per cent while average wages increased by only 2.3 per cent.[16] While these changes had a restraining effect on the pressure of demand on supply, the money payments to the peasants probably increased more than did the deliveries of agricultural produce owing to certain increases in prices paid by the state procurement agencies. It seems, however, that the balance between supply and demand was not significantly affected by these changes. Similarly, in Eastern Germany the effect of the smaller rise in consumption than in national income was largely offset by the much greater increase in labour productivity than in wages. While output per man rose in this country by 6.5 per cent, average wages increased by only 3 per cent in 1964.

In Poland the balance between supply and demand for consumer goods improved in 1964 after having deteriorated in 1963. This was achieved largely by a slowing down of the rate of growth of employment and by a rising productivity of labour in industry without a corresponding increase in wages. Thus, while output per man in industry rose in 1964 by 7 per cent, money wages per worker increased by only 3 per cent. This difference between changes in output and in labour earnings in the industrial sector was the main factor preventing a rise in inflationary pressures which might otherwise have resulted from the rise in accumulation and the increase in the ratio of net exports to national income. In fact, total money income of the peasants increased at a much higher rate than did agricultural production and sales. Money income of the peasants from sales of agricultural products to the state trade organization rose in 1964 by 6.8 per cent, while the wage bill rose by 4.9 per cent.[17] In addition, new regulations were introduced increasing expenditures on old-age and invalid pensions by 17 per cent. The full impact of this measure will be felt, however, only in 1965. On balance, the rise in total income does not appear to have exceeded the increase in supply of goods and services. For the second consecutive year the sales of the latter increased much faster than retail sales, their rates of increase being 9.8 and 4.1 per cent, respectively.[18] Prices of most consumer goods remained stable in 1964, but the cost of living increased by 0.6 per cent as a result of price increases affecting coal, gas, electricity and milk introduced in the course of 1963.

In Romania a general increase in wages, amounting on the average to 10 per cent, was initiated in 1964, with greater than average increases for lower-income groups. This measure, however, was to be introduced only gradually in the course of 1964 and 1965 and was to be accompanied by certain reductions in income-taxes affecting mostly the lower-income brackets. The impact of these reforms on money income in 1964 was rather small. In fact, money wages of industrial workers rose in 1964 by only 3 per cent, while output per man increased by 10 per cent. These differences between the growth

[15] It will be recalled that, unlike in the other countries, neither the prices charged by the state enterprises nor the money payments to their staff are, as a rule, controlled by the authorities in Yugoslavia.

[16] This percentage relates to wage earners. Payments to salary earners in industry increased by 2.8 per cent in 1964.

[17] In 1963 money payments to the peasants fell by 4.5 per cent, while the wage bill rose by 8 per cent.

[18] In 1963 retail sales rose by 4.9 per cent and services by 18 per cent.

of output and income were amply sufficient to counterbalance the possible effect of the changes in the allocation of resources in favour of accumulation on the balance between supply and demand for consumer goods.

In the Soviet Union, also, average money wages seem to have risen less than the 4 per cent increase in output per man in industry. No data on changes in money wages are available for the Soviet Union for 1964, but according to an official statement, they increased between 1959 and 1964 by 2.4 per cent annually,[19] and it would appear that their rise in 1964 could not have been much greater. The increase in money income of the collective farms by 8 per cent corresponds largely to the increase in the volume of their sales. In consequence, in the Soviet Union also, the changes in money payment in relation to output were largely adapted to the changes in the allocation of income between consumption and accumulation.

As in other countries, several steps were taken in the Soviet Union to increase the wages of a large number of workers. These were applied particularly to persons employed in the non-productive sphere, and were aimed at the reduction of the considerable differences between their wages and those of productive workers. In the last quarter of the year wage increases were applied to non-productive occupations in the northern region and to workers engaged in health services throughout the country, affecting a total of 8 million wage and salary earners. The effect of these measures on demand was, however, very limited in 1964, but upon completion of the reform in 1965 it will be quite considerable. The total number of workers in all non-productive branches affected by the reform in 1964 and 1965 will amount to 18 million persons whose average wages are to increase by 21 per cent.[20] The completion of the reform, which involves a higher rate of wage increases for the lower-income brackets, will raise the minimum wage in the Soviet Union to 40 to 45 roubles monthly.[21]

[19] See *Pravda* (Moscow), 10 December 1964.

[20] In housing and municipal services, 15 per cent, in trade and catering, 18 per cent, in health services, 23 per cent and in education, 25 per cent.

[21] Data published in *Sotsialistichesky Trud*, No. 8, 1964 (Moscow), page 4, indicate that the wage bill of the 18 million people benefiting from the reform will increase by 3.3 billion roubles, that is by 21 per cent. It follows that the average monthly wage of these workers, roughly corresponding to the average wages of all persons engaged in the non-productive sector, will be raised from 73 roubles to 88 roubles monthly. According to the same source, this will reduce but not eliminate the difference between the average wages of the non-productive sector and those of the productive sector, from 20 per cent in 1963 to 10 per cent in 1964-1965. This seems to indicate that average wages in the productive sector were 86 roubles monthly in 1963, and will amount to 97 roubles in 1965.

Another measure announced in 1964 to take effect beginning in 1965 is the introduction of pensions for 6.5 million collective farm workers, amounting to about 1.3 to 1.4 billion roubles during 1965. This expenditure is to be financed by the state budget and by the collective farms, which are to devote to it 3 to 4 per cent of their gross income. In addition, members of collective farms are to receive compensation for inability to work, for the death of the main supporter of the family and as subsidies for pregnant women. The average old-age pension of collective farm workers is estimated to be about 17 roubles per month per worker, as compared to 41 roubles per month paid on the average to the urban pensioner.

As indicated earlier, consumption increased at a higher rate than national income in the two remaining countries of the group. In Czechoslovakia this shift in the allocation of resources was accompanied by an increase in income payments exceeding the growth of output. Thus, while total national income did not increase in 1964, average money wages in all sectors of the economy rose by 2.5 per cent, and the total wage bill rose by about 5 per cent. The discrepancy between the rise in output and that in money payments was much greater in agriculture where net output declined and gross output rose by less than one per cent. The volume of sales of agricultural produce to the state purchasing agencies rose by much less than money income earned from agricultural activities, which increased by over 15 per cent. Total money income of the population rose by 5.6 per cent. Total rise in income payments to the population over and above the rise in output should not create any problems as long as it corresponds to the shift in the allocation of national income in favour of consumption. It seems, however, that income payments increased more than the supply of goods and services. It has certainly increased more than retail sales, the volume of which rose by 2.7 per cent, and more than the supply of services, expenditure on which rose by 3.5 per cent in 1964. This difference, however, seems to have been absorbed by a very substantial rise in savings deposits, which in 1964 increased by about 3.7 billion korunas, corresponding to 3.5 per cent of total sales in the state and co-operative trade.[22] As in the case of other countries, the increase in the rate of saving might have resulted from the unavailability of certain commodities and from an anticipated increase in the supply of durable consumer goods and housing facilities.[23]

[22] In 1963 this increment amounted to 2.6 billion korunas.

[23] In Czechoslovakia the deferred demand reflected the expectation that new types of goods and goods of higher quality would be made available in the near future. Among durable goods, the deferred demand for motor-cars was of particular importance.

In Hungary, also, the share of consumption in national income rose and the income of the population increased more than output. While in industry the rise in wages was most likely smaller than that in labour productivity, in agriculture total income —in money and in kind—rose by 3 to 4 per cent in 1964, while agricultural production increased by no more than 2 per cent. The total wage bill in all sectors of the economy increased by 7 per cent as a result of a 3.5 per cent rise in employment and a 3.5 per cent increase in average wages. But the money income of the peasant increased much more. The money payment per "work unit" in the collective farms increased by 16 per cent, while the income paid in kind was reduced. The money proceeds to members of the collective farms from sales to the State increased by 11 per cent. These increases in the money receipts of members of the collective farms, together with the rise in pension payments of 9 per cent, clearly indicate that total money receipts of the population increased to a greater extent than the 7 per cent rise in retail sales. Although the savings of the population have also increased, a certain pressure of demand upon supply seems to have developed. Food prices on the free market increased by almost 10 per cent, although this was largely due to shortages of fruit and vegetables. Food prices in the state and co-operative trade increased by no more than about 1.4 per cent, and some other prices were even slightly reduced.[24] These changes were reflected in an increase in the cost of living of less than one per cent.

In mainland China, for which only qualitative information is available, the balance between supply and demand for consumer goods seems to have improved substantially, largely because of a greater supply of agricultural goods resulting from the much better performance of agriculture. Retail sales of food-stuffs as well as of industrially produced consumer goods increased substantially, and several commodities previously rationed became freely available to the purchasers. Prices of consumer goods generally remained stable.

The available information on changes in money wages and prices seems to indicate that real wages increased in 1964 by 2.3 to 3.5 per cent in most countries. The increases in real wages in 1964 were greater than in 1963 in Bulgaria, Czechoslovakia, Eastern Germany and Poland. In Hungary, however, the increase in real wages of about 3 per cent was smaller than in 1963 when it amounted to 5 per cent, and in Romania the rate of increase fell from about 4.6 per cent in 1963 to 3 per cent in 1964.

In the Soviet Union, the "real *per capita* income of the population"[25] increased in 1964 by about 4 per cent, compared with a 2 per cent increase in 1963. Since industrial wages seem to have risen by about 2.4 per cent in 1964, the 4 per cent increase in the real *per capita* income of the population indicates a greater than average increase in the income of the peasants, owing to a much increased output and to higher prices paid for their deliveries, and perhaps also to an increase in various benefits paid to the workers in addition to wages.

The most significant increase in average real personal earnings occurred in Yugoslavia, where, despite a steep rise in prices, there was a 12 per cent increase in the socialized sector of the economy, following a 9 per cent rise in 1963.

PLANS FOR 1965

The plans for 1965 in most countries were influenced by readjustment measures considered necessary for the launching in 1966 of new long-term plans for economic development. In consequence, considerable attention has been devoted to the

[24] Based on price changes in Budapest. In Hungary the state and co-operative trade organizations also sell food on the free market at prices differing from the ones charged in their other trade outlets.

[25] "Real income of the population" includes: wages and salaries; income in money and in kind of members of collective farms; pensions and similar benefits; scholarship grants and other financial aids to education, and expenditures on goods by institutions providing free as well as paid services to the population (health, education and other). The following items are subtracted from the total thus obtained: personal taxes and other payments to the budget and to various organizations, and payments for services (passenger transport, theatres and other).

This subtraction of payments for services is motivated by the fact that "the consumption of the workers employed in institutions providing services is covered by their wages and salaries and the goods used by these institutions are added to the income of the population". The net total is calculated in constant prices and presented as indices of real *per capita* income, average income of wage and salary earners and members of collective farms, or as average income of the active population. No absolute data are available on real income of the population or on its components. The Soviet Statistical Office publishes a series on "benefits and grants" financed by the state budget and by enterprises and other organizations. This series differs, however, from the component benefits and grants in the real income of the population, largely because it includes total expenditure on goods and services in institutions providing free services to the population as well as wages and salaries paid during periods of leave with pay. The total of these grants and benefits received by the population from social funds does not include expenditures on science, the press and art, or capital expenditure (investment and capital repairs) for socio-cultural activities; premiums and payments for leave are calculated net of tax; but it does include expenditure on the maintenance of housing facilities financed by the state budget in excess of the very low rent paid by tenants. The sums spent on these grants and benefits amounted to 34.3 billion roubles in 1963 and to 36.6 billion roubles in 1964. According to *Izvestia* (Moscow), 4 October 1964, the total of all these benefits was equal in 1963 to 357 roubles per beneficiary, that is, to almost 30 roubles monthly. Although this figure cannot be compared directly with average wages because of certain overlapping and differences in coverage, its order of magnitude is indicated by the fact that the average money wage in all sectors of the economy seems to have been equal to about 82 roubles monthly in 1963.

completion of projects started earlier, with special emphasis on projects that are particularly important for required structural changes. For similar reasons the plans for 1965 aim at the elimination of various imbalances which have developed during recent years in several countries.

The plans of Bulgaria, Czechoslovakia and the Soviet Union provide for an acceleration in the growth of national income during 1965. In Czechoslovakia, where national income declined somewhat in 1963 and remained unchanged during 1964, the increase planned for 1965 exceeds 4 per cent. In other eastern European countries for which data are available the rates of growth of national income planned for 1965 are lower than those achieved during the preceding year. The differences in the planned rates of increase in national income are quite considerable, ranging from 3 per cent in Hungary to 9 per cent in Yugoslavia (*see* table 4-6).

Table 4-6. Planned Targets for 1965

(Percentage increase over preceding year)

Item	*Bulgaria*	*Czechoslovakia*	*Eastern Germany*	*Hungary*	*Poland*	*Romania*	*USSR*	*Yugoslavia*
National income	7.7	4.1	...	3.0	5.2	...	8.0	9.0
Consumption	6.3	3.5	...	2.0	4.7	...	...	9.0
Accumulation	9.5	30.0	...	—1.0	7.7	...	...	...
Gross fixed investment[a]	4.8	8.0	10.0	0.9	8.6	11.0	11.3	—3.5
Retail trade[b]	6.6	3.2	3.0	3.5	6.0	11.0	7.9	—
Industrial production[c]	9.8	5.5	5.7	4.0	7.8	13.0	8.1	10.0
Industrial employment	3.2	1.1	—1.2	1.0	2.7	3.7	2.3	3.2
Output per man in industry	6.4	4.4	6.5	3.0	4.9	9.0	5.7	7.0
Agricultural production	7.7	7.2	4.0	2.0	2.7	...	...	12.0[d]
Foreign trade turnover	17.5	9.0	10.0	8.0	8.0	...	...	4.5
Exports	19.0	...	...	12.0	7.3	...	...	12.5
Imports	16.0	...	...	4.0	8.6	...	...	2.5
Wages[e]	2.3[f]	1.7	...	1.0	4.5	...	4.5	...

Source: Official documents relating to plans for 1965.
[a] For Bulgaria, Czechoslovakia, Eastern Germany, Poland and Yugoslavia, total investment; for Hungary, state and co-operative sector; for Romania, state investment; for the Soviet Union, centrally planned investment in the state and co-operative sector.
[b] State and co-operative.
[c] For Bulgaria, Poland and Romania, industrial production in the state and co-operative sector; for Hungary, state industry; for other countries, total industry. For Eastern Germany, data exclude changes in goods in process.
[d] Socialized sector.
[e] In all sectors.
[f] In industry only.

Industrial production is planned to accelerate only in Czechoslovakia, from 4 per cent in 1964 to 5.5 per cent in 1965, and in the Soviet Union, from 7 to 8 per cent. In all the other countries, including mainland China, the growth of industrial production is to slow down, in some cases quite considerably. Thus, in Hungary, where industrial production rose in 1964 by about 9 per cent, the rate of increase planned for 1965 amounts to less than half as much. In mainland China and in Yugoslavia the growth rates planned for 1965 were reduced considerably from the rates achieved in 1964, from 15 to 11 per cent in the former and from 16 to 10 per cent in the latter. In other countries the planned deceleration is much less significant. As in the preceding years the highest rates of industrial expansion are planned in the least developed countries. Thus, Bulgaria plans to increase industrial production by more than 11 per cent, that is, somewhat faster than mainland China and Yugoslavia, and Romania by as much as 14 per cent.

Agricultural production is planned to accelerate in several countries in 1965. Thus, the Yugoslav plan anticipates a 12 per cent increase in agricultural production in the socialized sector. Since this plan anticipates improved weather conditions, it seems clear that total farm production is also expected to increase at a much higher rate than in 1964 when it had risen by less than one per cent over 1963. Among the other countries, an accelerated growth of agricultural production is expected in Czechoslovakia and Poland, and a certain deceleration is foreseen in Bulgaria. This is probably also true of the Soviet Union, where the 12 per cent increase in output achieved in 1964 largely represented a recovery from a considerable decline in 1963.

Gross fixed investment is planned to increase faster than total production in most countries. But in Yugoslavia fixed investment is planned to decline in absolute terms by about 3.5 per cent, and in Hungary it is planned to increase by less than one per cent in 1965. In Yugoslavia the planned reduction in investment activities reflects the need for relaxation after the great investment efforts of the preceding year when gross fixed investment rose by as much as 17 per cent. In Hungary the relatively high rates of investment in 1962 and 1963 had already made it necessary in 1964 to slow down substantially the expansion of investment activities. This deceleration was not considered sufficient, and the decision to keep investment activities at approximately the level reached in 1964 was motivated largely by the need for further structural readjustments. Investment activities had to be restrained owing to the inadequate capacity of the construction sector and because of the need to reduce substantially the growth of imports, a move which will adversely affect the supply of machinery and equipment. A certain slackening in the growth of fixed investment is also planned by Czechoslovakia. In Romania investment is to continue to increase at the same rate as in 1964, while in Bulgaria, Eastern Germany, Poland and the Soviet Union it is planned to accelerate the rate of investment activities very substantially.

In most countries retail trade is planned to increase in 1965 faster than in 1964. Thus, in the Soviet Union the plan provides for an almost 8 per cent increase in retail sales, as compared with an increase of about 5 per cent in 1964. Substantial acceleration is also anticipated in Bulgaria, Poland and Romania. In Czechoslovakia retail sales are also to increase somewhat faster than in 1964, while in Eastern Germany and especially in Hungary the growth of retail sales is planned to slow down, in the latter country from 7.6 per cent in 1964 to 3.5 per cent in 1965.

Information on planned changes in the allocation of national income between accumulation and consumption is available for only a few countries. Thus, in Yugoslavia consumption is planned to increase at the same rate as national income, both at a slower rate than in 1964. More complete data are available for Bulgaria, Czechoslovakia, Hungary and Poland. They indicate that in all these countries consumption is planned to increase at a slower rate than national income in 1965. In Bulgaria national income is to increase by 7.7 per cent, consumption by 6.3 per cent, accumulation by 9.5 per cent and net exports (expressed in domestic currency) are to increase by about 30 per cent. In Czechoslovakia accumulation is planned to increase by 30 per cent in comparison with a 4 per cent increase in national income. In absolute terms this huge increase in accumulation is greater than the anticipated increment in national income, and the planned growth of consumption by 3.5 per cent will be made possible by a transition from substantial net exports in 1964 to net imports in 1965.

In Poland, also, accumulation is to increase faster than national income and consumption. The difference between the growth rates of these two expenditure components is, however, much smaller than in Czechoslovakia. Thus, in Poland national income is to increase by 5.2 per cent, consumption by 4.7 per cent and accumulation by 7.7 per cent. Net exports (in domestic prices) are to decline only slightly. In contrast to the planned developments in these three countries, accumulation is planned to decline in Hungary by one per cent in 1965, while national income is to rise by 3 per cent. The resources released by the decline in accumulation in relation to national income are not, however, to be used for consumption, which is to increase by 2 per cent only. They will be entirely absorbed by the very sharp decline in net imports, which are to fall by about 65 per cent in 1965.

Data on planned changes in consumption and accumulation are not available for other countries. In the Soviet Union the data on planned increases for 1965 in investment, retail sales and national income, when compared with the corresponding data for the preceding year, seem to indicate a certain shift in favour of accumulation but the extent of such a change will apparently be considerably smaller than in 1964. In Romania retail sales and fixed investment are to increase at the same rate, but in Eastern Germany gross fixed investment is planned to increase by 10 per cent while retail sales are to increase by only 3 per cent. No planned rates of growth of national income were announced in these two countries.

Foreign trade is planned to expand substantially in all countries, the increases over the preceding years ranging from 7 per cent in Hungary to 19 per cent in Bulgaria. In all countries for which data are available the growth of foreign trade is to be much faster than that of national income. In four countries data on planned exports and imports are available; exports are to increase faster than imports in Bulgaria, Hungary and Yugoslavia, resulting in a decline in net imports. This change is particularly significant in Hungary where net imports, which amounted to 9.6 per cent of total imports in 1964, are to be reduced to 2.6 per cent of total imports in 1965. In Bulgaria the corresponding ratios are 8.4 and 6 per cent, respectively. In Yugoslavia net imports, which represented as much as 32 per cent of imports in 1964, are to be reduced to 25 per cent of imports in 1965. In Poland a slight export surplus corresponding to about one per cent of imports is to be entirely eliminated in 1965.

Information on anticipated changes in wages and in other items of consumer income is available for only a few countries. Average wages are planned to increase in 1965 by 4.5 per cent in Poland and the Soviet Union. Is both countries these increases are higher than those achieved in 1964. In the Soviet Union they are almost twice as high as the average increase during the past six years, when the increase did not exceed 2.4 per cent annually. The planned increase in average wages is largely accounted for by the very substantial rise in the wages of about 18 million workers engaged in services[26] and a rise in the minimum wage in all sectors of the economy. The total wage bill is to increase by about 7.4 per cent. Total real *per capita* income of the population, which in addition to wages includes income in money and in kind of members of collective farms and other benefits, is to increase by 7.3 per cent, compared with a 3.9 per cent increase in 1964, more than double the annual average increase during the period 1959-1964. The total real income of the population is to increase by about 8.6 per cent,[27] that is, by more than the wage bill. This seems to indicate a certain shift in the allocation of disposable income in favour of members of collective farms and a faster increase in pension payments and other social benefits, including services rendered free of charge to the population.[28]

[26] About 23 per cent of the total of wage and salary earners in 1965.

[27] On the assumption that the population will increase at the same rate as in 1964, that is by 1.3 per cent.

Among other countries for which data are available, average wages are to increase by 1.7 per cent in Czechoslovakia and by one per cent in Hungary. In Bulgaria average wages of workers in industry are to increase by 2.3 per cent; in transportation, by 3 per cent, and in construction, by 3.8 per cent. In the latter country "real *per capita* income of the population" is planned to increase much more—by 5.3 per cent—indicating, as in the Soviet Union, a shift in the allocation of income in favour of the rural population.

[28] The 1965 plan provides for 37.4 billion roubles for these payments and services. According to an official statement, this amount exceeds the sums spent for this purpose in 1964 by 4.3 billion roubles. According to *SSSR v Tsifrakh v 1964 Godu*, such payments amounted to 34.3 billion in 1963 and to 36.6 billion in 1964. It is not certain whether the discrepancy between these two sets of data is due to differences in coverage or to an upward revision of data relating to 1964 in the last-mentioned publication.

Problems of national planning and regional economic integration

In the course of 1964 further steps were taken in most of the centrally planned economies towards improvement in the methods of planning and management. The changes initiated earlier were further extended and new reforms were adopted in some cases. All countries conducted experiments with various methods of planning and management, the results of which were to be used for the elaboration of future reforms.

While the present attitudes towards the scope and urgency of the reforms may vary from country to country, their common feature is the clear recognition of the need to increase the degree of operational autonomy of the state enterprises or their associations and to guide their activities by increasingly greater use of indirect methods rather than by administrative order. This is to be achieved by the creation of conditions in which the self-interest of the individual enterprises will induce them to act in conformity with the over-all interests of the economy as reflected in the central plan.

The process of re-evaluation of the methods of planning and management was not limited to domestic economic problems. Similar efforts have been made in the field of international planning and co-ordination of economic activities of the CMEA countries with the purpose of enlarging the scope of international division of labour among these countries. It is significant that in this field, also, the main attention has been devoted to devising ways and means of eliminating differences which may arise between the interests of individual countries and of the area as a whole with respect to various specialization schemes. Moreover, although the changes in the methods of domestic planning and management have been undertaken independently from the search for new methods of inter-CMEA co-operation, they will undoubtedly have a considerable impact on each other.

CHANGES IN PLANNING AND MANAGEMENT

The process of re-evaluating the methods of planning and management and introducing changes in the system initiated some time ago has been intensified in 1964 in most of the centrally planned economies. In Eastern Germany the new system, initiated in 1963, has been further developed. In Czechoslovakia the outlines of the reforms, the most far-reaching in the group, have been formalized in an official decision and steps have been taken towards their implementation. In the Soviet Union experiments conducted in individual enterprises have led to the introduction of significant innovations in some branches of light industry, and further extension of the new methods to other sectors of the economy has been announced. In the remaining countries the changes which occurred in 1964 were less far-reaching and were largely confined to partial innovations associated with experiments conducted in specific fields, although in some cases important decisions were taken with respect to the changes in the organizational framework of industrial management. Before proceeding with the description of changes in planning and management in 1964 in individual countries, it seems relevant to give a brief review of certain more general aspects of these problems.

The new approaches to planning and management in the centrally planned economies were discussed in some detail in *World Economic Survey, 1963*. The views expressed in the debates concerning the shortcomings of the existing system clearly indicate a widespread agreement about the pressing need for improvement of economic policies, techniques of planning and methods of management and implementation of plans. Although all these problems are closely interrelated, one can clearly distinguish the existence of three basic lines of thought differing mostly in the degree of emphasis placed on each of these objectives.

According to some views, the difficulties encountered in various countries in recent times were largely due to errors in economic policies underlying the technical preparation of the plans. The tendency to impose unrealistic growth rates for specific sectors or for the economy as a whole, with the belief that such high targets would stimulate productive efforts, has led to the emergence of shortages and tensions which are largely responsible for the shortcomings attributed to the existing system of planning and management. These shortages have created the need for centralized allocation of supplies, which in turn has become the main stumbling block preventing the smooth operation of the producing units. For example, in the construction industry, the increasing cost of investment and the unwarranted rise in unfinished construction, were largely the effect of exaggerated investment targets exceeding the capacity of the construction enterprises and engineering industries. Similarly, it is maintained that the difficulties experienced in inducing the enterprises to produce the planned product-mix are largely the effect of scarcities caused by the state policy. The irrational price and profit structure frequently makes it more profitable for the enterprises to produce a product-mix different from the plan and from the structure of demand. However, it is pointed out that the enterprises can derive benefit from such practices only in conditions of scarcities enabling them to sell goods which in other conditions would be refused by the purchasers. In consequence, the difficulties encountered during recent years cannot be fully accounted for by deficiencies in the price system, defective planning techniques or the inability of the central authorities to secure the required information about the state of the economy. The main problem, according to these views, resides in improvement of the state economic policies. This could be achieved by wider participation and more open discussion of economic policies prior to and during the process of elaboration of economic plans, and by public confrontation of various views concerning economic policies and planning.

The increasing application of mathematical methods and electronic computing techniques to planning has given rise to a second tendency, namely, to place the main emphasis on improvement in the collection and processing of information and on techniques of planning. One of the causes of imbalances influencing the rates of growth of the centrally planned economies has been the inadequate co-ordination of various plans as well as the unrealistic character of enterprise plans resulting from the final disaggregation of national targets owing, among other things, to the inadequacy of information about actual conditions in individual enterprises. It is therefore believed that the extensive use of cybernetic methods will improve the flow and processing of information. The planning authorities will be kept continually abreast of economic changes; and, with the aid of econometric models and electronic computer techniques, they will be able to find adequate solutions of the macro-economic as well as the micro-economic problems. This would create the possibility of submitting to the political authorities several variants of the plan, indicating short-term and long-term implications of various policy decisions. The possibility of simulation of economic processes and of a rapid solution of large numbers of simultaneous equations opens new opportunities for improvement in central planning not available in the pre-computer era.

The third tendency places the main emphasis on basic changes in the present system of planning and management through considerable enlargement of the operational autonomy of the enterprises. It advocates partial or total replacement of directive planning by indirect methods of influencing their activities to obtain conformity with the general objectives of the national plan. According to these views, the prerequisite to improvements in government policies and planning is the creation of conditions which will give maximum scope for the release of local initiative.

It should be stressed that these views are not mutually exclusive and that they differ in most cases in the emphasis placed on various aspects of the reforms. The need for improvements in government policies and in techniques of planning and for reduction of the exaggerated tutelage of the activity of enterprises is generally recognized. It is significant, for instance, that most of the proponents of the wider use of econometric methods and electronic techniques in planning do not believe that they can be used as substitutes for decentralization and strongly support the introduction of more flexible methods of management.

None the less, these variations in emphasis were not without a certain influence on the importance attached to various aspects of the problem and to some extent on policy measures applied in 1964. The main differences within individual countries and between countries were clearly in the field of methods of implementation of national plans. In general terms, the problem which all countries were attempting to solve was to find the optimum combination of the advantages of central planning and decentralized solutions of micro-economic problems by means of local initiative, based on the knowledge of local conditions and stimulated by rewards based on profits. But the differences concerning the extent to which the central controls can be relinquished without upsetting the system of central planning were quite considerable. They ranged from the belief that the problems can be solved by reducing the number of obligatory targets and improving the system of incentives to the view that directive planning should be entirely abolished in favour of implementation of the central plan through global policy measures.

Thus, for instance, in Poland the policy measures recently adopted were largely concentrated on improvement in the formulation of production targets assigned to the enterprises, on strengthening the incentive system and on changes in the organization of industry. In Czechoslovakia the main attention was devoted to creating conditions which will induce the enterprises to act under the influence of market conditions, that is, to adjust their output to actual requirements rather than to the fulfilment of specific plans. In Eastern Germany the considerable increase in the autonomy of the enterprises was reflected in a drastic reduction of the number of targets assigned to the enterprises and in the prominence given to profits in the evaluation of the performance of the enterprises and in the determination of rewards. But, while the Eastern German reform is in many ways similar to that decided upon by Czechoslovakia, the measures so far adopted in the former country indicate that it places much greater emphasis on fulfilment of the enterprise plans than does the new Czechoslovak system where, for instance, the rewards are to be determined by actual achievements irrespective of whether or not they correspond to the planned quotas.

Although the variations in policy measures adopted by individual countries were influenced by the diversity of their present approaches to the problems of planning and management, one should not overlook the fact that these attitudes are in the process of evolution and that in some cases the basic differences are being gradually reduced to variations in timing. The difference in timing has been frequently determined by specific conditions in the countries, as well as by the greater or less readiness to assume at this stage the risk involved in introducing far-reaching modifications in the system of planning and management.

It is not accidental that the most radical changes are being introduced in Czechoslovakia and Eastern Germany, the most industrialized countries of the group, highly dependent on foreign trade. These countries have during recent years experienced exceptionally great difficulties, generally believed to have been strongly influenced by over-centralization. These difficulties have created a sense of urgency about the reforms, strong enough to overcome the resistance of vested interests and the natural apprehension of entering new and untried paths.

The developments in these two countries are being closely watched by the other centrally planned economies with a view to using this experience together with their own experiments for the formulation of further changes in their own methods of planning and management.

It has been pointed out that any increase in the autonomy of the enterprises tends to reduce the differences between the directive and the indirect planning and management. The reduction of the number of directives given to producing units enlarges the scope of micro-economic decisions influenced by market conditions. The influence of market conditions acquires a new dimension when the activities of the enterprises become increasingly determined by production and trade programmes elaborated by themselves on the basis of freely concluded agreements with the suppliers and producers. This does not necessarily mean that in order to fulfil these conditions the enterprises have to be completely released from the obligation to submit their plans to supervising authorities, or that these plans should not be modified in the light of information received from the authorities. But it does imply a fundamental change in attitude towards the plans of the enterprises and a redefinition of the function of these authorities in their relations with the producing units. In these circumstances, the main function of the supervising authorities would consist largely in providing the enterprises with general guidance and information concerning external conditions such as domestic and foreign demand and supply, changes in prices, centrally planned allocation of investment, credits and other factors which may influence the work programme of the enterprises. It should be stressed that the actual or anticipated changes in the methods of planning and management and the transition to a system based on "socialist market relations" do not aim at the replacement of the old system by indicative planning or at reducing the functions of the central planning board to co-ordination and integration of enterprise plans. Even in cases when the directive planning of the activity of individual enterprises is to be entirely abandoned, the national plan is to retain its obligatory character. Under the reform schemes the aggregate components of the central plan, such as the over-all and sectoral growth rates, distribution of national income between consumption and investment, sectoral and branch allocation of investment and the like, will not be reduced to the role of general indicators of the desirable rate of development, but, on the contrary, will provide an obligatory foundation for operational decisions concerning the implementation of the plan. Although fiscal, financial and price policies are to play an increasingly important role in the implementation of the plans, the administrative measures are also to be applied in conditions where the effect of these policies on profits or the influence of the profit consideration on the behaviour of the enterprises proves to be inadequate.

The enlargement of the role of the market mechanism in the centrally planned economies is to be accompanied by an improvement in the price system. While the views concerning the most appropriate method of price determination vary considerably, there is widespread agreement that price relations should correspond to relative costs, that they should in some way reflect the relative scarcities and that they should be much more flexible than heretofore. This flexibility is to be achieved largely by more frequent readjustment of prices by central authorities and by the elimination of central controls for less essential goods. According to the prevailing view, an entirely free determination of market prices by producing units could, in the existing conditions, lead to monopolistic practices and at the same time deprive the government of the possibility of using prices as a tool of its economic policy to the based on social preference scales as reflected in the plan.

The discussion of problems relating to the increased functions of the market were made under the assumption of perfect competition. Such an assumption was generally considered unrealistic not only for the centrally planned economies but also for the private enterprise economies. However, the problems of management, industrial organization and price formation in developed western countries were examined to see how far their experience could be used for the solution of some of the problems facing the centrally planned economies. Thus, for instance, industrial prices in the western countries, far from being determined by marginal or average cost, are largely influenced by the decisions of the main producers aiming at achieving the most profitable volume of output. Particular attention was devoted to the concentration of production in a limited number of large corporations and the advantages of such concentration for improved efficiency, despite what are regarded as otherwise adverse effects of monopolistic tendencies in private enterprise economies. It was believed that vertical or horizontal integration of production has created the possibility of a much more efficient organization of production and specialization than could be achieved by purely commercial links between the individual enterprises. Moreover, the efficiency of such enterprises was believed not to have been impaired by the fact that their freedom of decision is restrained by rules and regulations or even by specific instructions handed down by the higher managing bodies of the corporations. There is little doubt that these conclusions have had a considerable influence on recent decisions concerning the organization of industry in the centrally planned economies.

As already stated, the greater reliance on the market mechanism does not exclude the use of administrative methods in the implementation of the plans. It is believed that, in certain circumstances, the implementation through price and fiscal policies may not be adequate to bring about the desired results, because such global measures cannot but disregard the large variety of specific conditions in individual enterprises. An attempt by the central bodies to differentiate these measures would be tantamount to the return to the system of detailed planning from the centre. Such methods proved to be deficient, largely owing to the insufficiency of information about local conditions at the centre. The solution of these problems is sought in all centrally planned economies in the integration, mostly horizontal, of the individual plants, either into a single large enterprise or into associations of enterprises for each branch or sub-branch of industry. This is expected to result in increased over-all efficiency through greater inter-branch specialization. This integration severs the direct links between the central authorities and the individual plants through the creation of intermediate bodies which are better acquainted with the conditions in the plants or enterprises under their supervision. An important feature of this system is that these intermediate bodies are not conceived as administrative units but as business undertakings with their own revenue, expenditure and profit accounts. Since the profits and income of these associations depend entirely on the efficiency and the profitability of the enterprises under their supervision, it is believed that this factor, together with their intimate knowledge of local conditions, will enable the associations to allocate the general tasks among the plants in a much more efficient way than could have been achieved by the administrative authorities or by over-all policy measures and market relations. This is the main reason why, in all countries, irrespective of the degree of decentralization anticipated for the near future, the process of integration has been accelerated. In the more centralized system the directive targets received by the branch associations are distributed by them to the enterprises under their supervision. In cases where the directive targets are assigned to the associations, the latter may implement their plans either by means of direct allocation of production targets or through inducing their enterprises to achieve the desired results by the use of differentiated internal prices and rewards adapted to the specific conditions in individual plants under their supervision.

In conclusion, it may be pointed out that the system based on "socialist market relations" even in its most advanced form will be quite different from the market economy in private enterprise systems. Since prices and especially the volume and the sectoral and branch allocation of investment are centrally determined, the market mechanism will have no direct influence on the rate and pattern of economic growth. But while the central plan will continue to deal with macro-economic problems, the implementation of the general plan will be increasingly dependent on the decisions taken by the producing units under the influence of market relations.

It will be noticed that some of the actual or anticipated changes indicated in the preceding review bear great similarity to the reforms in planning and management introduced much earlier in Yugoslavia. That country was the first to demonstrate in practice the possibility of combining social ownership of productive capacities with autonomy of enterprises working under market relations. Although the experience of Yugoslavia is not considered conclusive in every respect, there is hardly any doubt that the present drive towards reforms is motivated by the same considerations as were the earlier Yugoslav reforms and that it points in the same general direction. Nevertheless, the extent and character of changes anticipated for the near future are different from those achieved by Yugoslavia and vary from country to country. In the following pages a more detailed review of the changes in individual countries is presented. The Czechoslovak and East German reforms are given a fuller coverage because they are more fully elaborated than those in the other countries, while the experiments and innovations taking place in Hungary, Poland and the Soviet Union are discussed more briefly.

REFORMS IN PLANNING AND MANAGEMENT IN INDIVIDUAL COUNTRIES

Czechoslovakia

The basic aims of the Czechoslovak reforms as stated in the official decision of January 1965 are: the improvement of central planning, especially of long-term planning; the establishment of a new economic system combining central planning of economic development with "socialist market relations", that is, direct and relatively freely established relations among state enterprises, and extension of the autonomy of enterprises and improvement of the system of incentives for stimulating the initiative and efficiency of the management and labour force of the enterprises. The reform is to be introduced gradually, beginning in 1966, first in industry and then in agriculture and other sectors, although some innovations will be introduced on an experimental basis in the course of 1965. The State Planning Commission and other central bodies were entrusted with the task of drawing the first detailed guidelines relating to industry by mid-1965 and of completing the elaboration of measures concerning agriculture and transportation by the end of the year.[29] The new approach to planning as reflected in the January decisions and in subsequent official statements and articles in Czech economic publications is characterized by a considerable reduction of the number of targets contained in the central plan and by the shift in emphasis towards long-term planning. The five-year plans are to be elaborated on the basis of long-term plans encompassing a period of ten to fifteen years. The five-year plans will be subject to modifications on the basis of actual experience, and the annual plans will represent segments of the five-year plans. The role of the annual plans in this system will be substantially reduced in so far as their implementation will be considered not as a goal in itself but rather as a means of attaining the long-term targets. In consequence, their role will consist mainly in providing a broad framework for policy measures aimed at eliminating imbalances and guiding the activities of the enterprises and their associations. According to an official statement, the central plan should in future contain mainly the aggregate targets relating to national income, consumption and investment as well as the relationships between various sectors and industrial branches. Within this broad framework the largest possible initiative should be left to the producing units. Their activity is to be influenced wherever possible by price and fiscal policies rather than by administrative orders.

Serious imbalances often resulted from the previous practice of setting up maximum, often unrealistic,

[29] While the January 1965 decision and other official and semi-official statements clearly indicate the general tendency of the reform, many aspects of the new system are still subject to debate. The definite content of the reform will obviously depend on the decisions concerning the more concrete guide-lines now under preparation. In consequence, the following review, which draws not only on the broad outlines of the official documents but also on the more specific views expressed by the proponents of the reform, should be considered as reflecting the present attitudes which may not be fully embodied in the final decisions.

targets for specific sectors without due regard to their effect on the output of other sectors and on the over-all economic development. The January 1965 decision tries to avoid this problem by stressing the need to plan with a view to achieving an optimum allocation of resources and to reach this goal through the preparation of several variants of the plans to be submitted to the central authorities for final choice and approval. Particular stress has been placed on the need to provide in the plan for reserves of unallocated resources. In the past the need for such provisions was often neglected on the grounds that this would involve less than full utilization of resources and consequently would reduce the planned rates of growth. It has been pointed out, however, that this practice has resulted in the emergence of imbalances and tensions preventing the fulfilment of the plans and causing considerable losses owing to inefficient use of existing capacities and resources as well as to an excessive accumulation of unfinished construction. An important feature of the reform is the considerable increase in the role of producing units in the preparation of the central plan. It is true that in the past the enterprises were also, at least in principle, expected to participate in plan formulation. But since under the old system there was little inducement for the enterprises to plan and act in conformity with the general interests of the economy,[30] the central authorities were inclined frequently to disregard the suggestions of the producing units and to impose upon them targets considered either as realistic or at least as mobilizing the efforts of the enterprises for improved efficiency.

Consequently, the discrepancy between the central plans and the actual condition of the economy tended to increase, and the influence of the producing units on the preparation of the central plan was considerably reduced.

The new system of planning and management aims at a radical change in these conditions. Its basic tenet is to create a system of economic stimuli which will eliminate the differences between the interests of individual enterprises and those of the economy as a whole. The system of stimuli is to be such that, to maximize their profits, the enterprises will have to adjust their production programmes to the actual volume and pattern of demand. It is expected that under these conditions the plans suggested by the enterprises will acquire a new dimension in reliability and efficiency and their part in the preparation of the central plan should increase considerably. The increased importance attached to the role of the enterprises and their associations in the preparation of the central plans is reflected in the significant changes in the relations between central planning bodies and the producing units. The main task of the planning boards in this respect will be to examine the plans of the associations in the light of the over-all goals in order to ensure the optimum allocation of resources between investment and consumption and between various economic sectors. It will then provide the enterprises with information concerning the centralized resources put at their disposal, leaving the more detailed planning to the newly created concerns and trusts, which will elaborate their programmes on the basis of this information and their own evaluation of future demand.

The finally approved central plan will continue to have an obligatory character. But the largely macro-economic directives contained in the central plan will be binding mainly for the central authorities, and only a very limited number of specific directives might be transmitted to the associations of enterprises. Such targets as total production, output per man and cost reduction, which in the old system played a decisive role in the central management of the enterprises, will be abolished. The degree of fulfilment of the remaining directive targets will not be considered as the main criterion of evaluation of the performance of the enterprises. This new approach represents perhaps the most significant departure from the system of relations between the central authorities and the management of the enterprises prevailing in the centrally planned economies. The main reason for this change is the belief that no substantial improvement in the initiative and efficiency of the enterprises can be achieved as long as their remunerations are determined by the degree of fulfilment of the plan targets rather than by their actual performances.

A reduction of the part played by specific directives was closely associated with the increase in importance of general regulations to be established by the state authorities for a prolonged period, say, for five years. Among these regulations the more important ones are those related to the share of the gross income[31] of the enterprises to be transferred to the central government budget, the charge on capital paid to the State, the conditions regulating the granting of credits to the enterprises, wage regulations establishing basic wage rates, the rights and duties of the enterprises in the field of wage and labour policies and the rules regulating prices and defining the rights of the various organs in this field.

The aim of these measures is to place the activity of the enterprises within a certain relatively stable

[30] For instance, they were inclined to exaggerate their claim for additional investment and labour, underestimate their productive capacity, suggest low production targets in order to reap high bonuses for over-fulfilment of the plans and restrain the rate of expansion of their output for fear that this would prompt the authorities to impose upon them too high targets for the following years.

[31] Gross receipts less cost of materials and depreciation allowances.

framework of general obligations which will enforce certain restrictions on the enterprises but at the same time will enable them to plan their activities for a longer period of time with the assurance that they will not be abruptly changed by an *ad hoc* intervention of supervising authorities. It goes without saying that the elaboration of such regulations, which are to play a very important rôle in the new system, presents considerable difficulties. As their effect on the economic changes in general and on the behaviour of the management of the enterprises in particular cannot be foreseen, it is believed that they cannot be correctly determined without extensive experimentation.

One of the most significant aspects of the Czechoslovak reform is the specific role assigned to groupings of enterprises which are to be in charge of planning and management of plants and enterprises under their supervision. These bodies, called "trusts" or "concerns", are to be set up not as administrative organs of the State but as autonomous economic undertakings with their own sources of revenue. The concerns will be set up as single enterprises comprising several plants or workshops. They will be formed mostly in industries such as metallurgy, chemicals and engineering where even before the reform a substantial part of the output was produced by a limited number of large-scale enterprises. The plants belonging to a concern will not work on the basis of separate economic accounting. Their current outlays as well as their rewards will be covered by the concern which will guide their activities in the same way as the management of an enterprise directs the activities of the various plants and workshops. In fact, the concern is conceived as a single enterprise with a single system of economic accounts covering all the financial flows of its plants.

The trusts are to be set up in those industries — producer or consumer — where output is spread over a large number of firms. Unlike the concerns, they represent an association of enterprises each of which will continue to act as a separate economic unit, covering its expenses out of its own proceeds and earning profits, which after the obligatory deductions will be used for the formation of various enterprise funds for the payment of rewards. The activity of these enterprises will be supervised by the trust directorate which may exercise the supervision in various forms. Although the rights of the trusts with respect to the enterprises under its jurisdiction have not yet been clearly defined, the general tendency is to leave a considerable degree of freedom to the trusts in this respect. Thus, in some cases the trusts may have recourse to direct administrative methods, that is, to present the enterprises with obligatory directives, while in other cases they may influence their activities by indirect means. The trusts may also establish their own wholesale organizations which will influence the activity of the enterprises by placing orders for various goods based on their own analysis of consumer demand. The enterprises belonging to a given trust may also be entitled to enter into direct relations with other enterprises, irrespective of whether they belong to the same or other trusts, and with independent wholesale or retail trade organizations. The trust itself will have its own separate budget, its revenue being derived from deductions made on a percentage basis from the income of the enterprises. The revenue of the trusts will be used for the formation of investment and other funds and for the rewards of the management of the trust. The existence of these various funds creates the possibility of redistribution of income among the enterprises of the trust, through a differentiated allocation of additional rewards to the enterprises and by payment of subsidies in cases where individual enterprises are in a disadvantageous position caused by conditions beyond their control.

The management boards of trusts and concerns, called "branch directorates", will constitute the main economic bodies responsible for guiding the activities of branches or sub-branches of industry.

The methods of management and the system of incentives applied within the concerns and trusts will be largely determined by their directorates, which will be free to apply different methods to different units under their supervision, depending on specific conditions of their work and on the character of their assignments. The branch directorates will act under the general supervision of industrial ministries.

The most distinctive feature of the Czechoslovak reforms is that the current activities of the branch directorates will be guided rather than directed by the provisions of the national plan as well as by the rules and regulations mentioned above, and will be influenced by price and by fiscal and financial policies of the Government. The central planning organs will provide the branch directorates with general output and other targets, but in contrast to the past these targets will have an indicative rather than a directive character. They will mainly provide the trusts and concerns with information covering the investments allocations made by the centre and with information relating to price policy and other data on various aspects of the economy not otherwise available to the enterprises and associations. But the actual determination of the volume and composition of output, employment, production techniques, material and labour costs and other micro-economic decisions, will remain within the competence of the branch directorates. They will formulate their programme on the basis of their own evaluation of the future market requirements for their products and the information received from the central planning bodies concerning financial and other resources placed at their disposal. The centrally determined targets will retain the form of obligatory directives for the producing units only in a small number of limited cases, such as for the production of certain types of machinery and equipment of exceptional importance for general technical progress and for the main investment projects specifically listed in the central plan. In view of the crucial role of foreign trade in the Czechoslovak economy, production of basic export goods will also be included in that list. Finally, similar methods will be applied in cases when specific shortages will impose the need to use directives rather than the market mechanism for their rapid elimination. The central allocation of supplies is to be abolished and replaced by contractual agreements between producers and users of raw materials, semi-manufactures and finished goods. Only in cases of shortages is it envisaged to have recourse to central allocation of supplies. It is, however, stressed that the replacement of rationing by direct exchange of goods between enterprises cannot be brought about without the elimination of existing imbalances, a far-reaching reform in the price system and the removal of the exceedingly high differences in profitability of enterprises in various industrial branches.

It should be added that, at least in the transitory period, certain restrictions on the autonomy of the branch directorates are to be maintained, as for instance in the field of employment in view of the labour shortages prevailing in Czechoslovakia.

The elimination of direct intervention of the central authorities in the planning and management of individual enterprises by placing the enterprises under the jurisdiction of branch directorates is expected to remove one of the basic defects of excessive centralization, namely, the inability of the central authorities to take into account the specific conditions of individual producing units and to evaluate adequately the demand for their products. The branch directorates are expected to have a much better knowledge of the actual conditions in the relatively small number of enterprises under their control than has the central planning board or the industrial ministry.[32] Not less important is the fact that (unlike in the case of central or other administrative bodies) the decisions of the branch directorates will be largely influenced by their desire to maximize profits; they will, therefore, be vitally interested in the improvement of the over-all efficiency of their plants and enterprises.

The eventual elimination of directive planning and the increase in the autonomy of the concerns and trusts will obviously lead to a significant change in the role played by economic ministries. In future the central ministries will mainly deal with the problem of long-term development of various industries, while their role in current management of enterprises will be considerably limited.

The basic condition for success in decentralization and in enlarging the role played by the "socialist market mechanism" clearly lies in the creation of a system of built-in regulators which will ensure the fulfilment of the general objectives of the central plan, avoid the emergence of imbalances and need little direct intervention in the activity of the branch directorates. Considerable attention has therefore been devoted to the elaboration of the general rules and regulations governing the finances and rewards of the enterprises, so that an automatic link can be established between them.

Unlike the situation in several other centrally planned economies where the rewards of the enterprise are linked with profits, in the new Czechoslovak system the main indicator of the activities of the enterprise is to be the "gross income" of the enterprise, defined as total proceeds less cost of materials and depreciation. After deduction of the charge on capital and of the obligatory payments to the budget, the remaining amount represents the net proceeds of the enterprise, which are then allocated to a remuneration fund used for payments of basic wages and of bonuses and premiums and to an investment fund.[33]

The investment fund is to be used for the financing of current investment and repayment of investment credit and interest. These outlays need not be equal to the current contributions to this fund in any given year. Similarly, the remuneration outlays need not be equal to the current contribution to the remuneration fund.

The introduction of this scheme was based on several considerations. The use of gross income rather than gross proceeds for the evaluation of the performance of the enterprises is similar to the re-

[32] A question which may arise in this context is that of the optimum size of the concerns and trusts. It is expected that all industries will be divided into about 100 branch directorates out of which the majority will be organized in the form of trusts. Each concern will be composed of one of the existing large enterprises to which some smaller enterprises may be attached. In view of a fairly advanced concentration of output in Czechoslovak industry, the number of enterprises in each trust will most likely be in the order of ten units, which is not considered excessive from the point of view of administrative efficiency.

[33] This pattern of distribution of gross proceeds is indicated in the following scheme:

Gross proceeds:
Less cost of materials and depreciation
Equals gross income
Less transfers to the budget and other payments
Less charge on capital
Equals net proceeds:
(*a*) contribution to remuneration fund
(*b*) contribution to investment fund.

placement of gross value of output by net value or similar indicators in some other centrally planned economies. These changes were aimed at discouraging the enterprises from increasing their material inputs over and above the actual requirements, which they were inclined to do in order to show higher quantitative results. The distinctive characteristic of the new Czechoslovak regulations is the replacement of the concept of profits by that of gross income, which, in addition to what in other centrally planned economies is defined as profits, also includes the total wage bill.

Far from being purely conceptual, this innovation is intended to eliminate the need for directive planning of the wage bill of individual enterprises by the administrative authorities. The fact that the wage bill is to be covered from the net proceeds at the disposal of the enterprises opens up to the management the possibility of making independent decisions concerning the allocation of these proceeds to increase employment, raise average wages, bonuses and premiums or increase investment.

The importance of this innovation is indicated by the fact that in the past approval of any changes in the wage bill and employment was entirely dependent on the fulfilment of the planned output targets, and the rigidity of this system prevented the enterprises from adjusting their production to changes in demand if such adaptation implied changes in wages or employment. Under the new system, the wage bill and employment will be determined by the management of the concerns or trusts without any direct interference by administrative authorities. However, the branch directorates will be obliged to conform to the centrally approved wage rates and other general regulations concerning basic wages, and to contribute a fixed percentage of the remuneration fund to a reserve account to be used in cases of emergency for payment of wages. The remuneration of the employees is to be determined both by the individual performance and by the over-all financial results of the activities of the individual enterprises, plants and workshops. It is envisaged that about 10 to 25 per cent of the earnings of wage and salary earners will depend on the over-all financial results, while the rest will be determined by their individual achievements. As a rule, the latter will be composed of basic wages and premiums, while the remuneration based on over-all financial results will take the form of bonuses. The bonuses will be paid only if the remuneration fund exceeds the basic wage bill. If the fund falls short, the difference is to be covered by drawing on the reserve funds of the enterprise or, if necessary, by funds of the trust or by bank credits.

It is considered that the new system linking the remuneration fund to net output of the enterprises will be sufficiently self-regulatory to provide the basic conditions for restraining the emergence of inflationary tendencies and thus for avoiding undue government control over the wages and employment policies of the enterprises. This control will be largely confined to influencing the net proceeds of the enterprises through price and fiscal policies. The major element in the fiscal policy consists of increasing or decreasing income to be transferred to the budget. This proportion is, however, to be fixed for a long period, say, five years, in order to assure the enterprises that they will not be deprived of the benefits of their efforts to improve efficiency by increased taxation. According to the prevailing views, the percentage share of the gross income appropriated by the budget is to be uniform for all enterprises. However, it is recognized that such uniformity should be preceded by price reform, which would eliminate or significantly reduce the large variations in profitability as well as in the share of investment financed by individual enterprises out of their retained income.

As already indicated, one of the important measures tending to improve the efficiency of the enterprises is the introduction of a charge on capital and the considerable increase of the role to be played by interest-bearing credits in financing of investment. Since these charges will have a direct influence on the share of total proceeds left at the disposal of the enterprises, they are expected to induce the enterprises to economize on capital outlays and to make optimal use of their existing capacity. The charge on capital is to be uniform for all industries and will determine a minimum level of efficiency below which no investment will be worth while. The charge is to be assessed on net value of capital assets. It is, however, stated that the implementation of these measures would not be possible before further changes are made in the price system, because the new prices of producer goods introduced as of April 1964 have reduced profitability to such an extent that the introduction of the charge on capital would not be practicable. While the introduction of the charge on capital is aimed at promoting its more efficient use, the new rights of the management over disposal of the net proceeds are expected to induce them to minimize employment. The stress placed on this task is caused by the scarcity of labour prevailing in Czechoslovakia.

As already stated, under the new system the enterprises are to be free, within certain limits, to allocate their net proceeds between investment and the remuneration fund, and to determine the size and composition of their labour force. It is therefore believed that the wish to increase the investment fund or to raise the average earnings may induce enterprises to keep their employment at the minimum level. Since, in contrast to other countries, the remuneration fund covers both the basic wage bill and bonuses, it is clear that a reduction in labour force in relation to output will create the possibility of raising average earnings. The enterprises may also be inclined to use these savings to increase investment financed out of their own funds. It should be added, however, that the extent of freedom to allocate the net proceeds between remuneration and investment funds is still under debate. While the general tendency is to give the largest possible autonomy to the enterprises, it is most likely that, in the initial period at least, allocation of the net proceeds between these funds will remain under government control. It is expected that such control over consumption and investment funds on the enterprise level will improve the effectiveness of over-all measures taken at the central level for preventing the emergence of imbalances between supply and demand.

The investment funds of the enterprises will in the initial period constitute only a relatively minor part of total investment, which will continue to be financed largely by the state budget. But the role of the budgetary financing is to be gradually reduced in favour of bank credits, which will be allocated to concerns and trusts in conformity with the obligatory provisions of the central plan.[34]

The financial and fiscal regulations described above are to be applied in different manner to the concerns and to the trusts. In the latter case, certain proportions of the funds of the enterprises will be transferred to the trust funds. The concentration of a certain proportion of all these funds in the trusts will enable their directorates to influence the activities of the enterprises under their supervision by reallocation of common funds and by granting additional rewards in conformity with the general interests of the trusts. The trusts will also control the allocation of credits as well as the budgetary investment grants to the individual enterprises. The increases in working capital in the case of both the concerns and the trusts will be financed as a rule by bank credits. Similarly, all the other flows of funds from and to the state budget will be effected through the trusts. Thus, while the concerns will directly transfer to the budget a fixed proportion of their gross income, the enterprises belonging to a trust will pay their contribution to the trust funds, which in turn will transfer appropriate amounts to the budget.

In addition to state control over investment funds and their allocation, which will be determined by the central plan, the price policy will play an important role in influencing the activity of the enterprises in the new conditions of socialist market relations.

It is generally recognized that, in order to accomplish these functions adequately, fundamental changes will have to be introduced in the methods of price determination.[35] The new prices of producer goods are to be based on production cost, defined to include the cost of labour, materials and depreciation, to which a certain profit margin calculated at a uniform rate for all commodities is to be added. It is still not decided whether the mark-up should be calculated in relation to capital assets, to labour cost or to the cost of labour, materials and depreciation. But prices determined in such a way are to be used as "basic prices" only and are subject to further modifications. In order to use the price mechanism for inducing the enterprises to act in conformity with the social requirements, the actual market prices will have to reflect other factors as well. Thus, it has been stated that, in order to encourage improvement in quality and the introduction of new products, prices for these goods will have to be fixed above the basic prices. A much more significant change consists in the recognition that scarcity relations have to be taken into account in the determination of producer goods' prices under certain conditions. In cases where the balancing of demand with supply cannot be achieved by increases in supply within a relatively short period, the prices of commodities in short supply should be set at a level exceeding basic price, while in cases of excessive supply they should fall below these prices. In other words, while the new price policy will as a rule avoid short-term price fluctuations, it implies a much greater flexibility than in the past, aimed at the adjustment of prices to the relations between supply and demand in the longer run. One of the aims of the new price policy is the creation of conditions which will eliminate the need for centralized allocation of supply and will instead permit as far as possible the regulation of the market through price and incomes policies.

The introduction of greater flexibility of prices as envisaged in Czechoslovakia is not tantamount to the establishment of a price system entirely subordinated to a free play of market forces. Such a system is not considered necessary and useful in the planned economies, since the volume and branch allocation of investment is determined by the central plan and does not depend on movement of prices and profits. However, it is believed that the required flexibility of prices could not be achieved if all prices were to be fixed by the central authorities. In con-

[34] Equipment repairs and minor investment will be financed out of the depreciation allowances left in part at the disposal of the individual enterprises or trusts.

[35] The changes are to be applied to prices of producer goods and to factory prices of consumer goods but not necessarily to sales prices of consumer goods which were in principle established at levels required to clear the market.

sequence, the Czechoslovak reform envisages the introduction of three types of prices. Fixed prices, established by central authorities, are to be applied to the main raw materials, fuel, power, most important types of machinery and equipment, basic food-stuffs and certain industrial goods for mass consumption. It is believed that the decontrol of prices of these essential goods might result in a considerable deviation of the structure of demand from the pattern set in the development plans. It is stressed, however, that even the centrally fixed prices should be subject to modifications by the central authorities whenever warranted by the changes in the relation between supply and demand.

The second type of prices, called limit prices, will be applied to commodities for which the central authorities will establish the upper limit or the lower limit, or both, leaving their exact determination to the enterprises. The fixing of upper limits is obviously motivated by the wish to discourage the enterprises from monopolistic practices, that is, from raising their revenue through price increases rather than through expanding production and reducing costs. The establishment of lower limits is intended to restrain the demand for certain goods, the production of which requires the use of imported or domestic materials in short supply. The simultaneous fixing of upper and lower limits is to be applied mostly to a group of commodities within a given production line, leaving to the enterprises the right to determine prices of individual items within the limits set for the group.

Finally, entirely free prices will prevail for goods which are not of primary importance for investment or consumption purposes as well as in cases where the anticipated competition between producers is expected to forestall monopolistic practices. While the range of goods falling in this category will be rather limited initially, it is expected that in future it might be considerably extended.

The prominent role to be played by prices and the market mechanism in the activities of the enterprises was also reflected in the tendency to establish a closer link between wholesale and retail prices, which under the old system were almost entirely dissociated. This separation was largely due to the fact that in cases where the retail prices were set at the level roughly corresponding to the relation between supply and demand, the difference between the price received by the enterprise and the market price was absorbed by the turnover tax. In consequence, the producing enterprises were not induced to increase output of goods in high demand. In order to increase the effect of demand on production, a much closer link is to be established between retail and factory prices. The methods of management of retail and wholesale trade enterprises are to be reorganized along the same lines as those of industrial enterprises. In any event, they will cease to be semi-administrative organizations distributing their supplies in accordance with centrally determined allocation plans. Under the new system they will be free to choose their own suppliers and conclude delivery contracts without interference from administrative authorities.

Particular attention is devoted to the increase of incentives in foreign trade undertakings as well as in enterprises producing goods for export. While trade enterprises will have to conform to state regulations and to the state plan for foreign trade, their freedom of action is to be considerably enlarged. Several experiments are being conducted with the purpose of testing the practicability of direct participation of producing units in foreign trade operations.

Eastern Germany

The main outlines of the new system of planning and management initiated in 1963 in Eastern Germany were reviewed in *World Economic Survey, 1963, II. Current Economic Developments*. In the course of 1964 new measures were introduced and additional information on various aspects of the reform became available. The basic changes in Eastern Germany tend, as in Czechoslovakia, to increase the scope of autonomous decision of the enterprises or their associations; their activities are to be increasingly influenced by fiscal, financial and price policies rather than by government order. The central plan will concentrate on macro-economic goals and proportions. It will, as a rule, avoid dealing with detailed targets, the scope of which will be reduced to a limited number of specific tasks concerning production and delivery of certain goods and the more important investment projects. The associations of enterprises, set up as profit-making undertakings, are subordinated to the National Economic Council, which took over some of the functions of the former industrial ministries. A large part of these functions has been transferred to the associations, which have full jurisdiction over all enterprises in their respective branches.

The associations are to conform to general objectives assigned to each branch by the central plan in the form of various "indicators". The number of such indicators has been considerably reduced and, what is more important, only a few of them can be assigned to the associations by the National Economic Council or given by the association to the enterprises under their supervision in the form of directives. The basic indicator of the efficiency of the activities of the enterprises is the fulfilment of the profit plan. In addition, no more than three supplementary indicators may be assigned to the enterprises and their associations, in the form of directives, the fulfilment of which will influence their rewards. The group of indicators from which the three complementary directives can be chosen includes the volume and composition of output, production of specific items, degree of utilization of capacity, technological improvement, deliveries to the retail trade outlets, deliveries of the most important investment goods and exports. The three complementary directives to be chosen from this list must in all cases include the target for technological improvements and, for enterprises in which more than 30 per cent of the output is earmarked for exports, they have to include export targets. Employment, wage bill and investment are regulated by ceilings established for each branch association by the central authorities.

Production targets are to be expressed in terms of sales or in net value rather than in gross value of output. In cases where production targets set for individual associations prove to be inconsistent with the demand, the enterprises are entitled to request the alteration of the plans and are induced to press for it because of their effect on profits, which under the new system are considered the main indicator of their activities.

The production and supply plans of the association are to be largely based on market analysis and on contractual arrangements with other associations or enterprises. The role played by the central allocation of supply will be correspondingly reduced, as can be seen from the sharp reduction of the number of allocation balances set up by central authorities.[36]

In contrast to the past, the purchasers will be entirely free to reject any offer not corresponding to their requirements in terms of type of goods, quality and delivery schedules, and no transfer of funds from the purchasers' to the suppliers' accounts will be made by the banks without the purchasers' advice that the goods have been accepted as corresponding to contractual agreements.

It is expected that these measures will induce the enterprises to adapt their production and delivery programmes to their contractual obligations and therefore to actual demand, because the fulfilment or over-fulfilment of global production programmes will not entitle them to any bonuses or premiums as long as the potential profits included in the prices of their goods are not translated into actual profits from sales.

As in other countries, the enlargement of the autonomy of the associations or enterprises greatly increases the role of incentive in the form of bonuses and premiums financed out of profits. The planned volume of the premium fund is to be linked with the planned volume of profits, whereas previously it was established as a fixed percentage of the wage bill.[37] The actual amounts transferred to the premium fund will depend on the fulfilment of the profit plan. They will also be influenced, although to a much less extent, by the degree of fulfilment of a limited number of other plan targets. One-third of the planned amounts of premiums is to be paid, irrespective of the degree of fulfilment of the profit plan, to the most efficient workers, while the total planned amounts of the premiums will be distributed only if the profit plan is fully implemented.[38] The rate of premium paid to the enterprises is graduated so that they should be encouraged not only to overfulfil the targets but also to establish the highest possible targets in the process of the preparation of the plans.[39]

The premium funds of the enterprises are used for payments of individual rewards to workers and technical personnel for special achievements, such as improvements in quality and technical innovations, as well as to the managing staff for the fulfilment of various planned targets.

Some enterprises have experimented, apparently successfully, with bonuses, the payment of which was linked not with individual achievements but with the over-all results of the activity of the enterprises. In some of these experiments 10 to 20 per cent of the earnings of the management represented bonuses paid for the achievement of specific tasks.

The preceding review of the new system of incentives indicates that the main emphasis is still placed on the execution of enterprise plans, although these accomplishments are primarily judged by the fulfilment of profit plans and a few complementary indicators.

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36 Thus, while in 1963 the associations and individual enterprises were responsible for setting up 605 allocation balances, in 1964 the number rose to 2,360, and in 1965 it is to attain 5,236 items. On the other hand, the number of such balances set up by the National Economic Council will not exceed 436, and that prepared by wholesale organizations, 485 during that year. Moreover, the State Planning Commission ceased altogether to prepare allocation balances for specific commodities in 1964.

37 It has been stated that this change eliminates the links between bonuses and the wage bill in order to discourage the enterprises from raising their wage bill with the purpose of increasing bonuses.

38 If the actual profits are equal to 90 per cent of planned profits, 35 per cent of the planned premiums will be paid to the employees; with profit equal to 95 per cent of the plan, the payments will amount to 85 per cent of the planned premiums.

39 For example, if the enterprise accepts the target suggested to it by the supervising authorities, it is entitled upon its fulfilment to, say, 10 per cent of the profits. If, however, the planned targets of the enterprises are set over and above the amounts originally suggested, it obtains a premium amounting to 75 per cent of the difference. The over-fulfilment of the planned targets carries in all cases a premium of 30 per cent of the difference between planned and actual profits.

Many aspects of the new system are still being tested and will be subject to further modification based on experience. One of the changes already envisaged is the replacement of the present determination of the premiums by linking them more directly with profits through a coefficient fixed for a prolonged period. It is believed that, among other things, this will enhance the effect of the anticipated introduction of a capital charge for better utilization of capacity. The charge on capital has been introduced in 1964 on an experimental basis in several enterprises in order to ascertain the most appropriate method of assessment and to determine its rate, which according to prevailing views should be as a rule uniform for all industries. Other experiments were designed to test ways and means of expanding the role of associations in foreign trade operations through closer ties with specialized foreign trade agencies or through direct transactions with foreign customers. In the field of domestic trade, further steps were taken in 1964 to expand direct relations between producing enterprises and to increase the influence of demand on the pattern of supply. In some cases, especially in the trade of consumer goods, this has led to a certain departure from the principle of evaluating the activities of the enterprises and determining their rewards by comparing them with the plan targets. For example, some enterprises were absolved from the need to follow any pre-established plan, apart from observing the ceilings set for their wage bill. Their rewards were to be determined by the volume of their actual profits.

The introduction of the new system of planning and management has been accompanied by a price reform, which is to be introduced in several stages beginning in 1964 and ending in 1966. The main purposes of the reform is to eliminate the excessive differences between the price-cost relations of raw materials and other producer goods on the one hand and of finished goods on the other by raising prices of the former. During the first stages of the reform prices of basic producer goods which frequently were lower than costs have been increased substantially, enabling the Government in most cases to eliminate the subsidies paid to several industries. These increases have primarily affected factory prices paid to the producers, while their influence on sale prices was partially compensated for by the reduction of turnover taxes, which in Eastern Germany were levied on certain producer goods. Prices of consumer goods were not influenced by this reform, because in those cases where the cost of materials used for their production did increase, its effect was absorbed by reducing the high turnover taxes assessed on consumer goods.

One of the aims of the reform is to bring about greater uniformity in price determination of various commodities and to calculate profits in relation to the labour cost rather than in relation to total cost. It is believed that the new method will eliminate the considerable variations in profit-wage ratios caused by the differences in the material content of various commodities. This change is considered particularly important in the new conditions when profits are to serve as the main indicator of the performance of the enterprises. The first stage of the reform has resulted in a virtual elimination of subsidies and has increased inducements for a more economic use of producer goods. But the new prices, which more adequately reflect cost relations, are considered only as "basic prices", subject to further adjustments to differences in quality, or in technical efficiency in the case of machinery and equipment. Moreover, it has been pointed out that the new prices disregard the capital cost and therefore do not adequately reflect total production cost. In consequence, they do not provide any inducement for better utilization of productive capacity. According to suggestions offered for further improvements of the price system, capital cost would be reflected in prices either by calculation of the profit margin in relation to capital or by including in the cost a charge for capital assets, or both. Among other problems raised in connexion with the price reform, the most important were those concerning the need for greater adaptation of price levels to conditions of supply and demand and for their more frequent changes. Although associations conducted certain experiments in price fixing in the past year, there is no intention of transferring to them the responsibility for price fixing on a permanent basis for fear that they may not always act in conformity with the general interests of the economy.

The Soviet Union

In the Soviet Union the tendency to increase the autonomy of the enterprises and to reduce the role played by the directive targets was discussed in *World Economic Survey, 1963, II. Current Economic Developments.* This tendency began to assume a more concrete form in experiments first conducted in a limited number of enterprises and later extended to a large number of enterprises in a few industrial branches. Moreover, it has been officially announced that the new methods of planning and management will be further extended to other industrial branches in both consumer and producer goods industries. In these experiments the enterprises were authorized to establish their own production programmes independently and to change them, if need be, in the course of the year. They were permitted to maintain direct relations with the market by choosing their own supplier of raw materials and selling their output to trade organizations of their own choice. They were also authorized to determine the structure of wages and the allocation of premiums to their staff.

The purpose of these experiments was to ascertain the effects of eliminating direct controls over the enterprises and permitting them to be guided by market conditions. Though they were conducted on a small scale, these experiments exercised considerable influence on subsequent changes in planning and management in the Soviet Union. The most important experiments in autonomy were conducted in 1964 in two associations of clothing enterprises, namely, the "Bolchevitchka" in Moscow and the "Mayak" in the Volga-Viatsk region. The main feature of the experiments was that the managements of these enterprises were authorized to determine their production programme without any directives from above concerning the volume and assortment of goods to be produced, or regarding cost, manpower or other indicators usually included in the enterprise plans. The production programme of these enterprises was determined by the management on the basis of agreements freely concluded with the wholesale organizations which, in turn, had placed their orders after consultation with the retail trade outlets in accordance with consumer demand. Moreover, the premiums paid to the management and the staff, which as a rule were dependent on the fulfilment of production plans, were now related only to the fulfilment of the enterprises' contractual obligations with respect to their customers and their profits. Similarly, the transactions between the enterprises participating in the experiment and their suppliers were also conducted on a purely commercial basis by placing orders specifying the types of goods required. This was a significant departure from the prevailing practice, which required each enterprise to present to higher authorities a draft of its plan based on the achievement of the previous year, including very detailed targets concerning output, sales, costs and purchases and a large number of other norms and indicators, which after being reviewed by these authorities took the form of directives.[40]

It is obvious that such an experiment could not be conducted without the participation of the suppliers of raw materials on the one hand and of the distributors of the goods produced by the experimenting enterprises on the other. The latter was secured by means of a decision of the Supreme Economic Council of the Soviet Union, which notified the wholesale organizations that if they were not able to sell the goods purchased from the enterprises participating in the experiment they would bear the resulting losses, which in turn would affect the rewards paid to their staff. With respect to suppliers, the experimenting enterprises were authorized to place their orders in any textile enterprise and the textile enterprises were directed to accept them even if this should involve changes in their allocation plans. Although they are still subject to the approval of the republican *sovnarkhozy*,[41] the results of the experiments have brought into sharper focus several problems of the Soviet planning and management system. They clearly demonstrated that production and profit plans prepared according to the prevailing methods were poorly adapted to the actual demand for products. The production programme of the Bolchevitchka, based on orders from the trade organizations, called for an extensive change in the pattern of output established in the original plan. For example, orders from retailers showed that a considerable reduction was required in the share of the more expensive clothing in total production. This change resulted in a decline in gross value of output as compared with the original targets, and, since the profit margin of the more expensive goods was higher than that for less expensive products, profits also fell in relation to those anticipated in the plan. In spite of certain price adjustments—consisting of raising the prices of the goods in greater demand—the rate of profit achieved by the Bolchevitchka amounted to 5.6 per cent, instead of the 9 per cent foreseen in the plan. The shortfall was not considered a failure, however; it served to emphasize the deceptive character of profits achieved through the production of goods which remain unsold in the stock of the trade organizations and which, in fact, represent net losses to the economy. It has also been stated that the experiment clearly demonstrated the need to eliminate the unjustified differences in the profitability of various goods, through appropriate adjustment of prices. Such an adjustment would eliminate the losses incurred by the enterprises in cases where the adaptation of their output to the pattern of demand involved a shift from more to less profitable commodities.

In spite of the special privileges granted to the experimenting enterprises in securing the necessary supplies, considerable difficulties were encountered in procuring the required amount and types of materials from the textile industry. The latter, working on the basis of its own plans, was not able, and perhaps not eager for fear of eventual losses, to adjust its production pattern to the demands of the experimenting enterprises in spite of government instructions. Notwithstanding these shortcomings—which obviously were not due to the autonomy granted to the experimenting enterprises—the experiment considerably strengthened

[40] These, often conflicting, directives were frequently revised in the course of the year by the supervising authorities. The continuous intervention of the authorities in the current activities of the enterprises has considerably reduced the operational flexibility and initiative of management.

[41] Local economic councils.

the trend towards changes in the methods of planning and management. According to decisions taken by the Soviet Government in 1964, the methods applied in the experimental plants are to be extended in 1965 to 400 enterprises in the clothing and shoe industries, which account for about one-fourth of the output of these industries. As in the case of the Bolchevitchka and the Mayak, these enterprises are authorized to prepare their own production and profit plans and determine their wage bill and the employment and other aspects of their activities.

The elaboration of the production programme is to be based on contractual agreements with purchasers as well as with suppliers of raw materials. The enterprises will also be permitted to change their plans to respond to changes in demand. As in the case of the first two experiments, several steps were taken to create the external conditions required for the functioning of the new system in the 400 plants. Thus, for instance, the enterprises producing the raw materials for the clothing and shoe industries are to make their production programmes more flexible in order to meet changes in the requirements of the plants using their products. Several of the textile, leather and other enterprises supplying the materials to these plants are in fact to determine, subject to the approval of their supervising bodies, their own production and profit plans on the basis of the orders they receive from the clothing and shoe industries. The need for such flexibility was amply demonstrated by the difficulties encountered by the two clothing factories in the 1964 experiment. That experiment also confirmed the view that, to induce the trade organizations to adapt the orders they place with the producing units to the pattern of demand, it would be necessary to make them financially responsible for the losses caused by the accumulation of stocks of unwanted goods. In consequence, a certain number of trade organizations dealing with the shoe and clothing industries will be instructed to adapt their methods of operation to the requirements of the plants working under the new system. The activity of the associations or enterprises will be evaluated on the basis of the fulfilment of their sales agreements with the purchasers and of fulfilment of their profit plans. Penalties for the violation of delivery agreements have been considerably strengthened. The premiums and bonuses paid to the workers and to the managerial and technical staff have also been substantially increased.[42] An important innovation consists in opening up to the associations and enterprises the possibility of influencing the prices of their products. In order to induce the introduction of new models and improve the quality of the purchases, enterprises may, subject to the approval of the regional *sovnarkhozy,* raise wholesale and retail prices over and above the state-established price lists in cases where such improvements increase costs. The extension of the new methods to a large number of plants in the shoe and clothing industries clearly indicates that the tendency towards a much more flexible method of management evidenced in recent debates is gaining favour with the central authorities of the Soviet Union.

The extent and the timing of the reform as well as the choice of the system of incentives influencing the activity of the enterprises will be determined on the basis of further experiments and have not yet been announced. But the direction of the changes is not in doubt. The intentions of the Government are reflected in the most recent official statement, which indicated the need for greater autonomy for the enterprises and for adapting production to the changing pattern of demand by establishing direct links with other enterprises or their associations in the fields of both consumer and producer goods. The activity of the enterprises is to be evaluated mainly by the extent to which output corresponds to the requirements of the users, that is, by the actual sales and quality rating of the product, rather than by purely quantitative results. Furthermore, prices paid to the enterprises for various products are to be established in such a way as to encourage them to adapt their pattern of output to that of demand. It has also been indicated that to achieve these results it will be necessary to abolish the present practice which permits enterprises to secure the means for covering their current expenses and to continue to operate, earn profits and rewards even if the goods they produce are unsalable. According to the recent official statement, it is necessary to begin planning production of consumer goods on the basis of the orders placed with the enterprises by the users and to this effect to establish direct commercial relations between industrial enterprises and trade organizations. Such a method of planning will bring the volume and pattern of output into closer relationship with the needs of the economy and of the consumers. It is significant that, in the view of the authorities, this method of preparing enterprise plans should not be limited to the consumer goods industries but should be further extended to other sectors of the economy.

The expansion of the autonomy of the enterprises is to be accompanied by a further extension of the role played in their activities by "economic accounting". This principle is also to be applied in the

[42] Workers paid on a piece-work basis may receive premiums for high-quality work amounting to as much as 40 per cent of their wages. The amount of bonuses to be distributed among the management and technical staff may not, however, exceed 50 per cent of the total basic remuneration of the personnel entitled to premiums.

associations of enterprises and in all organizations dealing with operational activities in order to induce them to conduct their affairs as business undertakings rather than as administrative bodies.

While these policy statements were presented in a rather general form and have not as yet been followed by a detailed programme of action, they seem to point in the same general direction as the views advocated in recent Soviet debates by the proponents of far-reaching reforms. It is noteworthy that these proposed reforms bear a close resemblance to the main tenets of those in Czechoslovakia and Eastern Germany reviewed in the preceding sections.

Apart from the experiments mentioned above, others conducted in several enterprises in the Soviet Union were largely aimed at testing various schemes of inducement, linking the payment of premiums with fulfilment of production plans, quality improvement, introduction of new types of products and profitability. In many instances the gross value of output concept used in the formulation of production plans and in the evaluation of their fulfilment has been replaced, mostly on an experimental basis, by new indicators, such as "normative cost of processing"[43] which approximates value added. The introduction of this indicator was motivated by the belief that it more adequately reflects the performance of the enterprise than does gross value of output, which is influenced by variations in input of materials from outside sources and by the rather arbitrarily set profit rates. In several construction projects, investment financing by credit has been introduced on an experimental basis with the aim of ascertaining whether and to what extent the requirement to repay the principal and interest will induce management to economize on capital outlays and to shorten the construction period of the new projects.

The changes in the organizational framework of industry have proceeded along the same lines as in other centrally planned economies. They have consisted largely in the creation of two basic types of associations (also called "firms"), namely, a single large enterprise similar to the Czechoslovak "concern" described above, and an organization representing a group of separate enterprises under a single direction.

Poland

In Poland, main attention has been devoted to improvements in specific aspects of planning and management rather than to more fundamental innovations. Both the recent debates and the experiments conducted in several enterprises have been concentrated mainly on improvements in the selection and formulation of tasks assigned to producing units, in the system of incentives and in the organization of industry. Much less attention has been paid to the problems of greater utilization of the market mechanism and to indirect methods of influencing the activities of the enterprises. The Government's attitude with respect to the most important changes in methods of planning and management was expressed in the decision of the Fourth Congress of the Governing Party in July 1964. These decisions emphasized the need to improve planning by providing in the long-term plans for sufficient reserves to forestall the emergence of shortages, which in the past were largely responsible for the disruptions that restrained the expansion of the economy.

The five-year segments of the long-term plans are to be subjected to revisions in the light of actual achievements, and the preparation of the detailed annual plans is to be accompanied by the setting of the main targets for the following year. The practice of formulating production targets in terms of gross value of output is to be abandoned as is the use of this concept in planning the productivity of labour, employment, the wage bill and other items. The gross output concept is to be replaced by other indicators, which are to be selected on the basis of experiments conducted in various industries.

Although these indicators may vary from industry to industry, they would as a rule approximate the concept of value added.[44] While the replacement of gross value by value added in the formulation of plan targets is expected to discourage enterprises from increasing the input of materials over and above actual requirements, it will not, by itself, provide an incentive for a reduction in material costs. In order to create a stronger inducement to economize on materials as well as on other expenses, it has been decided to shift the emphasis to such

[43] "Normative cost of processing" can be defined as the sum of costs of labour, fuel and power, subsidiary materials and depreciation evaluated on the basis of norms established for all enumerated *inputs in constant unit cost*. This normative cost can be calculated for industries or groups of enterprises or even for individual plants. It differs from the gross value of output in that it includes neither the cost of raw materials and semi-manufactures from outside sources nor profits.

The planning and performance indicators in the form of normative cost of processing were used in several enterprises in the following industries: clothing; shoe; wool; wool cleaning; ginning; canning; artificial leather; film products; printing, and ship repairing. Moreover, this indicator was also used in all enterprises of the Middle Volga *sovnarkhoz*, in all those producing coal mining machinery in the Donbass, in several engineering enterprises in Leningrad, in meat and milk processing enterprises in Latvian *sovnarkhoz* and in some enterprises in other *sovnarkhozyn*. The enterprises using the normative cost of processing accounted in 1964 for about 15 per cent of the total industrial production of the Soviet Union.

[44] One such indicator used on an experimental basis was the so-called "normative cost of processing" which is defined in footnote 43.

over-all criteria of efficiency of the enterprises as profits, while specific criteria would be down-graded to a subordinate role. The number of directives given to the enterprises would also be reduced and a closer link established between profits and the rewards paid to the staff and management.

Another important decision was concerned with the initiation of experiments to impose a differentiated percentage charge on fixed assets and with widening the scope of financing of investment by credit. To encourage the enterprises to undertake technical innovations and introduce new production lines, the risk involved in such changes is to be reduced by special provisions for compensation for losses incurred in this connexion.

While the expansion of the role of profits and prices in guiding the activities of the enterprises is common to all centrally planned economies at the present stage, a special feature of the Polish attitude to these problems is the emphasis placed on the need to separate sales prices from the prices paid to producing enterprises, the difference being absorbed by the turnover tax. This dichotomy, which in the past was largely applied to consumer goods, is now being suggested for producer goods as well. The proposal for such a dual system of prices is motivated by the following considerations: sales or market prices are intended to remain relatively stable, but prices paid to the producing enterprises are to be made flexible in order to induce them to adapt their product-mix to the requirements of the plan. In some cases it may be desirable to change factory and market prices in opposite directions. Thus, for instance, an increase in market prices aimed at balancing demand with supply of certain commodities may be accompanied by a reduction in the factory price paid to the producing unit if it is considered expedient to discourage expansion of output or import of these commodities or of the raw materials needed for their production.[45] The reverse policy of increasing the factory price would be applied in order to raise output of certain goods in short supply without attempting to reduce demand through market price increases.

The main changes in the system of management outlined in the 1964 resolutions concern the associations of enterprises whose part in planning and management is to be increased substantially. The associations, which frequently acted as intermediary organs transmitting ministerial directives to the enterprises, are to be granted a much greater autonomy in planning and co-ordinating the activities of the enterprises under their supervision. The importance of economic accounting in their activities is to be increased in order to induce them to economize expenditures of the branch or sub-branch for which they are responsible and to maximize their profits. While no detailed provisions concerning the revenues, expenditures and rewards for the management of the associations have been specified, it has been stated that management will be responsible for setting up combined financial balances of the enterprises under their supervision and will be solely responsible for all financial transactions with the state budget. The financial resources as well as the production tasks for a given branch are to be assigned to the associations, which in turn will distribute them among their enterprises. The associations will also be free to distribute their own funds—financed out of their profits—for replacements and modernization. Moreover, they will be entitled within certain limits to reallocate the resources of the individual enterprises for improving the over-all efficiency of the association, especially for the achievement of their export targets. It has been stressed, however, that the introduction of these measures should not lead to the restriction of the rights of individual enterprises, which should retain their own economic accounting and independently dispose of the profits left to them after the obligatory deductions.

The enlargement of the autonomy of the associations is to proceed gradually and their scope and pattern are to be adapted to special conditions in various industrial branches. As the associations will take over some of the functions of the present branch departments of the industrial ministries, the latter will increasingly shift from operational direction of the enterprises or associations to over-all planning and to guiding their activities through indirect means.

Hungary

In Hungary the changes in planning and management, although of a rather limited scope, have been applied over a period of several years. Their cumulative effect is reflected in improvements in planning and better co-ordination of production and supply plans. Like other centrally planned economies, Hungary initiated some time ago a programme of industrial concentration which was virtually completed in 1964. In most cases this was accomplished by the fusion of a number of enterprises into larger units and was accompanied by the dissolution of central branch administrations in various ministries, most of whose functions were transferred to the enlarged enterprises. This change has resulted in increasing the scope of the autonomous decisions of the enterprises and in shortening the communication lines between the latter and the central authorities. The most important change introduced

[45] It has been stated that in order to make this system effective it is necessary to abandon the practice of relating premiums and bonuses to total mark-up, including indirect tax, and to calculate them on the basis of profits only.

in 1964 was the implementation, as of January 1965, of the earlier decisions concerning the introduction of a 5 per cent capital charge on fixed and working assets. This measure was applied to industries under central supervision and is to be extended in the future to all non-agricultural sectors. As prices have remained virtually unchanged, the introduction of this charge has resulted in a decline in profitability. This has not, however, influenced the amounts of profits left at the disposal of the enterprises since the effect of the introduction of the charge on capital was fully compensated for by a reduction in the amount of profits to be transferred to the budget. This compensation was to be offered only once, and in the future any change in the capital-cost ratio per unit of output will have a direct effect on the profits left at the disposal of the enterprises. The influence of this change on a more rational utilization of resources will be further enhanced when the capital cost will be included in the calculation of total cost and of prices of individual commodities.

As in Poland, the main attention of the authorities has been concentrated on improving the system of inducements, on reducing the number of targets assigned to the enterprises and on reformulating these targets in more rational terms.

Among the experiments conducted in various enterprises, the most significant ones were aimed at testing the inducements for export promotion. In order to increase the interest of the enterprises producing for export and to improve their co-operation with foreign trade undertakings, they were authorized to share a certain proportion of the foreign currency proceeds with the latter and to participate in their profits and losses.

Considerable importance is attached to the new experiment started on 1 January 1965 in the medical instruments industry, where 66 per cent of total production is concentrated in one enterprise and 70 per cent of its output is exported. The obligatory targets assigned to this enterprise were reduced to three, namely, exports, imports required for its production and average wages and salaries. The statutory obligations, such as the payment of the charge on capital and the share of profits to be transferred to the central budget, were maintained. But all the other directive targets[46] lost their obligatory character for the duration of the experiment and were to serve exclusively for purposes of comparison with the results obtained by the application of the new method. Another important innovation to be tested by experiment is the determination of bonuses and premiums by actual sales, and not, as in other branches of engineering industries, by production and delivery of goods to warehouses or trade organizations. The bonuses and premiums are to be exclusively financed from profits and will depend entirely on the amounts of profits earned by the enterprises, but under no circumstances may they exceed the sum corresponding to 15 per cent of the wage bill.[47] The influence of these and several other experiments on shaping future policies has been quite considerable since they have shown both the qualities and the shortcomings of the measures so far applied. Thus, for instance, the profit-sharing schemes discouraged the introduction of new production lines because of their negative effect on profits, at least in the initial period. The higher rewards for over-fulfilment of the plans resulted frequently in lowering the plan targets by the enterprises and in understating their capacity in order to reap greater benefits from exceeding the planned quotas. The brief experience with the charge on capital has shown that in some cases it may discourage investments in expensive machinery and equipment. On the other hand, since the charge is assessed on gross value of assets and not on net value after depreciation, its introduction has in some cases led to exaggerated claims for replacement of old equipment by new. While the latter shortcoming can be eliminated by assessing the capital charge on net value of assets, the other difficulties seem to be related to broader issues of the present economic system. It is in fact increasingly recognized that partial improvements relating to some specific aspects of the economy may not be fully effective if they are not accompanied by complementary changes in other closely related fields.

Despite the shortcomings indicated earlier the experiments in enlarged autonomy of the enterprises and the changes so far introduced in management and planning are generally recognized as favourable. The experience gained during recent years is to provide the basis for a more general reform, which is now being prepared for implementation in the near future.

PROBLEMS OF ECONOMIC INTEGRATION OF THE CENTRALLY PLANNED ECONOMIES

In recent years the centrally planned economies have been paying increasing attention to the problems of greater specialization in and co-ordination of their economic activities. The gradual development of the international division of labour among the CMEA countries is leading, according to prevailing

46 These directive targets include as a rule the following: value of output; value of sales for domestic and foreign markets; transactions with the co-operating enterprises; increase in output per man; cost reduction; profits; average wages; employment; raw materials and investment. Thirty to 60 per cent of the goods produced are listed specifically in physical terms.

47 In other enterprises, the upper limit amounts to 8.5 per cent of the wage bill.

views, to the creation of an economically integrated "commonwealth of socialist nations". Although such an integration is generally considered—on both doctrinal and practical grounds—as the ultimate goal of the centrally planned economies, the adoption and implementation of measures to accelerate this process have thus far encountered considerable difficulties. These difficulties have been largely related to the different effects—actual or anticipated—that the specialization schemes would have on individual countries, and the complexity of the problems of equalization of advantages, or transitory disadvantages, involved in structural adaptation. A full analysis of these problems cannot be undertaken at this stage for lack of adequate data on relative costs, productivity and trade flows of specific commodities as well as of other information required for an evaluation of the effects of specialization for individual countries. In consequence, the following review will deal mostly with the general problems of extension of specialization and co-ordination of economic plans and with the views expressed on these problems in the centrally planned countries.

The trend towards greater economic co-ordination of the centrally planned economies is reflected in the evolution of the CMEA during the fifteen years which have elapsed since its creation in 1949. During the first period of its existence, from 1949 to about 1956, the CMEA was mainly concerned with practical problems of immediate interest. The main objective of its activities during this stage was to facilitate the development of new geographical and structural patterns of trade among these countries, in place of their traditional trade patterns, which had been disrupted by the war and by post-war developments. During most of this period little attention was paid to the problems of establishing an optimum relationship between foreign trade and domestic production. However, already in the mid-nineteen fifties, the CMEA was considering the problem of co-ordinating the economic plans of its member countries, especially those relating to the allocation of raw materials. During the following years, the Council elaborated various recommendations concerning inter-country specialization in certain types of products of engineering industries, and in 1956 it attempted for the first time to introduce a measure of co-ordination into the national five-year plans by recommending specialization in the production of a relatively large range of goods in several industries. Neither these nor subsequent attempts aimed at introducing joint financing of investment, developing multilateral trade and co-ordinating development plans have thus far proved to be particularly successful.

The increasing recognition of the need for more fundamental changes became particularly apparent in numerous statements made in various countries before and after the formulation of the *Basic Principles of International Socialist Division of Labour*[48] adopted by the CMEA in 1962.

Several of these statements went much further than the recommendations contained in the *Basic Principles*. According to some views expressed during this period,[49] the CMEA countries were approaching a new stage in which it was possible and necessary to create a unified socialist economy. This was to be achieved by a gradual increase in inter-country specialization and co-operation, including the establishment of close links between producing enterprises of different countries and provision for direct sales in each other's markets[50] as well as development of flows of capital and labour among the member countries. The end result of this process would be the creation of a commonwealth of nations with a fully integrated economy guided by a single economic plan commonly agreed upon and divided into separate national or regional plans. No attempt was made to specify the time period within which such integration could be achieved, but it was generally recognized that this goal could be reached only through gradual changes over a prolonged period. None the less, important changes in planning were envisaged for the near future with the purpose of accelerating the process of integration. Thus, sectoral and global production plans of individual countries were to be mutually adjusted and co-ordinated into a single plan for the whole area. Such adjustments were to aim at the fullest growth of the entire CMEA area and once accepted were to be binding for its member countries. It was also suggested that it might be expedient to allocate investments among countries with a view to increasing the overall efficiency of the area, provided that this were achieved on the basis of conditions mutually acceptable to the interested countries. The common financing of industrial and other projects was to be considerably extended.

Several countries prepared projects[51] for the set-

48 *See* Council of Mutual Economic Aid Secretariat, *Basic Principles of International Socialist Division of Labour* (Moscow, 1962). For a detailed description of the activities of the CMEA, see *Proceedings of the United Nations Conference on Trade and Development, Volume VII, Trade Expansion and Regional Groupings, Part 2* (Sales No.: 64.II.B.17).

49 *See*, for instance, N. S. Khrushchev, "Nasushchnye voprosy razvitia mirovoi socialisticheskoj sistemy", *Komunist*, No. 12, 1962 (Moscow), and *Mirovaia Ekonomika i Mezhdunarodnye Otnoshenia*, No. 2, 1963 (Moscow), *Nová Mysl*, No. 10, 1962 (Prague) and *Nowe Drogi*, No. 11, 1962 (Warsaw).

50 This was not tantamount to the abolition of the monopoly of foreign trade because such transactions would be conducted under the control of the national authorities responsible for foreign and domestic trade activities.

51 These projects involved some border regions of Bulgaria, Czechoslovakia, Eastern Germany, Poland, Romania and the Soviet Union. The tendency towards this kind of limited integration was also reflected in the proposal of a Soviet geographer concerning the unification of the whole Danube area on the grounds of economic efficiency. The proposal was strongly criticized by the Romanian Government and condemned by the Soviet authorities.

ting up of international economic regions on their adjacent borders, which would be subordinated to the joint authority of the interested nations. The distinctive characteristic of the views and suggestions expressed during this period was the considerably increased emphasis placed on the over-all interests of the "commonwealth of socialist nations" in developing specialization and co-operation schemes. It should be added that the proponents of greater co-ordination of plans have repeatedly indicated that this should not jeopardize the long-term interests of individual countries and, more specifically, should not slow down the process of equalization of economic levels of different countries of the group.

It soon appeared, however, that many of these proposals were premature and that the difficulties encountered in their implementation were far greater than anticipated. This was reflected in the differences in attitudes towards the methods and patterns of co-operation to be established and often in diverging interpretations of the *Basic Principles.* While these differences extended over a wide range of problems, they were in a sense epitomized in the attitude towards the degree of independence in the formulation of national economic plans and policies. The most extreme views on these problems were expressed in Romania on the one hand and Mongolia on the other. According to an official statement of the Romanian Government of April 1964, "the planned management of the economy is one of the fundamental and inalienable attributes of the socialist state", which "must hold in its hands all the levers of economic and social life". The transfer "of these levers to the competence of supranational or external bodies would deprive the idea of sovereignty of any content".[52] Similar opinions have also been expressed by the authorities of mainland China, which is not a member of the CMEA. The development of the socialist countries, according to the views expressed in China, should be self-sustained. The projects for integration of the CMEA countries were criticized in China as being inspired by foreign experience, such as the European Common Market, and were regarded as incompatible with socialist principles. Entirely opposite views were expressed by the Chairman of the Council of Ministers of Mongolia, who stated in an article published in September 1964 that the sovereign rights of socialist countries, however inalienable, "should be seen in the light of the fundamental aims of the socialist system". He rejected the view that the creation of an international planning body would infringe upon national sovereignty and stated that "it will be eventually necessary to draw up an integrated general economic plan for all the member countries and also to set up a permanent planning body".[53]

The extreme positions adopted by Romania and mainland China, however, are not shared by most of the centrally planned economies. Nevertheless, there is some reluctance among the CMEA member countries to undertake any far-reaching inter-country specialization and co-operation schemes. In consequence, the co-operation between the centrally planned economies continued to develop mostly along the lines evolved in the nineteen fifties, which largely consisted in promoting foreign trade and to a much less extent in co-ordinating the plans of production and trade for specific commodities as well as the plan for certain investments.

The foreign trade of all the centrally planned economies has increased in recent years at a faster rate than their national incomes, and the share of intra-trade in the total has also increased in most countries (*see* tables 4-7 and 4-8).[54]

[52] *Statement on the Stand of the Romanian Workers Party Concerning the Problems of the World Communist and Working-class Movement Endorsed by the Enlarged Plenum of the C.C. of the R.W.P. held in April 1964* (Bucharest, Agerpress, 1964).

[53] Y. Tsedenbal, "Economic Co-operation between Socialist Countries, a Vital Necessity", *World Marxist Review (Problems of Peace and Socialism)*, No. 9, 1964 (Toronto).

[54] The share of the trade with the CMEA countries has declined only in Romania and Bulgaria where it was already very high at the beginning of the period covered by table 4-8.

Table 4-7. Import and Export Elasticities, 1950-1963

Country	*Average rates of growth of national income (percentage)*			*Import elasticity*			*Export elasticity*		
	1950-1955	*1955-1960*	*1960-1963*	*1950-1955*	*1955-1960*	*1960-1963*	*1950-1955*	*1955-1960*	*1960-1963*
Bulgaria	9.3	9.7	8.1	1.30	2.09	1.56	1.47	2.02	1.69
Czechoslovakia	8.2	7.0	3.9[a]	1.28	1.66	2.08[a]	1.05	1.49	1.60[a]
Eastern Germany	10.2	6.8	2.6	1.93	1.93	1.58	2.53	1.69	2.63
Hungary	6.3	6.6	4.7	1.90	1.82	2.12	2.05	1.20	2.35
Poland	8.6	6.3	6.8	1.23	1.57	1.43	0.91	1.21	1.46
Romania	13.9	6.9	8.1	0.99	1.01	2.00	1.06	1.62	1.06
USSR	11.4	9.3	5.4	1.40	1.40	1.42	1.21	1.11	1.74

Source: National statistical yearbooks.

[a] 1960-1962. The inclusion of the year 1963 would distort the general tendency indicated by these data owing to the absolute decline in national income in that year.

Table 4-8. CMEA Countries: Distribution of Foreign Trade Turnover, 1958 and 1963

(Percentage)

Trading countries and year	Partner countries								Rest of the world	Total
	Bulgaria	Czecho-slovakia	Hungary	Eastern Germany	Poland	Romania	USSR	Sub-total		
Bulgaria										
1958		10.4	2.4	9.3	4.9	1.1	53.2	81.3	18.7	100.0
1962		8.0	2.0	9.5	3.6	1.9	53.3	78.4	21.6	100.0
Czechoslovakia										
1958	2.7		5.8	11.1	5.8	2.1	33.1	60.6	39.4	100.0
1963	3.2		6.1	9.8	7.4	3.3	38.9	68.7	31.3	100.0
Hungary										
1958	1.4	12.8		11.2	5.0	2.2	26.9	59.5	40.5	100.0
1963	1.3	11.3		9.5	6.3	2.8	34.3	65.5	34.5	100.0
Eastern Germany										
1958	1.9	8.4	3.8		6.6	1.8	42.8	65.3	34.7	100.0
1963	3.4	8.8	4.3		7.1	2.0	48.6	74.2	25.8	100.0
Poland										
1958	1.6	7.3	2.7	11.5		1.1	26.2	50.4	49.6	100.0
1963	1.8	9.0	4.1	10.0		2.0	33.7	60.6	39.4	100.0
Romania										
1958	0.8	6.5	3.1	7.0	2.7		51.5	71.6	28.4	100.0
1963	1.3	8.1	3.6	5.5	3.8		41.9	64.2	35.8	100.0
USSR										
1958	4.0	11.1	4.2	18.7	7.4	5.6		51.0	49.0	100.0
1963	6.6	12.6	6.0	18.3	8.9	5.6		58.0	42.0	100.0

Source: United Nations, *Yearbook of International Trade Statistics* for the years 1962 and 1963 (Sales Nos.: 63.XVII.8 and 64.XVII.12).

In 1963 several steps were taken to improve the co-ordination of national plans. Until recently the investment plans of each member country were prepared on a national basis first, and co-ordination with the plans of other countries of the CMEA followed afterwards. According to a decision taken by the CMEA in July 1963, the preparation of national plans was to be preceded by a preliminary exchange of views concerning their eventual co-ordination. The standing Executive Committee of the CMEA, set up in 1962, deals on a continuous basis with current problems raised in the process of implementing the decisions of the Council. Specialized agencies have drawn up preliminary balance-sheets for raw materials and basic equipment required for the period from 1966 to 1970.

The International Bank for Economic Co-operation was set up in 1963 and began to operate in the following year. It is expected to play an important role in fostering the expansion of trade and economic co-operation among the CMEA countries. Its basic role is to act as a clearing-house for multilateral transactions among the member countries and to provide special credits for the financing of temporary deficits incurred in intra-trade. The Bank is also to engage in financing joint long-term investment projects. A number of joint projects, begun independently earlier, have already been completed and others are being started, mostly for the production of raw materials. The interconnexion of power-grids was completed in 1963 and resulted in a considerable increase in the transmission of electric power. The oil pipeline system established earlier is to be further extended. At the end of 1964 it was decided to construct a gas pipeline from the Soviet Union to Czechoslovakia and its completion has been scheduled for the summer of 1967. A new pipeline is also being considered for transporting gas from the Soviet Union to Poland. Significant results have been scored in the field of transportation as well: the railroad pool of the eastern European countries has been considerably enlarged during 1964 and the air transport of Bulgaria, Eastern Germany, Poland and Romania has been combined into a pool. Considerable progress has been achieved in the work on standardization in metallurgy, machine building and the chemical and electrical industries. The machine building commission of the Council of Mutual Economic Assistance has made specialization recommendations which cover about 20 per cent of the total output of this industry. The plans for scientific and technical research have been co-ordinated for the years 1964 and 1965 and steps have been taken for extending them to the next five years.

These achievements are no doubt significant; nevertheless, progress in the field of economic co-operation among the CMEA countries has not been as great as was generally expected. Work on co-ordination of the new long-term plans, called for by the decisions adopted in 1963, has been considerably slowed down by unforeseen delays in the completion of the drafts of national long-term as well as medium-term plans. Hardly any progress has been achieved in developing a system of multilateral trade, although it is widely recognized that the purely bilateral balancing is an obstacle to increased co-operation in and expansion of trade. The role of the Bank in this respect was very limited, since the credits it offered could not be effectively used for purchases in any country without its express agreement.

Although a certain measure of progress was achieved in developing specialization in the engineering industries, the recommendations made in this field by the Council's specialized commission proved to be very difficult to implement. Thus, while they covered about 20 per cent of the output of the branches of these industries, the actual share of production manufactured under specialization agreements amounted only to 2 to 6 per cent of the total.[55] One of the shortcomings was in the field of specialization in component parts. Although this type of specialization is considered to be extremely important for the further development of the international division of labour, progress made in this field has been modest. Similarly, the growth of specialization and co-operation in the metallurgical and chemical industries has also been relatively limited.[56] Such sectors of the economy as agriculture or consumer goods industries have practically been left outside the scope of specialization agreements. The relatively limited result of the efforts towards greater specialization, which began in 1956, is reflected in the fact that the assortment of goods within specific branches of industries has remained extremely wide. Consequently, the economies of scale expected from the reduction of the number of items produced by specific plans have not been achieved. While this was largely due to the fact that many of the recommendations concerning specialization were not implemented, their implementation in some countries did not result in a significant increase in the scale of operations, so that the gains expected from the use of mass production methods did not materialize. In part this stemmed from the fact that the specialization measures were not based on efficiency evaluations but were determined rather by the balance of payments requirements. This was particularly the case when a country had to produce certain goods required by its trade partners, though their production could not otherwise be justified, in order to receive from them badly needed raw materials. Some countries with growing import requirements had to produce a wide range of goods for export without regard to profitability. Such diversification of production resulted in a decline in over-all efficiency, which could have been avoided by more efficient specialization.[57]

Moreover, the specialization agreements freely concluded by the interested parties have frequently remained unfulfilled, especially with respect to the time schedules and quality provisions. In some cases a member country that discontinued production of certain goods in conformity with a specialization agreement was later unable to receive them from its partners.[58]

Developments have been strongly influenced by the economic, historical and political factors. The centrally planned economies are in many respects favourably situated for achieving economic integration. They are unified by a common purpose as well as by the common historical traditions of their governing parties. On the doctrinal level, the need for the ultimate elimination of economic barriers between national states is shared by all. Their economic and social systems are, for all practical purposes, identical. All these countries are in the process of rapid economic growth, which is clearly opening up wide possibilities for mutual readjustment of their economies. As most of the CMEA countries are relatively small, they are vitally interested in widening their foreign economic relations in order to achieve economies of scale. This factor is, of course, much less important for the Soviet Union, whose attitude towards closer co-operation has been largely influenced by its interest in increasing the economic

[55] *Gospodarka Planowa*, No. 6, 1964 (Warsaw), page 44; *Planovoe Khozyaistvo*, No. 4, 1964 (Moscow), page 5.

[56] This is also indicated by the low share of total production of various goods entering into the trade of CMEA countries. Thus, according to an article in *Wirtschaftswissenschaft*, No. 11, 1964 (Berlin), the proportion of output entering trade among CMEA countries in the early nineteen sixties amounted to 5 per cent for rolled steel, 3 per cent for locomotives and 6 to 8 per cent for combines and tractors. According to other estimates, only 5 per cent of the machine tool output was traded in 1959. Data on growth of production and trade of machine tools seem to indicate that the situation has not significantly improved in more recent years.

[57] See *Wirtschaftswissenschaft*, No. 10, 1964, page 1656.

[58] Hungary, for instance, which in conformity with a specialization agreement has discontinued production of freight cars, has encountered considerable difficulties in procuring them from its partners.

strength of the area as a whole. Social ownership of the major part of productive capacity, and central planning and management of the economies provide the possibility of fostering integration by excluding the pressure of sectoral interests and making overall adjustments easier. Moreover, co-ordination of their trade with production plans is facilitated by the long-term trade agreements that they have with each other. The CMEA countries have also been drawn together by the attitude adopted towards them by the western countries, both politically and in the sphere of economic relations. The inward orientation of their trade was also influenced by other factors. The CMEA countries have not been able significantly to increase their trade with the outer world. In addition to the difficulties of entering new markets, their trade with the rest of the world has been hampered by the restrictions imposed upon them by the western countries. The quality of their manufactures, also, was often not up to the standards required by western importers. The creation of commercial blocs in the west, which afford strong protection for certain privileged sectors, has prompted the CMEA countries to shift some of their trade from the west to their own area. Thus, for example, the creation of the European Economic Community has induced a country such as Poland, which is heavily dependent on its agricultural exports to the west, to seek alternative outlets in the CMEA area.

But, irrespective of these general conditions, an important factor acting in favour of integration has been the existence of the great untapped opportunities for considerable gains from specialization and co-operation among the CMEA countries. This was partly accounted for by the fact that during much of the post-war period the development of these countries was largely autarkic and that the progress hitherto achieved in the field of specialization and co-operation had been relatively limited.

While the conditions described above offered considerable inducement for the greater economic integration of the CMEA countries, development of the new forms of co-operation was considerably hampered by several other factors. It should be observed in the first place that the CMEA area is composed of countries at very different levels of development, as is shown in table 4-9. This includes highly developed industrial countries, such as Czechoslovakia and Eastern Germany and, to a less extent, the Soviet Union, as well as countries at an intermediate level of development, such as Hungary and Poland, and semi-industrial countries with large agricultural sectors, such as Bulgaria and Romania. Another country member of the CMEA, Mongolia, is even considerably less developed. The problems and difficulties of integrating countries at very different levels of economic development are clearly much greater than those faced by more equally developed economies. Considerable differences in productivity, standards of living and general economic and social conditions have created exceedingly complex problems of equalization of benefits to be derived from the extension of economic ties by the participating countries.[59]

Table 4-9. Indices of *Per Capita* Output, 1950-1963

(Average for the group = 100)

Country	*Industry*			*Agriculture*			*National income*		
	1950	*1958*	*1963*	*1950/51*	*1957/58*	*1962/63*	*1950*	*1958*	*1963*
Bulgaria	33	40	48	93	93	100	59	65	71
Czechoslovakia	188	169	158	103	93	89	131	135	127
Eastern Germany	149	166	163	101	97	109	128	157	154
Hungary	83	75	75	112	110	109	95	77	80
Poland	87	91	87	116	112	106	99	88	81
Romania	49	52	63	74	79	78	60	62	73
USSR	112	106	106	101	116	107	107	115	112

Source: The estimates for industry are based on data for 1962 as given in *Sprawy Miedzynarodowe*, No. 2, 1964 (Warsaw) and extrapolated for 1950 and 1963 by the use of indices of industrial production and changes in population in each country. The estimates for agriculture for 1950/51 and 1957/58 are from A. Bodnar, *Gospodarka Europejskich Krajow Socialistycznych* (Warsaw, 1962), page 238. They were extrapolated for 1962/63 by the use of national indices of agricultural production.

The indices for national income represent a rough estimate obtained as a weighted average of the indices of industry and agriculture using the Soviet structure of weights derived from the 1950 national income; the data obtained for 1950 were extrapolated for 1958 and 1963 by the use of national indices of *per capita* income.

[59] The existence of these problems might be partially responsible for the fact that the CMEA does not include the much less developed Asian centrally planned economies. Although every country sharing the *Principles* of the CMEA is entitled to membership in the organization, the Asian centrally planned economies, with the exception of Mongolia, have not joined the Council and have instead participated in its work only as observers.

Although the problems arising from the difference in the levels of economic development accounted for many of the difficulties encountered in the co-ordination of the economic activities of the CMEA countries, not less important were the impediments caused by structural rigidities and institutional factors. It has been stated earlier that state ownership and central planning might be considered as factors facilitating the process of integration in so far as they enable the government to effect directly the necessary long-term adjustments. But the concentration of all decisions in the hands of central authorities had also certain disadvantages. Thus, for instance, the process of co-operation and specialization in the market economies has been considerably facilitated by the existence and the possibility of further extension of direct transactions between individual firms in various countries. Moreover, specialization in the production of final goods or component parts has been stimulated by competition or by agreements reached by the interested firms or corporations in these countries. No such tradition exists in the centrally planned economies; they have to devise entirely new methods and forms of international co-operation. In the private enterprise economies, specialization was largely influenced by the market mechanism and was induced by the self-interest of individual enterprises. But in the centrally planned economies this process was entirely within the responsibility of the central Governments, whose decisions had to be based on considerations of national interest as well as the interests of the various countries members of the CMEA. The complexity of this task and the difficulties involved in devising appropriate institutional arrangements to facilitate increased co-operation were largely responsible for the reluctance of national authorities to undertake far-reaching commitments which would impose serious structural changes on their economies.

The absence of a fully elaborated scheme of integration and the lack of ways and means of safeguarding the interests of individual countries, has largely contributed to the sense of uncertainty hampering the growth of specialization. The *Basic Principles of International Socialist Division of Labour* represented only a general framework of the activities of the CMEA without providing any specific measures; these are to be elaborated later. The absence of machinery for covering the risks and providing indemnification for eventual losses by compensatory financing, subsidies, foreign trade credits and by adjustments of the terms of trade has increased the reluctance of the member countries to participate in multilateral planning.

Similarly, not much has been achieved in attaining greater mobility of the factors considered essential for fostering economic co-operation. In the past, the migration of labour which occurred among the centrally planned economies for alleviating temporary surpluses or scarcities of labour were very limited. In recent discussions, however, it has been frequently suggested that a redistribution of labour among the CMEA countries may become useful, and that the progress of international co-operation may stimulate such transfers. However, in spite of considerable and largely complementary differences in the availability of manpower in various countries, it is doubtful whether significant migration of labour will develop in the near future, since in many countries such transfers are not considered as proper instruments of economic policies. This attitude was most explicitly expressed in Romania in an article[60] indicating that, while the transfer of manpower may be inevitable in private enterprise economies, it is incompatible with the principles of the socialist economies where central planning creates the possibility of fully utilizing resources without the need to transfer labour even within national boundaries. Though this attitude has not been expressed in such explicit form in other countries, there is widespread reluctance to accept the usefulness of large-scale movements of labour.

The emphasis has been placed, instead, on increasing the mobility of capital. Beginning with 1956, the centrally planned economies have undertaken joint ventures, mainly in the extractive industries. Several jointly financed long-term projects have been put into operation in some of the countries while others are still in process of construction. The role played by these projects in national investment plans thus far, however, has been very limited. In Poland, which is one of the main beneficiaries of these capital flows, foreign participation in the joint ventures, planned for 1959-1965, represents no more than 2 per cent of total industrial investment.[61] It is widely acknowledged that the scope of these ventures is far too limited and that the development of inter-CMEA co-operation calls for a much greater transfer of capital from one country to another. Comparatively little progress has been made in these fields since 1962. It is believed that further development of joint investment will depend on the solution of two problems. The first is that an acceptable concept of international property be devised which would afford the possibility of setting up enterprises jointly owned and managed by several countries. The second problem is that of creating financial incentives for the setting up of such projects and for foreign investment in general. Under present arrangements the participation of one country in the projects located in another country is limited to financing. The enterprises are owned and managed exclusively by the country in whose ter-

[60] *Viata Economica* (Bucharest), 12 June 1964.

[61] Based on data indicated in A. Bodnar, op. cit., pages 41 to 51.

ritory they are located. The credits offered by the foreign investors bear, according to usual practice, a nominal interest amounting to 1.5 to 2 per cent. Since the gains from foreign investment are considerably below those that could be obtained by extending domestic productive capacity, the potential investors are inclined to keep their participation in these projects to a minimum. The only inducement to invest is the obligation of the credit-receiving country to ship to the investors part of the output of the jointly financed project in repayment of credits and on a purely commercial basis.

The importance attached to the solution of these problems stems from the belief that adequate capital flows would enable the CMEA countries to derive considerable benefits from the wide differences in their respective natural endowments. Although the area is considered to be richly provided with raw material deposits, most of these deposits are located in the territory of the Soviet Union. The natural resources of the other eastern European countries are very unevenly distributed. Some countries, such as Poland and Romania, are relatively well endowed in fuel and mineral ore deposits. Others, such as Czechoslovakia or Eastern Germany, are in a much less favourable position. Because of the extremely high capital intensity of the extractive industries, it is generally believed that the most efficient way of expanding production of raw materials would be to concentrate on the development of the extractive industries in certain countries, and to share the burden of the required investments among all the countries.[62] The absence of adequate inducements for foreign investment was largely responsible for the adoption of certain contradictory policies, detrimental to individual as well as to the collective interests of the CMEA countries. Thus, some countries relatively well endowed with certain natural resources were reluctant to develop their extraction over and above their requirements. At the same time, however, faced by the inability to import other raw materials, they were compelled to expand the exploitation of low-grade deposits of these materials, which would never have been undertaken in more normal conditions. The high capital cost of production of raw materials, together with inadequate capital flows, was also responsible for the emergence of certain difficulties in trade between the more industrialized and the less industrialized CMEA countries. In the initial stages of post-war development, the less developed countries largely financed their imports of machinery and equipment by exports of raw materials. In the later stages, however, when they had developed their own engineering industries, they became increasingly reluctant to pay for their imports in this way, and tended to exchange machinery against machinery. This pattern of trade obviously created difficulties for the more developed countries such as Czechoslovakia and Eastern Germany in so far as it restricted their ability to acquire raw materials in exchange for machinery and equipment. Its effect on the less developed countries was more complex. The growth of their engineering industries was obviously an important factor for their accelerated growth. It is less certain, however, whether, in some cases at least, much better results could not have been achieved if this process had been conducted on the basis of co-ordinated decisions, taking into account the benefits of economies of scale which could be achieved by a more rational inter-country specialization. This, however, could not be accomplished without alleviating the burden of investment in the extracting industries by an inflow of foreign capital.

The extension of capital flows together with the introduction of various compensatory measures is also expected to eliminate other difficulties hampering the growth of inter-country specialization. For example, specialization has been discouraged by the possibility of losses due to temporary declines in output which would occur if the production of certain goods were discontinued and new lines of production not introduced in their place. Similarly, the decline in profitability caused by the high cost of the newly introduced production lines in the initial period, and the balance of payments difficulties resulting from additional import requirements discouraged specialization. The importance of these problems remained concealed for quite a long time because of the limited scale on which specialization was tried. With the acceleration of this process these problems have been brought to the fore.

These problems will obviously become more important as the international division of labour develops further, especially if, as has been suggested, specialization measures involve discontinuing production of a wide range of industrial commodities in favour of others. These difficulties were largely responsible for the reluctance of member countries to accept the recommendations of the CMEA involving the cessation of production of certain goods. In consequence, the attempts of the Council to reduce the number of goods produced simultaneously by several member countries have not been very successful, and achievements in this field consisted at best in preventing any significant increase in their numbers.[63] According to widespread opinion, the absence of appropriate incentives and compensation was one of the most important obstructions to closer co-operation in this field.

[62] For more details on this point, *see* United Nations, *World Economic Survey, 1958* (Sales No.:59.II.C.1), page 162.

[63] See *Planovoe Khozyaistvo*, No. 4, 1964, page 5.

In addition to the factors thus far reviewed, progress in the field of specialization and co-operation among the CMEA countries has also been slowed down to some extent by the preference given in certain cases to trade with the outer area. While the expansion of trade with private enterprise economies was not considered imcompatible with the establishment of closer ties among the CMEA countries, it was felt that in many cases imports from the west included commodities which were either available or could easily be produced within the area. The preference for such purchases was largely motivated by the higher quality of certain products produced in the west.

The effect of this attitude was twofold. It resulted in certain restrictions of imports from the other CMEA countries and it led to the continuation of the production of certain goods, in spite of their high cost, for the sole purpose of securing foreign currency. Such production would have been discontinued had a much wider specialization been achieved among the CMEA countries.

The difficulties encountered in extending economic co-operation among the CMEA countries were frequently ascribed to the lack of adequate methods of evaluation and analysis. The progress achieved in the application of such methods to internal planning has not been matched by comparable achievements in planning for the entire area. In view of this, the impact of the recommendations of a specialized commission of the CMEA could not often be assessed with any degree of accuracy. In many cases the recommendations concerning specialization were simply based on the fact that specific production capacities existed in a given country or that certain commodities were traditionally produced in that country, without sufficient attention being paid to the problems of relative costs and other factors. The impact of specialization on balance of payments was frequently neglected. These shortcomings were largely caused by the fact that neither internal prices nor the official foreign exchange rates could be used for the required evaluation. The foreign exchange rates in the centrally planned economies bear little relation to the purchasing power of the currencies, and serve only as an accounting device. The methods of price formation vary from country to country, and within each country the relative prices differ considerably from the relative costs of production of various commodities. In such conditions the comparison of foreign and domestic prices could not yield any indication concerning the benefits to be derived from foreign trade. The problems created by the shortcomings of the price system were not insoluble, however. For eliminating the distortions created by it and evaluating the profitability of imports and exports on a more rational basis, most of the centrally planned economies devised various "efficiency" criteria. In some of these formulas the domestic cost of commodities was calculated by adding labour costs and depreciation at each stage of manufacturing; the total cost thus obtained was then converted into foreign currency by specially devised exchange rates.[64] The exchange rate was determined as the ratio of domestic to foreign cost of a basket of wage-goods. This exchange rate was used for conversion into foreign currency of labour as well as of capital inputs. The comparison of foreign proceeds with the domestic cost expressed in foreign prices served as an indication of the profitability of exports of individual commodities, and the comparison of the degree of profitability of a wide range of exports and imports provided the basis for policy decisions concerning foreign trade. These policies could not of course be determined by profitability considerations based on such calculations alone. Since the trade of the centrally planned economies is conducted on a bilateral basis and in most cases with little use of convertible currencies, the comparison of relative costs has to be supplemented by other considerations, such as the availability of certain goods in individual partner countries or the possibility of achieving bilateral balances. These factors can be taken into account by introducing additional coefficients into the formulas or by the use of differentiated exchange rates in the efficiency calculations. Solutions concerning total trade can be found by the use of linear or other programming techniques. Practical difficulties have restricted the application of these methods to the determination of geographical and commodity distribution of exports on the basis of a fixed volume of imports required for the fulfilment of economic plans. It is believed, however, that similar methods can also be used for the solution of macro-economic problems, such as the determination of the volume of exports and imports corresponding to the optimum utilization of resources.[65] While such calculations have mostly been applied to the solution of current trade problems, they have also been used to some extent for the determination of medium-term investment policies in cases involving import substitution or export promotion. In such cases, investment efficiency formulas, used for the choice between various investment projects, have been applied in combination

[64] Several other formulas have been used for various purposes. *See* M. Rakowski (ed.), *Efektywnosc Inwestycji* (Warsaw, 1963), pages 273 to 323, and *Vneshnyaya Torgovlya*, No. 5, 1962 (Moscow). *See* also United Nations, *Economic Bulletin for Europe*, vol. 11, No. 1, 1959 (Geneva), pages 67 to 72.

[65] For a detailed analysis of these methods, *see* W. Trzeciakowski, *Methods for the Determination of the Marginal Rate and Simplified Methods for Analysis of the Effectiveness of Foreign Trade* (Warsaw, 1964). For a discussion of the problems raised by the application of these methods, see *Zycie Gospodarcze* (Warsaw), 7 March and 4 April 1965.

with the foreign trade efficiency formulas described above.[66]

Although the new methods thus far applied have been far from perfect, they have considerably improved the planning of foreign trade, which, in contrast to the past, is being increasingly influenced by macro-economic efficiency criteria. Since the evaluation of the gains derived from foreign trade is closely related to the assessment of the advantages of specialization, it has often been suggested that these methods could be used in the elaboration of recommendations relating to further expansion of the international division of labour among the CMEA countries. The main difference between the use of the techniques for planning current foreign trade and their use for specialization is that in the latter case the potential rather than the immediate gains would be decisive. It is significant, however, that while the usefulness of these techniques for the evaluation of the efficiency of the trade of individual countries is generally recognized, their use for long-term decisions concerning specialization and the international division of labour has been criticized on fundamental grounds. The objections against the use of these methods were, in fact, directed against the systematic application of the principle of comparative advantage to the problems of international division of labour among the CMEA countries. They have ranged from the infant industry argument to the view that in the long run the comparative advantage approach cannot provide any indication of the most efficient pattern of specialization for individual countries. According to some views, the extensive use of such criteria would be detrimental to the elimination of the differences in the level of development of the CMEA countries. The pattern of specialization determined by the comparative advantage approach, though eventually beneficial for the CMEA community as a whole, might be achieved largely at the expense of the less developed countries, thereby resulting in a widening of the gap between the less and the more developed countries of the group. It is of interest to note that while the case against the principle of comparative advantage was not always stated in the CMEA countries in as rigorous terms as in the writings of many western economists, it was essentially supported by very similar considerations. Thus, it was argued[67] that any specialization based on these principles will be more beneficial to the more developed countries because the terms of trade are generally more favourable to countries exporting manufactures than to those exporting raw materials and food. Secondly, the income elasticity of demand for traditional exports of the less developed countries is low, so that their exports do not expand as much as do the exports of the more developed countries with a rise in income. Thirdly, the lower bargaining power of these countries reduces their share of the gains from trade. Fourthly, the limited possibility of reallocating their resources among the various sectors to adjust output to the changes in the pattern of foreign demand prevents the less developed countries from making the most of the trade opportunities opened up by international specialization. For these and other reasons, the gains in productivity in the less developed countries are likely to be transferred to the more developed countries by the mechanism of price reduction of traditional exports, whereas the increase in productivity in developed countries tends to lead to increases in domestic wages and profits.

These views, generally defended both in the less and in the more developed CMEA countries, have usually been expressed in very general terms only, without clear indication whether these shortcomings of specialization are of universal validity or whether they are caused by the use in CMEA trade of world market prices. In some cases, in fact, it has been stated that the unequal relationship between the less and the more developed countries in the outer world is being transposed to the CMEA countries by the use of world prices, in spite of certain adjustments made for alleviating this effect. It is increasingly believed, however, that these effects are not the result of the pricing system alone but that basically they arise from the difference in the economic structure of the countries. Great prominence therefore has been given in the resolutions of the Council of Mutual Economic Assistance and in numerous other statements to the need for developing a "complex" economy in each country. While the notion of complexity has not been fully elaborated, it has been broadly defined as an economy consisting of all essential branches of economic activities, such as agriculture, mining and manufacturing, and, within the latter, producer as well as consumer goods industries. In order to achieve this complexity in the less developed countries, the growth of some sectors or branches has to be given top priority; thus, industry should develop faster than agriculture, and the output of producer goods should grow faster than that of consumer goods. Special emphasis has been placed on the growth of machine building industries owing to their importance for technical progress in other branches of the economy. A consequence of this approach has been the belief that international specialization should proceed along intra-branch rather than inter-branch lines.

[66] For the investment efficiency formulas, see *World Economic Survey, 1959* (Sales No.:60.II.C.1), pages 104 to 110.

[67] *See*, for example, *Közgazdasági Szemle*, No. 6, 1962 (Budapest), pages 1026 and 1027; *Planovoe Khozyaistvo*, No. 8, 1963, page 73; *Probleme Economice*, No. 9, 1964 (Bucharest), pages 7 to 10. *See* also J. Novozámsky, *Vyrovnávání ekonomické úrovně zemí RVRP* (Prague, 1964), pages 88 to 95.

It may be of interest to note that some of these views—which in 1962 were formalized in the *Basic Principles of International Socialist Division of Labour*—have been subjected to some, though rather isolated, criticism. It has been stated, for instance, that the priority assigned to the growth of producer goods should be applied to the CMEA area as a whole rather than to each country individually. It has also been suggested that the high level of development reached by certain agriculturally oriented western European or overseas countries indicates that the advantages of inter-branch, as compared to intra-branch, specialization can indeed be large. The same conclusion has been drawn from the analysis of natural endowments in the CMEA countries. The priority assigned to the growth of the engineering industries in each country has also been questioned on similar grounds and it has been stated that the tendency to develop industries already existing in other countries may weaken the opportunities for expansion of trade between the CMEA countries.[68] These opinions have remained isolated, however, and have been strongly criticized in both the developed and the less developed CMEA countries. The latter in particular have repeatedly stressed their opposition to any departure from the principle of complex development of their economies. Such a pattern of complex development is obviously very different from that which would obtain from the application of the principle of comparative advantages.[69] It is equally obvious that a pattern of growth which in the long run is beneficial to an individual country may not be in agreement with the interests of the area taken as a whole. The reconciliation of these interests is not considered impossible, however, provided that specific measures are taken to compensate a given country for the eventual disadvantages caused by its avoiding the expansion of certain industries in the common interest.

Since decisions concerning the structure of domestic output and of foreign trade are largely determined by existing foreign trade prices, significant changes in the pattern of specialization could be achieved by modifications in the terms of trade. In fact, several official documents as well as the *Basic Principles of International Socialist Division of Labour* state explicitly that the relations between the CMEA countries should be conducted on the basis of a separate price system which would introduce new terms of trade differing from those prevailing in the world market. The new prices, it has been stated, should be fixed for a relatively long period. This recommendation, however, has proved difficult to carry out.

The need for a new system of prices in the foreign trade of the centrally planned economies was advocated on various grounds. The most commonly advanced reason was that in order to achieve a more rational division of labour between the CMEA countries, the decisions taken by individual countries must be based on a comparison of actual costs of commodities in various countries rather than on comparisons with world prices, which are entirely divorced from the cost relationships in the CMEA area. In consequence, according to some suggestions, the new prices should be based either on the cost of the main exporter of a given commodity or on the average cost of several producers weighted by their share in total output or exports of the CMEA area. Little has been said about the eventual adjustment of these basic prices to the scarcity relations, or about changes aimed at providing compensation for the temporary or long-term disadvantages that a country may suffer owing to specialization. The lack of adequate information on cost relations and on the eventual price structure based on these relations precludes any assessment of the anticipated differences between the present and the future terms of trade and of the impact of the reform on various countries.

It has been recognized from the outset that the introduction of a separate system of foreign trade prices for the CMEA countries may present considerable difficulties. Whatever the shortcomings of the present system, it at least has the merit of having been in existence for quite a long period of time. Any transition to a new system is likely to raise strong objections by countries for which the new price relations might be less advantageous than the old ones. Moreover, the severance of direct links between CMEA and world market prices raises additional complications by setting up a dual foreign trade price system. One of the problems would be the diversion of certain trade flows to other areas, beneficial to some countries but hampering the extension of inter-CMEA specialization and co-operation. It is not surprising, therefore, that the idea of introducing a new system of prices has not received unqualified support. It has been argued, for instance, that no country should be deprived of the opportunity to trade with the outer area if the prices received for its exports or paid for its imports prove to be more advantageous than those established for intra-trade. Some apprehension has been expressed that the weakening of trade links with the western countries could reduce the incentive for cost and price reductions in the CMEA countries. In some cases even the need for a separate price system has

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[68] *See*, for example, *Nová Mysl*, No. 1, 1958 and *Wirtschaftswissenschaft*, No. 9, 1961 and Nos. 4 and 8, 1963.

[69] It should be added that, even apart from the objections indicated earlier, the principle of comparative advantages is considered to be of rather limited use in solving the problems of specialization in the CMEA countries in view of the fact that each country is assumed to be able to develop full efficiency in each branch of the manufacturing industry, especially if the cost of research and experimentation is shared by the community of co-operating nations.

been questioned on the grounds that, in view of the growing share of production and trade of the CMEA countries in the world total, prices in world trade will be increasingly influenced by productivity relationships as well as by the supply and demand conditions in the CMEA area. According to these views, the differences between relative costs within the CMEA area and the rest of the world would tend gradually to disappear.[70] Although the introduction of a separate price system in the trade of the CMEA countries was not aimed at the elimination or reduction of trade relations with the rest of the world, there is no doubt that its main purpose was to create conditions for greater collaboration among the CMEA countries. It was not, certainly, accidental that the stress placed on the need for a separate price system coincided with increased attention devoted to the problems of integration of the CMEA countries. The introduction of separate CMEA prices based on relative costs within the area may be a means of achieving gradual elimination of differences between internal prices of various countries, facilitating, along with increased mobility of factors, the creation of an integrated economic community. The elimination of the differences between domestic prices and prices used in trade between the CMEA countries would, in fact, leave only one system of foreign trade prices, namely, those used in trade with the rest of the world. In such conditions, certain trade flows with the rest of the world considered to be incompatible with the over-all interests of the CMEA area would be forestalled by the community's monopoly of its foreign trade.

In the absence of such integration, the undesirable effect of a dual system of foreign trade prices could be eliminated only through the creation of a customs union which through appropriate export and import duties on trade with the rest of the world would abolish the differences between world prices and prices used in trade among the CMEA countries.

But, in any event, the change to a new system of foreign trade prices would entail a change in relative profitability of exports and imports of various commodities. In consequence, a new price system would be acceptable to the interested countries only if it would not reduce their present gains from foreign trade or if some of them were willing to carry the burden of an eventual redistribution of these gains. The assessment of the impact of changes in the price system on individual countries and the finding of solutions acceptable to all concerned represent an exceedingly difficult task, especially if this should involve structural changes in production and trade. It is not surprising, therefore, that little of the urgency originally attached to this task has been maintained and that the introduction of a new price system is not contemplated for the time being.[71]

The difficulties encountered in the process of developing an international division of labour among the CMEA countries have been submitted to thorough examination by the CMEA bodies and by individual countries as well as by an international symposium of economists from these countries in 1963.[72] Although the results of these reappraisals have not been formulated in any single document, the general trend as reflected in various resolutions and statements has been in favour of the introduction of more realistic and more efficient methods of co-operation. The elaboration of institutional and policy measures aiming at the elimination of existing shortcomings has also been suggested. Recent debates have indicated that it is generally recognized that the policy of co-operation cannot, at the present time, disregard the existence of national states, and that the ultimate goal of a fully unified economic community can only be achieved through a long process of development in the course of which the distrusts and the sense of national separateness inherited from the past will gradually disappear.[73] At the present time any attempt at creating a fully integrated economy and eliminating state barriers or at artificially accelerating this process is considered detrimental to the successful development of the international division of labour among the CMEA countries.

An important result of the recent reappraisal was a clear recognition of the contradictions which may arise between the interests of the CMEA area as a whole and the interests of its individual member countries. It has been stressed that these differences are of particular importance in long-term planning of investment and in shaping the structure of future production and foreign trade. Thus, while from the point of view of a given country the expansion of certain industrial branches may be most efficient, their location in another CMEA country might yield greater increase in productivity for the area as a whole. A global approach might obviously involve for some countries slower rates of growth than they could potentially achieve, resulting in under-utilization of their resources, creating balance of payment

[70] For a detailed presentation of these views, see *Der Aussenhandel*, Nos. 1, 4 and 5, 1958 and Nos. 4 and 5, 1959 (Berlin); *Politická ekonomie*, No. 7, 1960, and No. 2, 1964 (Prague); W. Kunz, *Grundfragen der internationalen Wirtschaftszusammenarbeit der Länder des Rates für gegenseitige Wirtschaftshilfe (RGW)* (Berlin, 1964), page 108.

[71] It has been announced that the prices used in trade between the centrally planned economies, which in recent years have been based on 1957-1958 world prices, are to be recalculated for 1964 and 1965 on the basis of average world prices during 1957-1961.

[72] An abbreviated report on this symposium was published in *World Marxist Review* (*Problems of Peace and Socialism*), vol. 7, Nos. 4 and 6, 1964.

[73] *Ibid.*, vol. 7, No. 4, 1964, page 55.

difficulties or requiring the outflow of manpower and capital. It is obvious, therefore, that as long as separate national entities exist, the prospects for inter-country specialization will have to be judged from the point of view of national interest.

The existence of these problems was largely responsible for the reluctance of many countries to engage in far-reaching specialization agreements. Apprehension that such agreements would sacrifice the interests of the small or less developed countries to the over-all interests of the community or to those of the more developed countries has made them difficult to accept. In consequence, it has recently been reaffirmed that the existence of these potential differences in national and over-all interests precludes the use of the global efficiency consideration as the sole or even as the most important criterion for the determination of the international division of labour among the CMEA countries.

It is believed that the solution might be found in improvement of the methods of co-ordination of national plans through the introduction of a dual approach, consisting in comparison of specialization schemes suggested in the preliminary drafts of national plans with those developed for the area as a whole.[74] The confrontation of such nationally determined drafts with alternative evaluations of the most effective solutions from the point of view of the CMEA community will more clearly show the benefits and the losses involved in different variants of the plans. This will provide the basis for reconciliation of conflicting interests through the choice of an optimum variant acceptable to all parties as well as for devising measures for compensating the countries which might suffer temporary or long-term disadvantages owing to the adoption of a particular plan of specialization. Among these measures an increasingly important part is to be played by capital flows among the CMEA countries.

Since the attitude towards further extension of the international division of labour is dependent upon a clear assessment of the effects of the proposed changes on individual countries, considerable attention is being devoted to the elaboration of the methods of evaluation of relative and absolute advantages of specialization. As already stated, the difficulties involved in international comparison of cost, productivity and profitability of various undertakings are particularly great in the centrally planned economies because the existing system of prices is entirely inadequate for such calculations. Moreover, while more fully satisfactory methods of calculation are being devised by the CMEA commissions, operational decisions are being taken on the basis of results obtained by methods similar to those used in the evaluation of efficiency of investment and foreign trade in individual countries.[75] Considerable stress has also been placed on the development of a system of guarantees against the risk of non-fulfilment of specialization arrangements, including penalties for failure to conform to purchase and delivery agreements with respect to the amounts, type and quality of goods and delivery schedules. It has also been stated that each country should accumulate reserves of goods and convertible currencies to be used in cases where they are not able to fulfil their export obligations out of current production.[76] The absence of such guarantees has been an important cause of the reluctance of several countries to enter into such agreements. Since the trade of the CMEA countries has been conducted on a bilateral basis and in unconvertible currencies, the failure to deliver or purchase goods under the specialization agreements has entailed considerable losses for the country which, in accordance with the agreements, has discontinued output of certain goods or has introduced new production lines. This reluctance has been considerably strengthened by the lack of any certitude that the partner country would keep abreast of technical developments, modernize its output or share the gains from increased productivity with the purchasing country.

The impact of the measures for creating more effective machinery for mutual co-operation is likely to be reinforced by the reforms being introduced in planning and management in the centrally planned countries. For example, the decentralization of management which provides greater scope for autonomous decisions of the enterprises and the new system of incentives may considerably increase the interest of individual enterprises or of their associations in international specialization. It is widely recognized that they are often in a better position than are the central bodies to evaluate the advantages and the extent of useful specialization in the specific fields,

[74] On the dual approach to planning of inter-CMEA specialization, see *Plánované hospodářství*, No. 1, 1965 (Prague), page 73, *Voprosy Ekonomiki*, No. 11, 1963, page 7, and *Nowe Drogi*, No. 9, 1963, page 61.

[75] *See* above. More complex calculations would be required for efficiency evaluation from the global point of view since adequate results would presuppose the use of shadow prices reflecting relative scarcities in the CMEA area as a whole. In view of the extreme complexity of such calculations, more approximate methods have been suggested. It is believed that the methods used to assess the profitability of joint investment projects could be applied here as well. In such evaluations cost is measured in prices of the country where the investment project is to be located. These costs are then converted into a common monetary unit by using separate coefficients for each cost component. The minimum rate of profitability required is to be determined by the economic commission of the Council of Mutual Economic Assistance. It is generally believed that this method is capable of yielding a fairly good approximation of the optimal solutions.

For more details, see *Planovoe Khozyaistvo*, No. 11, 1961, and *Inwestycje i Budownictwo*, No. 12, 1964 (Warsaw).

[76] See *Ekonomicheskaia Gazeta* (Moscow), 31 March 1965.

and it has been suggested that direct contact between enterprises of various countries could give a new impetus to specialization agreements, subject to final approval by central authorities. This tendency was clearly reflected in the new regulations governing the activity of enterprises in Eastern Germany, which provided that the associations of the enterprises should formulate their own proposals for specialization and co-operation with enterprises in other CMEA countries. According to a recent statement, certain large enterprises and associations in some CMEA countries have been authorized to sell directly not only on domestic but also in foreign trade markets. They have also been authorized to establish direct relations between suppliers and purchasers within their countries as well as with the corresponding economic organs in other CMEA countries.[77] The Czechoslovak, Hungarian and Polish steel industries have set up a common organization called "Intermetal" which has since been joined by Bulgaria, Eastern Germany and the Soviet Union. Intermetal began its operations as of 1 January 1965. Its immediate objectives were to develop production of certain rolled sections in short supply, to stimulate the adoption of unified production standards and provide for a more efficient utilization of existing capacities. Special importance has been attached to the last objective since production capacities in the member countries—although in many ways complementary—have not always been fully utilized. At a later stage Intermetal is to develop, in close co-operation with the iron and steel commission of the CMEA, long-term specialization and investment plans in these industries. Other joint inter-country producers' organizations have also been set up in other industrial branches, although on a more restricted scale. The future development of this type of organization is to play an increasingly important role in the field of specialization and co-operation.

It has previously been mentioned that the creation of the International Bank for Economic Co-operation was expected to foster the development of multilateral settlements among the CMEA countries, the absence of which has been restraining the growth of the international division of labour. The influence of the Bank on multilateralization of trade is insignificant at present mainly because the net balances expressed in terms of transferable roubles could not, in fact, be used for purchases in other CMEA countries without additional bilateral agreement. In consequence, the transferable roubles have mainly been used as an accounting unit for clearing purposes with small influence on the multilateralization of trade. It has been suggested, therefore, that greater multilateralization of trade could be achieved by the introduction of convertibility of the transferable roubles into gold or into convertibles currencies of the western countries. This could be achieved gradually in stages, by making only 10 per cent of the outstanding balances convertible into gold or convertible currencies as the first step and by increasing this ratio in successive steps to 100 per cent over a period of several years. The possibility of using them for purchases in the world market would remove the reluctance to accept transferable roubles for settling net balances.[78]

[77] *Ibid.*

[78] *Trybuna Ludu*, 27 April 1965.

Summary and conclusion

This review of developments in the field of economic co-operation among the CMEA countries indicates that, despite expansion of trade and the substantial role played by inter-country credit financing, mostly by the Soviet Union, the co-ordination of economic plans and the extension of inter-country specialization are still not very far advanced. However, a survey of current views suggests that the possibility of and the need for raising the over-all efficiency of the CMEA area by more rational and more extensive intra-CMEA division of labour is fully realized in all the centrally planned countries. Concentrated efforts are being devoted, therefore, towards improving the methods and policies of inter-country co-operation so as to create the conditions necessary for fuller utilization of the potentialities of specialization.

A significant feature of recent developments has been the intensive search for ways and means of reconciling the differences that might arise between the interests of individual countries and those of the area as a whole. The efforts, apparent in all CMEA countries, are directed towards the elaboration of new methods of evaluation of relative and absolute advantages of various specialization schemes, and towards the introduction of new institutional and policy measures fostering closer co-operation. The more realistic approach to the solution of these problems is reflected in the stress laid on the need to create conditions providing individual countries with economic incentives for greater specialization and co-operation within the CMEA area.

These approaches are, in many respects, similar to the efforts now being made in all CMEA countries to solve their internal economic problems. As shown in the section of this survey dealing with the changes in planning and management in the centrally planned economies, the decentralization and the enlargement of the autonomy of enterprises require the elimination of the differences between the interests of individual enterprises and the general interests of the economy as reflected in the central plan. As in the field of inter-CMEA co-operation, this reconciliation is to be achieved by evolving a system of economic incentives inducing the enterprises to act in conformity with the general interest.

The links between the internal and external changes are not confined to this similarity of approach. These changes are, in fact, complementary and mutually reinforcing. The elimination or attenuation of the existing obstacles to greater inter-CMEA co-operation and the establishment of closer relationships among the enterprises or their associations in various countries are expected to create new stimuli for improving the efficiency of national enterprises. At the same time, through greater reliance on their self-interest, it is hoped to induce the national enterprises to seek improvements in CMEA specialization and co-operation. Introduction of new methods and policies in the field of internal as well as external economic relations is expected to release new potential resources for future growth of the CMEA countries.

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